

DOVER CORPORATION

**Moderator: Tom Reece
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8:00 am CT**

Operator: Good morning and welcome to the 3rd Quarter 2003 Dover Corporation Earnings Conference Call. With us today are Tom Reece, Chief Executive Officer and Chairman of Dover Corporation and Robert Kuhbach, Vice President of Finance and Chief Financial Officer of Dover Corporation. After the speakers opening remarks, Mr. Reece and Mr. Kuhbach will be answering questions. If you would like to ask a question during this time, simply press star, then the number 1 on your telephone keypad. This call is being recorded. Your participation implies consent to our recording this call. If you do not agree to these terms, simply drop off the line. Now I would like to turn the call over to Mr. Tom Reece. Please go ahead sir.

Tom Reece: Thank you. Good morning. It's a pleasure for me and Rob to be here with you to discuss Dover Corporation's 3rd Quarter and Year-To-Date 2003 results. Ron Hoffman our President and Chief Operating Officer, as of July 1 was committed to attend a Diversified President's Meeting this week and thus will not join us on the call.

Before we make our overview comments and open the call for questions, I want to remind everyone that our comments may contain certain forward

looking statements, which are inherently subject to uncertainties. We caution everyone to be guided in their analysis of Dover Corporation by the 10-K and other materials we file periodically with the Securities and Exchange Commission and other required public disclosures. I also would direct your attention to our Internet site www.dovercorporation.com where considerably more information can be found.

For the third quarter, Dover reported DEPS of \$0.37 compared to \$0.29 DEPS for the 3Q02. That's a 28% increase and 9% higher sales. YTD DEPS increased 20% to \$1.02 compared with \$0.85 DEPS in 2002 and 5% higher sales. YTD DEPS at the end of the third quarter is just \$0.02 less than the \$1.04 reported for the full year 2002.

During the last three conference calls, I've indicated that virtually without exception our companies based their 2003 business planning on flat top line revenues compared with the second half of 2002. That continues to look like prudent planning as YTD total sales are only 5% higher than last year's first three quarters on an average monthly basis and again only 5% higher than the second half of 2002. Encouragingly, however, third quarter sales on an average monthly basis were 10% higher than last year's monthly average in the second half.

I think it's apparent that the adjustments made by our operating company and management teams over the past couple of years, and in particular of the second half of last year are beginning to bear fruit. Dover's overall operating segments have increased significantly in the third quarter 2003 versus third quarter 2002 basis. As well as on a YTD over YTD basis. The Technologies operating segments up 9 points 3Q03 versus 3Q02 and over 7 points on a YTD over YTD basis is particularly encouraging. Rob will provide more texture on Technologies and the other segments in a minute.

On a company-by-company basis, virtually through October results in the third quarter as well as the YTD continue to be lumpy as I have mentioned before. A number of our companies continue to struggle with weak demands, continuing restructuring charges and severe price competition. To illustrate the point, note that only 28 of our 52 direct reporting operating companies had higher operating earnings than last year on a YTD basis. However, all are profit positive on a YTD basis.

Overall, bookings for the quarter and YTD were 14% and 7.6% higher than the comparable periods in 2002. The book-to-bill ratio for the quarter was 1.01 and 1.02 YTD. I've mentioned that this number means less today than in the past due significantly to reduced lead times from order entries to shipping products out the door. That's particularly true in the CBAT companies in the Technology segment. The third quarter in Technologies, illustrates that point very well. Although the book-to-bill was only 1.01, sales improved over 22% compared with the third quarter of 2002 and were 7-1/2% higher than the second quarter of this year.

I again want to congratulate our operating management teams for their continuing efforts to reduce costs, right size their businesses, improve working capital utilization, selectively raise prices, and all the other things that good business people do. We know that we must be relentless in all of these areas, all the time. We also must continue to have continued investments in the long-term future of our businesses. In that regard, we again had a number of significant new product introductions during the quarter, and deepened their presence in Asia from both manufacturing as well as a procurement standpoint.

