FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning and welcome to the third-quarter 2010 Dover Corporation earnings conference call. After the speakers' opening remarks, there will be a question-and-answer period. (Operator Instructions). As a reminder, ladies and gentlemen, this conference call is being recorded and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

I would now like to turn the call over to Mr. Paul Goldberg, Treasurer and Director of Investor Relations of Dover Corporation. Mr. Goldberg, please go ahead, sir.

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

Thank you, Jackie. Good morning and welcome to Dover's third-quarter earnings call. With me today are Bob Livingston, Dover's President and Chief Executive Officer; Brad Cerepak, our CFO; and Dave Van Loan. Dave is President of our Electronic Technology segment.

Today's call will begin with comments from Bob and Brad on Dover's third-quarter operating and financial performance and our updated outlook for the rest of 2010. We will then open the call up to questions. In the interest of time, we kindly ask that you limit yourself to one question with a follow-up.

Please note that our current earnings release, investor supplement, and associated presentation can be found on our website, www.dovercorporation.com. This call will be available for playback through November 5 and the audio portion of this call will be archived on our website for three months. The replay telephone number is 1-800-642-1687. When accessing the playback, you'll need to supply the following reservation code -- 14334215.

Before we get started, I'd like to remind everyone that our comments today, which are intended to supplement your understanding of Dover, may contain certain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover Corporation by referring to our Form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statements.

Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website, where considerably more information can be found.

And with that, I'd like to turn this call over to Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Paul. Good morning, everyone. Thank you for joining us for this morning's conference call. I'm happy to have Dave Van Loan join us today to participate in the Q&A portion of this call and offer his keen insight on one of our many success stories this year, the growth in electronic technologies.

I am pleased to report Dover saw strong third-quarter gains in revenue, bookings, earnings and margin, reflecting very solid performance across the majority of our companies, and the continuing benefits of our productivity initiatives. Orders were up 27% and revenue increased 26%, reflecting the steady improvement and the majority of our end markets. Organic revenue growth was 25%; acquisitions contributed 3%; FX had a negative impact of 2%.

In the third quarter, we saw a continuation of several positive trends that had been prevalent throughout the year. Knowles continued to benefit from the growing handset market, especially the growth in smartphones. DEK is enjoying a strong recovery in the electronic assembly market and increasing demand for their product innovations in solar equipment. US Synthetic has shown tremendous growth, driven by the strong rebound in North America rig count, increases in horizontal drilling, and share gains.

Our Pump Solutions Group has seen a steady increase in their business, notably in Asia. This growth in Asia is also evident in our Vehicle Service Group, which has seen a nice jump in their activity connected to the China auto market. Lastly, the seasonal ramp-up at Hill PHOENIX was even stronger than expected at the beginning of the quarter, largely driven by remodel activity and taking advantage of the recent capacity expansion in our Richmond facility.

Now let's move to our third-quarter results and Brad will discuss our guidance later in the call. Today, we reported third-quarter revenue of $1.9 billion, an increase of 26% over last year. Earnings per share from continuing operations increased 103% to $1.18, including tax benefits of $0.20. Adjusted EPS was $0.98, a 69% improvement over last year. On a sequential basis, revenue and adjusted EPS increased 6% and 8%, respectively.

Bookings increased 27% over last year to $1.8 billion. Book to bill finished at 0.96. Segment operating margin for the quarter was 17.1%, up 280 basis points. Year-over-year margins increased significantly at Fluid Management, Electronic Technologies, and Industrial Products, while Engineered Systems margin remained strong. This quarterly segment margin result is the highest in recent memory.

In the third quarter, we generated free cash flow of $157 million, 8% of revenue, reflecting an increase in working capital to support our expanding businesses and continued CapEx investments to support our future growth expectations. We are still targeting full-year free cash flow to be around 10% of revenue.

Our acquisition pipeline continues to be full and has matured nicely. We closed on three small deals totaling $35 million during the quarter. We have several targets [in our by a] gross basis and fully expect to close some transactions in the next few months.

I am quite pleased with our strong performance in the third quarter, especially with regard to revenue growth in operating margin. Our results reflect our Company's continued focus on our customers, our cost base, and productivity. Our third quarter order rates and backlog have us well-positioned as we start the fourth quarter.

With that, let me turn it over to Brad for comments on our segment performance.

Brad Cerepak - *Dover Corporation - VP of Finance and CFO*

Thanks, Bob. Good morning, everyone. Let's start by turning to slide five.

As Bob mentioned, sequential revenue increased 6%, reflecting growth across all our segments and platforms. Sequential revenue growth was 10% in Electronic Technologies; 7% in Engineered Systems; and we saw more modest growth in Fluid Management and Industrial Products. On a sequential basis, bookings declined 6% in the quarter, principally reflecting normal seasonality. The sequential decline in engineered products, consistent with last year's experience, was largely attributable to Hill PHOENIX.

In addition, mobile equipment was impacted by a military order booked in the second quarter, which amplified the modest seasonality normally seen in this platform.

With respect to geographic growth, Latin America was our fastest growing region in the third quarter with a growth rate of 48%. Asia grew 41%; North America grew at 26%, while Europe was up 19%. Our companies remain focused on growing their businesses in the Asian and Latin America markets. Also of note, the third quarter marks the first time our Asian revenue exceeded Europe's revenue in absolute dollar terms.

