Actavis plc
Form PRE 14A
March 31, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

Actavis plc

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

N/A

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Notice of 2015 Annual General
Meeting of Shareholders

June 5, 2015

8:30 a.m. local time

1 Grand Canal Square, Docklands, Dublin 2, Ireland

You are hereby notified that the 2015 Annual General Meeting of Shareholders (the *"Annual Meeting"*) of Actavis plc (the *"Company"*) will be held at 1 Grand Canal Square, Docklands, Dublin 2, Ireland, at 8:30 a.m. local time, on June 5, 2015, for the following purposes:

1. To elect Paul M. Bisaro, Nesli Basgoz, M.D., James H. Bloem, Christopher W. Bodine, Christopher J. Coughlin, Michael R. Gallagher, Catherine M. Klema, Peter J. McDonnell, M.D., Patrick J. O'Sullivan, Brenton L. Saunders, Ronald R. Taylor, and Fred G. Weiss as members of the Board of Directors to hold office until the 2016 Annual Meeting or until each of their respective successors is duly elected and qualified.
2. To approve, in a non-binding vote, Named Executive Officer compensation;
3. To ratify, in a non-binding vote, the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015 and to authorize, in a binding vote, the Board of Directors, acting through the Audit and Compliance Committee, to determine PricewaterhouseCoopers LLP's remuneration;
4. To pass a special resolution to approve, subject to the approval of the Registrar of Companies in Ireland, the change in name of the Company from Actavis plc to Allergan plc;
5. To approve the Amended and Restated 2013 Incentive Award Plan of Actavis plc;
6. To consider two shareholder proposals, if properly presented at the meeting;
7. To receive the Company's Irish Statutory Accounts for the fiscal year ended December 31, 2014 and the reports of the directors and auditors thereon, and to review the affairs of the Company; and
8. To transact such other business as may properly come before the Annual Meeting or any adjournment, postponement or continuation thereof.

The Board of Directors has fixed the close of business on April 10, 2015 as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. Only shareholders of record at the close of business on April 10, 2015 will be entitled to notice of and to vote at the Annual Meeting or any adjournment, postponement or continuation thereof. Your attention is directed to the Proxy Statement for more complete information regarding the matters to be acted upon at the Annual Meeting.

The Proxy Statement, 2014 Annual Report to Shareholders and 2014 Irish Statutory accounts are available at www.proxyvote.com.

You may vote your shares in person at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we encourage you to vote your shares: (i) by accessing the Internet site described on the proxy card, (ii) by calling the toll-free telephone number listed on the Internet site, voter instruction form, or proxy card, or (iii) by marking, dating and signing any proxy card or voter instruction form provided to you and returning it in the accompanying postage paid envelope as quickly as possible.

[date], 2015

Dublin, Ireland

By Order of the Board of Directors

A. Robert D. Bailey

Chief Legal Officer and Secretary

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[date], 2015

To Our Shareholders:

You are cordially invited to attend the 2015 Annual Meeting of Shareholders of Actavis plc. The annual meeting will be held at 1 Grand Canal Square, Docklands, Dublin 2, Ireland, on June 5, 2015 at 8:30 a.m. local time.

In connection with the annual meeting, we have prepared a Notice of Annual Meeting of Shareholders, a proxy statement, and our 2014 Annual Report to Shareholders, which provides detailed information relating to our activities and operating performance. The proxy statement describes the matters to come before the annual meeting. During the annual meeting, we will also review the Company's 2014 Irish Statutory accounts.

We appreciate your continued interest and support as an Actavis plc shareholder. We hope that you will be able to attend the annual meeting in person, and we look forward to seeing you.

It is important that your shares be represented and voted whether or not you plan to attend the annual meeting in person. You may grant your proxy to vote your shares by completing and mailing the proxy card enclosed with the proxy statement, or you may grant your proxy electronically via the Internet or by telephone by following the instructions on the proxy card. If your shares are held in "street name," which means shares held of record by a broker, bank, or other nominee, you should review the proxy materials or voting instruction form your broker provided to you to determine whether and how you will be able to vote by telephone or over the Internet. Voting over the Internet, by telephone or by mailing a proxy card, will ensure your shares are represented at the annual meeting. Your vote is important, regardless of the number of shares that you own.

Sincerely,

Brenton L. Saunders

President, Chief Executive Officer
and Director

Paul M. Bisaro

Executive Chairman and Director

Recent changes in Irish accounting regulations require the Company to adopt a new accounting framework for its parent entity Irish statutory accounts for the financial year starting 1 January 2015. The transition date for the purpose of preparing a prior year comparative will be 1 January 2014. The Board of Directors considers it to be in the best interests of the Company to adopt either FRS 101 or FRS 102 (Reduced Disclosure Framework) for the financial year starting 1 January 2015. Whichever of these options we select, the Company will utilise the disclosure exemptions available. No disclosures in the current US GAAP financial statements would be omitted on adoption of either FRS 101 or FRS 102 (Reduced Disclosure Framework).

A shareholder or shareholders having an aggregate holding of 5% of more of the total allotted shares in the Company may serve objections in writing to the use of the disclosure exemptions to the Company Secretary at Actavis plc, 1 Grand Canal Square, Docklands, Dublin 2, Ireland before • 2015

Table of Contents

Back to Contents

Back to Contents

ACTAVIS PLC

1 Grand Canal Square, Docklands

Dublin 2, Ireland

PROXY STATEMENT

General

Your proxy is solicited by the Board of Directors of Actavis plc ("*Actavis,*" the *"Company," "we," "us" and "our"*) for use at 2015 Annual Meeting of Shareholders (the "*Annual Meeting*") to be held at 1 Grand Canal Square, Docklands, Dublin 2, Ireland, at 8:30 a.m. local time on June 5, 2015 for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

In connection with the Annual Meeting, we have prepared a Notice of Annual Meeting of Shareholders, a Proxy Statement, and our 2014 Annual Report to Shareholders, which provides detailed information relating to our activities and operating performance. This Proxy Statement and related proxy materials are being mailed on or about [date of mailing], 2015.

As disclosed in our public filings with the SEC, the Company became the successor registrant to Actavis, Inc. (f/k/a Watson Pharmaceuticals, Inc.) on October 1, 2013. References throughout to "we," "our," "us," the "Company" or "Actavis" refer to financial information and transactions of Watson Pharmaceuticals, Inc. prior to January 23, 2013, Actavis, Inc. from January 23, 2013 until October 1, 2013 and Actavis plc subsequent to October 1, 2013. On July 1, 2014, the Company completed its acquisition of Forest Laboratories, Inc ("*Forest*" and such transaction, the "*Forest Transaction*"). On March 17, 2015, the Company completed its acquisition of Allergan, Inc. ("*Allergan*").

Who Can Vote

Only shareholders of record of our ordinary shares at the close of business on April 10, 2015, the record date for the Annual Meeting, are entitled to receive notice of and to vote their shares at the Annual Meeting. As of that date, there were [•] ordinary shares outstanding. Most of our shareholders hold their shares through a broker, bank or other nominee rather than directly in their own name. Certain distinctions between shares held of record and those owned beneficially are summarized below:

Shareholder of Record. If your ordinary shares are registered directly in your name with our transfer agent, Computershare, you are considered the shareholder of record with respect to those shares and these proxy materials are being sent to you directly by the Company. As the shareholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the Annual Meeting.

Beneficial Owner. If your shares are held in a brokerage account or by another nominee, you are considered to be the beneficial owner of shares held in “street name,” and these proxy materials, together with a voting instruction card, are being forwarded to you by your broker, bank or other nominee. As the beneficial owner of the shares, you have the right to direct your broker, bank or other nominee how to vote and are also invited to attend the Annual Meeting. If you are a beneficial owner whose shares are held in street name, you are not the shareholder of record and you may not vote your shares in person at the Annual Meeting unless you obtain a legal proxy giving you the right to vote your shares at the Annual Meeting from the broker, bank or other nominee holding your shares in street name. If your shares are held in street name, your broker, bank or other nominee has enclosed or provided voting instructions for you to use in directing the broker, bank or other nominee how to vote your shares.

Each ordinary share is entitled to one vote on each matter properly brought before the Annual Meeting.

Back to Contents

How to Vote

Your vote is very important and we encourage you to vote your shares and to submit your proxy regardless of whether or not you plan to attend the Annual Meeting. If you properly give your proxy and submit it to us in time to vote, one of the individuals named as your proxy will vote your shares as you have directed.

Shareholders of Record

If you are a shareholder of record, you may vote in one of the following ways:

By Telephone or on the Internet. You may vote by calling the toll-free telephone number noted on your proxy card. Telephone voting is available 24 hours a day and will be accessible until 11:59 p.m. Eastern time on June 3, 2015. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. You also may choose to vote on the Internet. The website for Internet voting is noted on your proxy card. Internet voting also is available 24 hours a day and will be accessible until 11:59 p.m. Eastern time on June 3, 2015. As with telephone voting, you may confirm that your instructions have been properly recorded. Shareholders who vote through the Internet or telephone should be aware that they may incur costs to access the Internet, such as usage charges from telephone companies or Internet service providers, and that these costs must be borne by the shareholder.

By Mail. If you received a paper copy of the proxy card by mail and choose to vote by mail, please mark your proxy card, date and sign it, and promptly return it in the postage-paid envelope provided.

In Person at the Annual Meeting. You may vote in person by attending the Annual Meeting and submitting a ballot.

Shares must be voted either in person, by telephone, on the Internet or by completing and returning a proxy card.

If your proxy is properly completed, the shares it represents will be voted at the Annual Meeting as you instructed. If you submit your proxy, but do not provide instructions, your proxy will be voted in accordance with the Board's recommendations as set forth in this Proxy Statement.

Beneficial Owners

If you are a beneficial owner of shares held in street name, then your broker, bank or other nominee will include instructions on how to vote your shares. Your broker, bank or nominee may allow you to deliver your voting instructions over the Internet and may also permit you to submit your voting instructions by telephone. In addition, you may request additional paper copies of the Proxy Statement and voting instruction form from your broker, bank or nominee by following the instructions on the proxy materials provided by your broker, bank or nominee. If you hold your shares in street name, you will need to obtain a legal proxy from your bank, broker or nominee in order for you to vote in person at the Annual Meeting and submit the legal proxy along with your ballot at the Annual Meeting.

Revoking Your Proxy

You have the right to revoke your proxy at any time before it is voted at the Annual Meeting by (1) filing a written notice with our Corporate Secretary, (2) delivering a new proxy bearing a later date, (3) granting a later proxy through telephone or Internet voting, or (4) attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

Any such notices and new proxies that are sent by mail should be sent to Actavis plc, Corporate Secretary, 1 Grand Canal Square, Docklands, Dublin 2, Ireland.

Persons who hold their shares through a bank, brokerage firm or other nominee, may change their voting instructions by following the requirements of their bank or broker, or may vote in person at the Annual Meeting by obtaining a legal proxy from their bank or broker and submitting the legal proxy along with their ballots.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON JUNE 5, 2015

The Notice of Annual Meeting, this Proxy Statement, the 2014 Annual Report to Shareholders and the 2014 Irish Statutory accounts are available at www.proxyvote.com.

You are encouraged to review all of the important information contained in the proxy materials before voting.

Solicitation of Proxies

We have retained the services of a proxy solicitation firm, MacKenzie Partners Inc. ("MacKenzie"), to solicit proxies for the Annual Meeting from our shareholders. We will bear the entire cost of our and MacKenzie's solicitations, including the payment of fees of approximately $25,000 to MacKenzie for their services, and the cost of preparation, assembly, printing and mailing of this Proxy Statement, the proxy card and any additional information furnished to shareholders. In addition to the use of the mail, our directors, officers and employees may solicit proxies on our behalf by telephone, facsimile, electronic mail or personal solicitation. Our directors, officers and employees will receive no additional compensation for such services. We will reimburse brokers, custodians and nominees for the reasonable expenses they incur furnishing proxy solicitation and other required Annual Meeting materials to street-name holders who beneficially own those shares on the record date.

Back to Contents

Quorum and Voting

At the close of business on April 10, 2015, [•] ordinary shares were outstanding and entitled to vote at the Annual Meeting. Votes cast by proxy (including through the Internet or by telephone) or in person at the Annual Meeting will be tabulated by the election inspector appointed for the Annual Meeting who will determine whether or not a quorum is present. The presence, in person or by proxy, of the holders of a majority of our outstanding ordinary shares and entitled to vote at the Annual Meeting is necessary in order to constitute a quorum for the conduct of business at the Annual Meeting.

If your ordinary shares are held by a broker in street name, under the rules of the New York Stock Exchange ("*NYSE*") your broker may vote your shares on certain matters if you do not provide your broker with voting instructions. Proposal No. 3, the ratification of the selection of our independent registered public accountants and the authorization of the Board of Directors, acting through the Audit and Compliance Committee, to determine its remuneration, is considered a routine matter upon which brokerage firms may vote on behalf of their clients even if no voting instructions are provided. A "broker non-vote" occurs when a broker holding your shares in street name does not vote on a particular matter because you did not provide the broker voting instructions and the broker lacks discretionary voting authority to vote the shares because the matter is non-routine.

The non-routine matters on the agenda for this year's Annual Meeting are (i) the election of directors, (ii) an advisory vote to approve the compensation of our Named Executive Officers, (iii) the passing of a special resolution to approve of the change in name of the Company, (iv) the approval of the Amended and Restated 2013 Incentive Award Plan (the "Equity Plan Proposal") and (v) the two shareholder proposals. Accordingly, with respect to the proposals other than Proposal No. 3 (ratification of the selection of our independent registered public accountants and authorization of the Board of Directors, acting through the Audit and Compliance Committee, to determine its remuneration), your broker will not be able to vote your shares without specific instructions from you.

If a proxy is received but marked "abstain" or if a broker non-vote occurs, those shares will be considered as present and entitled to vote for purposes of determining the presence of a quorum.

A properly submitted proxy (including through the Internet or by telephone) that is received before the polls are closed at the Annual Meeting and that is not revoked will be voted in the manner directed by the shareholder submitting the proxy. If no direction is made, such proxy will be voted:

- **FOR** the election of Paul M. Bisaro, Nesli Basgoz, M.D., James H. Bloem, Christopher W. Bodine, Christopher J. Coughlin, Michael R. Gallagher, Catherine M. Klema, Peter J. McDonnell, M.D., Patrick J. O'Sullivan, Brenton L. Saunders, Ronald R. Taylor, and Fred G. Weiss as our directors;
- **FOR** the approval, on a non-binding basis, of our Named Executive Officer compensation;

- **FOR** the ratification, on a non-binding basis, of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015 and the authorization, on a binding basis, of the Board of Directors, acting through the Audit and Compliance Committee, to determine its remuneration;
- **FOR** the approval as a special resolution, subject to the approval of the Registrar of Companies in Ireland, of a change in name of the Company from Actavis plc to Allergan plc;
- **FOR** the approval of the Equity Plan Proposal;
- **AGAINST** the shareholder proposal described in Proposal No. 6; and
- **AGAINST** the shareholder proposal described in Proposal No. 7.

As of the date of this Proxy Statement, the Board of Directors knows of no other business that will be presented for consideration at the Annual Meeting. However, if other proper matters are presented at the Annual Meeting, or any continuations, adjournments or postponements of the Annual Meeting, it is the intention of the proxy holders named in our form of proxy to vote the proxies held by them in accordance with their best judgment.

The proxy for the Annual Meeting gives each of Brenton L. Saunders, Paul M. Bisaro and A. Robert D. Bailey discretionary authority to vote your shares in accordance with his best judgment with respect to all additional matters that might come before the Annual Meeting.

"Householding"

In an effort to reduce printing costs and postage fees, we have adopted a practice approved by the SEC called "householding." Under this practice, non-registered shareholders who have the same address and last name will receive only one copy of the proxy materials, unless one or more of these non-registered shareholders notifies us that he or she wishes to receive individual copies. If you share an address with another non-registered shareholder and prefer to receive separate copies of the proxy materials, please mail your request to Actavis plc, Investor Relations, Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054, or call our investor relations department at 1-862-261-7488.

Information on Our Website

Information on our website, other than our Proxy Statement and form of proxy, or any other website referred to in this Proxy Statement, is not part of the proxy soliciting material and is not incorporated into this Proxy Statement by reference.

Assistance

If you need assistance in submitting your proxy or have questions regarding the Annual Meeting, please contact our investor relations department at 1-862- 261-7488 or investor.relations@actavis.com or write to: Investor Relations, Actavis plc, Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054.