Although, not technically a third quarter event, I have to comment on our successful \$325 million acquisition, effective October 1 of Warn Industries which is located in Portland, Oregon. This is exciting for a number of reasons. First, Warn is a superb brand in the winch and four-wheel-drive markets it serves. Second, Warn is managed by an outstanding management team under the leadership of CEO John Kreitz. They are excited to be a part of Dover. Third, is that now I don't have to answer any more of your questions about whether Dover is really still doing acquisitions or not.

Before turning to Rob, I have to say that I continue to be very optimistic about the longer-term future for worldwide manufacturing. I continue to respect moderate continuous improvement in the fourth quarter in a year over year basis, and I'm optimistic about 2004. I expressed this optimism at the end of the second quarter. Even after an experience of reversals in the second halves of both 2001 and 2002. I think that our solid third quarter results along with the abundance of improving economic news, supports our continued enthusiasm.

Along with that optimism, I continue to be convinced that our operating company management teams, along with our more than 25,000 employees worldwide, have done and are continuing to do the right things to be in the best positions to take maximum advantage of that improvement as it developments. With that as prelude, I'll turn it over to Rob, and then we'll be happy to take your questions.

Rob Kuhbach: Thanks Tom. Good morning ladies and gentlemen. As Tom has already covered Dover's overall results, let me turn directly to the segment information.

As Dover Diversified third quarter profits were just under \$30 million, down 18% on a 2% increase in sales, and operating margins decreased to 9.8% from 12.1%, all compared to the prior year quarter. With the nine months ending September 30, 2003, sales increased 2% to almost \$915 million, earnings decreased to \$99.4 million and operating margins decreased to approximately one percentage point at 0.9%.

Diversified's results reflect a strong performance at Hill Phoenix offset by flat to down results at most other companies. Hill Phoenix, one of Dover's largest business, achieved record earnings and significantly improved margins for a second consecutive quarter. Driven by increased volume and production efficiencies.

Sargent reported slightly improved earnings with increases from their defense business and a strategic add-on acquisition offset by continued weakness in the commercial aerospace market. PMI earnings were flat as they continue to deal with production issues and some market softness. SWEP and Tranter PHE both reported slightly improved sales and earnings over last year mainly due to some large projects and improving markets. Waukesha reported lower earnings largely due to continued softness in the power generation market. Belvac's strong backlog and consistent bookings keep them on track for a solid sales and earnings year, although quarterly earnings and margins were down compared to the prior year period. The balance of Diversified's businesses were largely down due to continuing challenges in their respective markets.

Dover's Industries quarterly performance profits of \$31.5 million, representing 11.6% margin on \$271 million in sales, was essentially the same as the prior year period. On the nine months ended September 30th, sales decreased 2%, to \$782.7 million. Earnings decreased nearly 19% to \$87.8

million from \$108.1 million and margins decreased from 13.5% to 11.2% all compared to the prior year period.

While third quarter sales and earnings approximated the prior year quarter, they represented an improvement over the second quarter as sales and earnings grew 35% and 8% respectively. For the quarter, positive earnings and margins gains at Tipper Tie and favorable comparisons at Heil Environmental, PDQ, Chief Automotive, and Dovatech impacted results.

Rotary's volume increased due to strong performance outside the US, although earnings were negatively impacted by new product development costs. PDQ grew earnings on relatively flat revenues primarily as a result of new product introductions. Triton's results reflected focus on new products developed since 2002, which now account for over 70% of Triton's unit sales. Tipper Tie's results exceed both prior year and prior quarter, driven by solid gains overseas. Marathon, DI Foodservice, and Heil Trailer continue to be impacted by weak markets, although all showed improved results compared to the second quarter. Heil Environmental results exceeded 2002 for the first time in three quarters, despite strategic realignment costs. Dovatech grew both sales and earnings driven primarily by its chiller business.

Dover Resources quarterly profits were \$37 million up 12% from the prior year quarter on an 11% increase of sales from the prior year. Operating margins were up slightly to 14.9% for the quarter, compared to 14.6% in the prior year period. The nine months ended September 30th, sales increased 7% to just under \$719 million, earnings increased to nearly \$103 million from \$95.8 million and margins were relatively flat at 14.3%, all compared to the prior year period.