Turning to slide six. Industrial Products posted revenue of $471 million and $59 million of earnings, an increase of 19% and 56%, respectively. This strong earnings performance was a result of increased volume across material handling, productivity, and leverage on a lower cost base. Bookings were $456 million, an increase of 29%, reflecting broad-based year-over-year improvement. Sequentially, bookings were down 11%, resulting in a book to bill of 0.97.

Industrial Products quarterly operating margin was 12.6%, up 300 basis points from last year and 20 basis points sequentially, adjusting for a one-time gain in the second quarter. Again, our earlier right-sizing actions continue to put this segment in a strong position to leverage any further increases in demand.

With respect to our Material Handling platform, sales increased 43% to $221 million. Earnings nearly tripled, driven by increased activity across most end markets, and each operating company delivered double-digit revenue growth. In total, Material Handling margins were up 760 basis points, reflecting strong conversion on volume. For the quarter, bookings were $223 million, an increase of 37% over last year and flat sequentially, yielding a book to bill of 1.01. North American residential construction trends continue to show modest improvement.

With respect to our mobile equipment platform, sales were $251 million, up 4% from last year, and earnings were essentially flat. Margins decreased 50 basis points, primarily reflecting product mix. Those sequential bookings declined 6%; after adjusting for a large Q2 military order, they increased 22% year-over-year to $234 million. This improvement was driven by international growth at Vehicle Services Group and the beginnings of a recovery in selected trailer markets. Book to bill finished at 0.93.

Turning to slide seven. At Engineered Systems, we posted record quarterly revenue and earnings. Sales were $620 million, an increase of 19%, and segment earnings increased 17% to $91 million. The year-over-year growth in revenue is largely attributable to strong performances at Hill PHOENIX and Belvac.

For the quarter, operating margin was 14.7%, a 30 basis point decline from last year and flat sequentially. Bookings were $547 million, an increase of 16% over the prior year. On a sequential basis, bookings reflected the normal seasonal pattern and were down 9%, resulting in a book to bill of 0.88.

Our Product Identification platform continued to benefit from strong demand and developing economies. Third-quarter sales were $222 million, an increase of 5%, which included a negative FX impact of 2%. Year-over-year earnings were flat and margins decreased 90 basis points. Margin performance was impacted by increased investment in R&D and business development activities in emerging markets and revenue mix. Book to bill was 0.98.

Moving to Engineered Products, third-quarter sales were $399 million, an increase in revenue of 29%, with acquisitions accounting for 8% of the growth. Earnings increased 33%, resulting in margin expansion of 40 basis points over last year and 10 basis points sequentially. Favorable margin performance was largely driven by volume improvements, which were partially offset by product and customer mix and continued price material cost spread at SWEP.

Engineered Products bookings were $329 million, an increase of 27% over the prior year, primarily driven by Hill PHOENIX and aided by the Barker acquisition of last year. Sequential bookings declined 13% in the third quarter, resulting in a book to bill of 0.83. This result reflects normal seasonal order patterns at Hill PHOENIX.

Now moving to slide eight. At Fluid Management, revenue increased 35% to $416 million, while earnings increased 68% to $102 million. Third-quarter operating margin was 24.5%, a 490 basis point expansion over last year and an increase of 70 basis points sequentially. Bookings were $409 million, an increase of 26% over the prior year, resulting in a book to bill of 0.98.

With respect to our Energy platform, revenue increased 52% to $220 million, while earnings increased 80%. Margin improved 480 basis points on significantly higher volume, driven by an expanding North American rig count, including an increase in horizontal drilling and productivity gains. Quarterly bookings increased 35% to $213 million but declined 6% sequentially off an extremely strong second quarter. Book to bill was 0.97.

The end markets in this platform remain healthy and our businesses are well-positioned. Looking forward, in Q4, we anticipate North American rig count to be modestly positive.

Moving to Fluid Solutions, this platform generated revenue of $197 million, an increase of 19%. Earnings increased 45%, resulting in 390 basis point margin improvement, a tremendous performance. Bookings increased 18% year-over-year to $196 million and book to bill remains steady at 1.0. We are seeing a continuation of modest improvement in most of this platform's served markets and our Pump Group continues to make great inroads in developing regions, especially Asia.

Turning to slide nine -- Electronic Technologies revenue was $381 million, an increase of 39%. The majority of end markets in this segment were up significantly year-over-year, with continuing strong demand for electronic assembly equipment, MEMS microphones, passive components, and our emerging solar products.

Earnings were $70 million, an 82% improvement over last year. Operating margin was 18.3%, driven by significantly higher volume and strong conversion on an improved cost base. Bookings were $402 million, up 42% over last year. Book to bill continues to be solid at 1.05.

Our Electronic Assembly Equipment companies posted a 65% jump in revenue year-over-year and continued to see improving order book for the sixth consecutive quarter. Book to bill was 1.14. Although we anticipate some normal seasonal softness in the fourth quarter, we expect the climate in the electronic assembly markets to remain positive.

Lastly, our Communication Components companies posted another solid quarter, reflecting continued strength at Knowles, CMP, and Vectron. We ended the quarter with a book to bill of 1.0, although we did see some moderation in the telecom infrastructure markets as we entered the fourth quarter.

