GARDNER DENVER INC
Form 10-K
February 27, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**

EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

or

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

EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-13215

GARDNER DENVER, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0419383**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1500 Liberty Ridge Drive, Suite 3000	
Wayne, PA	**19087**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(610) 249-2000**

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

Title of each class	Name of each exchange on which registered
Common Stock of $0.01 par value per share	New York Stock Exchange
Rights to Purchase Preferred Stock	New York Stock Exchange

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of close of business on June 30, 2012 was approximately $2,580.2 million.

Common stock outstanding at January 31, 2013: 49,145,168 shares.

Documents Incorporated by Reference

Portions of the Gardner Denver, Inc. Proxy Statement for its 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Cautionary Statements Regarding Forward-Looking Statements

All of the statements in this Annual Report on Form 10-K, other than historical facts, are forward-looking statements, including, without limitation, the statements made in the Management s Discussion and Analysis of Financial Condition and Results of Operations, particularly under the caption Outlook. As a general matter, forward-looking statements are those focused upon anticipated events or trends, expectations, and beliefs relating to matters that are not historical in nature. The words could, should, feel, anticipate, aim, preliminary, expect, bel estimate, intend, intent, plan, will, foresee, project, forecast, or the negative thereof or variations thereon, and similar expressions id 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, Gardner Denver, Inc. (the Company or Gardner Denver) 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, uncertainties and other factors include, but are not limited to: (1) risks relating to our exploration of strategic alternatives; (2) the risks that the Company will not realize the expected financial benefits from future restructuring actions; (3) exposure to cycles in specific markets, 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 industrial products; (4) the risks and costs associated with the actions of shareholders; (5) the Company s exposure to the risks associated with instability in the global economy, which may negatively impact its revenues, liquidity, suppliers and customers; (6) the risks associated with the potential loss of key customers for petroleum products and the potential resulting negative impact on the Company s profitability and cash flows; (7) the risks associated with competition in the Company s market segments, particularly the pricing of the Company s products; (8) the loss of, or disruption in, the Company s distribution network could have a negative impact on the Company s ability to ship products, meet customer demand, and otherwise operate its business; (9) 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 copper, aluminum, iron casting and other metal suppliers; (10) economic, political and other risks associated with the Company s international sales and operations, including changes in currency exchange rates (primarily between the U.S. Dollar (USD), the euro (EUR), the British pound sterling (GBP) and the Chinese Yuan (CNY)); (11) the risks associated with potential changes in shale oil and gas regulation; (12) the risks associated with potential product liability and warranty claims due to the nature of the Company s products; (13) the ability to attract and retain quality executive management and other key personnel; (14) the risk that communication or information systems failure may disrupt the Company s business and result in financial loss and liability to its customers; (15) the ability to avoid employee work stoppages and other labor difficulties; (16) the risks associated with pending asbestos and silica-related personal injury lawsuits; (17) the risk of non-compliance with U.S. and foreign laws and regulations applicable to the Company s international operations, including the U.S. Foreign Corrupt Practices Act and other similar laws; (18) the risks associated with environmental compliance costs and liabilities, including the compliance costs and liabilities of future climate change regulations; (19) the risks associated with enforcing the Company s intellectual property rights and defending against potential intellectual property claims; (20) 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; (21) risks associated with the Company s indebtedness and changes in the availability or costs of new financing to support the Company s operations and future investments; (22) risks associated with the Company s inability to access capital; (23) the ability to continue to identify and complete strategic acquisitions and effectively integrate such acquired companies to achieve desired financial benefits; (24) changes in discount rates used for actuarial assumptions in pension and other postretirement obligation and expense calculations and market performance of pension plan assets; and (25) the risk that the Company is unable to develop new products and technologies, which may negatively impact our sales and market share. 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 of this Annual Report on Form 10-K.

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.

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PART I

ITEM 1. BUSINESS

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

Executive Overview

Gardner Denver designs, manufactures and markets engineered industrial machinery and related parts and services. The Company is one of the world s leading manufacturers of highly engineered compressors and vacuum products for industrial applications. Stationary air compressors are used to pressurize gas, including air, in excess of 50 pounds per square inch gauge (PSIG) and are used in manufacturing, process applications and materials handling, and to power air tools and equipment. Blowers and liquid ring pumps compress gas, including air, up to 50 PSIG and are often used in vacuum applications. Blowers are used primarily in pneumatic conveying, wastewater aeration and engineered vacuum systems. Liquid ring pumps are often sold as part of an engineered package and are used in process applications such as power generation, chemical processing and oil and gas refining. The Company also supplies pumps and compressors for original equipment manufacturer (OEM) applications such as medical equipment, vapor recovery, printing, packaging and laboratory equipment.