Back to Contents

PRESENTATION OF IRISH STATUTORY ACCOUNTS

The Company's Irish Statutory Accounts for the fiscal year ended December 31, 2014, including the reports of the directors and auditors thereon, will be presented at the Annual Meeting. There is no requirement under Irish law that such accounts be approved by shareholders, and no such approval will be sought at the Annual Meeting. The Company's 2014 Irish Statutory Accounts are available with the Proxy Statement, the 2014 Annual Report to Shareholders and other proxy materials at *www.proxyvote.com.*

Back to Contents

PROPOSAL NO. 1 ELECTION OF DIRECTORS

Under the Company's Articles of Association, the Board of Directors must consist of between five and fourteen directors, with the exact number determined by the Board of Directors. On February 5, 2015, the Board of Directors approved a reduction in the size of the Board of Directors from fourteen to twelve, which became effective on March 17, 2015 upon the closing of the Company's acquisition of Allergan. In order to effectuate the reduction in the size of the Board of Directors, and to accommodate the appointment of two members of the Allergan board of directors to the Board of Directors (as discussed below), each of Tamar D. Howson, John A. King, Jiri Michal and Andrew L. Turner agreed to resign from the Board of Directors, effective upon the earlier of the closing of the Company's acquisition of Allergan and the Annual Meeting.

Therefore, at the Annual Meeting, twelve directors are to be elected to serve until the 2015 Annual Meeting or until their successors are duly elected and qualified.

Based upon the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated Paul M. Bisaro, Nesli Basgoz, M.D., James H. Bloem, Christopher W. Bodine, Christopher J. Coughlin, Michael R. Gallagher, Catherine M. Klema, Peter J. McDonnell, M.D., Patrick J. O'Sullivan, Brenton L. Saunders, Ronald R. Taylor, and Fred G. Weiss for reelection as directors to serve until the 2016 Annual Meeting or until their successors are duly elected and qualified.

Other than as set forth below, no director nominee was selected pursuant to an arrangement or understanding between such nominee and any other person.

- In connection with the Forest Transaction, the board appointed Nesli Basgoz, M.D., Christopher J. Coughlin and Brenton L. Saunders to serve as members of the board until the 2015 annual meeting of Actavis shareholders or such director's earlier resignation, removal or death. Dr. Basgoz and Messrs. Coughlin and Saunders were appointed pursuant to the terms of the merger agreement between the Company and Forest, which required the Company to take action necessary to cause Mr. Saunders and two other Forest directors to become members of the Actavis board immediately after the Forest Transaction. As an executive officer of Actavis, Mr. Saunders does not serve on any of the board's committees.
- Pursuant to the Allergan Merger Agreement, the Company was required to take such actions as would be necessary to cause two (2) individuals who were members of the board of directors of Allergan to become members of the Company Board of the Directors immediately after the closing of the merger between the Company and Allergan. Effective March 17, 2015, the Board of Directors appointed Michael R. Gallagher and Peter J. McDonnell, M.D., to the Board of Directors.

Information about each director nominee is set forth in the following paragraphs and is based on information provided to us as of March 30, 2015. The Board of Directors knows of no reason why any of the following nominees will be unavailable to serve, but in the event of any such unavailability, the proxies received will be voted for such substitute nominees as the Board of Directors may recommend, unless the number of directors constituting a full Board of Directors is reduced.

DIRECTOR NOMINEES FOR ELECTION AT THE ANNUAL MEETING:

Paul M. Bisaro

Director of Actavis, Inc. since 2007 and the Company since 2013

Mr. Bisaro, age 54, has served as Executive Chairman of our Board of Directors since July 2014. He previously served as our President and Chief Executive Officer and as chairman of our Board of Directors since October 2013; prior to being chairman he served on the Board of Directors of Actavis, Inc. since September 2007. Prior to joining Actavis, Mr. Bisaro was President, Chief Operating Officer and a member of the Board of Directors of Barr Pharmaceuticals, Inc., a global specialty pharmaceutical company ("Barr"), from 1999 to 2007. Between 1992 and 1999, Mr. Bisaro served as General Counsel of Barr, and from 1997 to 1999 served in various additional capacities including Senior Vice President — Strategic Business Development. Prior to joining Barr, he was associated with the law firm Winston & Strawn and a predecessor firm, Bishop, Cook, Purcell and Reynolds from 1989 to 1992. Mr. Bisaro also currently serves on the Boards of Visitors of the Catholic University of America's Columbus School of Law and Zimmer Holdings, Inc. Mr. Bisaro holds an undergraduate degree in General Studies from the University of Michigan and a Juris Doctor from Catholic University of America in Washington, D.C. The Board concluded that Mr. Bisaro should serve on the Board because of his experience as a senior executive in our industry, his knowledge of our Company and its day-to-day operations and his strong strategic vision for the Company.

Back to Contents

Nesli Basgoz, M.D.

Director of the Company since 2014

Dr. Basgoz, age 57, joined the Board of Directors in July 2014. She previously served as a member of the Board of Directors of Forest Laboratories, Inc. since 2006. Dr. Basgoz is the Associate Chief for Clinical Affairs, Division of Infectious Diseases at Massachusetts General Hospital (MGH) and serves on the hospital's Board of Trustees. In addition, Dr. Basgoz is an Associate Professor of Medicine at Harvard Medical School. Previously, she served as Clinical Director in the Infectious Diseases Division of MGH for six years. Dr. Basgoz earned her M.D. Degree and completed her residency in internal medicine at Northwestern University Medical School. She also completed a fellowship in the Infectious Diseases Division at the University of California at San Francisco. She is board certified in both infectious diseases and internal medicine. The Board concluded that Dr. Basgoz should serve on the Board because of her extensive experience in infectious diseases, one of our specialty areas.

James H. Bloem

Director of the Company since 2013

Mr. Bloem, age 64, joined the Board of Directors in October 2013. He previously served as a member of the Warner Chilcott plc ("Warner Chilcott") Board of Directors since 2006 and was a member of the board of one of Warner Chilcott's predecessor companies from 1996 to 2000. Mr. Bloem retired on December 31, 2013, after 13 years as Senior Vice President, Chief Financial Officer and Treasurer of Humana Inc. ("Humana"), one of the nation's largest health benefit companies. He joined Humana in 2001 and had responsibility for all of the Humana's accounting, actuarial, analytical, financial, tax, risk management, treasury and investor relations activities. Mr. Bloem also serves as Chairman of the Board of Directors of ResCare, Inc., as well as a director of Rotech Healthcare, Inc. The Board concluded that Mr. Bloem should serve on the Board because of his extensive experience in the healthcare industry, including as an executive officer of Humana, as well as his leadership skills and financial knowledge, which enable him to serve as a financial expert on our Audit and Compliance Committee.

Christopher W. Bodine

Director of Actavis, Inc. since 2009 and the Company since 2013

Mr. Bodine, age 59, served as a member of Actavis, Inc.'s Board of Directors since 2009 and joined our Board of Directors in October 2013. Mr. Bodine retired from CVS Caremark in January 2009 after 24 years with CVS. Prior to his retirement, Mr. Bodine served as President, Healthcare Services of CVS Caremark Corporation, where he was responsible for strategy, business development, trade relations, sales and account management, pharmacy merchandising, marketing, information technology and Minute Clinic. Prior to the merger of CVS Corporation and Caremark Rx, Inc. in March 2007, Mr. Bodine served for several years as Executive Vice President — Merchandising and Marketing of CVS Corporation. Mr. Bodine is active in the pharmaceutical industry, having served on a number of boards and committees, including the Healthcare Leadership Council, RI Quality Institute, National Retail Federation, National Association of Chain Drug Stores (NACDS), and the NACDS Pharmacy Affairs and Leadership Committees. Mr. Bodine also previously served as a director with Nash Finch. The Board concluded that Mr. Bodine should serve on the Board because of his extensive industry experience and knowledge of the needs and operations of our major customers.

Christopher J. Coughlin

Director of the Company since 2014

Mr. Coughlin, 62, joined the Board of Directors in July 2014. He previously served as a member of the Board of Directors of Forest Laboratories, Inc. since 2011. Since 2012, Mr. Coughlin has served as a senior advisor to McKinsey & Co. Mr. Coughlin served as an advisor to Tyco International from 2010 until September 30, 2012. He was Executive Vice President and Chief Financial Officer of Tyco International from 2005 to 2010. During his tenure, he played a central role in the separation of Tyco into five independent, public companies and provided financial leadership surrounding major transactions, including the $2 billion acquisition of Broadview Security, among many other responsibilities and accomplishments. Prior to joining Tyco, he worked as the Chief Operating Officer of the Interpublic Group of Companies from June 2003 to December 2004, as Chief Financial Officer from August 2003 to June 2004 and as a director from July 2003 to July 2004. Previously, Mr. Coughlin was Executive Vice President and Chief Financial Officer of Pharmacia Corporation from 1998 until its acquisition by Pfizer in 2003. Prior to that, he was Executive Vice President of Nabisco Holdings and President of Nabisco International. From 1981 to 1996 he held various positions, including Chief Financial Officer, at Sterling Drug. Mr. Coughlin is currently serving as the Chairman of the Board of Dun & Bradstreet, where he is a former member of the Audit Committee, chairs the Board Affairs Committee, and is a member of the Compensation and Benefits Committee. He also serves on the board of Alexion Pharmaceuticals where he is a member of the Audit Committee and the Pharmaceutical Compliance and Quality Committee. In addition, Mr. Coughlin previously served on the boards of Covidien, Dipexium, the Interpublic Group of Companies, Monsanto Company and Perrigo Company. Mr. Coughlin has a B.S. in accounting from Boston College. The Board concluded that Mr. Coughlin's depth of experience in executive leadership roles within complex corporate organizations and his audit committee service on public company boards contributes critical risk oversight and management insight to our Board and therefore Mr. Coughlin should serve on the Board.

Michael R. Gallagher

Director of the Company since 2015

Mr. Gallagher, age 69, served on the Allergan, Inc. Board of Directors from 1998 until our acquisition of Allergan in March 2015, and served as its Lead Independent Director and Chair of the Organization and Compensation Committee. In 2004, Mr. Gallagher retired as Chief Executive Officer and as a Director of Playtex Products, Inc. Prior to joining Playtex in 1995, Mr. Gallagher was Chief Executive Officer of North America for Reckitt & Colman plc; President and Chief Executive Officer of Eastman Kodak's subsidiary, L&F Products; President of the Lehn & Fink Consumer Products Division at Sterling Drug, General Manager of the Household Products Division of the Clorox Company, and Brand Manager of The Procter & Gamble Company. Mr. Gallagher is a member and past Chairman of the Board of Advisors of the Haas School of Business, University of California, Berkeley. The Board has concluded that, with more than three decades of experience in key leadership roles at public and private personal care and consumer products companies, including as the former Chief Executive Officer of Playtex Products, Mr. Gallagher provides our Board with a wealth of business and management experience, as well as invaluable broad-based personal care and consumer products experience and therefore should serve as one of our directors.

Back to Contents

Catherine M. Klema

Director of Actavis, Inc. since 2004 and the Company since 2013

Ms. Klema, age 56, served as a member of Actavis, Inc.'s Board of Directors since 2004 and joined our Board of Directors in October 2013. She is currently President of Nettleton Advisors LLC, a consulting firm established by Ms. Klema in 2001. Prior to establishing her firm, Ms. Klema served as Managing Director, Healthcare Investment Banking, at SG Cowen Securities from 1997 to 2001. Ms. Klema also served as Managing Director, Healthcare Investment Banking, at Furman Selz LLC from 1994 until 1997, and was employed by Lehman Brothers from 1987 until 1994. Ms. Klema served as a director of Pharmaceutical Product Development, Inc., a global contract research organization, from 2000 to 2011. In March 2012, Ms. Klema was appointed to the Montefiore Medical Center Board of Trustees. The Board concluded that Ms. Klema's qualifications for service on our Board include her background in healthcare investment banking and her knowledge of the business of pharmaceutical research and development.

Peter J. McDonnell, M.D.

Director of the Company since 2015

Dr. McDonnell, age 57, served as a member of the Allergan, Inc. Board of Directors from 2013 until our acquisition of Allergan in March 2015, and served on its Corporate Governance and Compliance Committee and the Science and Technology Committee. Dr. McDonnell is the Director and William Holland Wilmer Professor of the Wilmer Eye Institute of the Johns Hopkins University School of Medicine since 2003. Dr. McDonnell also serves as the Chief Medical Editor of Ophthalmology Times since 2004, and has served on the editorial boards of numerous ophthalmology journals. Dr. McDonnell also served as the Assistant Chief of Service at the Wilmer Institute from 1987 to 1988. He served as a consultant to the United States Department of Health and Human Services in 1996. Dr. McDonnell served as a full-time faculty at the University of Southern California from 1988 until 1999, where he advanced to the rank of professor in 1994. The Board has concluded that Dr. McDonnell should serve as one of our directors because he provides our Board with wide-ranging expertise in ophthalmology and is widely recognized as an international leader in corneal transplantation, laser refractive surgery and the treatment of dry eye.

Patrick J. O'Sullivan

Director of the Company since 2013

Mr. O'Sullivan, age 73, previously served as a member of Warner Chilcott's Board of Directors since 2009 and joined our Board of Directors in October 2013. Prior to his retirement in 2006, Mr. O'Sullivan served in positions of increasing responsibility with LEO Pharma A/S ("LEO") for more than 30 years, most recently as the Chief Executive Officer of LEO Pharma Ireland and as a director of LEO. He also served as a director of LEO Pharmaceuticals Ltd. UK, LEO Pharma SA France and The LEO Foundation. Mr. O'Sullivan is a registered pharmacist, a member and honorary fellow of the Pharmaceutical Society of Ireland and a Knight of the Order of the Dannebrog. Currently, Mr.

O'Sullivan is a pharmaceutical business consultant and serves on the Board of Directors of Amarin Corporation plc, where he is a member of the audit committee, nominating committee and corporate governance committee. The Board concluded that Mr. O'Sullivan should serve on the Board because of his demonstrated management ability at senior levels within the pharmaceutical industry, his knowledge of the financial, operational and strategic requirements of a successful international business, which he developed as Chief Executive Officer of LEO Pharma Ireland, and his understanding of the fundamentals of the healthcare industry.

Brenton L. Saunders

Director of the Company since 2014

Mr. Saunders, 45, has served as a member of our Board and as President and Chief Executive Officer since July 2014. He was previously President and Chief Executive Officer of Forest Laboratories, Inc. since October 2013 and a member of the board of directors of Forest since 2011. Mr. Saunders served as Chief Executive Officer and as a board member of Bausch + Lomb Incorporated from March 2010 until August 2013, and as a senior executive with Schering-Plough from 2003 to 2010, most recently as President of Global Consumer Health Care. He also served as Head of Integration for both Schering-Plough's merger with Merck & Co. and for Schering-Plough's $16 billion acquisition of Organon BioSciences. Before joining Schering-Plough, Mr. Saunders was a Partner and Head of the Compliance Business Advisory Group at PricewaterhouseCoopers LLP from 2000 to 2003. Prior to that, he was Chief Risk Officer at Coventry Health Care between 1998 and 1999 and a co-founder of the Health Care Compliance Association in 1995. Mr. Saunders began his career as Chief Compliance Officer for the Thomas Jefferson University Health System. In addition to the Bausch + Lomb board, he served on the board of ElectroCore LLC. He is also the former Chairman of the New York chapter of the American Heart Association. He currently is on the board of the Overlook Hospital Foundation and is also a member of the Board of Trustees of the University of Pittsburgh, The Business Council and PhRMA. He received a B.A. from the University of Pittsburgh, an M.B.A. from Temple University School of Business, and a J.D. from Temple University School of Law. The Board concluded that, based on Mr. Saunders' leadership experience as CEO of two global healthcare companies and deep pharmaceutical experience, Mr. Saunders provides deep management and operational experience, as well as invaluable senior compliance experience and broad regulatory expertise, and therefore should serve as one of our directors.

Ronald R. Taylor

Director of Actavis, Inc. since 1994 and the Company since 2013

Mr. Taylor, age 67, served as a member of the Actavis, Inc. Board of Directors since 1994 and joined our Board of Directors in October 2013. Mr. Taylor is the President of Tamarack Bay, LLC, a private consulting firm. He has been a director of ResMed Inc., a medical device manufacturer, since 2005. Prior to forming Tamarack Bay, Mr. Taylor was a general partner of Enterprise Partners Venture Capital, a venture capital firm, from 1998 until 2001. The Board concluded that Mr. Taylor should serve on the Board because of his experience as a founder of a successful business and his expertise in evaluating and investing in healthcare companies.

Back to Contents

Fred G. Weiss

Director of Actavis, Inc. since 2000 and the Company since 2013

Mr. Weiss, age 73, served as a member of Actavis, Inc.'s Board of Directors since 2000 and joined our Board of Directors in October 2013. Mr. Weiss is the managing director of the consulting firm FGW Associates, Inc., a position he has held since 1997, and prior to that served as an executive for Warner-Lambert for nearly 20 years, most recently as Vice President, Planning, Investment and Development. Mr. Weiss is also an Independent Vice-Chairman of the Board and Chairman of the Audit Committee of numerous BlackRock-sponsored mutual funds. In this capacity, and pursuant to BlackRock's policies, Mr. Weiss has oversight responsibility for finance and accounting matters, and has no responsibility for, or discretion concerning, any of BlackRock's equity investment decisions. Additionally, Mr. Weiss has been a Director of the Michael J. Fox Foundation for Parkinson's Research since 2000 and serves as the Chair of the Finance Committee. The Board concluded that Mr. Weiss is qualified to serve as a member of our Board of Directors because of, among other factors, his financial expertise and experience in strategic planning and corporate development.