Having reviewed the segments, I now would like to briefly provide some additional financial data. Moving to slide 10. Second-quarter net interest expense was $26 million, flat with last year and in line with our full-year guidance. Our net debt to total capitalization was 14.8%, down 360 basis points from year-end, largely reflecting higher cash balances and lower debt.

With respect to taxes, our third-quarter tax rate was largely impacted by US tax settlements and the resolution of a foreign tax position, resulting in a benefit of $0.20 EPS in the quarter. This is comprised of two elements -- $0.15 EPS related to discreet tax settlements in the quarter; and $0.05 EPS related to the reduction of the annual effective tax rate. We now expect the annual full-year tax rate, inclusive of the previously mentioned $0.20 of tax benefits, to be about 25.5%.

Corporate expenses were up slightly from last year and were impacted by a one-time $4.3 million charge associated with the early extinguishment of debt.

Turning to slide 11. As discussed, third-quarter revenue and bookings were strong for us across Dover. We now expect full-year revenue growth, including acquisitions, to be in the range of 20% to 21%.

Here is the breakdown by segment of our revenue growth. We expect that Industrial Products revenue should grow 11% to 12%; Engineered Systems revenue should increase 17% to 18%, including acquisition growth of 9%; Fluid Management revenue growth should be in the range of 25% to 26%, including 3% from acquisitions; lastly, Electronic Technologies should sharply grow revenue at the mid-30% level with no material impact from acquisitions.

Now let's go to the full-year earnings bridge on slide 12. Volume remains the biggest driver of the increase in earnings. Volume, product mix and pricing should improve earnings $1.11 to $1.20, while restructuring and productivity will have a continuing impact as well. Our acquisitions continue to perform at a high level and will now deliver $0.13 for the year.

Corporate expense is roughly in line with previous estimates. Compensation expense is a function of our improved revenue and earnings forecast. Lastly, tax significantly increases our revised forecast. We add $0.20 to our forecast to reflect discreet tax benefits in the quarter and the impact of the reduction of the annual effective rate. As a result, we are now increasing our full-year EPS guidance and expect to be in the range of $3.50 to $3.55.

Now I'd like to turn the call back over to Bob.

Bob Livingston - *Dover Corporation - President and CEO*

Thanks, Brad. We've had three great quarters and fully expect to finish the year in good form. In addition, we've made great progress in further establishing a foundation for growth. Throughout the year, we've made investments in product innovation, capacity, supply chain, people, and geographic expansion. We've focused on our five growth spaces -- refrigeration and food equipment; fluid solutions; energy; product ID; and communication components. We believe these spaces offer us the greatest opportunity to grow, both organically and through acquisitions.

Lastly, the opportunities for growth in developing economies are significant for Dover. As Brad mentioned earlier, third-quarter revenue in Asia was larger than in Europe. I would expect this trend to continue.

I am excited with our growth prospects and look forward to sharing our outlook with you at our Investor Day in New York on November 15. And in closing, I'd like to personally thank everyone at Dover for all their efforts and contributions to a very positive third quarter.

With that, back to Paul.

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

Thanks, Bob. At this point, I'd just like to remind everybody again if you can limit yourself to one question with a follow-up, we'll be better positioned to answer everybody's questions. And with that, I'd like to turn it over to Jackie.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Inch, Bank of America.

John Inch - *BofA Merrill Lynch - Analyst*

So, if I go to the annual core revenue guide, call it 17% at the midpoint, and you add up the first three quarters and you look traditionally at the fourth quarter -- and I know you've got about, I believe, 5 points of tougher sequential comp -- forgetting about the seasonal impact, because this would be captured in the year-over-year, it does look like you're suggesting fourth quarter kind of around 12% organic growth, down from 25% with maybe 5 points of tougher comp.

Is there something else in the mix -- and I'm not talking about just the seasonality -- that maybe pulled forward, say, from fourth quarter to third quarter? Or are you just trying to set the bar low for some reason that perhaps we're not seeing? Just any color would be helpful.

Brad Cerepak - *Dover Corporation - VP of Finance and CFO*

Well, John, you had a lot of data points there.

John Inch - *BofA Merrill Lynch - Analyst*

Sorry about that.

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

Okay, Brad may correct me here, but I think at the midpoint of our fourth quarter outlook here, I think the organic growth rate year-over-year was probably going to be around 13%, I think you said 12%.

John Inch - *BofA Merrill Lynch - Analyst*

Yes, 12% -- 13%, sure, yes.

Brad Cerepak - *Dover Corporation - VP of Finance and CFO*

That's about right, John.

Bob Livingston - *Dover Corporation - President and CEO*

And yes, we do have a tougher comp. But beyond that, it is seasonality. If you look at the midpoint of our revenue range, we're expecting fourth-quarter revenue of about $1.7 billion, $1.710 billion. That's about a $175 million drop sequentially. John, $110 million, $115 million of that drop is at Hill PHOENIX. And it is the seasonal pattern we're dealing with at Hill PHOENIX.

John Inch - *BofA Merrill Lynch - Analyst*

Okay. So there's nothing -- I mean, I know Hill PHOENIX is a little lumpy sometimes. Did it have an unusually good quarter this quarter? Or there's nothing about anything else with the moving parts (multiple speakers) --?