Additionally, the Company designs, manufactures, markets, and services a diverse group of pumps, water jetting systems and related aftermarket parts used in oil and natural gas well drilling, servicing and production and in industrial cleaning and maintenance. The Company also manufactures loading arms, swivel joints, couplers and valves used to load and unload ships, tank trucks and rail cars. The Company is one of the world s leading manufacturers of reciprocating pumps used in oil and natural gas well drilling, servicing and production, and in loading arms used in the transfer of petrochemical products.

The Company s divisional operations are combined into two major product groups: the Industrial Products Group and the Engineered Products Group. Approximately 42% of the Industrial Products Group revenue is generated through distribution, approximately 40% is sold directly to the end customer and the balance is for OEM products. By comparison, approximately 59% of Engineered Products Group revenue is sold directly to the end user, approximately 31% is used in OEM products and the balance is sold through distribution.

For the year ended December 31, 2012, the Company s revenues were approximately $2.4 billion, of which 55% were derived from sales of Industrial Products and 45% were from sales of Engineered Products. Approximately 37% of the Company s total revenues for the year ended December 31, 2012 were derived from sales to customers in the United States and approximately 63% were from sales to customers in various countries outside the United States. Of the total non-U.S. sales, 58% were to Europe, Middle East, and Africa, 30% to Asia Pacific, 5% to Canada, 3% to Brazil, and 4% to other regions. See Note 20 Segment Information in the Notes to Consolidated Financial Statements.

The Gardner Denver Way

The Gardner Denver Way encompasses the Company s values and strategies for growth, and defines how it delivers value to its key stakeholders customers, shareholders and employees. The Gardner Denver Way starts with the Company s customers, who are at the center of everything the Company does. It focuses the Company on building strong value-added relationships with its customers by listening to them, understanding their needs and quickly responding with creative products and services. When the Company s shareholders understand the value-driven relationship the Company shares with its customers, they continue to invest the resources the Company needs in order to grow.

The commitment of the Company s employees to the goals and vision of the Gardner Denver Way enables the Company to use those resources to create a stronger company. By empowering the Company s employees, the Gardner Denver Way engages the creativity of all employees to develop innovative products and services that meet the needs of the Company s customers, to quickly recognize opportunities and to capitalize on them. Innovation and velocity are the core of the Gardner Denver Way driving the Company s differentiation from its competitors.

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Significant Accomplishments in 2012

The strategic goals of the Company, guided by the Gardner Denver Way, are to grow revenues faster than the industry average, and to grow net income and net cash provided by operating activities faster than revenues. Gardner Denver s five-point growth strategy is comprised of organic growth, aftermarket growth, innovative products, selective acquisitions, and margin improvement. To accomplish its strategic goals, the Company has acquired products and operations that serve global markets, and has focused on integrating these acquisitions to remove excess costs and generate cash. The Company has pursued organic growth through new product development and investment in new technologies and employee development. The Company believes operational excellence and internal process improvements will help the Company achieve its goals, with a focus on its three key stakeholders: customers, shareholders and employees. The Company focuses on the needs of its customers to strengthen these key relationships and empower employees to respond to customers needs in innovative and effective ways.

The Company s significant accomplishments in 2012 included:

- As a result of continued execution of the Gardner Denver strategy and ongoing operational improvements through application of the Gardner Denver Way, the Company achieved diluted earnings per share of $5.28 for the year ended December 31, 2012. Full year consolidated revenues were $2.36 billion and operating margins finished at 15.8%.

- Continued progress on simplifying and eliminating redundancy from Gardner Denver s cost structure by closing, or announcing the closure of, 22 locations and eliminating approximately 5% of headcount in 2012. The Company also announced its plan for European restructuring in the Industrial Products Group with a focus on consolidating manufacturing facilities and reducing associated staffing levels to increase operational efficiency. The initiative is expected to conclude in 2015, with an expected total of $85-$100 million of cash and non-cash costs to be incurred by 2015 and annualized, pre-tax costs savings of $35-$40 million to be achieved by 2016.

- Generated $289 million in net cash from operating activities, which was in excess of net income. Uses of cash during 2012 included investments in capital projects of $49.7 million, repurchases of common shares of $115.5 million, and payment of cash dividends of $9.9 million ($0.20 per common share). The Company s cash balance of $254.0 million, financing alternatives and availability under its various borrowing facilities provide the flexibility to consider acquisition opportunities should they arise.

- Developed new products that incorporate the voice of the customer, provide differentiation from the competition and strengthen the Company s position as a leader in innovation. Examples include the Maverick drilling pump and Falcon fluid end.

- Completed two separate world class facilities in Ft. Worth, Texas and Altoona, Pennsylvania focused exclusively on aftermarket products and services within the Company s Energy business.

- Initiated the transition of the EPG Nash division s global headquarters and US manufacturing and distribution operations to a new site in Bentleyville, Pennsylvania. The transition includes the movement of headquarters functions from Trumbull, Connecticut and manufacturing operations from Elizabeth, Pennsylvania in 2012, the distribution center from St. Louis, Missouri in 2014, and manufacturing operations from Trumbull, Connecticut in 2016.

