GARDNER DENVER INC
Form 10-Q
May 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

o **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.)

1800 Gardner Expressway
Quincy, Illinois 62305
(Address of principal executive offices and Zip Code)
(217) 222-5400
(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 51,921,903 shares of Common Stock, par value $0.01 per share, as of April 26, 2009.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2009	**2008**
Revenues	$ 462,480	$ 495,670
Cost of sales	321,869	334,344
Gross profit	140,611	161,326
Selling and administrative expenses	94,583	86,619
Other operating expense (income), net	8,873	(1,241)
Impairment of intangible assets	265,000	
Operating (loss) income	(227,845)	75,948
Interest expense	7,657	5,600
Other income, net	(188)	(241)
(Loss) income before income taxes	(235,314)	70,589
Provision for income taxes	13,855	19,730
Net (loss) income	$ (249,169)	$ 50,859
Basic (loss) earnings per share	$ (4.81)	$ 0.96
Diluted (loss) earnings per share	$ (4.81)	$ 0.95

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

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GARDNER DENVER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and equivalents	$ 132,741	$ 120,735
Accounts receivable (net of allowance of $11,434 at March 31, 2009 and $10,642 at December 31, 2008)	356,711	388,098
Inventories, net	270,499	284,825
Deferred income taxes	31,049	33,014
Other current assets	20,474	30,892
Total current assets	811,474	857,564
Property, plant and equipment (net of accumulated depreciation of $289,226 at March 31, 2009 and $283,676 at December 31, 2008)	291,497	305,012
Goodwill	535,695	804,648
Other intangibles, net	311,178	346,263
Other assets	22,072	26,638
Total assets	$ 1,971,916	$ 2,340,125
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 37,143	$ 36,968
Accounts payable	119,239	135,864
Accrued liabilities	215,357	224,550
Total current liabilities	371,739	397,382
Long-term debt, less current maturities	464,020	506,700
Postretirement benefits other than pensions	15,651	17,481
Deferred income taxes	84,094	91,218
Other liabilities	115,229	128,596
Total liabilities	1,050,733	1,141,377
Stockholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 51,905,388 and 51,785,125 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	583	583
Capital in excess of par value	549,417	545,671
Retained earnings	461,896	711,065

Accumulated other comprehensive income	41,390	72,268
Treasury stock at cost; 6,424,820 and 6,469,971 shares at March 31, 2009 and December 31, 2008, respectively	(132,103)	(130,839)
Total stockholders equity	921,183	1,198,748
Total liabilities and stockholders equity	$ 1,971,916	$ 2,340,125

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

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GARDNER DENVER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash Flows From Operating Activities		
Net (loss) income	$ (249,169)	$ 50,859
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	16,668	14,920
Impairment of intangible assets	265,000	
Unrealized foreign currency transaction gain, net	(211)	(1,063)
Net loss (gain) on asset dispositions	76	(191)
Stock issued for employee benefit plans	1,233	1,402
Stock-based compensation expense	1,120	2,259
Excess tax benefits from stock-based compensation	(28)	(428)
Deferred income taxes	988	(2,521)
Changes in assets and liabilities:		
Receivables	22,088	(6,174)
Inventories	7,007	325
Accounts payable and accrued liabilities	(18,053)	10,904
Other assets and liabilities, net	8,982	(4,851)
Net cash provided by operating activities	55,701	65,441
Cash Flows From Investing Activities		
Capital expenditures	(8,954)	(9,553)
Disposals of property, plant and equipment	89	979
Other, net	22	
Net cash used in investing activities	(8,843)	(8,574)
Cash Flows From Financing Activities		
Principal payments on short-term borrowings	(18,397)	(7,128)
Proceeds from short-term borrowings	15,695	7,705
Principal payments on long-term debt	(61,520)	(50,582)
Proceeds from long-term debt	31,318	49,783
Proceeds from stock option exercises	165	1,115
Excess tax benefits from stock-based compensation	28	428
Purchase of treasury stock	(165)	(44,511)
Other	(759)	(1,258)
Net cash used in financing activities	(33,635)	(44,448)

Effect of exchange rate changes on cash and equivalents	(1,217)	5,764
Net increase in cash and equivalents	12,006	18,183
Cash and equivalents, beginning of year	120,735	92,922
Cash and equivalents, end of period	$ 132,741	$ 111,105

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

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GARDNER DENVER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts and amounts described in millions)
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

Certain prior year amounts have been reclassified to conform to the current year presentation (see below).