Bob Livingston - *Dover Corporation - President and CEO*

Very -- they had a superb third quarter. I think the probably only characteristic for their third quarter that was perhaps different than what they typically see is as we enter each month, as we enter each quarter and look at our backlog in our factory loading, we know that as we enter the month and enter the quarter, there's always the possibility of shipment deferrals by customers as we close the month or close the quarter.

I would say the difference in the third quarter -- we had very, very few customer deferrals in the third quarter. In fact, there may have been a few million dollars of even fourth quarter pull-ins into the third quarter.

John Inch - *BofA Merrill Lynch - Analyst*

Well, no, that makes sense because I think some of your big customers have later fiscal years, if I'm not mistaken, so.

Bob Livingston - *Dover Corporation - President and CEO*

Let me give you another data point. This $110 million, $115 million decline at Hill PHOENIX for the fourth quarter, John, that's a big number. It's 43% decline from the third quarter.

I will admit, we've never seen -- we have never seen that level of decline at Hill PHOENIX from third quarter to fourth quarter. Even last year, when we were expecting this significant decline, that decline last year was 32%, 34%. And I think that characteristic that is changing here, not just with Hill PHOENIX, but in the industry -- we've shared these data points with you before, that if you go back four or five years, about 40% of our business was remodeled. That percentage has been increasing.

Last year, our remodel activity was about 60% of our volume. Third quarter, it was 75% of our business. Fourth quarter, I would expect that percentage to hold true for the fourth quarter as well. We get into the remodel activity into the fourth quarter, we're not going to ship much product to customers between the 1st of November and the end of December. They just do not want to disrupt the customer flow in the store.

John Inch - *BofA Merrill Lynch - Analyst*

That's interesting. So, on a year-over-year basis, what you're suggesting is the remodel impact is actually beginning to shift or makeshift Hill PHOENIX's third quarter to become even more stronger over time, most likely?

Bob Livingston - *Dover Corporation - President and CEO*

Yes. And you look at the share of our re-modeled business as a share of our total, this number that we hit in the third quarter, 75%, we're plowing new ground. We've never had that level of remodel business for Hill PHOENIX.

John Inch - *BofA Merrill Lynch - Analyst*

Okay, that makes sense. Just my second question, Bob, I know you're going to talk about supply chain at Dover Day, so I won't go there, but you know, you do have $1.5 billion of overhead or SG&A costs on the books in '09. What are your thoughts toward at some point perhaps looking to maybe apply some of the centralization activities that you've been applying towards supply chain and some other areas of Dover to overhead?

And I don't even know, preliminarily, you might have a view that is there an opportunity or is there not? And again, not expecting you to do this right away, but I'm just sort of thinking over time how you are thinking about that opportunity.

Bob Livingston - *Dover Corporation - President and CEO*

We would think about that over time, John, and that's probably the only response I'm going to give you on today's call. I think -- we may chat a little bit more about that at Dover Day.

John Inch - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

Jeff Sprague, Vertical Research Partners.

Jeff Sprague - *Vertical Research Partners - Analyst*

Bob, I wonder if you could provide a little more color on the M&A front, and certainly the data point about Asia surpassing Europe is very interesting. Is the M&A biased towards any particular geography at this point? Usually it's hard to find things to do in Asia but any color there would be helpful.

Bob Livingston - *Dover Corporation - President and CEO*

I wouldn't change your comment about Asia. It is hard to find things in Asia, Jeff. The comment around Asia being larger than Europe -- this was the first time we've ever achieved that. And it was slight, but I want to take credit for it. And I think it reflects a lot of people investment and a lot of capital investment that we've made around the Dover businesses over the last 12 months.

Comments on the M&A pipeline -- our activity, our closure transactions in the third quarter, I'd use the phrase, rather modest. We have a -- we do have a rather full pipeline. I'm actually very enthused and excited with the opportunities in our pipeline. I wouldn't -- I don't think there's a preponderance of focus either in US or outside of the US. I think almost all of the opportunities in our pipeline are in our five targeted spaces. And as I said in my prepared comments, I think we're going to make some acquisitions and close some acquisitions here in the next few months.

Jeff Sprague - *Vertical Research Partners - Analyst*

And Asia is obviously the nexus of a lot of the electronic activity. I wonder if you'd respond a little bit -- and you have your colleague there -- on just the tone of business looking into next year. There seems to be a lot of anxiety about maybe tech slowing down, semi book to bill looking a little softer; where's the consumer? Just in terms of what you can see in terms of what your customers have planned in the next year, you're coming off a tough comp. How do we think about the growth next year?

Dave Van Loan - *Dover Corporation - VP, President & CEO of Dover Electronic Technologies*

Jeff, this is Dave. We're going to be talking a lot about next year at Dover Day, but I can share with you some of the industry data that we have out there right now.

Both semi and VLSI have recently reduced their equipment projections for next year. Semi is looking at equipment going flat. VLSI is only expecting about 2% equipment growth. If they're right, and there's certainly no guarantee of that, our business will clearly be impacted also. But right now, our customers' fabs are absolutely running flat out.