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

History

The Company s business of manufacturing industrial and petroleum equipment began in 1859 when Robert W. Gardner redesigned the fly-ball governor to provide speed control for steam engines. By 1900, the then Gardner Company had expanded its product line to include steam pumps and vertical high-speed air compressors. In 1927, the Gardner Company merged with Denver Rock Drill, a manufacturer of equipment for oil wells and mining and construction, and became the Gardner-Denver Company. In 1979, the Gardner-Denver Company was

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acquired by Cooper Industries, Inc. (Cooper , and predecessor to Cameron International Corporation) and operated as 10 unincorporated divisions. Two of these divisions, the Gardner-Denver Air Compressor Division and the Petroleum Equipment Division, were combined in 1985 to form the Gardner-Denver Industrial Machinery Division (the Division). The *OPI* pump product line was purchased in 1985 and added to the Division. In 1987, Cooper acquired the *Sutorbilt* and *DuroFlow* blower product lines and the Joy® industrial compressor product line, which were also consolidated into the Division. Effective December 31, 1993, the assets and liabilities of the Division were transferred by Cooper to the Company, which had been formed as a wholly owned subsidiary of Cooper. On April 15, 1994, the Company was spun-off as an independent company to the stockholders of Cooper.

Gardner Denver has completed 24 acquisitions since becoming an independent company in 1994. The following table summarizes major transactions completed since January 2005.

Date of Acquisition	Acquired Entity	Approximate Transaction Value (USD millions)
July 2005	Thomas Industries Inc.	484
October 2008	CompAir Holdings Limited	379
December 2011	Robuschi S.p.A.	201

In July 2005, the Company acquired Thomas Industries Inc. (Thomas), previously a public company traded on the New York Stock Exchange. Thomas was a leading supplier of pumps, compressors and blowers for OEM applications such as medical equipment, vapor recovery, automotive and transportation applications, printing, packaging and laboratory equipment. Thomas designs, manufactures, markets, sells and services these products through worldwide operations. Thomas vacuum and pump operations are managed in the Engineered Products Group and its blower operations are managed in the Industrial Products Group.

In October 2008, the Company completed the acquisition of CompAir Holdings Limited (CompAir), a leading global manufacturer of compressed air and gas solutions headquartered in Redditch, United Kingdom (UK). CompAir manufactures an extensive range of products, including oil-injected and oil-free stationary rotary screw compressors, reciprocating compressors, portable rotary screw compressors and rotary vane compressors. These products are used in, among other things, oil and gas exploration, mining and construction, power plants, general industrial applications, 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. This acquisition was complementary to the Company s Industrial Products Group product portfolio.

In December 2011, the Company acquired Robuschi S.p.A (Robuschi), a leading European producer of blowers, pumps and associated packages. These products are used in a wide variety of end markets including wastewater, mining, and power generation, as well as general industrial applications. With facilities in Noceto, Italy; Sao Paulo, Brazil; and Shanghai, China, in addition to its main production facility in Parma, Robuschi serves over 3,000 customers and has an installed base in excess of 200,000 units. This acquisition was complementary to the Company s Industrial Products Group product portfolio.

Markets and Products

A description of the particular products manufactured and sold by Gardner Denver in its two reportable segments as of December 31, 2012 is set forth below. For financial information over the past three years on the Company s performance by reportable segment and the Company s international sales, refer to Note 20 Segment Information in the Notes to Consolidated Financial Statements.

Industrial Products Group Segment

In the Industrial Products Group, the Company designs, manufactures, markets and services the following products and related aftermarket parts for industrial and commercial applications: rotary screw, reciprocating, and sliding vane air and gas compressors; positive displacement, centrifugal, and side channel blowers; and vacuum pumps, primarily serving manufacturing, transportation and general industry and selected OEM and engineered system applications. The Company also markets and services complementary ancillary products. Industrial Products Group sales for the year ended December 31, 2012 were approximately $1.3 billion.

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Compressors are used to increase the pressure of gas, including air. The Company s reciprocating compressors range from fractional to 1,500 horsepower and are sold under the *Gardner Denver, Champion, Bottarini, CompAir, Mako, Reavell* and *Belliss & Morcom* trademarks. The Company s lubricated rotary screw compressors range from 5 to 680 horsepower and are sold under the *Gardner Denver, Bottarini, Electra-Screw, Electra-Saver, Electra-Saver II, Enduro, RotorChamp, Tamrotor, CompAir* and *Tempest* trademarks. The Company s oil-free rotary screw compressors range from 5 to 150 horsepower and are sold under the *Gardner Denver*, *CompAir* and *Dryclon* trademarks. The Company s oil-free centrifugal compressors range from 200 to 400 horsepower and are sold under the *Quantima* trademark. The Company also has a full range of portable compressors that are sold under the *CompAir* and *Bottarini* trademarks.