The financial information presented as of any date other than December 31, 2008 has been prepared from the books and records of the Company without audit. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of such financial statements, have been included.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements and notes thereto included in Gardner Denver s Annual Report on Form 10-K for the year ended December 31, 2008.

The results of operations for the three-month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2008 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by GAAP for complete financial statements.

Other than as specifically indicated in these Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, the Company has not materially changed its significant accounting policies from those disclosed in its Form 10-K for the year ended December 31, 2008.

Effective January 1, 2009, the Company reorganized its five former operating divisions into two major product groups: the Industrial Products Group and the Engineered Products Group. The Industrial Products Group includes the former Compressor and Blower Divisions, plus the multistage centrifugal blower operations formerly managed in the Engineered Products Division. The Engineered Products Group is comprised of the former Engineered Products (excluding the multistage centrifugal blower operations), Thomas Products and Fluid Transfer Divisions. These changes were designed to streamline operations, improve organizational efficiencies and create greater focus on customer needs. As a result of these organizational changes, the Company realigned its segment reporting structure with the newly formed product groups effective with the reporting period ended March 31, 2009. In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131), segment financial information presented for prior years in these Notes to Condensed Consolidated Financial Statements and under Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, has been recast to reflect this realignment. See Note 17 Segment Information.

New Accounting Standards

Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued 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 and non-financial assets and liabilities did not have a significant effect on the Company s consolidated statements of operations, balance sheets and statements of cash flows. See Note 12 Hedging Activities and Fair Value Measurements for the disclosures required by SFAS No. 157.

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,* 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. The Company will apply the provisions of this statement prospectively to business combinations from January 1, 2009. The impact of SFAS No. 141(R) on the Company s consolidated financial statements will depend on the nature, terms and size of acquisitions it consummates in the future.

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. The Company adopted the standard on January 1, 2009. The adoption had no significant 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. The Company adopted SFAS No. 161 effective January 1, 2009. See Note 12 for the Company s disclosures about its derivative instruments and hedging activities.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS No. 142-3) to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (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 No. 142-3 amends the factors to be considered when developing renewal or extension assumptions that are used to estimate an intangible asset s useful life under SFAS No. 142. The guidance in FSP FAS No. 142-3 is to be applied prospectively to intangible assets acquired after December 31, 2008. In addition, FSP FAS No. 142-3 increases the disclosure requirements related to renewal or extension assumptions. The adoption of FSP FAS No. 142-3 had no effect on the Company s consolidated financial statements.

In October 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP FAS No. 157-3). FSP FAS No. 157-3 clarifies how SFAS No. 157 should be applied when valuing securities in markets that are not active by illustrating key considerations in determining fair value. It also reaffirms the notion of fair value as the exit price as of the measurement date. FSP FAS No. 157-3 was effective upon issuance, which included periods for which financial statements have not yet been issued. The adoption of FSP FAS No. 157-3 had no impact on the Company s consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS No. 141(R)-1). FSP FAS No. 141(R)-1 amends the provisions in Statement 141(R) for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. This FSP also amends the subsequent measurement and accounting guidance, and disclosure requirements in Statement 141(R). FSP FAS No. 141(R)-1 is effective for contingent assets or contingent liabilities acquired in 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. The Company will apply the provisions of this statement prospectively to business combinations for which the acquisition date is on or after January 1, 2009 and can only assess the impact of the standard once an acquisition is consummated.

Recently Issued Accounting Pronouncements

In December 2008, the FASB issued FSP FAS No. 132R-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP FAS No. 132R-1). FSP FAS No. 132R-1 provides additional guidance regarding disclosures about plan assets of defined benefit pension or other postretirement plans and is effective for financial statements issued for fiscal years ending after December 15, 2009. The Company is currently evaluating the disclosure impact of adopting this new guidance on its consolidated financial statements; however, its adoption will not have an impact on the determination of the Company s financial results.