And I could also share with you another subject we're going to talk about more at Dover Day, but -- is our program for expanding the core of our businesses in the tech business. This initiative we talked about before. This is where we're taking our existing technology and adapting it for adjacent markets. We feel this has put us in a position for our business to continue to grow.

Solar, our solar program that we mentioned earlier, is a great example of that. In 2008, our solar business was effectively zero. In 2009, that business jumped to about 1% of DET's shipments, which is really not bad for new product introduction. In 2010, solar revenues, we expect them to at least triple. And I would add that these are very nice margins in this business at the same time. So we'll talk more about expanding the core, which is, frankly, our initiative to address the lumpiness and the volatility in the tech business.

Jeff Sprague - *Vertical Research Partners - Analyst*

Alright, thank you.

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

And also, Jeff, I would just point out that this semi and electronic assembly is increasingly a smaller part of the overall Dover Electronic segment, so.

Jeff Sprague - *Vertical Research Partners - Analyst*

Right. Thank you.

Operator

Chris Weltzer, Robert W. Baird & Company.

Chris Weltzer - *Robert W. Baird & Company, Inc. - Analyst*

Wondering if you could talk a little bit about -- I mean, you've got the highest cash balance that at least that I can find now that you've ever had in Dover's history. I know there's -- the acquisition pipeline is full and opportunities are always out there, but has there been any discussion about resuming share repurchase activity, especially since rates on new data, if you ended up needing cash for another deal would be relatively low at this point?

Bob Livingston - *Dover Corporation - President and CEO*

No, we are not looking at share repurchase activity any time in the next few quarters. And we think we've got enough acquisition opportunities that we're going to smartly deploy that cash.

Chris Weltzer - *Robert W. Baird & Company, Inc. - Analyst*

Fair enough. And then just wondering if you could dig into the comments you made about Hill PHOENIX and remodel becoming a bigger piece of that business. Do you find that that's an industry phenomenon? Is that something, an area where you're gaining share or attempting to differentiate yourself from your competitors? Just a little bit of color there would be helpful.

Bob Livingston - *Dover Corporation - President and CEO*

Well, you'll have an opportunity to ask a little bit more of a detailed question of Ray Hoglund, who runs the DES segment at Dover Day. So, but let me try to give you a little bit of color on that right now.

This is a little bit of a recall here, but I'm going to speak to the case business, not the entire business, because we do see some industry data on cases. It's difficult to see the industry data on refrigeration systems.

Case business growth in North America, the data we see shows an 11% growth through the third quarter. My guess is -- our guess is, is that about 40% of that growth this year is actually due to the Target program, the remodel program, the store layout program at Target.

On the case business, 11% growth in the industry. We think our growth in the case business year-to-date has been about 23%. Now, that includes a little bit of pop from the acquisition activity of Barker in the fourth quarter. I think everyone in the industry has benefited from the increase in case volume this year. There, clearly, clearly, in the third quarter, the demand in the industry was strong enough that I think the suppliers were struggling a little bit with capacity and customer demands.

Chris Weltzer - *Robert W. Baird & Company, Inc. - Analyst*

I got you. So do those numbers -- are you trying to infer that you've won more than your fair share of the Target business? And what are your thoughts on your portion of that business that may happen next year?

Bob Livingston - *Dover Corporation - President and CEO*

Well, I'm not going to speak to the Target business. We've been pleased with the participation that we've enjoyed at Target. If you want to comment on share, I just -- I keep looking and sharing with the investor community that progress that Hill PHOENIX has made over the last several years -- not just on a quarterly basis or a half-year basis; and over the last six or seven years, we've seen our market share in the case business grow from the high teens or low 20. We think by the time we closed the third quarter, we think our market share year-to-date in the case business, including the acquisitions we made last year, is about 37%, 38%.

Chris Weltzer - *Robert W. Baird & Company, Inc. - Analyst*

Okay, that's great. And then one last little follow-up. The tech (multiple speakers) --

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Bob Livingston - *Dover Corporation - President and CEO*

I will add something to both your question and an earlier question. When I talk about this high percentage of our business being remodel, we expect that to continue. We don't see that changing in the next two to three years.

Chris Weltzer - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thank you. And then one last little follow-up. The Tax Other line in the continuing 2010 guidance ops bridge, got, call it, $0.10, $0.14 less of a drag. Is there anything unusual in that number or is that just other income?

Bob Livingston - *Dover Corporation - President and CEO*

You're looking at the earnings bridge? That tax line -- there's two tax lines there. One's the discreet $0.20 that we spoke about. The other line really is just a comparison of tax year-over-year, but nothing unusual in there. But you do recall, we did have a discreet item in last year's second quarter, so that's part of what you see in that second line.

Chris Weltzer - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Fair enough. Thank you, guys.

Operator

Scott Davis, Morgan Stanley.

Scott Davis - *Morgan Stanley - Analyst*

When you look at the just phenomenal growth you've had in Electronic Tech, it begs the question, and particularly in MEMS microphones, that where are you in relation to capacity and what point do you need to add capacity or how scalable is your production?

And then the follow-on question to that is really what are your competitors doing? I know you have very large shares and such, but oftentimes when you have growth rates like this, oftentimes you have more aggressive competitive response. So maybe if you could address both of those issues.