Blowers are used to produce a high volume of air at low pressure or vacuum. The Company s positive displacement blowers range from 0 to 36 PSIG discharge pressure and 0 to 29.9 inches of mercury (in Hg) vacuum and capacity range of 0 to 17,000 cubic feet per minute (CFM) and are sold under the trademarks *Sutorbilt, DuroFlow, CycloBlower, HeliFlow, Robuschi, TriFlow, Drum, Wittig* and *Elmo Rietschle.* The Company s side channel blowers range from 0 to 15 PSIG discharge pressure and 20 inches Hg vacuum and capacity range of 0 to 1,500 CFM and are sold under the *Elmo Rietschle, and Airgen* trademarks. The Company s sliding vane compressors and vacuum pumps range from 0 to 150 PSIG discharge pressure and 29.9 inches Hg vacuum and capacity range of 0 to 3,000 CFM and are sold under the *Gardner Denver, Hydrovane, Elmo Rietschle, Drum* and *Wittig* trademarks. The Company s engineered vacuum systems are used in industrial cleaning, hospitals, dental offices, general industrial applications and the chemical industry and are sold under the *Gardner Denver*, and *Elmo Rietschle* trademarks. The Company s engineered systems range from 0 to 32 PSIG discharge pressure and 29.9 inches Hg vacuum and capacity range of 50 to 3,000 CFM and are sold under the *Elmo Rietschle* trademark.

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

The Industrial Products Group operates production facilities around the world including three plants in the U.S., four in the UK, three in Germany, two in Italy, and one each in China, Brazil, and Finland. The most significant facilities include owned properties in Sedalia, Missouri; Princeton, Illinois; Bradford and Redditch, UK; Bad Neustadt and Schopfheim, Germany; and leased properties in Tampere, Finland; Simmern, Germany; Ipswich, UK; Qingpu, China; and Parma, Italy.

The Company has six vehicle-fitting facilities in six countries within Europe. These fitting facilities offer customized vehicle installations of systems, which include compressors, blowers, exhausters, generators, hydraulics, power take-off units, gear boxes, axles, pumps and oil and fuel systems. Typical uses for such systems include the discharge of product from road tankers, tire removal, transfer of power from gear boxes to ancillary power units and provision of power for electrical and compressed air operated tools. Each facility can offer onsite repair and maintenance or support the customer in the field through their own service engineers and a network of service agents.

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Engineered Products Group Segment

The Company s Engineered Products Group segment designs, manufactures, markets and services a diverse group of pumps, compressors, liquid ring vacuum pumps, water jetting and loading arm systems and related aftermarket parts. These products are used in well drilling, well servicing and production of oil and natural gas; industrial, commercial and transportation applications; and in industrial cleaning and maintenance. This segment also designs, manufactures, markets and services other engineered products and components and equipment for the chemical, petroleum and food industries. Engineered Products Group sales for the year ended December 31, 2012 were approximately $1.1 billion.

Positive displacement reciprocating pumps are marketed under the *Gardner Denver* and *OPI* trademarks. Typical applications of *Gardner Denver* pumps in oil and natural gas production include oil transfer, water flooding, salt-water disposal, pipeline testing, ammine pumping for gas processing, re-pressurizing, enhanced oil recovery, hydraulic power and other liquid transfer applications. The Company s production pumps range from 25 to 300 horsepower horizontally designed pumps. The Company markets one of the most complete product lines of well servicing pumps. Well servicing operations include general workover service, completions (bringing wells into production after drilling), and plugging and abandonment of wells. The Company s well servicing products consist of high-pressure plunger pumps ranging from 165 to 400 horsepower. Gardner Denver also manufactures intermittent duty triplex and quintuplex plunger pumps ranging from 250 to 3,000 horsepower for well cementing and stimulation, including reservoir fracturing or acidizing. Duplex pumps, ranging from 16 to 100 horsepower, are produced for shallow drilling, which includes water well drilling, seismic drilling and mineral exploration. Triplex mud pumps for oil and natural gas drilling rigs range from 275 to 2,400 horsepower.

Liquid ring vacuum pumps, compressors and engineered systems, sold under the *Nash* trademark, are used in many different applications including gas removal, distillation, reacting, drying, lifting and handling, filters, priming and vapor recovery. These applications are found principally in the pulp and paper, industrial manufacturing, petrochemical, power, mining and oil and gas industries. *Nash* products range in capacity from approximately 10 CFM to over 20,000 CFM. These products are sold primarily through direct sales channels and agents. Gardner Denver operates five *Nash* service centers in North America, and one each in the Netherlands and Australia. The *Oberdorfer* line of fractional horsepower specialty bronze and high alloy pumps for the general industrial and marine markets was acquired as part of the Thomas acquisition. A small portion of *Gardner Denver* pumps are sold for use in industrial applications.