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS No. 115-2). FSP FAS No. 115-2 provides guidance in determining whether impairments in debt securities are other than temporary, and modifies the presentation and disclosures surrounding such instruments. This FSP is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt the provisions of this Staff Position during the second quarter of 2009, but does not believe this guidance will have a significant impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS No. 157-4). FSP FAS No. 157-4 provides additional guidance in determining whether the market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS

No. 157, *Fair Value Measurements*. FSP FAS No. 157-4 is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The

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Company will apply the provisions of this statement prospectively beginning with the second quarter 2009, and does not expect its adoption to have a material effect on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS No. 107-1 and APB 28-1). This FSP amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. APB 28-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. This standard is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt FSP FAS No. 107-1 and APB 28-1 and provide the additional disclosure requirements beginning in second quarter 2009.

Note 2. Business Combinations

On October 20, 2008, the Company acquired CompAir Holdings Ltd. (CompAir), a leading global manufacturer of compressed air and gas solutions. The acquisition of CompAir allows the Company to further broaden its geographic presence, diversify its end market segments served, and provides opportunities to reduce operating costs and achieve sales and marketing efficiencies. CompAir s products are complementary to the Industrial Products Group s product portfolio. The Company acquired all outstanding shares and share equivalents of CompAir for a total purchase price of $378.5 million, which consisted of $329.9 million in shareholder consideration, $39.8 million of CompAir external debt retired at closing and $8.8 million of transaction costs and other liabilities settled at closing. As part of the transaction the Company also assumed approximately $5.9 million in long-term debt. As of October 20, 2008, CompAir had $24.1 million in cash and equivalents. The net transaction value, including assumed debt (net of cash acquired) and direct acquisition costs, was approximately $360.3 million. There are no remaining material contingent payments or commitments related to this acquisition.

The CompAir acquisition has been accounted for using the purchase method and, accordingly, its results are included in the Company s consolidated financial statements from the date of acquisition. Under the purchase method, the purchase price is allocated based on the fair value of assets received and liabilities assumed as of the acquisition date.

Under the purchase method of accounting, the assets and liabilities of CompAir were recorded at their estimated respective fair values as of October 20, 2008. The initial allocation of the purchase price was subsequently adjusted when certain preliminary valuation estimates were finalized. The following table summarizes the nature and amount of such adjustments recorded in 2009. The amounts presented in this table do not reflect the portion of the goodwill impairment charge recorded in the first quarter of 2009 that may be directly attributable to the CompAir acquisition. For purposes of the impairment testing performed during the first quarter of 2009 in accordance with SFAS 142, the net assets from the CompAir acquisition were included as a component of the reporting unit within the Industrial Products Group in which the impairment charge was recorded. Since goodwill impairment testing is performed at the reporting unit level, the amount directly attributable to the CompAir acquisition cannot be specifically identified. See also Note 5 Goodwill and Other Intangible Assets for a description of the impairment charge.

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CompAir Holdings Limited
Purchase Price Allocation and Adjustments
March 31, 2009

Total purchase price allocated to amortizable intangible assets as of December 31, 2008	$ 166,018
Purchase accounting adjustments recorded in 2009:	
Fair value of trademarks	(3,243)
Fair value of customer relationships	(13,231)
Fair value of other amortizable intangible assets	(1,197)
Total purchase price allocated to amortizable intangible assets as of March 31, 2009	$ 148,347
Total purchase price allocated to goodwill as of December 31, 2008	$ 155,466
Purchase accounting adjustments recorded in 2009:	
Fair value of amortizable intangible assets	17,671
Termination benefits and other related liabilities	1,495
Income taxes, net	(4,793)
Other, net	120
Total purchase price allocated to goodwill as of March 31, 2009	$ 169,959

Note 3. Restructuring

In 2008 and the first quarter of 2009, the Company finalized and announced certain restructuring plans designed to address (i) rationalization of the Company s manufacturing footprint, (ii) the slowing global economy and the resulting deterioration in the Company s end markets and (iii) the integration of CompAir into its existing operations. These plans included the closure and consolidation of manufacturing facilities in Europe and the U.S., and various voluntary and involuntary employee termination and relocation programs. In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* and SFAS No. 112, *Employers Accounting for Postemployment Benefits an amendment of FASB Statements No. 5 and 43,* a charge totaling $11.1 million (included in Other operating expense, net) was recorded in 2008, of which $8.5 million was associated with the Industrial Products Group and $2.6 million was associated with the Engineered Products Group. An additional charge totaling $7.9 million was recorded in the first quarter of 2009, of which $1.5 million was associated with the Industrial Products Group and $6.4 million was associated with the Engineered Products Group. Execution of these plans, including payment of employee severance benefits, is expected to be substantively completed during 2009.