Bob Livingston - *Dover Corporation - President and CEO*

Scott, was your question all around MEMS?

Scott Davis - *Morgan Stanley - Analyst*

You know --

Bob Livingston - *Dover Corporation - President and CEO*

I understood the first part, but your second part about competitors, you referring to MEMS?

Scott Davis - *Morgan Stanley - Analyst*

Yes, I mean, you can broaden it out. I mean, I was speaking specifically to -- I mean, thinking in terms of an example being MEMS, but you can speak to the whole segment if you'd like.

Bob Livingston - *Dover Corporation - President and CEO*

I'll kick it off and Dave is chomping at the bit here to jump in with a quick response. But if you look at the MEMS business, we've owned Knowles now for five years and a month. I don't think there's been a year since they've been part of Dover that we haven't had capacity addition projects.

We did it in '09 during the downturn. We've got additional capacity, adding projects underway for '010 that could come online and -- or they should come online by the end of the first quarter going into the second quarter of next year. And if you look at our long-term planning, we expect additional projects to fund next year.

To give you a magnitude, this year, our capacity to add projects at Knowles will be about a $20 million investment. So we are trying to not only support the growth at Knowles, but trying to stay in front of the growth with enough capacity add that we don't constrain our delivery or disrupt our customers.

With that, Dave can probably add a little bit more color.

Dave Van Loan - *Dover Corporation - VP, President & CEO of Dover Electronic Technologies*

Yes, Scott, I would -- your question about the competition. It might surprise you, when we look at our competition in this business, we're really looking more at our traditional ECM microphone competitors than alternative suppliers in the MEMS microphone business. So there are a number of cell phones out there today that are still using ECM mics. We look at that as a great opportunity. This is a growth opportunity for us to convert these customers to MEMS technology, which has a tremendous number of advantages in that area.

On the competitors in the MEMS side of the business, strangely enough, that's actually -- we look at that as a good thing. We don't see anybody with huge capacity or huge wins out there today, but having that second source for our customers actually helps us in our quest to bring more of the ECM customers across, as they have a second source.

Scott Davis - *Morgan Stanley - Analyst*

Makes sense. Am I to assume that that $20 million investment is pretty much all entirely China?

Dave Van Loan - *Dover Corporation - VP, President & CEO of Dover Electronic Technologies*

Asia.

Scott Davis - *Morgan Stanley - Analyst*

Yes. (multiple speakers) It's outside of China, too?

Dave Van Loan - *Dover Corporation - VP, President & CEO of Dover Electronic Technologies*

Yes, we've got facilities in Malaysia as well.

Scott Davis - *Morgan Stanley - Analyst*

Oh, okay, I didn't know that. Okay. I'll pass it on. Thank you.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

You guys have covered a lot of ground here. You had a pretty dramatic ramp at Knowles this year. What was that business up in the quarter?

Bob Livingston - *Dover Corporation - President and CEO*

I don't have that data in front of me. Do you want to take a guess at that response? The revenue, third quarter increase -- maybe a little bit better than 20%.

Steve Tusa - *JPMorgan - Analyst*

Okay. So actually less than the segment increase?

Bob Livingston - *Dover Corporation - President and CEO*

Oh, for sure. You look at the growth, and Dave can give you some color on this, but you look at the growth in not just the third quarter, but the second quarter, on the organic growth rates, the comps were extremely favorable for the equipment companies. They've not only had a great year this year, but as we all know, they've really struggled with the downturn in the first half of '09.

Interestingly, Steve, we did not see the decline -- even though we saw some decline, we did not see the sharpness in decline in our communication components business in 2009 like we saw in our equipment businesses.

Steve Tusa - *JPMorgan - Analyst*

So does that business, so the components business was up solidly but not as much as the segment. And next year, are there any dynamics around timing of platform ramps or anything like that that would lead to anything but a normal year at those component businesses, including Knowles?

Dave Van Loan - *Dover Corporation - VP, President & CEO of Dover Electronic Technologies*

Well, the Knowles business, Steve, is -- we're looking at the opportunity for one of our major customers who recently announced the partnering with a release for Verizon. This is obviously Apple. And we see this as a real opportunity for our business to take off in that area.

And when we look at some of these high-end cell phones, or high-end smartphones, it's not just a matter of a single microphone any more. We actually have applications today where we've got two mics in place for active noise cancellation and a third mic used for voice activation on the phone. So these are very dramatic markets. The share back and forth between our various customers is a very positive opportunity for us and multiple mic phenomena just continues to gain traction.

Steve Tusa - *JPMorgan - Analyst*

So does that business actually accelerate next year from a revenue perspective, growth perspective?

Bob Livingston - *Dover Corporation - President and CEO*

We'll see. We certainly are very, very optimistic about that market and that space.

Steve Tusa - *JPMorgan - Analyst*

Okay. And just to be clear, you guys are seeing no weakness in the equipment side of things? (multiple speakers) [Are we going to see] any push-outs or anything like that on the equipment side? And you (multiple speakers) --

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Bob Livingston - *Dover Corporation - President and CEO*

We see no push-outs at all. We have a very solid backlog for the fourth quarter and we expect to finish the good performance we've had this year. We expect that to continue and to finish in very good form.