Through its Thomas operating division, the Company has a strong presence in medical markets and environmental markets such as sewage aeration and vapor recovery through the design of custom compressors and vacuum pumps for OEMs. Deep vacuum pumps are sold under the *Welch* and *ILMVAC* trademarks into the laboratory and life science markets. Other major markets for this division include the automotive, industrial and printing markets.

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

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

The Engineered Products Group operates twenty-one production facilities (including two remanufacturing facilities) around the world including twelve in the U.S., four in Germany, two in China and one each in the UK, Brazil and Canada. The most significant facilities include owned properties in Tulsa, Oklahoma; Quincy, Illinois; Syracuse, New York; Ilmenau, Kirchhain and Memmingen, Germany; Boshan and Wuxi, China; Margate, UK, and leased properties in Houston, Texas; Monroe, Louisiana; Altoona, Pennsylvania; Bentleyville, Pennsylvania; Nuremberg, Germany; and Oakville, Ontario.

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Customers and Customer Service

Gardner Denver sells its products through independent distributors and sales representatives, and directly to OEMs, engineering firms and end-users. The Company has been able to establish strong customer relationships with numerous key OEMs and exclusive supply arrangements with many of its distributors. The Company uses a direct sales force to serve OEM and engineering firm accounts because these customers typically require higher levels of technical assistance, more coordinated shipment scheduling and more complex product service than customers of the Company s less specialized products. As a significant portion of its products are marketed through independent distribution, the Company is committed to developing and supporting its distribution network of over 1,000 distributors and representatives. The Company has distribution centers that stock parts, accessories and small compressor and vacuum products in order to provide adequate and timely availability. The Company also leases sales office and warehouse space in various locations. Gardner Denver provides its distributors with sales and product literature, technical assistance and training programs, advertising and sales promotions, order-entry and tracking systems and an annual restocking program. Furthermore, the Company participates in major trade shows and has a direct marketing department to generate sales leads and support the distributors sales personnel. The Company does not have any customers that individually provide more than 5% of its consolidated revenues, and the loss of any individual customer would not materially affect its consolidated revenues. However, revenue is derived from certain key customers for the Company s petroleum products and the loss or reduction of any significant long-term contracts with any of these customers could result in a material decrease in the Company s future profitability and cash flows. Fluctuations in revenue are primarily driven by specific industry and market changes.

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

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

Competition

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

Although there are a few large manufacturers of compressor and vacuum products, the marketplace for these products remains highly fragmented due to the wide variety of product technologies, applications and selling channels. Gardner Denver s principal competitors in sales of standard configurations of compressor and vacuum products which are included in the Industrial Products Group include Ingersoll-Rand, Sullair (owned by Carlyle Group and BC Partners), Atlas Copco, Quincy Compressor (owned by Atlas Copco), Kaeser Compressor, Roots (owned by General Electric), Busch, Becker, SiHi and GHH RAND (owned by Ingersoll-Rand). Manufacturers located in India, China and Taiwan are also becoming more significant competitors as the products produced in these regions improve in quality and reliability.

The market for engineered products such as those included in the Engineered Products Group is highly fragmented, although there are a few multinational manufacturers with broad product offerings that are significant.

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Because Gardner Denver is focused on pumps used in oil and natural gas production and well servicing and well drilling, it does not typically compete directly with the major full-line pump manufacturers. The Company s principal competitors in sales of petroleum pump products include National Oilwell Varco and SPM Flow Control, Inc. (owned by The Weir Group PLC). The Company s principal competitors in sales of water jetting systems include NLB Corp. and Hammelmann Maschinenfabrik GmbH (both owned by Interpump Group SpA), Jetstream (a division of Federal Signal) and WOMA Apparatebau GmbH. The Company s principal competitors in sales of other engineered products and equipment are SiHi, OPW Engineered Systems, Civacon (owned by Dover Corporation), FMC Technologies, Schwelm Verladetechnik GmbH (SVT) and Gast (a division of IDEX).

Research and Development

The Company s products are best characterized as mature, with evolutionary technological advances. Technological trends in the Company s products include development of oil-free and oil-less air compressors, increased product efficiency, reduction of noise levels, size and weight reduction for mobile applications, increased service-free life, and advanced control systems to upgrade the flexibility and precision of regulating pressure and capacity. The Company is also developing innovative aftermarket product offerings and has developed offshore technology for loading arms allowing for ship to ship transfers.

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

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

During the years ended December 31, 2012, 2011, and 2010, the Company spent approximately $39.5 million, $39.3 million, and $35.9 million, respectively, on research activities relating to the development of new products and the improvement of existing products. All such expenditures were funded by the Company.

Manufacturing

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

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

Raw Materials and Suppliers

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

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

Order Backlog

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. See the information included under Outlook contained in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report on Form 10-K.