In connection with the acquisition of CompAir, the Company has been implementing plans identified at or prior to the acquisition date to close and consolidate certain former CompAir functions and facilities, primarily in North America and Europe. These plans included various voluntary and involuntary employee termination and relocation programs affecting both salaried and hourly employees and exit costs associated with the sale, lease termination or sublease of certain manufacturing and administrative facilities. The terminations, relocations and facility exits are expected to be substantively completed during 2009. A liability of $8.9 million was included in the allocation of the CompAir purchase price for the estimated cost of these actions at October 20, 2008 in accordance with EITF No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* This liability was increased by $1.5 million in the first quarter of 2009 to reflect the finalization of certain of these plans. Any further adjustments, if required, will be recorded as adjustments to the allocation of the purchase price of CompAir.

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The following table summarizes the activity in the restructuring accrual accounts:

	Termination Benefits	Other	Total
Balance as of December 31, 2008	$ 13,634	$ 2,365	$ 15,999
Charged to expense	7,270	594	7,864
Acquisition purchase price allocation	1,481	14	1,495
Paid	(7,384)	(394)	(7,778)
Other, net	(398)	279	(119)
Balance as of March 31, 2009	$ 14,603	$ 2,858	$ 17,461

Note 4. Inventories

Inventories as of March 31, 2009 and December 31, 2008 consisted of the following:

	March 31, 2009	December 31, 2008
Raw materials, including parts and subassemblies	$ 154,345	$ 159,425
Work-in-process	41,532	47,060
Finished goods	89,910	90,951
	285,787	297,436
Excess of FIFO costs over LIFO costs	(15,288)	(12,611)
Inventories, net	$ 270,499	$ 284,825

Note 5. Goodwill and Other Intangible Assets

In accordance with SFAS 142, the Company performs an impairment test of the carrying values of its goodwill and indefinite-lived intangibles assets on an annual basis and whenever events or changes in circumstances indicate that the carrying values may not be recoverable. The Company performed its annual impairment test during the third quarter of 2008 using balances as of June 30, 2008. During the fourth quarter of 2008, the Company experienced a significant slowdown in orders and lower projected near-term earnings levels compared to management s expectations as of June 30, 2008 coupled with a considerable decline in the price of the Company s common stock. As a result, the Company performed an interim impairment analysis as of December 31, 2008. Based on the results of these impairment tests, the Company concluded that no impairment of goodwill and indefinite-lived intangibles assets had occurred.

During the first quarter of 2009, the Company concluded that sufficient indicators existed to require it to perform another interim impairment test as of March 31, 2009. The Company s conclusion was based upon a combination of factors, including the continued significant decline in order rates for certain products, the uncertain outlook regarding when such order rates might return to levels and growth rates experienced in recent years, and the sustained decline in the price of the Company s common stock and in the Company s market capitalization below the Company s carrying value at March 31, 2009. Accordingly, the Company performed the first step of its interim goodwill impairment test for each of its reporting units and determined that the carrying value of one of its reporting units within the Industrial Products Group exceeded its fair value, indicating that potential goodwill impairment existed. Having determined that the goodwill of this reporting unit was potentially impaired, the Company began performing the second step of the goodwill impairment analysis with the assistance of a third-party valuation firm. This analysis involves calculating the implied fair value of its goodwill by allocating the fair value of the reporting unit to all of its assets and liabilities other than goodwill (including both recognized and unrecognized intangible assets) and comparing the residual amount to the carrying value of goodwill. As of the date of the filing of the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, the Company determined that goodwill related to one of its reporting units within the Industrial Products Group was impaired. In accordance with SFAS No. 5, *Accounting for Contingencies,* the Company recorded a preliminary non-cash goodwill impairment charge of $265.0 million which represents the Company s best estimate of the loss. After recognition of the charge, $228.3 million of goodwill remained with the Industrial Products Group. The Company recorded this charge based on a preliminary assessment and will continue to evaluate the valuations of tangible and intangible assets and the allocation of fair value to all of the particular reporting unit s assets and liabilities other than goodwill. The