Steve Tusa - *JPMorgan - Analyst*

And sorry, I jumped on here a little bit late, but one of your competitors in display cases -- I'm not sure, if you've already gone through this, just tell me and I'll read the transcript -- but your key competitor on the display case side reported bookings up 20% this quarter.

You guys are talking about kind of normal seasonality -- Hill PHOENIX, maybe that's just timing of orders or something. Anything going on there that we should be watching? Is there any key differences in the competitive dynamics? And also if 40% of the growth this year was the Target stuff, how does that make you feel about next year's growth opportunities at Hill PHOENIX?

Bob Livingston - *Dover Corporation - President and CEO*

Well, we've answered a lot of this in previous questions, Steve, so I am going to ask you to go back and read the transcript (multiple speakers) --

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Steve Tusa - *JPMorgan - Analyst*

Okay, that's fine, but then next year, did you talk about next year's dynamics?

Bob Livingston - *Dover Corporation - President and CEO*

No. If you look at -- I will try to attempt to answer one question --

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Steve Tusa - *JPMorgan - Analyst*

Sure.

Bob Livingston - *Dover Corporation - President and CEO*

-- that's new. If you look at the industry data this year -- and I'm referring to cases; not systems, but cases -- it would appear that the industry volume is up about 11% and that a significant piece of that, maybe 40% of that increase has been as a result of the Target remodel program.

Everything we're being told, everything we're hearing is that the Target remodel program will continue into 2011. And it may not be a jump over 2010 but will continue. But at the same time, we also believe there's going to be some rising volume requirements from the other players in the industry in 2011. I don't have an industry forecast for 2011.

Steve Tusa - *JPMorgan - Analyst*

Okay. One last question for you -- Fluid Management margins just continue to move higher on -- a little bit of help from volume, but mid-20s number is phenomenal. What's normalized here at Fluid Management? Or is this just volume-dependent?

Bob Livingston - *Dover Corporation - President and CEO*

Well, yes. They have done an outstanding job last year and this year around margin management and volume leverage. It's really difficult to sit here and look at a path to see a 200 basis point improvement in margins over the next couple of years. We're operating at a pretty high level here, Steve.

Steve Tusa - *JPMorgan - Analyst*

But you're pretty close to normalized today?

Bob Livingston - *Dover Corporation - President and CEO*

I think the gains that we would have if you look forward, it's going to be around volume.

Steve Tusa - *JPMorgan - Analyst*

Yes, okay. Thanks a lot.

Operator

(Operator Instructions). Terry Darling, Goldman Sachs.

Terry Darling - *Goldman Sachs - Analyst*

Bob, wondered if we could come back to your comments about optimism around acquisitions. You have had a fair bit of accretion this year from '09 acquisitions. I'm wondering if you could speak to the profile of the duration of payback, if you will, on what's in the pipeline and what you're optimistic about. As things move along here, are you seeing deals a little longer dated payback? Or would you also expect to see some accretion in 2010 from acquisitions?

Bob Livingston - *Dover Corporation - President and CEO*

Do you mean 2011?

Terry Darling - *Goldman Sachs - Analyst*

I'm sorry, in 2011, yes.

Bob Livingston - *Dover Corporation - President and CEO*

Okay. Well, thank you. We did a good job this year with accretion on the deals that we closed on last year. We're very pleased with that.

Gosh. Every deal is unique, Terry. I'm trying to sort of do a quick roll-down in my mind here of the opportunities we have in our pipeline. But -- and I know Brad is going to correct me here if I give you a wrong answer, but let me put it this way.

If we took every opportunity in our pipeline and closed on those deals January 1, I believe that our acquisition transactions, all closing on January 1, would be accretive in 2011. You're going to get some different characteristics on each deal, but I believe in total, that they would be accretive for 2011 if we were to close on January 1. But beyond that, I'm not sure how to answer your question.

Terry Darling - *Goldman Sachs - Analyst*

Okay. No, that's helpful. I think what you're saying is, essentially, the payback duration is pretty similar. You do have a fair bit of year-one accretive deals in the pipeline; the question is actually execution. We all appreciate that.

Bob Livingston - *Dover Corporation - President and CEO*

I mean, it's going to be the execution on individual deals. It's also going to be the closing date. We've got a few deals that if we weren't able to close on them until midyear because of the deal costs and some upfront purchase accounting costs, you know, you just lose time to cover some of the (multiple speakers) costs.

Terry Darling - *Goldman Sachs - Analyst*

And then wondering how you're thinking about incremental margins -- and maybe we'd get Brad involved on this -- into 2011. And the volume leverage in the business typically around 30% or so, I think you're pretty much there if you pull out that debt extinguishment item in this quarter. You've got the centralization cost savings potentially on top of that. On the other side, as you pointed out in your opening comments, you've moved R&D up a little bit. You've moved emerging markets investments up a little bit as well.

But as we go into 2011, should we think about incrementals in that normal 30% range, because the incremental savings are going to be offset with incremental investment? Or do you see a little bit more drop-through next year as the savings start to move ahead of the incremental investments?

Bob Livingston - *Dover Corporation - President and CEO*

I guess, Terry, what I would say is the third quarter is more like we would expect going forward. So earlier in the year, the first half of the year, let's say, we were converting volume at a higher level drop-through. And the third quarter, you're right -- it's about at that 30%, a little over 30% range.