The Board of Directors knows of no reason why any of the foregoing nominees will be unavailable to serve, but in the event of any such unavailability, the proxies received will be voted for such substitute nominees as the Board of Directors may recommend.

REQUIRED VOTE

Persons nominated to serve on our Board of Directors in an uncontested election must receive a greater number of votes cast "FOR" than votes cast "AGAINST" in order to be elected, or re-elected, to the Board of Directors. Accordingly, abstentions will not affect the outcome of the election of directors. Proxies cannot be voted for a greater number of persons or different persons than the nominees named.

Please note that if your broker holds your ordinary shares in "street name," your broker will not vote your shares on the election of directors, and broker non-votes will result, unless you provide your voting instructions to your broker. Broker non-votes will not affect the outcome of the election of directors.

The Board of Directors unanimously recommends a vote *FOR* the election of Paul M. Bisaro, Nesli Basgoz, M.D., James H. Bloem, Christopher W. Bodine, Christopher J. Coughlin, Michael R. Gallagher, Catherine M. Klema, Peter J. McDonnell, M.D., Patrick J. O'Sullivan, Brenton L. Saunders, Ronald R. Taylor, and Fred G. Weiss.

Back to Contents

CORPORATE GOVERNANCE GUIDELINES AND CODE OF CONDUCT

Our Board of Directors has adopted Corporate Governance Guidelines. These guidelines address the make-up and functioning of the Board of Directors and its committees, which include determining director independence, criteria for Board membership, and authority to retain independent advisors.

Our Board of Directors has also adopted a Code of Conduct (the “Code”), which applies to all of our Board members and all of our officers and employees. The Code sets forth and summarizes certain of our policies related to legal compliance and honest and ethical business practices. The Code is intended to comply with the standards set forth in Section 303A.10 of the NYSE’s Listed Company Manual and SEC rules and regulations. Any amendments to, or waivers from, provisions of the Code that apply to our directors or executive officers, including our Chief Executive Officer (“CEO”) and Chief Financial Officer and persons performing similar functions, will be promptly posted on our website at *http://www.Actavis.com.*

You can find links to our Corporate Governance Guidelines and our Code of Conduct under the “Investors — Corporate Governance” section of our website at *http://www.Actavis.com.* Copies of these materials are available to shareholders without charge upon request sent to Investor Relations at Actavis plc, Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054.

DIRECTOR INDEPENDENCE

On an annual basis our Board of Directors reviews the independence of all directors and affirmatively makes a determination as to the independence of each director. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with Actavis. To assist in making this determination, the Board has adopted Director Independence Standards, which are designed to conform to, or be more exacting than, the independence requirements set forth in the listing standards of the NYSE. You may find these standards at Exhibit A of our Corporate Governance Guidelines discussed above, which may be found under the “Investors — “Corporate Governance” section of our website at *www.Actavis.com.* In addition to applying these Director Independence Standards, the Board considers any and all additional relevant facts and circumstances in making an independence determination.

Our Board has determined that at least a majority of its directors has no direct or indirect material relationship with us (other than as our director) and such directors are independent within the meaning of the independence standards promulgated by the SEC and the NYSE. The Board determined, based on our Director Independence Standards and the NYSE standards for independence, that Nesli Basgoz, M.D., James H. Bloem, Christopher W. Bodine, Christopher J. Coughlin, Catherine M. Klema, Patrick J. O'Sullivan, Ronald R. Taylor and Fred G. Weiss, have no material relationship with us and are independent directors. Messrs. Bisaro and Saunders were determined to be not independent because they are our Executive Chairman and Chief Executive Officer and President, respectively. As discussed above, pursuant to the Allergan Merger Agreement, the Company agreed to appoint two directors of Allergan to the Board of Directors and the Board of Directors has nominated Michael R. Gallagher and Peter J. McDonnell, M.D. to serve on the Board of Directors. In connection with the appointment of Mr. Gallagher and Dr. McDonnell, the Board determined, based on our Director Independence Standards and the NYSE standards for independence, that neither Mr. Gallagher nor Dr. McDonnell has a material relationship with us and each is an independent director.

In making its independence determinations, the Board reviewed transactions and relationships between each director, or any member of his or her immediate family, and us or one of our subsidiaries or affiliates based on information provided by the director, our records and publicly available information. Each of the reviewed transactions and arrangements were entered into in the ordinary course of business and none of the business transactions, donations or grants involved an amount that exceeded the greater of $1 million or 2% of either company's revenues with respect to transactions where a director served as an employee or general partner of the entity party to the transaction or any member of his or her immediate family or spouse served as an executive officer or general partner of any such entity.

In making its independence determinations, the Board considered the fact that many of our independent directors currently serve or have previously served within the last three years as a professor, trustee, director, or member of a board, council or committee for one or more charitable organizations (including research or scientific institutions), hospitals, for profit corporations or any other entity with which Actavis has business transactions or to which Actavis may make grants. These business transactions may include, among other things, purchases of services and supplies, licensing transactions, healthcare sponsorships and programs, research and development and clinical trials, activities, and limited consulting services.

Back to Contents

None of our non-employee directors directly or indirectly provides any professional or consulting services to us and none of our directors currently has or has had any direct or indirect material interest in any of the above transactions and arrangements.

The Board has determined that these transactions were made in the ordinary course and did not affect the independence of the directors involved.

RISK OVERSIGHT

Risk is inherent in every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic risks, financial risks, legal and regulatory risks, and others, such as the impact of competition and reputational risks. Management is responsible for the day-to-day management of the risks that we face, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board is responsible for satisfying itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

While the Board is ultimately responsible for risk oversight at Actavis, various committees of the Board are actively involved in the oversight of risks facing us.

A committee of the Board receives regular reports from members of senior management on areas of material risk to the Company. When a committee receives the report, the Chairman of the relevant committee reports on the discussion to the full Board during the next Board meeting. This enables the Board and its committees to coordinate their oversight of risk and identify risk interrelationships. Pursuant to its charter, the Audit and Compliance Committee is responsible for discussing with management the Company's major areas of financial risk exposure, and reviewing the Company's risk assessment and risk management policies. As discussed in more detail in the Assessment of Compensation Risk section of this Proxy Statement, the Compensation Committee reviews our compensation programs to ensure that these programs do not lead to excessive risk-taking by our employees. The Board does not believe that its role in the oversight of the Company's risk affects the Board's leadership structure.

Back to Contents

EXECUTIVE SESSIONS

We schedule regular executive sessions in which non-management directors meet without management participation. During 2014, Mr. Turner was our lead independent director until May 2014, after which the Board designated Ms. Klema to serve as our lead independent director. We also schedule regular executive sessions in which only independent directors meet.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Any interested party, including any shareholder, wishing to contact the Board of Directors, the presiding director of the non-management director meetings, or any other individual director may do so in writing by sending a letter to:

Chairman, Nominating and Corporate Governance Committee

c/o Corporate Secretary

Actavis plc

1 Grand Canal Square, Docklands

Dublin 2, Ireland

Our Corporate Secretary reviews all such written correspondence and regularly forwards to the Board of Directors a summary of all correspondence and copies of correspondence that, in the opinion of the Corign="right">611 $4 $4

Interest cost
1,025 877 3,036 2,751 282 353
Expected return on plan assets
(1,116) (1,051) (3,255) (3,082)
Recognition of:

Unrecognized prior-service cost
4 4 (94) (111)
Unrecognized net actuarial loss (gain)
1 137 (23) 101 (336) (207)

Net periodic benefit (income) cost
$(86) $(33) $(52) $381 $(144) $39

	Nine Months Ended September 30,					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2008	2007	2008	2007	2008	2007
Service cost	$	$	$ 576	$ 3,271	$ 12	$ 12
Interest cost	3,157	3,151	9,317	8,120	846	1,059
Expected return on plan assets	(3,466)	(3,401)	(10,007)	(8,707)		
Recognition of:						
Unrecognized prior-service cost	12	12			(282)	(333)
Unrecognized net actuarial loss (gain)	111	139	(69)	298	(1,008)	(621)
Net periodic benefit (income) cost	$ (186)	$ (99)	$ (183)	$ 2,982	$ (432)	$ 117

10

Note 6. Debt

On September 19, 2008, the Company entered into a new credit agreement with a syndicate of lenders (the 2008 Credit Agreement) consisting of (i) a $310.0 million revolving credit facility, (ii) a $180.0 million term loan and (iii) a 120.0 million term loan, each maturing on the fifth anniversary of the revolving loan funding date. In addition, the 2008 Credit Agreement provides for a possible increase in the revolving credit facility of up to $200.0 million. The Company can initiate funding under the revolving credit facility at any time prior to October 31, 2008 by retiring outstanding balances on its existing revolving credit and term loan facilities, at which point the 2008 Credit Agreement will supersede the Company s existing credit agreement. Funding of the term loan facilities is subject to, among other things, completion of the CompAir acquisition.

All borrowings and letters of credit under the 2008 Credit Agreement will be subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties.

The interest rates per annum applicable to loans under the 2008 Credit Agreement will be, at the Company s option, either a base rate plus an applicable margin percentage or a Eurocurrency rate plus an applicable margin.

The base rate will be the greater of (i) the prime rate or (ii) one-half of 1% over the weighted average of rates on overnight federal funds as published by the Federal Reserve Bank of New York. The Eurocurrency rate will be LIBOR. The Company expects that the applicable margin percentage over LIBOR will initially be no lower than a percentage per annum equal to 2.50% with respect to the term loans and 2.10% with respect to loans under the revolving credit facility and the applicable margin percentage over the base rate will initially be no lower than a percentage per annum equal to 1.25%. After the Company s delivery of its financial statements and compliance certificate for each fiscal quarter, the applicable margin percentages will be subject to adjustments based upon the ratio of the Company s Consolidated Total Debt to Consolidated Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) (each as defined in the 2008 Credit Agreement) being within certain defined ranges.

The obligations under the 2008 Credit Agreement will be guaranteed by the Company s existing and future domestic subsidiaries. The obligations under the 2008 Credit Agreement will be secured by a pledge of the capital stock of each of the Company s existing and future material domestic subsidiaries as well as 65% of the capital stock of each of the Company s existing and future first-tier material foreign subsidiaries.

The 2008 Credit Agreement includes customary covenants that are substantially similar to those contained in the Company s existing credit facilities. Subject to certain exceptions, these covenants will restrict or limit the ability of the Company and its subsidiaries to, among other things: incur liens; engage in mergers, consolidations and sales of assets; incur additional indebtedness; pay dividends and redeem stock; make investments (including loans and advances); enter into transactions with affiliates, make capital expenditures and incur rental obligations. In addition, the 2008 Credit Agreement will require the Company to maintain compliance with certain financial ratios on a quarterly basis, including a maximum total leverage ratio test and a minimum interest coverage ratio test. The maximum total leverage ratio test will become more restrictive over time.

The 2008 Credit Agreement contains customary events of default, including upon a change of control. If an event of default occurs, the lenders under the 2008 Credit Agreement will be entitled to take various actions, including the acceleration of amounts due under the 2008 Credit Agreement.

Initial borrowings under the 2008 Credit Agreement were made on October 15, 16 and 17, 2008. (See Note 16 Subsequent Events.) Funds borrowed pursuant to the 2008 Credit Agreement were used to fund a portion of the purchase price of the Company s acquisition of CompAir and to retire the outstanding balances on the Company s then existing revolving credit and term loan facilities. The remaining amounts available under the 2008 Credit Agreement may be used for working capital and for general corporate purposes.

The Company s debt at September 30, 2008 and December 31, 2007, including borrowings under its then existing revolving credit and term loan facilities, is summarized as follows:

		September 30, 2008		December 31, 2007
Short-term debt	$	404	$	4,099
Long-term debt:				
Credit Line, due 2010 (1)	$	62,000	$	58,329
Term Loan, due 2010 (2)		62,601		76,103
Senior Subordinated Notes at 8%, due 2013		125,000		125,000
Secured Mortgages (3)		9,344		9,993
Variable Rate Industrial Revenue Bonds, due 2018 (4)		8,000		8,000
Capitalized leases and other long-term debt		7,600		8,200
Total long-term debt, including current maturities		274,545		285,625
Current maturities of long-term debt		31,337		21,638
Total long-term debt, less current maturities	$	243,208	$	263,987

(1) The loans under this facility may be denominated in USD or several foreign currencies. At September 30, 2008, the outstanding balance consisted of USD borrowings of $62,000. The interest rates under the facility are based on prime, federal funds and/or LIBOR for the applicable currency. The weighted-average interest rate was 4.7% as of September 30, 2008 for the USD

loans. The interest rate averaged 3.7%, 5.3% and 6.3% during the first nine months of 2008 for the USD, euro (EUR) and GBP, respectively.

(2) The Term Loan is denominated in USD and the interest rate varies with prime and/or LIBOR. At September 30, 2008, this rate was 4.8% and averaged 4.2% during the first nine months of 2008.

(3) This amount consists of two fixed-rate commercial loans with an outstanding balance of 6,617 at September 30, 2008. The loans are secured by the Company s facility in Bad Neustadt, Germany.

(4) The interest rate varies with market rates for tax-exempt industrial revenue bonds. At September 30, 2008, this rate was 10.0% and averaged 2.7% during the first nine months of 2008. These

industrial revenue bonds are secured by an $8,100 standby letter of credit.

Note 7. Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-based Payment,* (SFAS No. 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and non-employee directors based on their estimated fair values. The Company adopted SAB 110 effective January 1, 2008. The Company recognizes stock-based compensation expense for share-based payment awards over the requisite service period for vesting of the award or to an employee s eligible retirement date, if earlier. The following table summarizes the total stock-based compensation expense included in the consolidated statements of operations and the realized excess tax benefits included in the consolidated statements of cash flows for the three and nine-month periods ended September 30, 2008 and 2007.

Table of Contents

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Selling and administrative expenses	$ 774	$ 658	$ 3,813	$ 4,278
Total stock-based compensation expense included in operating expenses	$ 774	$ 658	$ 3,813	$ 4,278
Income before income taxes	(774)	(658)	(3,813)	(4,278)
Provision for income taxes	166	92	1,009	927
Net income	$ (608)	$ (566)	$ (2,804)	$ (3,351)
Basic and diluted earnings per share	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.06)
Net cash provided by operating activities	$ (13)	$ (83)	$ (8,492)	$ (6,253)
Net cash used in financing activities	$ 13	$ 83	$ 8,492	$ 6,253

Plan Descriptions

Under the Company s Amended and Restated Long-Term Incentive Plan (the Incentive Plan), designated employees and non-employee directors are eligible to receive awards in the form of restricted stock and restricted stock units (restricted shares), stock options, stock appreciation rights or performance shares, as determined by the Management Development and Compensation Committee of the Board of Directors (the Committee). Under the Incentive Plan, the grant price of a stock option is determined by the Committee, but must not be less than the market close price of the Company s common stock on the date of grant. The Incentive Plan provides that the term of any stock option granted may not exceed ten years. There are no vesting provisions tied to performance conditions for any of the outstanding stock options and restricted shares. Vesting for all outstanding stock options and restricted shares is based solely on continued service as an employee or director of the Company and generally occurs upon retirement, death or cessation of service due to disability, if earlier.

Stock Option Awards

Under the terms of existing awards, employee stock options become vested and exercisable ratably on each of the first three anniversaries of the date of grant. The options granted to employees in 2008 and 2007 expire seven years after the date of grant. The options granted to non-employee directors become exercisable on the first anniversary of the date of grant and expire five years after the date of grant.

A summary of the Company s stock option activity for the nine-month period ended September 30, 2008 is presented in the following table (underlying shares in thousands):

	Shares	Outstanding Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at December 31, 2007	1,870	$ 20.06		
Granted	328	$ 36.68		
Exercised	(808)	$ 13.47		

Forfeited or canceled	(23)	$ 22.42		
Outstanding at September 30, 2008	1,367	$ 27.89	$10,517	4.0 years
Exercisable at September 30, 2008	818	$ 22.80	$10,168	3.2 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, 2008 multiplied by the number of in-the-money stock options. The weighted-average estimated grant-date fair values of employee and director stock options granted during the three and nine-month periods ending September 30, 2008 were $12.36 and $10.95, respectively.

Table of Contents

The total pre-tax intrinsic values of stock options exercised during the third quarters of 2008 and 2007 were $0.1 million and $0.4 million, respectively. The total pre-tax intrinsic values of stock options exercised during the first nine months of 2008 and 2007 were $27.8 million and $20.5 million, respectively. Pre-tax unrecognized compensation expense for stock options, net of estimated forfeitures, was $2.4 million as of September 30, 2008 and will be recognized as expense over a weighted-average period of 1.7 years.