Patents, Trademarks and Other Intellectual Property

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

In the aggregate, patents and trademarks are of considerable importance to the manufacture and marketing of many of Gardner Denver s products. However, the Company does not consider any single patent or trademark, or group of patents or trademarks, to be material to its business as a whole, except for the *Gardner Denver* trademark. Other important trademarks the Company uses include, among others, *Aeon, Airgen, Belliss & Morcom, Bottarini, Champion, CompAir, CycloBlower, Drum, DuroFlow, Elmo Rietschle, Emco Wheaton, Hoffman, ILMVAC, Hydrovane, Lamson, Legend, Mako, Nash, Oberdorfer, OPI, Quantima, Reavell, Robuschi, Sutorbilt, Tamrotor, Thomas, Todo, Webster, Welch* and *Wittig*. Gardner Denver has registered its trademarks in the countries where it deems necessary or in the Company s best interest.

Pursuant to trademark license agreements, Cooper has rights to use the *Gardner Denver* trademark for certain power tools.

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

Employees

As of January 2013, the Company had approximately 6,400 full-time employees. The Company believes that its current relations with employees are satisfactory.

Executive Officers of the Registrant

The following sets forth certain information with respect to Gardner Denver s executive officers as of February 26, 2013. These officers serve at the discretion of the Board of Directors.

Name	Position	Age
Michael M. Larsen	President and Chief Executive Officer	44
T. Duane Morgan	Vice President, Gardner Denver, Inc. and President, Engineered Products Group	63
Vincent Trupiano	Vice President, Gardner Denver, Inc. and President, Industrial Products Group	48
Brent A. Walters	Vice President, General Counsel, Chief Compliance Officer and Secretary	48
Susan A. Gunn	Vice President, Human Resources	41

Michael M. Larsen, age 44, was appointed President and Chief Executive Officer of the Company in November 2012 after serving in such capacity on an interim basis since July 2012. Since October 2010, Mr. Larsen has served as the Company s Chief Financial Officer and he will continue to serve as the Company s Chief Financial Officer until his successor is named. He joined the Company in October 2010 from General Electric (GE) Water & Process Technologies, a global leader in water treatment and process solutions, where he was Chief Financial Officer. His previous experience includes more than 15 years with GE, where he held a number of global finance leadership roles with increasing responsibility in GE Plastics, GE Industrial, GE Energy Services and GE Power & Water. He began his GE career with GE Healthcare as part of the Financial Management Program in 1995. Mr. Larsen holds a B.A. in international economics from the American University of Paris and an M.B.A. from Columbia University and the London Business School.

T. Duane Morgan, age 63, was appointed Vice President, Gardner Denver, and President, Engineered Products Group in July 2012. He previously served the Company in this capacity from January 2009 until his retirement in May 2012. He joined the Company as Vice President and General Manager of the Gardner Denver Fluid Transfer Division in December 2005. Prior to joining Gardner Denver, Mr. Morgan served as President of Process Valves for Cooper Cameron Valves, a division of Cooper Cameron Corporation, Vice President and General Manager, Aftermarket Services, from 2003 to 2005, and President of Orbit Valve, a division of Cooper Cameron Valves, from 1998 to 2002. From 1985 to 1998, he served in various capacities in plant and sales management for Cooper Oil Tool Division, Cooper Industries. Before joining Cooper Industries, he held various positions in finance, marketing and sales with Joy Manufacturing Company and B.F. Goodrich Company. Mr. Morgan holds a B.S. in mathematics from McNeese State University and an M.B.A. from Louisiana State University. Mr. Morgan is a member of the Board of Directors of Capital Southwest Corporation, a public company, a member of the Board of Directors of SACHEM, Inc., a privately held company, as well as a member of the Board of Directors of the Petroleum Equipment Suppliers Association. Mr. Morgan is a former member of the Board of Directors of the Valve Manufacturers Association. Mr. Morgan also served on active duty as an Air Defense Artillery Officer in the U.S. Army.

Vincent Trupiano, age 48, was appointed Vice President, Gardner Denver, and President, Industrial Products Group in January 2013. Mr. Trupiano joined the Company in 2010 as the Vice President and General Manager of the Nash business unit. Prior to joining Gardner Denver, Mr. Trupiano was employed by Dresser-Rand Group Inc., a global supplier of rotating equipment and aftermarket parts and services, where he was General Manager of the Turbo Compression Division in 2010 and General Manager of the Steam Turbine Business from 2008 to 2010. Prior to joining Dresser-Rand, Mr. Trupiano spent more than 20 years in a variety of operational and business leadership roles of increasing responsibility with United Technologies Corporation and Ford Motor Company. Mr. Trupiano has a B.S. in mechanical engineering from Michigan State University and a M.B.A. from the University of Michigan.