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Company currently expects to finalize its goodwill impairment analysis during the quarter ended June 30, 2009. There could be a material adjustment to the estimated charge recorded in the first quarter of 2009 upon completion of the goodwill impairment analysis, or if the Company experiences further deterioration in the price of its common stock and orders or experiences other indicators of further impairment.

In performing the annual and interim impairment tests, the Company determined the estimated fair value of each reporting unit utilizing an income approach model based on the present value of the estimated future cash flows of the reporting unit assuming a discount rate. This approach makes use of unobservable factors such as projected revenues and a discount rate applied to the estimated cash flows. The determination of the discount rate was based on a cost of equity model, which uses a risk-free rate, a stock-beta adjusted risk premium and a size premium, and aims to be reflective of the assumptions made by market participants. Additionally, the aggregate estimated fair value of the reporting units was compared to the Company s market capitalization. In considering the Company s market capitalization, an estimated premium to reflect the fair value on a control basis was applied.

An impairment evaluation for indefinite-lived intangible assets, which consist of certain trademarks, was also conducted as part of the interim impairment test performed during the first quarter of 2009. The Company evaluated its indefinite-lived intangible assets for impairment by comparing the discounted estimates of future revenue projections to the carrying values and determined that there was no impairment. Significant judgments inherent in this analysis included assumptions regarding appropriate revenue growth rates, discount rates and royalty rates.

The Company reviews long-lived assets, including its intangible assets subject to amortization, which consist primarily of customer relationships and intellectual property for the Company, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flows expected to be generated by those assets. If such assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amounts of the assets exceeds the fair value of the assets. As a result of the impairment indicators described above, during the first quarter of 2009, the Company tested its long-lived assets for impairment and determined that there was no impairment.

The changes in the carrying amount of goodwill attributable to each business segment for the three-month period ended March 31, 2009, and the year ended December 31, 2008, are presented in the table below. The adjustments to goodwill in 2009 are primarily related to the finalization of the valuation of certain CompAir intangible assets.

	Industrial Products	Engineered Products	Total
Balance as of December 31, 2007	$ 363,011	$ 322,485	$ 685,496
Acquisitions	157,533		157,533
Adjustments to goodwill	(3,851)	3,559	(292)
Foreign currency translation	(25,641)	(12,448)	(38,089)
Balance as of December 31, 2008	491,052	313,596	804,648
Adjustments to goodwill	14,492	(1)	14,491
Impairment of goodwill	(265,000)		(265,000)
Foreign currency translation	(12,261)	(6,183)	(18,444)
Balance as of March 31, 2009	$ 228,283	$ 307,412	$ 535,695

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

	March 31, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships	$ 113,105	$ (16,644)	$ 133,596	$ (17,654)
Acquired technology	91,291	(38,527)	91,713	(36,464)
Trademarks	50,224	(4,011)	57,332	(3,450)
Other	4,497	(4,740)	4,728	(2,883)
Unamortized intangible assets:				
Trademarks	115,983		119,345	
Total other intangible assets	$ 375,100	$ (63,922)	$ 406,714	$ (60,451)

Amortization of intangible assets for the three-month periods ended March 31, 2009 and 2008 was $5.1 million and $3.0 million, respectively. Amortization of intangible assets is anticipated to be approximately $21.9 million in 2009 and $19.8 million in 2010 through 2013 based upon exchange rates as of March 31, 2009 and intangible assets with finite useful lives included in the balance sheet as of March 31, 2009.

Note 6. Accrued Product Warranty

A reconciliation of the changes in the accrued product warranty liability for the three-month periods ended March 31, 2009 and 2008 is as follows:

	Three Months Ended March 31,	
	2009	2008
Balance at beginning of period	$ 19,141	