Valuation Assumptions and Expense under SFAS No. 123(R)

The fair value of each stock option grant under the 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,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Assumptions:				
Risk-free interest rate	2.3%	N/A	2.6%	4.7%
Dividend yield		N/A		
Volatility factor	35	N/A	30	29
Expected life (in years)	4.2	N/A	4.5	4.9

Restricted Share Awards

In the first quarter of 2008, the Company began granting restricted stock units in lieu of restricted stock. Upon vesting, restricted stock units result in the issuance of the equivalent number of shares of the Company s common stock. All restricted shares cliff vest three years after the date of grant.

A summary of the Company s restricted share activity for the nine-month period ended September 30, 2008 is presented in the following table (underlying shares in thousands):

	Shares	Weighted-Average Grant-Date Fair Value (per share)
Nonvested at December 31, 2007	90	$ 33.43
Granted	77	$ 37.48
Vested	(2)	$ 38.32
Forfeited	(6)	$ 35.82
Nonvested at September 30, 2008	159	$ 35.25

The restricted stock units granted in the first nine months of 2008 were valued at the market close price of the Company s common stock on the date of grant. Pre-tax unrecognized compensation expense for nonvested restricted share awards, net of estimated forfeitures, was $1.9 million as of September 30, 2008, which will be recognized as expense over a weighted-average period of 1.6 years. The total fair value of restricted share awards that vested during the first nine months of 2008 was $0.1 million. No restricted share awards vested during the first nine months of 2007.

Note 8. Stockholders Equity and Earnings Per Share

In November 2007, the Company s Board of Directors authorized a new share repurchase program to acquire up to 2.7 million shares of the Company s outstanding common stock. During the nine-month period ended September 30, 2008, the Company repurchased all 2.7 million shares under this program at a total cost, excluding commissions, of $100.4 million. Of this total, $19.2 million will be settled in the fourth quarter of 2008 and is included in accrued liabilities at September 30, 2008. All common stock acquired is held as treasury stock and available for general corporate purposes.

Table of Contents

The following table details the calculation of basic and diluted earnings per common share for the three and nine-month periods ended September 30, 2008 and 2007 (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic Earnings Per Share:				
Net income	$ 34,638	$ 53,652	$ 135,063	$ 141,239
Shares:				
Weighted average number of common shares outstanding	53,080	53,472	52,915	53,124
Basic earnings per common share	$ 0.65	$ 1.00	$ 2.55	$ 2.66
Diluted Earnings Per Share:				
Net income	$ 34,638	$ 53,652	$ 135,035	$ 141,239
Shares:				
Weighted average number of common shares outstanding	53,080	53,472	52,915	53,124
Effect of dilutive outstanding equity-based awards	528	764	656	874
Weighted average number of diluted common shares	53,608	54,236	53,571	53,998
Diluted earnings per common share	$ 0.65	$ 0.99	$ 2.52	$ 2.62

For the three months ended September 30, 2008 and 2007, respectively, antidilutive equity-based awards to purchase 20 and 144 weighted-average shares of common stock were outstanding. For the nine months ended September 30, 2008 and 2007, respectively, antidilutive equity-based awards to purchase 169 and 200 weighted-average shares of common stock were outstanding. Antidilutive equity-based awards outstanding were not included in the computation of diluted earnings per common share.

Note 9. Accumulated Other Comprehensive Income

The Company s accumulated other comprehensive income (loss) consists of unrealized net gains and losses on the translation of the assets and liabilities of its foreign operations (including the foreign currency hedge of the Company s net investments in foreign operations); unrecognized gains and losses on cash flow hedges (consisting of interest rate swaps), net of income taxes; and unamortized pension and other postretirement benefit prior service cost and actuarial gains or losses, net of income taxes.

The following table sets forth the changes in each component of accumulated other comprehensive income (loss):

	Foreign Currency Translation Adjustment (1)	Unrealized Gains (Losses) on Cash Flow Hedges	Pension and Postretirement Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2006	$ 64,109	$ 1,557	$ (14,935)	$ 50,731
Before tax income (loss)	2,233	(410)	(215)	1,608
Income tax effect		156	90	246
Other comprehensive income (loss)	2,233	(254)	(125)	1,854
Balance at March 31, 2007	66,342	1,303	(15,060)	52,585
Before tax income (loss)	12,039	737	(214)	12,562
Income tax effect		(280)	89	(191)
Other comprehensive income (loss)	12,039	457	(125)	12,371
Balance at June 30, 2007	78,381	1,760	(15,185)	64,956
Before tax income (loss)	29,906	(2,072)	(76)	27,758
Income tax effect		787	(375)	412
Other comprehensive income (loss)	29,906	(1,285)	(451)	28,170
Cumulative prior period translation adjustment (2)	12,271			12,271
Balance at September 30, 2007	$ 120,558	$ 475	$ (15,636)	$ 105,397
Balance at December 31, 2007	$ 133,467	$ (110)	$ (5,347)	$ 128,010
Before tax income (loss)	50,157	(1,110)	(393)	48,654
Income tax effect		422	147	569
Other comprehensive income (loss)	50,157	(688)	(246)	49,223
Currency translation (3)			1	1
Balance at March 30, 2008	183,624	(798)	(5,592)	177,234
Before tax income (loss)	1,313	1,287	(395)	2,205
Income tax effect		(489)	148	(341)
Other comprehensive income (loss)	1,313	798	(247)	1,864
Currency translation (3)			4	4

Balance at June 30, 2008	184,937		(5,835)	179,102
Before tax loss	(85,998)		(448)	(86,446)
Income tax effect			168	168
Other comprehensive loss	(85,998)		(280)	(86,278)
Currency translation (3)			2	2
Balance at September 30, 2008	$ 98,939	$	$ (6,113)	$ 92,826

(1) Income taxes are generally not provided for foreign currency translation adjustments, as such adjustments relate to permanent investments in international subsidiaries.

(2) Represents the cumulative translation gain for the period September 30, 2004 to June 30, 2007 relative to certain assets and liabilities associated with the Company s 2004 acquisition of nash_elmo Holdings LLC which were moved from a USD subsidiary to various non-USD (primarily EUR) subsidiaries based on the exchange rates in effect at the acquisition date. Approximately $6.8 million of

this adjustment relates to the six months ended June 30, 2007 and approximately $5.5 million relates to periods prior to December 31, 2006.

(3) The Company uses the historical rate approach in determining the USD amounts of changes to accumulated other comprehensive income associated with non-U.S. pension benefit plans.

The Company s comprehensive (loss) income for the three and nine-month periods ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	$ 34,638	$ 53,652	$ 135,063	$ 141,239
Other comprehensive (loss) income (1)	(86,278)	28,170	(35,191)	49,226
Comprehensive (loss) income	$ (51,640)	$ 81,822	$ 99,872	$ 190,465

(1) The nine months ended September 30, 2007 includes a cumulative translation adjustment of $6,831 related to the six-month period ended June 30, 2007 which was recorded in the three-month period ended September 30, 2007.

Note 10. Fair Value of Financial Instruments

A financial instrument is defined as a cash equivalent, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from another party. The Company s financial instruments consist primarily of cash and equivalents, trade receivables, trade payables, deferred compensation obligations and debt instruments. The book values of these instruments are a reasonable estimate of their respective fair values.

The Company selectively uses derivative financial instruments to manage interest costs and currency exchange risks. The Company does not hold derivatives for trading purposes.

The Company, from time to time, uses interest rate swaps to manage its exposure to market changes in interest rates. Also, as part of its hedging strategy, the Company uses foreign currency forwards to minimize the impact of foreign currency fluctuations on transactions, cash flows and firm commitments. These contracts for the sale or purchase of European and other currencies generally mature within one year. The following table summarizes the notional amounts and fair values of the Company s outstanding derivative financial instruments by risk category and instrument type:

	September 30, 2008				December 31, 2007			
	Notional Amount	Average Receive Rate	Average Pay Rate	Estimated Fair Value	Notional Amount	Average Receive Rate	Average Pay Rate	Estimated Fair Value

Foreign currency forwards	$96,766	N/A	N/A	$(5,273)	$29,757	N/A	N/A	$ 580
Interest rate swaps	$	N/A	N/A	$	$30,000	4.9%	4.1%	$(141)

Effective January 1, 2008, the Company adopted SFAS No. 157 with respect to its financial assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities as of the reporting date.
Level 2	Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities as of the reporting date.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the Company s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2008:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Foreign currency forwards (1)	$	$(5,320)	$	$ (5,320)
Trading securities held in deferred compensation plan (2)	10,181			10,181
Total	$10,181	$(5,320)	$	$ 4,861
Financial Liabilities				
Interest rate swaps (1)	$	$	$	$
Phantom stock plan (3)		2,417		2,417
Deferred compensation plan (4)	10,181			10,181
Total	$10,181	$ 2,417	$	$12,598

(1) Based on internally-developed models that use as their basis readily observable market parameters such as current spot and forward rates, and the LIBOR index.

(2) Based on the observable price of publicly traded mutual funds which, in accordance with EITF No. 97-14, *Accounting for Deferred Compensation Arrangements where Amounts Earned are Held in a Rabbi Trust and Invested,* are classified as Trading securities and accounted for

using the mark-to-market method.

(3) Based on the price of the Company s common stock.

(4) Based on the fair value of the investments in the deferred compensation plan.

Note 11. Income Taxes

As of September 30, 2008, the total balance of unrecognized tax benefits was $8.0 million, compared with $7.3 million at December 31, 2007. The increase in the balance primarily related to transfer pricing in various jurisdictions, partially offset by changes in foreign currency exchange rates. Included in the unrecognized tax benefits at September 30, 2008 is $2.2 million of uncertain tax positions that would affect the Company s effective tax rate if recognized, of which $0.9 would be offset by a reduction of a corresponding deferred tax asset that was established in 2008. The balance of the unrecognized tax benefits, $5.8 million, would be recognized as an adjustment to goodwill if recognized prior to the adoption of SFAS No. 141(R), which will become effective on January 1, 2009.

The Company expects the following significant changes to its unrecognized tax benefits within the next twelve months: the U.S. federal statutes of limitations with respect to the 2005 tax year will expire on $0.3 million of tax reserves and multiple state statutes of limitations will expire on $1.8 million of tax reserves. The total change in the tax reserves in the next twelve months is expected to be $2.1 million.

The Company s accounting policy with respect to interest expense on underpayments of income tax and related penalties is to recognize such interest expense and penalties as part of the provision for income taxes. The Company s income tax liabilities at September 30, 2008 include approximately $2.3 million of accrued interest, of which approximately $0.7 million relates to goodwill, and no penalties.

The Company s U.S. federal income tax returns for the tax years 2005 and beyond remain subject to examination by the U.S. Internal Revenue Service (the IRS). The statutes of limitations for the U.S. state tax returns are open beginning with the 2004 tax year, except for one state for which the statute has been extended beginning with the 2001 tax year.

The Company is subject to income tax in approximately 30 jurisdictions outside the U.S. The statutes of limitations vary by jurisdiction with 2001 being the oldest tax year still open, except as noted below. The Company s significant operations outside the U.S.

Table of Contents

are located in China, the United Kingdom and Germany. In China and the United Kingdom, tax years prior to 2005 are closed. In Germany, generally, the tax years 2003 and beyond remain subject to examination with the statutes of limitations for the 2003 tax year expiring during 2008. An acquired subsidiary group is under audit for the tax years 2000 through 2002. In addition, audits are being conducted in various countries for years ranging from 2001 through 2005. To date, no material adjustments have been proposed as a result of these audits.

Note 12. Supplemental Information

The components of other operating expense, net, and supplemental cash flow information are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Other Operating Expense, Net				
Foreign currency losses (gains), net (1)	$ 10,415	$ (235)	$ 8,500	$ 1,005
Employee termination and certain retirement costs (2)	1,809	697	6,952	1,441
Other, net	2,362	933	1,806	707
Total other operating expense, net	$ 14,586	$ 1,395	$ 17,258	$ 3,153
Supplemental Cash Flow Information				
Cash taxes paid			$ 44,589	$ 64,600
Interest paid			11,775	17,300
Accrued purchases of treasury stock			19,245	

(1) Foreign currency losses, net, in 2008 were primarily associated with mark-to-market adjustments for cash transactions and forward currency contracts entered into in order to limit the impact of changes in the USD to GBP exchange rate on the amount of USD-denominated borrowing capacity that will remain available on the Company s new revolving credit facility following completion of the acquisition of CompAir.

(2) These charges are not associated with exit or disposal activities as defined in SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

Note 13. Contingencies

The Company is a party to various legal proceedings, lawsuits and administrative actions, which are of an ordinary or routine nature. In addition, due to the bankruptcies of several asbestos manufacturers and other primary defendants, among other things, the Company has been named as a defendant in a number of asbestos personal injury lawsuits. The Company has also been named as a defendant in a number of silica personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources and typically the Company is one of approximately 25 or more named defendants. In the Company s experience to date, the substantial majority of the plaintiffs have not suffered an injury for which the Company bears responsibility.

Predecessors to the Company sometimes manufactured, distributed and/or sold products allegedly at issue in the pending asbestos and silica litigation lawsuits (the Products). However, neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber or silica sand, the materials that allegedly caused the injury underlying the lawsuits. Moreover, the asbestos-containing components of the Products were enclosed within the subject Products.

The Company has entered into a series of cost-sharing agreements with multiple insurance companies to secure coverage for asbestos and silica 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 silica lawsuits have not resulted in a material adverse effect on the Company s consolidated financial position, results of operations, or liquidity.

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

Table of Contents

asbestos or silica from or relating to the Products or for which the Company otherwise bears responsibility; various potential defenses available to the Company with respect to such matters; and the Company s prior disposition of comparable matters. However, due to inherent uncertainties of litigation and because future developments, including, without limitation, potential insolvencies of insurance companies or other defendants, could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

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

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

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

Note 14. Guarantor Subsidiaries

The Company s obligations under its 8% Senior Subordinated Notes due 2013 are jointly and severally, fully and unconditionally guaranteed by certain wholly-owned domestic subsidiaries of the Company (the Guarantor Subsidiaries). The Company s subsidiaries that do not guarantee the Senior Subordinated Notes are referred to as the Non-Guarantor Subsidiaries. The guarantor condensed consolidating financial data below presents the statements of operations, balance sheets and statements of cash flows data (i) for Gardner Denver, Inc. (the Parent Company), the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis (which is derived from Gardner Denver s historical reported financial information); (ii) for the Parent Company alone (accounting for its Guarantor Subsidiaries and Non-Guarantor Subsidiaries on a cost basis under which the investments are recorded by each entity owning a portion of another entity at historical cost); (iii) for the Guarantor Subsidiaries alone; and (iv) for the Non-Guarantor Subsidiaries alone.