Brent A. Walters, age 48, was appointed Vice President, General Counsel and Chief Compliance Officer of Gardner Denver in August 2009, and appointed Secretary of the Company in February 2010. He joined the Company from Caterpillar Inc., a publicly traded manufacturer of construction machinery and equipment, where

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he held a series of positions with increasing responsibility from 1996 to 2009, most recently as Senior Corporate Counsel. Prior to joining Caterpillar in 1996, Mr. Walters was an associate attorney with Hinshaw & Culbertson from 1991 to 1996 and a financial auditor with KPMG LLP and PricewaterhouseCoopers LLP prior to attending law school. Mr. Walters has a B.S. in accounting from Bradley University and J.D. from Southern Illinois University School of Law. He is a Certified Public Accountant.

Susan A. Gunn, age 41, was appointed Vice President, Human Resources in January 2012. Prior to joining Gardner Denver, Ms. Gunn was employed by Hay Group as Global Head of Human Resources and Acting Chief Marketing Officer. Hay Group is a private global management consulting firm providing extensive support in evaluating and implementing global human resources strategy. Ms. Gunn also led international human resource operations in public enterprises including senior human resources roles at Willis Group Holdings, Revlon and Vivendi Universal (The Seagram Company). Ms. Gunn is also a member of the Board of Directors for Leadership Philadelphia, a non-profit institution supporting philanthropist leadership activities in the Philadelphia area. Ms. Gunn holds a Bachelor of Arts degree in Economics and a Graduate Certificate in Human Resources from McGill University.

Compliance Certifications

The Company has included at Exhibits 31.1 and 31.2 of this Form 10-K for the year ended December 31, 2012 certificates of the Company s Chief Executive Officer and Chief Financial Officer certifying the quality of the Company s public disclosure. The Company s Chief Executive Officer has also submitted to the New York Stock Exchange (NYSE) a document certifying, without qualification, that he is not aware of any violations by the Company of the NYSE corporate governance listing standards.

Environmental Matters

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

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

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

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

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Available Information

The Company s Internet website address is www.gardnerdenver.com. Copies of the following reports are available free of charge through the internet website, as soon as reasonably practicable after they have been filed with or furnished to the Securities and Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended: the Annual Report on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and any amendments to such reports. Information on the website does not constitute part of this or any other report filed with or furnished to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Our exploration of strategic alternatives could have a negative impact on our business.

In October 2012, we announced that we are exploring strategic alternatives to enhance shareholder value, including, among other things, enhancing the Company s existing strategic plan or a possible sale or merger of the Company. There can be no assurance that such a review will result in any transaction or any change in the Company s existing strategic plan, or that any transaction or change will enhance shareholder value. During our review, our stock price may significantly fluctuate in response to developments in our review or market speculation regarding such developments. If a transaction does not occur, the share price of our common stock may decline significantly to the extent that the market price reflects an expectation that a transaction will be completed. The process of exploring strategic alternatives may be disruptive to our business operations; create uncertainties with current and potential customers, employees and business relationships; distract the Company s management team from their day-to-day responsibilities; could make it more difficult to hire, retain and motivate key employees; could create difficulties in preserving the commercially sensitive confidential information that may need to be disclosed to other persons during this process; and is likely to result in increased general and administrative expenses, legal and third party consultant fees. The occurrence of any one or more of the above events could have a material adverse impact on our business, financial condition or results of operations.

Our ongoing and recently announced restructuring plans may not be as effective as we anticipate, and we may fail to realize the cost savings and increased efficiencies throughout our manufacturing, sales and distribution footprint that we expect to result from these actions. Our operating results could be negatively affected if we are not successful in completing the restructuring activities in the time frames contemplated or if factors arise during these projects that add costs to or disrupt our operations.

We continually seek ways to simplify or improve processes, eliminate excess capacity and reduce costs in all areas of our operations, which from time to time includes restructuring activities. We have implemented significant restructuring activities across our global manufacturing, sales and distribution footprint, which includes workforce reductions and facility consolidations, and we recently announced new restructuring plans and future initiatives designed to improve profitability by reducing our global headcount and our manufacturing footprint in the European operations included in our Industrial Products Group.

Our restructuring actions may not be as effective as we anticipate, and we may fail to realize the cost savings we expect from these actions. Actual charges, costs and adjustments due to restructuring activities may vary materially from our estimates. Our ability to realize anticipated cost savings, synergies and revenue enhancements may be affected by a number of factors, including our ability to effectively eliminate duplicative back office overhead and overlapping sales personnel, rationalize manufacturing capacity, synchronize information technology systems, consolidate warehousing and distribution facilities, and shift production to more economical facilities. Our restructuring plans will require significant cash and non-cash integration and implementation costs or charges in order to achieve those cost savings, which could offset any such savings and other synergies.

Although we have considered the impact of local regulations, negotiations with employee representatives and the related costs associated with our restructuring activities, factors beyond the control of management may affect the timing of these projects and therefore affect when savings will be achieved under the plans. Further, our operating results could be negatively affected if we are not successful in completing the restructuring projects in the time frames contemplated or if additional issues arise during the projects that add costs to or disrupt our operations.