And as I think about going into next year, given the investments we're making -- Dave's talked about investments in our solar business; we continue to invest in Knowles; a lot of different investments in our energy space. I would see that we'll continue to do that for growth. And therefore, the incremental drop-through should be more in that low 30% range. That's where I see it.

Terry Darling - *Goldman Sachs - Analyst*

And then maybe just to clarify the impact on growth, I think once generally multi-industry companies get through the turn of the cycle, you see organic moderate back to the mid-singles. Does your mid-singles -- does your growth investment, and you talked about Knowles as one example that next year with the Apple opportunity, maybe more closer to that 20% range, do you move the overall organic for the Company into the upper singles as you get into that normalized environment? Or are you offsetting some pressures on the maturing parts of the portfolio just to stay in that mid-single range?

Bob Livingston - *Dover Corporation - President and CEO*

I think you have to recognize that going into 2011, at least from our perspective, we see ourselves beyond the recession and beyond the balance -- if you want to look at the first half of '10 incorporating some type of balance from the downturn, and now we're in the early years of whatever that up-cycle is going to look like.

We've given long range guidance. We did this a year ago at Dover Day, of 4% to 5% organic growth longer-term through the cycle. I would expect -- I think we all expect -- that in the early years of the cycle, that the growth rate could be a little bit better than a 4% to 5%. Anything beyond that, I'm going to defer to some commentary around Dover Day. We are going to provide a framework -- not only for next year, but how we're looking in the next two to three years as part of our dialogue at Dover Day.

Terry Darling - *Goldman Sachs - Analyst*

Looking forward to that. Thanks, Bob.

Operator

Thank you, ladies and gentlemen. We have time for one last question. Your final question comes from the line of Shannon O'Callaghan with Nomura.

Shannon O'Callaghan - *Nomura Asset Management - Analyst*

Since we have Dave on the line, just -- and maybe Bob, you could pitch in too on this -- I mean, obviously 18.3% margins in Electronic Tech, impressive at the absolute level, but -- and maybe you can also talk about the structural margin range you see in that segment now. I mean, it's got more stability with Knowles, right, and Electronic Tech being a smaller piece.

We just saw you in the last downcycle in energy really hold margins better than I thought you would and probably other people did too. So, I mean, it looks like you've upgraded the whole margin level of that business, but if you can talk about the stability factor and what you expect in terms of a range of margins there in good times and bad.

Bob Livingston - *Dover Corporation - President and CEO*

Well, don't look at the rate of improvement in margins at Electronic Technologies. 2010 versus 2009 is something that we can repeat again next year.

Shannon O'Callaghan - *Nomura Asset Management - Analyst*

Yes. Got that.

Bob Livingston - *Dover Corporation - President and CEO*

But if you look at the range -- look, it has a lot to do with product mix. It has a lot to do with customer mix. And it has a lot to do with where you are in the cycle. Absent a very strong downturn, we do believe that, structurally, we've got the portfolio and the market balance -- market balance is important here -- to see the operating margins at DET be in the 14% to 18%. Maybe, [Dave], in a really strong period, they may nudge a bit higher. But don't -- do not sit here and anticipate another 300 or 400 basis point improvement in margins.

Shannon O'Callaghan - *Nomura Asset Management - Analyst*

Okay. But you also -- I mean, that 14% would be, in a real electronic assembly downcycle, you still think you could hold the low end at 14% for the whole segment?

Bob Livingston - *Dover Corporation - President and CEO*

No, I said absent a very strong downturn. If you look at the downturn that we encountered last year -- and, gosh, I don't care what your product mix or your customer mix looks like, when the customers actually stop ordering, it's hard to maintain margins.

Shannon O'Callaghan - *Nomura Asset Management - Analyst*

Right. Okay. And then maybe just a question on rig count and your outlook there for the business. I mean, it seems like in the last few quarters, it's continued to come in stronger than you expected. Where are your expectations now looking into -- you mentioned a little bit about fourth quarter, but looking into next year, just give a view of what you expect for the end market there and any penetration on your behalf.

Bob Livingston - *Dover Corporation - President and CEO*

Well, I think the only one I'm going to respond to is the end market outlook. You're right, we have continued to see increased North America rig count deployment throughout the year. We even continue to see a very modest increase in the third quarter. We think there could be another modest increase in rig count deployment in the fourth quarter.

As we look at 2011 and all the data and the forecast from the experts that we're seeing and reading, best case, further modest increase in rig count deployment in 2011. It is not going to be anywhere near the increase in 2011 like we have seen in 2010 with year-over-year comps.

Shannon O'Callaghan - *Nomura Asset Management - Analyst*

Right. Understood. Alright, thanks, guys.

Operator

Thank you. That was our final question. I'll now turn the call back over to management for any closing remarks.

Paul Goldberg - *Dover Corporation - Treasurer and Director of IR*

Thanks, Jackie. This concludes our conference call. With that, we'd like to thank you for your continued interest in Dover and we look forward to speaking again to you next quarter and hopefully seeing you at Dover Day. So thanks for your attention today. Goodbye.

Operator

Thank you. That concludes today's third-quarter 2010 Dover Corporation earnings conference call. You may now disconnect your lines at this time and have a wonderful day.