Consolidating Statement of Operations
Three Months Ended September 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 102,931	$ 114,845	$ 326,930	$ (64,396)	$ 480,310
Cost of sales	72,973	85,882	238,358	(67,288)	329,925
Gross profit	29,958	28,963	88,572	2,892	150,385
Selling and administrative expenses	17,162	13,526	49,655		80,343
Other operating expense (income), net	11,952	(1,479)	4,117	(4)	14,586
Operating income	844	16,916	34,800	2,896	55,456
Interest expense (income)	4,859	(3,091)	2,061		3,829
Other expense (income), net	365	(6)	(596)		(237)
(Loss) income before income taxes	(4,380)	20,013	33,335	2,896	51,864
Provision for income taxes	(1,901)	4,108	14,202	817	17,226
Net (loss) income	$ (2,479)	$ 15,905	$ 19,133	$ 2,079	$ 34,638

Consolidating Statement of Operations
Three Months Ended September 30, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 101,116	$ 119,255	$ 304,501	$ (67,642)	$ 457,230
Cost of sales	66,902	83,656	224,148	(66,656)	308,050
Gross profit	34,214	35,599	80,353	(986)	149,180
Selling and administrative expenses	19,977	15,530	45,193		80,700
Other operating (income) expense, net	(14)	(2,010)	3,419		1,395
Operating income	14,251	22,079	31,741	(986)	67,085
Interest expense (income)	6,488	(2,783)	2,861		6,566
Other (income) expense, net	(167)	(4)	(486)		(657)
Income before income taxes	7,930	24,866	29,366	(986)	61,176
Provision for income taxes	1,536	7,118	(1,130)		7,524

Net income	$	6,394	$	17,748	$	30,496	$	(986)	$	53,652

21

Table of Contents

Consolidating Statement of Operations
Nine Months Ended September 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 301,142	$ 379,020	$ 1,023,902	$ (209,972)	$ 1,494,092
Cost of sales	208,390	271,614	743,738	(209,237)	1,014,505
Gross profit	92,752	107,406	280,164	(735)	479,587
Selling and administrative expenses	63,307	40,988	153,035		257,330
Other operating expense (income), net	15,268	(8,381)	10,371		17,258
Operating income	14,177	74,799	116,758	(735)	204,999
Interest expense (income)	16,583	(9,171)	7,058		14,470
Other expense (income), net	434	(9)	(1,239)		(814)
(Loss) income before income taxes	(2,840)	83,979	110,939	(735)	191,343
Provision for income taxes	(1,481)	28,096	29,734	(69)	56,280
Net (loss) income	$ (1,359)	$ 55,883	$ 81,205	$ (666)	$ 135,063

Consolidating Statement of Operations
Nine Months September 30, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 322,540	$ 363,297	$ 867,807	$ (195,127)	$ 1,358,517
Cost of sales	209,351	252,298	637,300	(192,371)	906,578
Gross profit	113,189	110,999	230,507	(2,756)	451,939
Selling and administrative expenses	62,379	43,497	136,936		242,812
Other operating (income) expense, net	(349)	(5,156)	8,658		3,153
Operating income	51,159	72,658	84,913	(2,756)	205,974
Interest expense (income)	20,428	(7,747)	7,480		20,161
Other (income) expense, net	(997)	(16)	(1,150)		(2,163)
Income before income taxes	31,728	80,421	78,583	(2,756)	187,976
Provision for income taxes	9,604	30,438	6,695		46,737

Net income	$ 22,124	$ 49,983	$ 71,888	$ (2,756)	$ 141,239

22

Consolidating Balance Sheet
September 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and equivalents	$ 7,355	$ (183)	$ 171,943	$	$ 179,115
Accounts receivable, net	61,809	56,210	184,410		302,429
Inventories, net	28,741	63,508	156,407	(14,849)	233,807
Deferred income taxes	20,224			2,909	23,133
Other current assets	2,507	3,393	12,268		18,168
Total current assets	120,636	122,928	525,028	(11,940)	756,652
Intercompany (payable) receivable	(371,267)	370,956	311		
Investments in affiliates	875,014	198,653	29	(1,073,667)	29
Property, plant and equipment, net	56,078	48,765	175,309		280,152
Goodwill	112,206	216,782	347,095		676,083
Other intangibles, net	6,935	46,409	139,517		192,861
Other assets	16,079	164	5,470	(2,036)	19,677
Total assets	$ 815,681	$ 1,004,657	$ 1,192,759	$ (1,087,643)	$ 1,925,454
Liabilities and Stockholders Equity					
Current liabilities:					
Short-term borrowings and current maturities of long-term debt	$ 29,459	$ 1	$ 2,281	$	$ 31,741
Accounts payable and accrued liabilities	67,342	67,716	176,387	(1,534)	309,911
Total current liabilities	96,801	67,717	178,668	(1,534)	341,652
Long-term intercompany (receivable) payable	(115,748)	(7,212)	122,960		
Long-term debt, less current maturities	228,142	76	14,990		243,208
Deferred income taxes		26,020	36,671	(2,036)	60,655
Other liabilities	48,930	425	44,338		93,693
Total liabilities	258,125	87,026	397,627	(3,570)	739,208
Stockholders equity:					

Common stock	582				582
Capital in excess of par value	542,435	672,830	401,933	(1,073,667)	543,531
Retained earnings	149,481	219,759	321,313	(10,406)	680,147
Accumulated other comprehensive (loss) income	(4,102)	25,042	71,886		92,826
Treasury stock, at cost	(130,840)				(130,840)
Total stockholders equity	557,556	917,631	795,132	(1,084,073)	1,186,246
Total liabilities and stockholders equity	$ 815,681	$ 1,004,657	$ 1,192,759	$ (1,087,643)	$ 1,925,454

Consolidating Balance Sheet
December 31, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and equivalents	$ 10,409	$ (2,261)	$ 84,774	$	$ 92,922
Accounts receivable, net	59,537	56,634	192,577		308,748
Inventories, net	25,340	70,134	175,086	(14,114)	256,446
Deferred income taxes	15,204	2,006		3,824	21,034
Other current assets	4,367	5,977	12,034		22,378
Total current assets	114,857	132,490	464,471	(10,290)	701,528
Intercompany (payable) receivable	(278,396)	276,809	1,587		
Investments in affiliates	914,680	198,654	29	(1,113,334)	29
Property, plant and equipment, net	54,606	48,260	190,514		293,380
Goodwill	111,033	211,983	362,480		685,496
Other intangibles, net	7,537	47,560	151,217		206,314
Other assets	17,266	479	5,074	(3,959)	18,860
Total assets	$ 941,583	$ 916,235	$ 1,175,372	$ (1,127,583)	$ 1,905,607
Liabilities and Stockholders Equity					
Current liabilities:					
Short-term borrowings and current maturities of long-term debt	$ 19,639	$	$ 6,098	$	$ 25,737
Accounts payable and accrued liabilities	70,407	39,017	177,649	(608)	286,465
Total current liabilities	90,046	39,017	183,747	(608)	312,202
Long-term intercompany (receivable) payable	(14,541)	(18,176)	32,717		
Long-term debt, less current maturities	189,463	77	74,447		263,987
Deferred income taxes		26,306	41,841	(3,959)	64,188
Other liabilities	52,561	313	52,643		105,517
Total liabilities	317,529	47,537	385,395	(4,567)	745,894
Stockholders equity:					
Common stock	573				573
Capital in excess of par value	515,194	672,918	441,162	(1,113,334)	515,940

Retained earnings	150,768	165,606	238,392	(9,682)	545,084
Accumulated other comprehensive (loss) income	(12,587)	30,174	110,423		128,010
Treasury stock, at cost	(29,894)				(29,894)
Total stockholders equity	624,054	868,698	789,977	(1,123,016)	1,159,713
Total liabilities and stockholders equity	$ 941,583	$ 916,235	$ 1,175,372	$ (1,127,583)	$ 1,905,607

24

Table of Contents

Consolidating Condensed Statement of Cash Flows
Nine Months Ended September 30, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Cash Provided by Operating Activities	$ 74,970	$ 7,064	$ 122,443	$	$ 204,477
Cash Flows From Investing Activities					
Capital expenditures	(8,430)	(5,924)	(14,570)		(28,924)
Net cash paid in business combinations	(6,469)				(6,469)
Disposals of property, plant and equipment	27	516	1,081		1,624
Other			656		656
Net cash used in investing activities	(14,872)	(5,408)	(12,833)		(33,113)
Cash Flows From Financing Activities					
Net change in long-term intercompany receivables/payables	(48,974)	422	48,552		
Principal payments on short-term borrowings			(30,709)		(30,709)
Proceeds from short-term borrowings			27,480		27,480
Principal payments on long-term debt	(61,002)		(82,206)		(143,208)
Proceeds from long-term debt	109,500		21,819		131,319
Proceeds from stock option exercises	10,885				10,885
Excess tax benefits from stock-based compensation	8,221		271		8,492
Purchase of treasury stock	(81,691)				(81,691)
Other	(91)		(1,258)		(1,349)
Net cash used in financing activities	(63,152)	422	(16,051)		(78,781)
Effect of exchange rate changes on cash and equivalents			(6,390)		(6,390)
Net increase (decrease) in cash and equivalents	(3,054)	2,078	87,169		86,193

Cash and equivalents, beginning of year	10,409	(2,261)	84,774		92,922
Cash and equivalents, end of period	$ 7,355	$ (183)	$ 171,943	$	$ 179,115

Table of Contents

Consolidating Condensed Statement of Cash Flows
Nine Months Ended September 30, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Cash Provided By (Used In) Operating Activities	$ 75,665	$ 3,609	$ 50,453	$ (2,255)	$ 127,472
Cash Flows From Investing Activities					
Capital expenditures	(7,747)	(5,856)	(18,612)		(32,215)
Net cash paid in business combinations	(205)				(205)
Disposals of property, plant and equipment	77	151	283		511
Other, net	662	38	(21)		679
Net cash used in investing activities	(7,213)	(5,667)	(18,350)		(31,230)
Cash Flows From Financing Activities					
Net change in long-term intercompany receivables/payables	(782)	(219)	(1,254)	2,255	
Principal payments on short-term borrowings			(29,685)		(29,685)
Proceeds from short-term borrowings			32,272		32,272
Principal payments on long-term debt	(181,622)	(1)	(45,081)		(226,704)
Proceeds from long-term debt	103,042		33,138		136,180
Proceeds from stock option exercises	8,748				8,748
Excess tax benefits from stock-based compensation	6,253				6,253
Purchase of treasury stock	(960)				(960)
Other			(958)		(958)
Net cash (used in) provided by financing activities	(65,321)	(220)	(11,568)	2,255	(74,854)
Effect of exchange rate changes on cash and equivalents	45		5,070		5,115

Net increase (decrease) in cash and equivalents		3,176		(2,278)		25,605			26,503
Cash and equivalents, beginning of year		5,347		(573)		57,557			62,331
Cash and equivalents, end of period	$	8,523	$	(2,851)	$	83,162	$	$	88,834

26

Table of Contents

Note 15. Segment Results

The Company s organizational structure is based on the products and services it offers and consists of five operating divisions: Compressor, Blower, Engineered Products, Thomas Products and Fluid Transfer. These divisions comprise two reportable segments: Compressor and Vacuum Products and Fluid Transfer Products. The Compressor, Blower, Engineered Products and Thomas Products divisions are aggregated into the Compressor and Vacuum Products segment because the long-term financial performance of these businesses is affected by similar economic conditions and their products, manufacturing processes and other business characteristics are similar in nature.

The following table provides financial information by business segment for the three and nine-month periods ended September 30, 2008 and 2007:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Compressor and Vacuum Products				
Revenues	$ 386,011	$ 359,990	$ 1,189,215	$ 1,053,241
Operating income	35,217	41,770	132,458	121,299
Operating income as a percentage of revenues	9.1%	11.6%	11.1%	11.5%
Fluid Transfer Products				
Revenues	$ 94,299	$ 97,240	$ 304,877	$ 305,276
Operating income	20,239	25,315	72,541	84,675
Operating income as a percentage of revenues	21.5%	26.0%	23.8%	27.7%
Reconciliation of Segment Results to Consolidated Results				
Total segment operating income	$ 55,456	$ 67,085	$ 204,999	$ 205,974
Interest expense	3,829	6,566	14,470	20,161
Other income, net	(237)	(657)	(814)	(2,163)
Consolidated income before income taxes	$ 51,864	$ 61,176	$ 191,343	$ 187,976

Note 16. Subsequent Events

Borrowings under the 2008 Credit Agreement

On October 15 and 16, 2008, the Company borrowed $200 million and £40 million, respectively, pursuant to the revolving credit facility provided under its 2008 Credit Agreement dated September 19, 2008 (see Note 6 Debt). As described below, these amounts were used by the Company, in part, to retire the outstanding balances under its former revolving credit and term loan facilities and, in part, to fund a portion of the purchase price of the Company s acquisition of CompAir. On October 15, 2008, the Company terminated its former revolving credit and term loan facilities.

On October 17, 2008, the Company borrowed $180 million and 120 million pursuant to the term loan facilities under the 2008 Credit Agreement. These facilities, together with borrowings on the new revolving credit facility under the 2008 Credit Agreement and existing cash, were used to pay the cash purchase price in connection with the Company s acquisition of CompAir, as described below, and to reduce borrowings under the new revolving credit facility, as described above.

Acquisition of CompAir

On October 20, 2008, the Company completed its previously-announced acquisition of CompAir, a leading global manufacturer of compressed air and gas solutions. The terms of the acquisition place the total transaction value, net of cash acquired, at £200.6 million (approximately $348 million), which was paid through a combination of cash payments to the CompAir shareholders, the repayment of certain outstanding debt and the assumption of CompAir s other net debt. CompAir, headquartered in Redditch, U.K., manufactures an extensive range of products, including oil-injected and oil-free rotary screw compressors, piston compressors, portable rotary screw compressors, rotary vane compressors and high pressure reciprocating compressors. These products are used in, among other things,

Table of Contents

general industrial applications, mining and construction, power plants, oil and gas exploration, OEM applications such as snow-making and mass transit, compressed natural gas, industrial gases and breathing air, and in naval, marine and defense market segments. CompAir serves a diversified, global customer base of distributors, OEMs, end users and engineered system customers. CompAir addresses its global markets through a network of wholly-owned sales offices, local sales and service branches, and a number of independent distributors and agents worldwide. Its primary manufacturing facilities are located in Simmern, Germany, Ipswich and Redditch, U.K., Ocala, Florida and Shanghai, China. To finance the acquisition, the Company used available cash and borrowings under its new credit facilities as described above.

New Share Repurchase Program

On November 4, 2008, the Company s Board of Directors authorized a new share repurchase program to acquire up to 3.0 million shares of the Company s outstanding common stock, replacing a previous program authorized in November 2007. All common stock acquired will be held as treasury stock and will be available for general corporate purposes.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following management s discussion and analysis of financial condition and results of operations should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2007, including the financial statements, accompanying notes and management s discussion and analysis of financial condition and results of operations, and the interim consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q.

Other than where specifically stated, the discussion in this Item 2, including, without limitation, the discussion under the caption Outlook, does not reflect the effect that the acquisition of CompAir, completed on October 20, 2008, may have on the Company s future operations, liquidity and financial condition (see Note 16 Subsequent Events in the Notes to Consolidated Financial Statements).

Operating Segments

The Company s organizational structure is based on the products and services it offers and consists of five operating divisions: Compressor, Blower, Engineered Products, Thomas Products and Fluid Transfer. These divisions comprise two reportable segments: Compressor and Vacuum Products and Fluid Transfer Products. The Compressor, Blower, Engineered Products and Thomas Products divisions are aggregated into the Compressor and Vacuum Products segment because the long-term financial performance of these businesses are affected by similar economic conditions and their products, manufacturing processes and other business characteristics are similar in nature.

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

Non-GAAP Financial Measures

To supplement the Company s financial information presented in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles), management, from time to time, uses additional measures to clarify and enhance understanding of past performance and prospects for the future. These measures may exclude, for example, the impact of unique and infrequent items or items outside of management s control (e.g. foreign currency exchange rates). Such measures are provided in addition to and should not be considered to be a substitute for, or superior to, the comparable measure under generally accepted accounting principles.

Results of Operations

Performance during the Quarter Ended September 30, 2008 Compared with the Quarter Ended September 30, 2007

Revenues

Revenues increased $23.1 million, or 5%, to $480.3 million in the three months ended September 30, 2008, compared to $457.2 million in the third quarter of 2007. This increase was attributable to favorable changes in foreign currency exchange rates ($15.9 million, or 3%), price increases ($12.3 million, or 3%) and marginal volume growth in the Compressor and Vacuum Products segment, partially offset by lower volume in the Fluid Transfer Products segment. The net combined volume decline between the two segments was $5.1 million, or 1%.

Revenues in the Compressor and Vacuum Products segment increased $26.0 million, or 7%, to $386.0 million in 2008, compared to $360.0 million in 2007. This increase primarily reflects favorable changes in foreign currency exchange rates (4%) and price increases (3%). Volume growth was marginal as increases in Europe and Asia were largely offset by lower shipments in North America.

Revenues in the Fluid Transfer Products segment decreased $2.9 million, or 3%, to $94.3 million in 2008, compared to $97.2 million in 2007. This decrease reflects lower volume (6%), partially offset by favorable changes in foreign currency exchange rates (2%) and price increases (1%). The lower volume was attributable to reduced petroleum pump shipments, partially offset by increased shipments of loading arms and fuel systems.

Gross Profit

Gross profit increased $1.2 million, or 1%, to $150.4 million in the three months ended September 30, 2008, compared to $149.2 million in the third quarter of 2007, and as a percentage of revenues was 31.3% in 2008, compared to 32.6% in 2007. The increase in gross profit primarily reflects the net increase in revenues discussed above, including the favorable effect of changes in foreign currency exchange rates and price increases, partially offset by lower unit volume. The decline in gross profit as a percentage of revenues primarily reflects the lower volume of petroleum pump shipments, which have a higher gross profit percentage than the Company s average, partially offset by the effect of operational improvements and leveraging fixed and semi-fixed costs over higher revenue.

Selling and Administrative Expenses

Selling and administrative expenses declined $0.4 million to $80.3 million in the third quarter of 2008, compared to $80.7 million in the third quarter of 2007. This decrease primarily reflects cost reductions realized through integration initiatives, largely offset by the unfavorable impact of changes in foreign currency exchanges rates of approximately $2.9 million and inflationary increases. As a percentage of revenues, selling and administrative expenses were 16.7% in the third quarter of 2008 compared to 17.6% in the third quarter of 2007. This improvement was primarily due to increased leverage of selling and administrative expenses over higher revenue and the favorable effect of the cost reductions discussed above.

Other Operating Expense, Net

Other operating expense, net, consisting primarily of realized and unrealized foreign currency gains and losses, the cost of employee termination benefits and costs associated with unconsummated acquisitions, was $14.6 million in the third quarter of 2008 compared to $1.4 million in the third quarter of 2007. This increase reflects (i) losses totaling $8.8 million in the third quarter of 2008 on mark-to-market adjustments for cash transactions and foreign currency forward contracts entered into in order to limit the impact of changes in the USD to GBP exchange rate on the amount of USD-denominated borrowing capacity that remained available on the Company s new revolving credit facility following the completion of the CompAir acquisition, (ii) the write-off of deferred costs totaling $2.3 million in the third quarter of 2008 associated with unconsummated acquisitions, and (iii) a $1.1 million year-over-year increase in employee termination costs.