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We operate in cyclical markets, which may make our revenues and operating results fluctuate.

Demand for certain of our petroleum products is primarily tied to the number of working and available drilling rigs and oil and natural gas prices. The energy market, in particular, is cyclical in nature as the worldwide demand for oil and natural gas fluctuates. When worldwide demand for these commodities is depressed, the demand for our products used in drilling and recovery applications is reduced. Accordingly, our operating results for any particular period are not necessarily indicative of the operating results for any future period as the markets for our products have historically experienced cyclical downturns in demand.

Our business could be negatively affected as a result of actions of shareholders.

Certain of our shareholders may, from time to time, attempt to involve themselves in the governance and strategic direction of our Company above and apart from normal interactions between shareholders and management. Such activities, and any related publicity, may result in additional costs and could adversely affect our business because, among other things:

- Perceived uncertainties as to our future direction may result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel and business partners; and

- Responding to actions by activist shareholders can be time-consuming, divert the attention of management and our employees, and result in additional costs.

We have exposure to the risks associated with instability in the global economy and financial markets, which may negatively impact our revenues, liquidity, suppliers and customers.

The Company s future growth will, in part, be contingent on the strength and duration of the recovery of certain global markets from recent adverse economic conditions. Additionally, limited credit availability 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) a decrease in orders of our products or the cancellations thereof, and (iii) our customers inability to pay for our products. Furthermore, volatility in security prices may adversely affect the value of the assets in our pension plans, which may, in turn, result in increased future funding requirements and pension cost. We are unable to predict the strength and duration of the current economic recovery in the United States, Europe and Asia. Adverse economic conditions related to instability in the global economy and financial markets could have a material adverse effect on our results of operations and financial condition and exacerbate the other risk factors described below.

Our operating results could be adversely affected by a reduction of business with key customers for petroleum products.

Although we have no customers that individually represent 5% or more of our total annual sales, we derive revenue from certain key customers for our petroleum products and the loss or reduction of any significant contracts with any of these customers could result in a material decrease of our future profitability and cash flows. In addition, lost sales may be difficult to replace due to the relative concentration of the customer base in this market segment.

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

We actively compete with many companies producing the same or similar products. Depending on the particular product and application, we experience competition based on a number of factors, including price, quality, performance and availability. We compete against many companies, including divisions of larger companies with greater financial resources than we possess. As a result, these competitors may be both domestically and internationally better able to withstand a change in conditions within the markets in which we compete and throughout the global economy as a whole.

In addition, our ability to compete effectively depends on how successfully we anticipate and respond to various competitive factors, including new competitors entering our markets, new products and services that may be introduced by competitors, changes in customer preferences, and pricing pressures. If we are unable to anticipate our competitors development of new products and services, identify customer needs and preferences on a timely basis or successfully introduce new products and services in response to such competitive factors, we could lose customers to competitors. If we cannot compete successfully, our sales and operating results could be materially and adversely affected.

The loss of, or disruption in, our distribution network could have a negative impact on our abilities to ship products, meet customer demand, and otherwise operate our business.

We sell our products through independent distributors and sales representatives. We rely in large part on the orderly operation of this distribution network, which depends on adherence to shipping schedules and effective management. Although we believe that our receiving and distribution process is efficient and well-positioned to support our operations and strategic plans, we cannot assure that we have anticipated all issues or that events beyond our control, such as natural disasters or other catastrophic events, labor disagreements or shipping problems, will not disrupt our distribution network. If complications arise within a segment of our distribution network, the remaining network may not be able to support the resulting additional distribution demands. Any of these disruptions or complications could negatively impact our revenues, back-log and costs.

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

Our primary raw materials, directly and indirectly, are cast iron, aluminum and steel. We also purchase a large number of motors and, therefore, also have exposure to changes in the price of copper, which is a primary component of motors. The Company has long-term contracts with only a few suppliers of key components. Consequently, we are vulnerable to fluctuations in prices of such raw materials. Factors such as supply and demand, freight costs and transportation availability, inventory levels of brokers and dealers, the level of imports and general economic conditions may affect the price of raw materials. We use single sources of supply for certain iron castings, motors and other select engineered components. From time to time in recent years, we have experienced a disruption to our supply deliveries and may experience further supply disruptions. Any such disruption could have a material adverse effect on our ability to timely meet our commitments to customers and, therefore, our operating results.

More than half of our sales and operations are in non-U.S. jurisdictions and we are subject to the economic, political, regulatory and other risks of international operations.

For the fiscal year ended December 31, 2012, approximately 63% of our revenues were from customers in countries outside of the United States. We have manufacturing facilities in Germany, the UK, China, Finland, Italy, Brazil, and Canada. We intend to continue to expand our international operations to the extent that suita