Operating Income

Consolidated operating income decreased $11.6 million, or 17%, to $55.5 million in the third quarter of 2008, compared to $67.1 million in the third quarter of 2007, and as a percentage of revenues was 11.5% in 2008 compared to 14.7% in 2007. These results reflect the revenue, gross profit, selling and administrative expense and other operating expense, net, factors discussed above. Operating income in the third quarter of 2008 was negatively impacted by charges totaling $14.7 million associated with the profit improvement initiatives (consisting primarily of employee termination costs), losses on mark-to-market adjustments for cash transactions and foreign currency forward contracts, and write-off of deferred acquisition costs described above.

The Compressor and Vacuum Products segment generated operating income of $35.2 million and operating margin of 9.1% in the third quarter of 2008, compared to $41.8 million and 11.6%, respectively, in the third quarter of 2007 (see Note 15 Segment Results in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). Third quarter 2008 results were negatively impacted by charges recorded in connection with the profit improvement initiatives, losses on mark-to-market adjustments for cash transactions and foreign currency forward contracts, and the write-off of deferred acquisition costs described above, which totaled $13.7 million for the Compressor and Vacuum Products segment. These items were partially offset by price increases, the favorable effect of increased leverage of the segment s fixed and semi-fixed costs over increased revenue, cost reductions, and the benefits of acquisition integration activities.

The Fluid Transfer Products segment generated operating income of $20.2 million and operating margin of 21.5% in the third quarter of 2008, compared to $25.3 million and 26.0%, respectively, in the third quarter of 2007 (see Note 15 Segment Results in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). The decrease in operating income and operating margin resulted from the lower volume of petroleum pump shipments, which have a higher operating margin than this segment s average, and charges totaling $1.0 million in connection with the profit improvement initiatives and write-off of deferred acquisition costs discussed above.

Interest Expense

Interest expense of $3.8 million in the third quarter of 2008 declined $2.7 million from $6.5 million in the comparable period of 2007, due to lower average borrowings in 2008 and declines in the floating-rate indices of the Company s borrowings. Net principal payments on debt totaled $15.1 million in the first nine months of 2008 (see Consolidated Statements of Cash Flows, and Note 6 Debt in the Notes to Consolidated Financial Statements). The weighted average interest rate, including the amortization of debt issuance costs, declined to 6.1% in the third quarter of 2008 compared to 7.3% in the third quarter of 2007, due primarily to a significant decline in the USD LIBOR (on which, in part, the interest rate on borrowings under the Company s 2005 Credit Agreement are based) in the third quarter of 2008 compared to the third quarter of 2007.

Provision for Income Taxes

The provision for income taxes and effective tax rate were $17.2 million and 33.2%, respectively, for the three-month period ended September 30, 2008 compared to $7.5 million and 12.3%, respectively, for the three-month period ended September 30, 2007. The provision in the third quarter of 2008 reflects an increase of approximately $2.7 million primarily due to incremental taxes associated with cash repatriation. The provision in the third quarter of 2007 reflected an approximately $10.5 million non-recurring, non-cash reduction in net deferred tax liabilities recorded in connection with corporate income tax rate reductions in Germany and the U.K.

Net Income

Consolidated net income of $34.6 million decreased $19.0 million, or 35%, in the third quarter of 2008 from $53.6 million in the third quarter of 2007. Diluted earnings per share decreased 34% to $0.65 in the third quarter of 2008 from $0.99 in the same period of 2007. This decline was the net result of the factors affecting operating income, interest expense and the provision for income taxes discussed above. The charges totaling $14.7 million associated with profit improvement initiatives, losses on mark-to-market adjustments for cash transactions and foreign currency forward contracts, and write-off of deferred acquisition costs, and incremental income tax expense of approximately $2.7 million primarily associated with cash repatriation, reduced third quarter 2008 diluted earnings per share by approximately $0.18 and $0.05, respectively. The $10.5 million non-recurring, non-cash reduction in net deferred

tax liabilities recorded in connection with corporate income tax rate reductions in Germany and the U.K increased third quarter 2007 diluted earnings per share by approximately $0.19.

Performance during the Nine Months Ended September 30, 2008 Compared with the Nine Months Ended September 30, 2007

Revenues

Revenues increased $135.6 million, or 10%, to $1,494.1 million in the nine months ended September 30, 2008, compared to $1,358.5 million in the first nine months of 2007. This increase was attributable to favorable changes in foreign currency exchange rates ($75.7 million, or 6%), price increases ($39.7 million, or 3%) and volume growth in the Compressor and Vacuum Products segment, partially offset by lower volume in the Fluid Transfer Products segment. The net combined volume increase between the two segments was $20.2 million, or 1%.

Revenues in the Compressor and Vacuum Products segment increased $136.0 million, or 13%, to $1,189.2 million in 2008, compared to $1,053.2 million in 2007. This increase reflects favorable changes in foreign currency exchange rates (6%), volume growth (4%) and price increases (3%). The volume growth was attributable to nearly all of this segment s product lines and geographic regions.

Revenues in the Fluid Transfer Products segment decreased $0.4 million to $304.9 million in 2008, compared to $305.3 million in 2007. This decrease reflects lower volume (7%), mostly offset by price increases (4%) and favorable changes in foreign currency exchange rates (3%). Lower petroleum pump volume was partially offset by higher loading arm volume, including the shipment of the second of two large contracts for liquid natural gas and compressed natural gas loading arms in the first quarter of 2008.

Gross Profit

Gross profit increased $27.7 million, or 6%, to $479.6 million in the first nine months of 2008, compared to $451.9 million in the first nine months of 2007, and as a percentage of revenues was 32.1% in 2008 compared to 33.3% in 2007. The increase in gross profit primarily reflects the net increase in revenues discussed above, including the favorable effect of changes in foreign currency exchange rates. The decline in gross profit as a percentage of revenues primarily reflects the lower volume of petroleum pump shipments, which have a higher gross profit percentage than the Company s average, partially offset by the effect of operational improvements and leveraging fixed and semi-fixed costs over additional sales volume.

Selling and Administrative Expenses

Selling and administrative expenses increased $14.5 million, or 6%, to $257.3 million in the first nine months of 2008, compared to $242.8 million in the first nine months of 2007. This increase primarily reflects the unfavorable impact of changes in foreign currency exchanges rates of approximately $13.7 million and inflationary increases, partially offset by cost reductions realized through integration initiatives. As a percentage of revenues, selling and administrative expenses improved to 17.2% in the first nine months of 2008 from 17.9% in the comparable period of 2007, primarily due to increased leverage of these expenses over higher revenue and the favorable effect of the cost reductions discussed above.

Other Operating Expense, Net

Other operating expense, net, consisting primarily of realized and unrealized foreign currency gains and losses, the cost of employee termination and certain retirement benefits and costs associated with unconsummated acquisitions, was $17.3 million in the first nine months of 2008 compared to $3.2 million in the first nine months of 2007. This increase reflects (i) losses totaling $8.8 million in the third quarter of 2008 on mark-to-market adjustments for cash transactions and foreign currency forward contracts entered into in order to limit the impact of changes in the USD to GBP exchange rate on the amount of USD-denominated borrowing capacity that remained available on the Company s new revolving credit facility following the completion of the CompAir acquisition, (ii) the write-off of deferred costs totaling $2.3 million in the third quarter of 2008 associated with unconsummated acquisitions, and (iii) a $5.5 million year-over-year increase in employee termination and certain retirement costs.

Operating Income

Consolidated operating income decreased $1.0 million to $205.0 million in the first nine months of 2008 compared to $206.0 million in the first nine months of 2007, and as a percentage of revenues was 13.7% in 2008 compared to 15.2% in 2007. These results reflect the revenue, gross profit, selling and administrative expense and other operating expense, net, factors discussed above. Operating income in the first nine months of 2008 was negatively impacted by charges totaling $18.6 million associated with the profit improvement initiatives (consisting primarily of employee termination costs), certain retirement benefits, losses on mark-to-market adjustments for cash transactions and foreign currency forward contracts, and write-off of deferred acquisition costs described above.

The Compressor and Vacuum Products segment generated operating income of $132.5 million and operating margin of 11.1% in the first nine months of 2008, compared to $121.3 million and 11.5%, respectively, in the first nine months of 2007 (see Note 15 Segment Results in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). Results in the first nine months of 2008 were negatively impacted by charges recorded in connection with the profit improvement initiatives, employee termination and certain retirement costs, losses on mark-to-market adjustments for cash transactions and foreign currency forward contracts, and the write-off of deferred acquisition costs described above, which totaled $16.8 million for the Compressor and Vacuum Products segment. These items were offset by the favorable effect of increased leverage of the segment s fixed and semi-fixed costs over increased revenue, cost reductions and the benefits of acquisition integration activities.

The Fluid Transfer Products segment generated operating income of $72.5 million and operating margin of 23.8% in the first nine months of 2008, compared to $84.7 million and 27.7%, respectively, in the first nine months of 2007 (see Note 15 Segment Results in the Notes to Consolidated Financial Statements for a reconciliation of segment operating income to consolidated income before income taxes). The decrease in operating income and operating margin resulted from the lower volume of petroleum pump shipments, which have a higher operating margin than this segment s average, partially offset by increased shipments of loading arms, and charges totaling $1.8 million in connection with the profit improvement initiatives and write-off of deferred acquisition costs discussed above.

Interest Expense

Interest expense of $14.5 million in the first nine months of 2008 declined $5.7 million from $20.2 million in the comparable period of 2007, primarily due to lower average borrowings in 2008. Net principal payments on debt totaled $15.1 million in the first nine months of 2008 (see Consolidated Statements of Cash Flows, and Note 6 Debt in the Notes to Consolidated Financial Statements). The weighted average interest rate, including the amortization of debt issuance costs, was 7.0% in the first nine months of 2008, compared to 7.1% in the first nine months of 2007.

Provision for Income Taxes

The provision for income taxes and effective tax rate were $56.3 million and 29.4%, respectively, for the nine-month period ended September 30, 2008 compared to $46.7 million and 24.9%, respectively, for the nine-month period ended September 30, 2007. The provision in the first nine months of 2008 reflects the favorable effect of a higher proportion of earnings in jurisdictions with lower tax rates coupled with a reduction in the corporate income tax rates in Germany and the U.K, which became effective in 2008, offset by an increase of approximately $2.7 million primarily due to incremental taxes associated with cash repatriation. The provision in the third quarter of 2007 reflected an approximately $10.5 million non-recurring, non-cash reduction in net deferred tax liabilities recorded in connection with the corporate income tax rate reductions in Germany and the U.K.

Net Income

Consolidated net income of $135.1 million decreased $6.1 million, or 4%, in the first nine months of 2008 from $141.2 million in the first nine months of 2007. Diluted earnings per share decreased 4% to $2.52 in the nine month period of 2008 from $2.62 in the same period of 2007. This decline in diluted earnings per share was the net result of the factors affecting operating income, interest expense and the provision for income taxes discussed above. Charges associated with profit improvement initiatives, certain retirement costs, losses on mark-to-market adjustments for cash transactions and foreign currency forward contracts, and the write-off of deferred acquisition costs ($18.6 million in the aggregate), and incremental taxes of approximately $2.7 million primarily associated with cash repatriation, reduced diluted earnings per share by approximately $0.23 and $0.05, respectively, in the nine-month period of 2008.

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$10.5 million non-recurring, non-cash reduction in net deferred tax liabilities recorded in connection with corporate income tax rate reductions in Germany and the U.K. increased diluted earnings per share by approximately $0.19 in the nine-month period of 2007.

Outlook

In general, the Company believes that demand for compressor and vacuum products tends to correlate with the rate of total industrial capacity utilization and the rate of change of industrial equipment production because air is often used as a fourth utility in the manufacturing process. Over longer time periods, the Company believes that demand also tends to follow economic growth patterns indicated by the rates of change in the gross domestic product (GDP) around the world. During the first quarter of 2008, total industrial capacity utilization rates in the U.S., as published by the Federal Reserve Board, remained above 80%. In the second and third quarters of 2008, the rate declined below 80% to its lowest level since 2003. Rates above 80% have historically indicated a good demand environment for industrial equipment such as compressor and vacuum products.

The Company expects overall global economic growth to continue to slow during the fourth quarter of 2008. While demand remains strong in end market segments in Asia and Eastern Europe, growth has stalled in North America and slowed considerably in Western Europe. The Company s products with shorter lead times that are more susceptible to swings in the economy, such as those that serve light industry and Class 8 trucks, are experiencing challenging demand environments. Demand for products for medical applications and longer lead time products for process applications, such as energy and environmental, have remained more resilient. On balance, worldwide economic difficulties and the current financial crisis have clouded the Company s visibility into many of its key end market segments, and management is cautious in its outlook for the fourth quarter of 2008 and fiscal year 2009.

The Company expects orders for its compressor and vacuum products to slow in the fourth quarter of 2008, driven by declining demand in the U.S. and Europe, partially offset by continued growth in Asia. It expects stable demand for compressors through the end of 2008 for OEM, marine, locomotive and process applications. Demand is expected to continue to decline for lower horsepower compressors and products for general industrial applications. Revenue growth is anticipated to slow in the fourth quarter of 2008 as a result of this order outlook, partially offset by a reduction in backlog as operational improvements are achieved. Demand improved in the third quarter of 2008 for the Company s petroleum pumps and production capacity for most of these products is sold out into the first quarter of 2009. Demand for new rigs does not yet appear to have slowed, given the need for upgrades to improve efficiencies. In addition, demand for well servicing pumps improved as excess capacity was absorbed in North America. However, recent volatility in oil and natural gas prices has caused dramatic shifts in the capital expenditure expectations of certain oil and gas exploration and production companies, which may result in a lower average rig count in North America in 2009.

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

In the third quarter of 2008, orders for compressor and vacuum products increased 1% to $381.3 million, compared to $376.4 million in the third quarter of 2007. Order backlog for the Compressor and Vacuum Products segment increased 3% to $435.3 million as of September 30, 2008, compared to $420.7 million as of September 30, 2007. The increases in orders and backlog reflected favorable changes in foreign currency exchange rates and increased global demand for products used in OEM applications, which were almost entirely offset by lower demand for low-pressure and vacuum applications in Europe. Orders in the third quarter of 2007 included a significant order for an engineered package that did not recur in 2008. Investments in lean enterprise techniques have resulted in manufacturing lead-time improvements and improved manufacturing execution. The favorable effect of changes in foreign currency exchange rates increased orders in the third quarter of 2008 by approximately 3% compared to the same period of 2007. Changes in foreign currency exchange rates reduced backlog by approximately 2% as of September 30, 2008, compared to September 30, 2007, due primarily to strengthening of the USD against the EUR and GBP at the end of the third quarter of 2008.

Future demand for petroleum-related fluid transfer products has historically corresponded to market conditions, rig counts and expectations for oil and natural gas prices, which the Company cannot predict. Orders for fluid transfer products increased 32% to $131.7 million in the third quarter of 2008, compared to $99.5 million in the third quarter of 2007, due primarily to strong demand for drilling and well servicing pumps. Order backlog for the Fluid Transfer Products segment declined 16% to $155.4 million at September 30, 2008, compared to $184.6 million at September 30, 2007. The decrease in backlog was primarily associated with large orders for well stimulation pumps and loading arms received in 2007 which did not recur in 2008, partially offset by increased demand for drilling pumps in the third quarter of 2008. The unfavorable effect of changes in foreign currency exchange rates reduced backlog by approximately 1% compared to September 30, 2007 due primarily to strengthening of the USD against the EUR and GBP at the end of the third quarter of 2008.

The Company continues to expect Fluid Transfer segment revenues, operating income and operating margin to decline for the total year 2008 compared to 2007 based on its expectations for a year over year decline in petroleum pump volume, which results in unfavorable mix, and reduced leverage of fixed and semi-fixed costs as production levels continue to decrease.

The Company is rapidly expanding its implementation of lean enterprise techniques, which is expected to create near-term pressure on gross profit and operating margins as production levels, lead times and inventory are reduced. Future benefits are expected to be realized through the reduction of manufacturing lead time and resulting operating margin improvements.

Based on its current economic outlook, existing backlog, expected operational improvements, and (i) the effect of the acquisition of CompAir on October 20, 2008, (ii) mark-to-market currency adjustments related to the CompAir acquisition and the associated financing and (iii) anticipated additional costs associated with profit improvement initiatives (primarily consisting of employee termination costs), the Company currently estimates that total year 2008 net income will decrease approximately 13% compared with 2007. The above three items are currently expected to reduce 2008 diluted earnings per share by $0.06 to $0.10, $0.04 and $0.06, respectively. The effective tax rate assumed in the 2008 net income estimate is 29%, compared with 24% in 2007. The year-over-year increase in the effective income tax rate primarily reflects non-recurring reductions in the 2007 tax provision associated with the German rate reduction and resulting 2007 German deferred tax benefit, net of a lower German rate benefit, and expected lower foreign tax credit benefits and incremental taxes associated with cash repatriation in 2008.

The acquisition of CompAir, including incremental interest expense on the acquisition-related debt financing, is expected to increase consolidated diluted earnings per share by $0.10 to $0.15 in 2009, based on current market conditions.

Liquidity and Capital Resources

Operating Working Capital

During the nine months ended September 30, 2008, operating working capital (defined as accounts receivable plus inventories, less accounts payable and accrued liabilities) declined $52.4 million to $226.3 million from $278.7 million at December 31, 2007 due to reduced inventory levels and accounts receivable, higher accrued liabilities and the favorable effect of changes in foreign currency exchange rates. Inventory reductions generated $19.7 million in cash flows in the first nine months of 2008 and inventory turns improved to 5.6 times in the third quarter of 2008 from 4.6 times in the third quarter of 2007, as a result of improved production velocity realized from the completion of certain lean manufacturing initiatives. Excluding the effect of changes in foreign currency exchange rates, accounts receivable declined marginally. Days sales in receivables increased to 58 at September 30, 2008 from 56 at December 31, 2007, due largely to an increase in revenues outside the U.S., which typically carry longer payment terms. The increase in accrued liabilities reflected the accrual of $19.2 million for share repurchases to be settled in the fourth quarter.

Cash Flows

Cash provided by operating activities of $204.5 million in the first nine months of 2008 increased $77.0 million from $127.5 million in the same period of 2007. This improvement reflects increased earnings (excluding non-cash charges for depreciation, amortization and unrealized foreign currency transaction losses) and improved operating working capital performance. Operating working capital generated cash of $38.4 million in the first nine months of 2008 compared to $33.9 million used for operating working capital in the first nine months of 2007. Cash provided by accounts receivable of $2.0 million in 2008 compares with cash used of $24.8 million in 2007. The increase in accounts receivable in 2007 primarily reflected the timing of revenue growth and changes in product mix between the third quarter of 2007 and fourth quarter of 2006, and was partially offset by higher customer advance payments (which are reflected in the increase in accrued liabilities during the same period). Cash provided by inventories of $19.7 million in the first nine months of 2008 represents a $50.3 million improvement over cash used of $30.6 million in the first nine months of 2007. The Company made incremental investments in inventories in the first nine months of 2007 to support temporary production and supply chain inefficiencies resulting from manufacturing integration projects, and planned increases in production volume and shipments. Improved inventory performance in the first nine months of 2008 compared with the first nine months of 2007 reflects the completion of these integration

34

projects and certain other lean manufacturing initiatives. Cash inflows from accounts payable and accrued liabilities were $16.8 million in the first nine months of 2008 compared to $21.6 million in the first nine months of 2007.

Net cash used in investing activities of $33.1 million and $31.2 million in the first nine months of 2008 and 2007, respectively, consisted primarily of capital spending on assets intended to increase operating efficiency and flexibility, expand production capacity, support acquisition projects and bring new products to market. In 2008, the Company also completed the acquisition of Best Aire, Inc., a distributor of compressed air and gas products. The Company currently expects capital spending to total approximately $40.0 to $45.0 million for the full year 2008. Capital expenditures related to environmental projects have not been significant in the past and are not expected to be significant in the foreseeable future.

Net cash used in financing activities of $78.8 million in the first nine months of 2008 compares with $74.9 million used in the same period of 2007. Cash provided by operating activities was used for net repayments of short-term and long-term borrowings of $15.1 million in the nine-month period of 2008 and $87.9 million in the nine-month period of 2007. The year-over-year decrease in net repayments of debt was primarily attributable to the Company s repurchase of shares, as discussed below, and the accumulation of cash in anticipation of the completion of the CompAir acquisition. At September 30, 2008, the Company s debt to total capital (defined as total debt divided by the sum of total debt plus total stockholders equity) was 18.8%, compared to 20.0% at December 31, 2007 and 23.2% at September 30, 2007. As discussed below, the Company repurchased shares of its common stock totaling $81.7 million during the first nine months of 2008, including shares exchanged or surrendered in connection with its stock option plans of $0.5 million.

Share Repurchase Programs

In November 2007, the Company s Board of Directors authorized a new share repurchase program to acquire up to 2.7 million shares of the Company s outstanding common stock, representing approximately 5% of the Company s outstanding shares. This program replaced a previous program authorized in October 1998. During the nine-month period ended September 30, 2008, the Company repurchased all 2.7 million shares at a total cost, excluding commissions, of approximately $100.4 million. Of this total, $19.2 million will be settled in the fourth quarter of 2008 and is included in accrued liabilities at September 30, 2008. All common stock acquired is held as treasury stock and available for general corporate purposes.

Liquidity

The Company s primary cash requirements include working capital, capital expenditures, principal and interest payments on indebtedness and acquisitions. The Company s primary sources of funds are its ongoing net cash flows from operating activities and availability under its Revolving Line of Credit (as discussed below). At September 30, 2008, the Company had cash and equivalents of $179.1 million, of which $0.9 million was pledged to financial institutions as collateral to support the issuance of standby letters of credit and similar instruments. During the three months ended September 30, 2008, the Company accumulated cash in anticipation of the CompAir acquisition, which was consummated on October 20, 2008. If the CompAir acquisition had been consummated on September 30, 2008, the Company s combined cash and equivalents as of that date would have been approximately $131 million, of which approximately $2 million would have been pledged to financial institutions as collateral to support the issuance of standby letters of credit and similar instruments.

On May 13, 2005, the Company entered into a syndicated credit agreement (the 2005 Credit Agreement) in connection with the acquisition of Thomas Industries Inc. in July 2005. The 2005 Credit Agreement provided the Company with access to senior secured credit facilities, including a $380.0 million Term Loan and a $225.0 million Revolving Line of Credit. As further discussed below, the 2005 Credit Agreement has been subsequently replaced.

On September 19, 2008, the Company entered into a new syndicated credit agreement (the 2008 Credit Agreement) consisting of (i) a $310.0 million Revolving Line of Credit, (ii) a $180.0 million term loan (U.S. Dollar Term Loan) and (iii) a 120.0 million term loan (Euro Term Loan), each maturing on the fifth anniversary of the revolving loan funding date. In addition, the 2008 Credit Agreement provides for a possible increase in the revolving credit facility of up to $200.0 million.

On October 15 and 16, 2008, the Company borrowed $200 million and £40 million, respectively, pursuant to the revolving credit facility provided under its 2008 Credit Agreement. This amount was used by the Company, in part to retire the outstanding balances under its 2005 Credit Agreement, at which point it was terminated, and in part to pay a portion of the cash purchase price of the

Company s acquisition of CompAir. On October 17, 2008, the Company borrowed $180 million and 120 million pursuant to the term loan facility under the 2008 Credit Agreement. These facilities, together with a portion of the revolving credit facility under the 2008 Credit Agreement and existing cash, were used to pay the cash portion of the CompAir acquisition. As of October 26, 2008, there remained approximately $190 million available under the Revolving Line of Credit, all of which may be used for working capital and general corporate purposes.

The interest rates per annum applicable to loans under the 2008 Credit Agreement are, at the Company s option, either a base rate plus an applicable margin percentage or a Eurocurrency rate plus an applicable margin. The base rate is the greater of (i) the prime rate or (ii) one-half of 1% over the weighted average of rates on overnight federal funds as published by the Federal Reserve Bank of New York. The Eurocurrency rate is LIBOR.

The initial applicable margin percentage over LIBOR under the 2008 Credit Agreement is 2.5% with respect to the term loans and 2.1% with respect to loans under the Revolving Line of Credit, and the initial applicable margin percentage over the base rate is 1.25%. After the Company s delivery of its financial statements and compliance certificate for each fiscal quarter, the applicable margin percentages will be subject to adjustments based upon the ratio of the Company s Consolidated Total Debt to Consolidated Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) (each as defined in the 2008 Credit Agreement) being within certain defined ranges.

The obligations under the 2008 Credit Agreement are guaranteed by the Company s existing and future domestic subsidiaries. The obligations under the 2008 Credit Agreement are also secured by a pledge of the capital stock of each of the Company s existing and future material domestic subsidiaries, as well as 65% of the capital stock of each of the Company s existing and future first-tier material foreign subsidiaries.

The 2008 Credit Agreement includes customary covenants that are substantially similar to those contained in the Company s 2005 Credit Agreement. Subject to certain exceptions, these covenants restrict or limit the ability of the Company and its subsidiaries to, among other things: incur liens; engage in mergers, consolidations and sales of assets; incur additional indebtedness; pay dividends and redeem stock; make investments (including loans and advances); enter into transactions with affiliates, make capital expenditures and incur rental obligations. In addition, the 2008 Credit Agreement requires the Company to maintain compliance with certain financial ratios on a quarterly basis, including a maximum total leverage ratio test and a minimum interest coverage ratio test. The maximum total leverage ratio test will become more restrictive over time.

The 2008 Credit Agreement contains customary events of default, including upon a change of control. If an event of default occurs, the lenders under the 2008 Credit Agreement will be entitled to take various actions, including the acceleration of amounts due under the 2008 Credit Agreement.

The new U.S. Dollar and Euro Term Loans have a final maturity of October 15, 2013. The U.S. Dollar Term Loan requires quarterly principal payments aggregating approximately $2.3 million, $11.3 million, $20.2 million, $29.2 million, $49.5 million and $67.5 million in the last three months of 2008 and in fiscal years 2009 through 2013, respectively. The Euro Term Loan requires quarterly principal payments aggregating approximately 1.5 million, 7.5 million, 13.5 million, 19.5 million, 33.0 million and 45.0 million in the last three months of 2008 and in fiscal years 2009 through 2013, respectively.

The Revolving Line of Credit matures on October 15, 2013. Loans under this facility may be denominated in USD or several foreign currencies and may be borrowed by the Company or two of its foreign subsidiaries as outlined in the 2008 Credit Agreement.

The Company issued $125.0 million of 8% Senior Subordinated Notes (the Notes) in 2005. The Notes have a fixed annual interest rate of 8% and are guaranteed by certain of the Company s domestic subsidiaries (the Guarantors). At any time prior to May 1, 2009, the Company may redeem all or part of the Notes issued under the Indenture among the Company, the Guarantors and The Bank of New York Trust Company, N.A. (the Indenture) at a redemption price equal to 100% of the principal amount of the Notes redeemed plus a premium as determined under the Indenture, accrued and unpaid interest through May 1, 2009 and liquidated damages, if any. 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.

Table of Contents

The Indenture contains events of default and affirmative, negative and financial covenants customary for such financings, including, among other things, limits on incurring additional debt and restricted payments.

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

Contractual Obligations and Commitments

The following table and accompanying disclosures summarize the Company s significant contractual obligations at September 30, 2008 and the effect such obligations are expected to have on its liquidity and cash flow in future periods. The table and accompanying disclosures do not reflect the net effect of commitments resulting from the Company s acquisition of CompAir on October 20, 2008, including principal and interest payments under the 2008 Credit Agreement and other commitments associated with the operations of CompAir.

(Dollars in millions)		**Payments Due by Period**			
Contractual Cash Obligations	**Total**	**Balance of 2008**	**2009 2010**	**2011 2012**	**After 2012**
Debt	$267.5	$ 7.2	$119.8	$ 1.4	$139.1
Estimated interest payments (1)	55.9	3.5	23.2	21.7	7.5
Capital leases	7.4	0.1	0.7	0.7	5.9
Operating leases	65.6	4.6	25.4	15.1	20.5
Purchase obligations (2)	212.0	168.0	44.0		
Total	$608.4	$183.4	$213.1	$38.9	$173.0

(1) Estimated interest payments for long-term debt were calculated as follows: for fixed-rate debt and term debt, interest was calculated based on applicable rates and payment dates; for variable-rate debt and/or non-term debt, interest rates and payment dates were estimated based

on management s determination of the most likely scenarios for each relevant debt instrument. Management expects to settle such interest payments with cash flows from operating activities and/or short-term borrowings.

(2) Purchase obligations consist primarily of agreements to purchase inventory or services made in the normal course of business to meet operational requirements. The purchase obligation amounts do not represent the entire anticipated purchases in the future, but represent only those items for which the Company is contractually obligated as of September 30, 2008. For this reason, these amounts will not provide a complete and reliable

indicator of the Company s expected future cash outflows.

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

The Company funds its U.S. qualified pension plans in accordance with the Employee Retirement Income Security Act of 1974 regulations for the minimum annual required contribution and Internal Revenue Service regulations for the maximum annual allowable tax deduction. The Company is committed to making the required minimum contributions and expects to contribute a total of approximately $5.7 million to its U.S. qualified pension plans during 2008. Furthermore, the Company expects to contribute a total of approximately $2.3 million to its U.S. postretirement health care benefit plans during 2008. Future contributions are dependent upon various factors including the performance of the plan assets, benefit payment experience and changes, if any, to current funding requirements. Therefore, no amounts were included in the Contractual Cash Obligations table. The Company generally expects to fund all future contributions with cash flows from operating activities.

The Company s non-U.S. pension plans are funded in accordance with local laws and income tax regulations. The Company expects to contribute a total of approximately $6.8 million to its non-U.S. qualified pension plans during 2008, based on foreign currency exchange rates at December 31, 2007. No amounts have been included in the Contractual Cash Obligations table due to the same reasons noted above.

Disclosure of amounts in the Contractual Cash Obligations table regarding expected benefit payments in future years for the Company s pension plans and other postretirement benefit plans cannot be properly reflected due to the ongoing nature of the obligations of these plans. In order to inform the reader about expected benefit payments for these plans over the next several years, the Company anticipates the annual benefit payments for the U.S. plans to be in the range of approximately $8.0 million to $9.0 million in 2008 and to remain at or near these annual levels for the next several years, and the annual benefit payments for the non-U.S. plans to be in the range of approximately $5.0 million to $6.0 million in 2008 and to increase by approximately $1.0 million each year over the next several years, based on foreign currency exchange rates at December 31, 2007.

Net deferred income tax liabilities were $37.5 million as of September 30, 2008. This amount is not included in the Contractual Cash Obligations table because the Company believes this presentation would not be meaningful. Net deferred income tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their book basis, which will result in taxable amounts in future years when the book basis is settled. The results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling net deferred income tax liabilities as payments due by period could be misleading, because this scheduling would not relate to liquidity needs.

In the normal course of business, the Company or its subsidiaries may sometimes be required to provide surety bonds, standby letters of credit or similar instruments to guarantee its performance of contractual or legal obligations. As of September 30, 2008, the Company had $71.8 million in such instruments outstanding and had pledged $0.9 million of cash to the issuing financial institutions as collateral for such instruments.

Contingencies

The Company is a party to various legal proceedings, lawsuits and administrative actions, which are of an ordinary or routine nature. In addition, due to the bankruptcies of several asbestos manufacturers and other primary defendants, among other things, the Company has been named as a defendant in a number of asbestos personal injury lawsuits. The Company has also been named as a defendant in a number of silica personal injury lawsuits. The plaintiffs in these suits allege exposure to asbestos or silica from multiple sources and typically the Company is one of approximately 25 or more named defendants. In the Company s experience to date, the substantial majority of the plaintiffs have not suffered an injury for which the Company bears responsibility.

Predecessors to the Company sometimes manufactured, distributed and/or sold products allegedly at issue in the pending asbestos and silica litigation lawsuits (the Products). However, neither the Company nor its predecessors ever mined, manufactured, mixed, produced or distributed asbestos fiber or silica sand, the materials that allegedly caused the injury underlying the lawsuits. Moreover, the asbestos-containing components of the Products were enclosed within the subject Products.

The Company has entered into a series of cost-sharing agreements with multiple insurance companies to secure coverage for asbestos and silica 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 silica lawsuits have not resulted in a material adverse effect on the Company s consolidated financial position, results of operations, or liquidity.

The Company believes that the pending and future asbestos and silica lawsuits are not likely to, in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or liquidity, based on: the Company s anticipated insurance and indemnification rights to address the risks of such matters; the limited potential asbestos exposure from the components described above; the Company s experience that the vast majority of plaintiffs are not impaired with a disease attributable to alleged exposure to asbestos or silica from or relating to the Products or for which the Company otherwise bears responsibility; various potential defenses available to the Company with respect to such matters; and the Company s prior disposition of comparable matters. However, due to inherent uncertainties of litigation and because future developments, including, without limitation, potential insolvencies of insurance

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companies or other defendants, could cause a different outcome, there can be no assurance that the resolution of pending or future lawsuits will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

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

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

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. This statement was effective for the Company on January 1, 2008. In February 2008, the FASB released FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed for one year the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Items in this classification include goodwill, asset retirement obligations, rationalization accruals, intangible assets with indefinite lives and certain other items. The adoption of the provisions of SFAS No. 157 with respect to the Company s financial assets and liabilities only did not have a significant effect on the Company s consolidated statements of operations, balance sheets and statements of cash flows. The adoption of SFAS No. 157 with respect to the Company s non-financial assets and liabilities, effective January 1, 2009, is not expected to have a significant effect on the Company s consolidated financial statements. See Note 10 Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for the disclosures required by SFAS No. 157 regarding the Company s financial instruments measured at fair value.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits all entities to elect to measure eligible financial instruments and certain other items at fair value. Additionally, this statement establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of financial assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007 and was adopted by the Company effective January 1, 2008. The Company has currently chosen not to elect the fair value option permitted by SFAS No. 159 for any items that are not already required to be measured at fair value in accordance with generally accepted accounting principles. Accordingly, the adoption of this standard had no effect on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)), which establishes principles and requirements for how the acquirer of a business is to (i) recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determine what information to disclose to enable users of its financial statements to evaluate the nature and financial effects of the business combination. This statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This replaces the guidance of SFAS No. 141, *Business Combinations* (SFAS No. 141) which requires the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. In addition, costs incurred by the acquirer to effect the acquisition and restructuring costs that the acquirer expects to incur, but is not obligated to incur, are to be recognized separately from the acquisition. SFAS No. 141(R) applies to all transactions or other events in which an entity obtains control of one or more businesses. This statement requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. An acquirer is required to recognize assets or liabilities arising from all other contingencies as of the acquisition date, measured at their acquisition-date fair values, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements.* This Statement requires the acquirer to recognize goodwill as of the acquisition date, measured as a residual, which generally will be the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Contingent consideration should be recognized at the acquisition date, measured at its fair value at that date. SFAS No. 141(R) defines a bargain purchase as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and requires the acquirer to recognize that excess in earnings as attributable to the acquirer. This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Company expects that SFAS No. 141(R) will affect the Company s accounting for business combinations consummated on or after January 1, 2009, but that such effect will be dependent upon those acquisitions. See also Note 11 Income Taxes in the Notes to Consolidated Financial Statements.

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

In December 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 110, *Certain Assumptions Used in Valuation Methods* (SAB 110). SAB 110 allows public companies to continue use of the simplified method for estimating the expected term of plain vanilla share option grants after December 31, 2007 if they do not have historically sufficient experience to provide a reasonable estimate. The Company used the simplified method to determine the expected term for the majority of its 2006 and 2007 option grants. SAB 110 was effective for the Company on January 1, 2008 and, accordingly, the Company no longer uses the simplified method to estimate the expected term of future option grants. The adoption of SAB 110 did not have a material effect on the Company s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures for derivative instruments and hedging activities, including (i) how and why an entity uses derivative instruments;

(ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Under SFAS No. 161, entities must disclose the fair value of derivative instruments, their gains or losses and their location in the balance sheet in tabular format, and information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. The fair value amounts must be disaggregated by asset and liability values, by derivative instruments that are designated and qualify as hedging instruments and those that are not, and by each major type of derivative contract. SFAS No. 161 is effective prospectively for interim periods and fiscal years beginning after November 15, 2008. The Company is currently evaluating the effect SFAS No. 161 will have on its disclosure requirements for derivative instruments and hedging activities.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), and is intended to improve the consistency between the useful life of a recognized intangible asset und SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R). FSP FAS 142-3 applies to (i) intangible assets that are acquired individually or with a group of other assets and (ii) intangible assets acquired in both business combinations and asset acquisitions. In developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset, an entity shall consider its own historical experience in renewing or extending similar arrangements; however, these assumptions should be adjusted for the entity-specific factors described in SFAS No. 142. In the absence of that experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for the entity-specific factors in SFAS No. 142. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, or the Company s 2009 fiscal year, and interim periods within those fiscal years. The Company is currently evaluating the effect FSP FAS 142-3 will have on its financial statements and related disclosure requirements.

Critical Accounting Policies

Management has evaluated the accounting policies used in the preparation of the Company s financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving management judgments and estimates may be found in the Company s 2007 Annual Report on Form 10-K, filed on February 29, 2008, in the Critical Accounting Policies section of Management s Discussion and Analysis and in Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements.

Cautionary Statements Regarding Forward-Looking Statements

All of the statements in Management s Discussion and Analysis of Financial Condition and Results of Operations, other than historical facts, are forward-looking statements including, without limitation, statements made under the caption Outlook. As a general matter, forward-looking statements are those focused upon anticipated events or trends, assumptions, expectations and beliefs relating to matters that are not historical in nature. The words anticipate, preliminary, expect, believe, estimate, intend, plan to, will, foresee, project, forecast and similar e forward-looking statements.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for these forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that forward-looking statements are subject to known and unknown risks, uncertainties and other 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 known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those matters expressed in, anticipated by or implied by such forward-looking statements.

These risks and factors include, but are not limited to: (1) the Company s exposure to economic downturns and market cycles, particularly the level of oil and natural gas prices and oil and natural gas drilling production, which affect demand for the Company s petroleum products, and industrial production and manufacturing capacity utilization rates, which affect demand for the Company s compressor and vacuum products; (2) the risks associated with intense competition in the Company s market segments, particularly the pricing of the Company s products; (3) the risks associated with the current global economic crisis and its impact on capital markets, liquidity, and the Company s suppliers and customers; (4) economic, political and other risks associated with the Company s international sales and operations, including changes in currency exchange rates (primarily between the USD, the EUR, the GBP and the

Chinese yuan (CNY)); (5) the risks that the integration of the CompAir acquisition disrupts the plans and operations of the Company, CompAir, or both and the potential difficulties of employee retention as a result of the acquisition; (6) the risks of large or rapid increases in raw material costs or substantial decreases in their availability, and the Company s dependence on particular suppliers, particularly iron casting and other metal suppliers; (7) the risks that the Company will not realize the expected financial and other benefits from the acquisition of CompAir; (8) the ability to continue to identify and complete strategic acquisitions and effectively integrate such acquired

Table of Contents

companies to achieve desired financial benefits; (9) the ability to attract and retain quality executive management and other key personnel; (10) the risks associated with potential product liability and warranty claims due to the nature of the Company s products; (11) the risk of regulatory noncompliance; (12) the risks associated with environmental compliance costs and liabilities; (13) the risks associated with pending asbestos and silica personal injury lawsuits; (14) the risk of possible future charges if the Company determines that the value of goodwill and other intangible assets, representing a significant portion of the Company s total assets, are impaired; (15) the risk that communication or information systems failure may disrupt our business and result in financial loss and liability to our customers; (16) the risks associated with enforcing the Company s intellectual property rights and defending against potential intellectual property claims; and (17) the ability to avoid employee work stoppages and other labor difficulties. The foregoing factors should not be construed as exhaustive and should be read together with important information regarding risks and factors that may affect the Company s future performance set forth under Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

These statements reflect the current views and assumptions of management with respect to future events. 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. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. The inclusion of any statement in this report does not constitute an admission by the Company or any other person that the events or circumstances described in such statement are material.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Notional transaction amounts and fair values for the Company s outstanding derivatives, by risk category and instrument type, as of September 30, 2008 and December 31, 2007, are summarized in Note 10 Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements.

Commodity Price Risk

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

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

Interest Rate Risk

The Company s exposure to interest rate risk results primarily from its borrowings of $274.9 million at September 30, 2008. The Company manages its exposure to interest rate risk by maintaining a mixture of fixed and variable rate debt and, from time to time, uses pay-fixed interest rate swaps as cash flow hedges of variable rate debt in order to adjust the relative proportions. The interest rates on approximately 49% of the Company s borrowings were effectively fixed as of September 30, 2008. If the relevant LIBOR amounts for all of the Company s borrowings had been 100 basis points higher than actual in the first nine months of 2008, the Company s interest expense would have increased by $1.0 million.

Exchange Rate Risk

A substantial portion of the Company s operations is conducted by its subsidiaries outside of the U.S. in currencies other than the USD. Almost all of the Company s non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Other than the USD, the EUR, GBP, and CNY are the principal currencies in which the Company and its subsidiaries enter into transactions.

The Company is exposed to the impacts of changes in foreign currency exchange rates on the translation of its non-U.S. subsidiaries assets, liabilities, and earnings into USD. The Company partially offsets these exposures by having certain of its non-U.S. subsidiaries act as the obligor on a portion of its borrowings and by denominating such borrowings, as well as a portion of the borrowings for which the Company is the obligor, in currencies other than the USD. Of the Company s total net assets of $1,186.2 million at September 30, 2008, approximately $795.1 million was denominated in currencies other than the USD. Borrowings by the Company s non-U.S. subsidiaries at September 30, 2008 totaled $17.3 million, and the Company s consolidated borrowings denominated in currencies other than the USD totaled $17.3 million. Fluctuations due to changes in foreign currency exchange rates in the value of non-USD borrowings that have been designated as hedges of the Company s net investment in foreign operations are included in other comprehensive income.

The Company and its subsidiaries are also subject to the risk that arises when they, from time to time, enter into transactions in currencies other than their functional currency. To mitigate this risk, the Company and its subsidiaries typically settle intercompany trading balances monthly. The Company also selectively uses forward currency contracts to manage this risk. At September 30, 2008, the notional amount of open forward currency contracts was $96.8 million and their aggregate fair value was $(5.3) million.

To illustrate the impact of foreign currency exchange rates on the Company s financial results, the Company s operating income for the first nine months of 2008 would have decreased by approximately $12.0 million if the USD had been 10 percent more valuable than actual relative to other currencies. This calculation assumes that all currencies change in the same direction and proportion to the USD and that there are no indirect effects of the change in the value of the USD such as changes in non-USD sales volumes or prices.

Item 4. Controls and Procedures

The Company s management carried out an evaluation (as required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act)), with the participation of the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon this evaluation, the President and Chief Executive Officer and Executive Vice President, Finance and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q, such that the information relating to the Company and its consolidated subsidiaries required to be disclosed by the Company in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms, and (ii) is accumulated and communicated to the Company s management, including its principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In addition, the Company s management carried out an evaluation, as required by Rule 13a-15(d) of the Exchange Act, with the participation of the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, of changes in the Company s internal control over financial reporting. Based on this evaluation, the President and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer concluded that there were no changes in the Company s internal control over financial reporting that occurred during the quarter ended September 30, 2008 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.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to various legal proceedings and administrative actions. The information regarding these proceedings and actions is included under Note 13 Contingencies to the Company s Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and under Contingencies in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

For information regarding factors that could affect the Company s results of operations, financial condition and liquidity, see (i) the risk factors discussion provided under Part I, Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, (ii) the Cautionary Statements Regarding Forward-Looking Statements included in Part I, Item 2 of this Quarterly Report on Form 10-Q, and (iii) the additional risk factors set forth below in this Part II, Item 1A of this Quarterly Report on Form 10-Q.

The risks associated with the current global economic crisis and its impact on capital markets, liquidity, and the Company s suppliers and customers.

As widely reported, financial markets in the United States, Europe and Asia have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. These economic developments negatively affect businesses such as ours in a number of ways. The adverse economic conditions in the United States, Europe and Asia result in decreased demand for our products, which in turn have a negative effect on our revenues and net income. Additionally, the current global credit crisis may prohibit our customers and suppliers from obtaining financing for their operations, which could result in (i) disruption to our supply deliveries or our inability to obtain raw materials at favorable pricing, (ii) decrease in orders of our products or the cancellations thereof, and (iii) our customers inability to pay for our products. Furthermore, the volatility in security prices may adversely affect the value of the assets in the Company s pension plans, which may, in turn, result in increased future funding requirements and pension cost. The Company is unable to predict the severity or the duration of the current disruptions in the financial markets and the adverse economic conditions in the United States, Europe and Asia.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of equity securities during the three months ended September 30, 2008 are listed in the following table.

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
July 1, 2008 July 31, 2008		N/A		1,515,935
August 1, 2008 August 31, 2008	200,000	$ 45.68	200,000	1,315,935
September 1, 2008 September 30, 2008	1,315,935	$ 35.83	1,315,935	
Total	1,515,935	$ 37.13	1,515,935	

(1) Excludes commissions.

(2) In November 2007, the Board of Directors authorized the Company to acquire up to 2.7 million shares of its common stock. As of September 30, 2008, all shares under the repurchase program approved in November 2007 have been repurchased.

(3) The Company cancelled its Stock Repurchase Program for its executive officers and directors. There were 398,251 shares available for repurchase under this program at the time of cancellation.

Table of Contents

Item 5. Other Information

As previously disclosed on a Current Report on Form 8-K, filed with the SEC on August 4, 2008, the Board of Directors approved an amendment and restatement of its Amended and Restated Bylaws (the Restated Bylaws), revising, among other things, the advance notice provisions therein. As a result of these revisions, in order for a proponent to nominate a director or submit other business at the Company s 2009 Annual Meeting of Stockholders (and not intend for such business to be included in the Company s 2009 proxy materials pursuant to Rule 14a-8 of the Exchange Act), the proponent must comply with the new advance notice provisions set forth in Section 2.9, Article II of the Restated Bylaws, including without limitation, providing written notice of such nomination and other business to the Company not later than February 5, 2009 and not earlier than January 6, 2009. If the notice is received before January 6, 2009, or after February 5, 2009, it will be considered untimely and the Company will not be required to present the proposal for voting or consider the nominee for election at the Company s 2009 Annual Meeting of Stockholders.

Proponents wishing to include a stockholder proposal in the Company s 2009 proxy materials are required to comply with Rule 14a-8 of the Exchange Act.

Item 6. Exhibits

See the list of exhibits in the Index to Exhibits to this quarterly report on Form 10-Q, which is incorporated herein by reference.

Table of Contents

SIGNATURES

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

	GARDNER DENVER, INC. (Registrant)
Date: November 6, 2008	By: /s/ Barry L. Pennypacker Barry L. Pennypacker President and Chief Executive Officer
Date: November 6, 2008	By: /s/ Helen W. Cornell Helen W. Cornell Executive Vice President, Finance and Chief Financial Officer
Date: November 6, 2008	By: /s/ David J. Antoniuk David J. Antoniuk Vice President and Corporate Controller (Principal Accounting Officer)

Table of Contents

GARDNER DENVER, INC.
INDEX TO EXHIBITS

Exhibit No.	Description
2.1	Share Purchase Agreement dated July 20, 2008 among Gardner Denver, Inc., Nicholas Sanders and certain other individuals named therein, Alchemy Partners (Guernsey) Limited and David Rimmer, filed as Exhibit 2.1 to Gardner Denver, Inc. s Current Report on Form 8-K, dated October 21, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
2.2	Share Purchase Agreement dated July 20, 2008 between Gardner Denver, Inc. and Invensys International Holdings Limited., filed as Exhibit 2.2 to Gardner Denver, Inc. s Current Report on Form 8-K, dated October 21, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
2.3	Share Purchase Agreement dated July 20, 2008 between Gardner Denver, Inc. and David Fisher, filed as Exhibit 2.3 to Gardner Denver, Inc. s Current Report on Form 8-K, dated October 21, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
2.4	Share Purchase Agreement dated July 20 between Gardner Denver, Inc. and John Edmunds, filed as Exhibit 2.4 to Gardner Denver, Inc. s Current Report on Form 8-K, dated October 21, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
2.5	Share Purchase Agreement dated July 20, 2008 between Gardner Denver, Inc. and Robert Dutnall, filed as Exhibit 2.5 to Gardner Denver, Inc. s Current Report on Form 8-K, dated October 21, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
3.1	Certificate of Incorporation of Gardner Denver, Inc., as amended on May 3, 2006, filed as Exhibit 3.1 to Gardner Denver, Inc. s Current Report on Form 8-K, dated May 3, 2006 (SEC File No. 001-13215), and incorporated herein by reference.
3.2	Bylaws of Gardner Denver, Inc., as amended on July 29, 2008, filed as Exhibit 3.2 to Gardner Denver, Inc s Current Report on Form 8-K, dated August 4, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
4.1	Amended and Restated Rights Agreement, dated as of January 17, 2005, between Gardner Denver, Inc. and National City Bank as Rights Agent, filed as Exhibit 4.1 to Gardner Denver, Inc. s Current Report on Form 8-K, dated January 21, 2005, and incorporated herein by reference.
10.1	Credit Agreement dated September 19, 2008 between Gardner Denver, Inc., Gardner Denver Holdings GmbH & Co. KG, GD First (UK) Limited, JPMorgan Chase Bank, N.A., individually and as LC Issuer, Swing Line Lender and as Agent for the Lenders, Bank of America, N.A., individually and as Syndication Agent, Mizuho Corporate Bank Ltd. and U.S. Bank, National Association, individually and as Documentation Agents, and the other Lenders named therein, filed as Exhibit 10.1 to Gardner Denver, Inc. s Current Report on Form 8-K, dated October 21, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
10.2	

	Waiver and Release Agreement dated August 27, 2008, filed as Exhibit 10.1 to Gardner Denver, Inc. s Current Report on Form 8-K, dated August 27, 2008 (SEC File No. 001-13215), and incorporated herein by reference.
11	Statement re: Computation of Earnings Per Share, incorporated herein by reference to Note 8 Stockholders Equity and Earnings per Share to the Company s Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.
12*	Statements re: Computation of Ratio of Earnings to Fixed Charges.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

47

Exhibit No.	Description
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

** Furnished herewith