Resources results were driven by higher energy prices, new product introductions, global sales, and sourcing initiatives and continued operating improvements. The Energy Products Group and C. Lee Cook continue to benefit from a robust energy market with sales up 14% and earnings up more than twice the sales increase. International activity was especially strong, and earnings continue to be driven by internal improvement initiatives, selective price increases, and improved export sales. OPW Fueling Components and Fluid Transfer Group improved earnings 55% on a sales increase of 16%.

Sales improved for the service station industry, some driven by government regulations, and to the rail tank car industry. The Pump companies, Wilden and Blackmer, saw mixed results during quarter. The international portion of both businesses increased with Wilden's start-up operation in China exceeding expectations. De-Sta-Co Industries sales and earnings increased mostly from international operations. Also Winch and Texas Hydraulics continue to be adversely effected by flat or soft construction and claim markets, although Winch sales in the petroleum market remains strong. Both Hydro Systems and RPA Process Technologies benefited from improved international sales. Resources newest acquisition, Warn Industries, which closed on October 1st, manufactures winches and accessories for use on trucks and ATVs and sells patented technologically advanced four-wheel-drive and all-wheel-drive power train systems to leading automotive OEMs. With annual sales in excess of \$150 million, this business will be accretive to Dover's sales in 2004.

Dover Technologies had another good quarter. Sales were up 22% over the prior year quarter and earnings were \$29.8 million compared to just \$1.3 million in the prior year quarter. Margins for the quarter were 9% up from less than 1% in the prior year period. With the nine months ended September 30th, sales increased 16%, \$895.6 million, earnings increased to \$61 million

from a loss of \$6.7 million and margins improved to \$6.8 million all compared to the prior year period. The turnaround evidenced in the first half of 2003 continued into the third quarter. All of the Technologies companies have reported profits on a YTD basis with the exception of one SEC company. CBAT sales were up 14% over the second quarter of 2003 and 26% over the prior year period. Operating margins grew to 9% with all companies profitable up from 6% in the second quarter and negative margins in the prior year period.

Bookings at \$206.1 million were up 35% over the prior year. Third quarter bookings increased 14% from last quarter following a 13% increase in the second quarter of 2003. The book-to-bill ratio for the quarter was 1.01 and backlog was just over \$90 million. Sales increases were driven by demand for back end semi-conductor products and continued growth in Asia, particularly China. Bookings have been growing sequentially over the last three quarters. North American based EMS customers are beginning to reach capacity and have begun ordering new equipment.

Significant new products should add to top line growth and address broader markets. Imaje continues to be a superior performer with quarterly sales up 20% and quarterly earnings of just under \$16 million, up 9% from the prior year period. Quarterly margins, now approaching 22%, have been improving sequentially through 2003 in spite of Euro depreciation.

There is a strong focus on a broad array of new products, along with developing logistics and distribution efficiency. Imaje is also expanding its delivery platforms in China and North America. SEC sales have been essentially flat for the last three quarters, although they were up 14% from the prior year period. Earnings improved significantly from a loss last year of about \$3.4 million to earnings this year of nearly \$1 million, resulting in

margins of about 2% for the quarter. Bookings in the third quarter of \$55 million were 15% greater than the same period last year and increased 6% sequentially. The book-to-bill ratio for the quarter was 1.06 and backlog was just over \$49 million.

Vectron, the largest SEC company recorded quarterly sales earnings and margin improvements compared to the prior quarter reflecting a modest rebound in the telecom market. Offsetting that performance, K&L Microwave had a challenging quarter because of strategic realignment costs. All of the SEC companies continue the diversification efforts, focusing on those opportunities in the military, space, medical and industrial markets, where their custom, specialized design capabilities are recognized.

Let me now turn to some other general corporate information. For the nine months ended September 30, 2003, free-cash flow improved significantly to almost \$75 million from the prior year period when free cash flow was just about \$33 million. This year's results reflect improved net earnings and lower tax payments, offset by working capital increases, after taking into account the impact of acquisitions and foreign exchange adjustments.

Dover's effective tax rate for the quarter was 24.6%, down from last year's quarterly rate of 27.7%, but up from the 2002 full year rate of 21.7%. This reflects continued use of tax credit programs, like R & D and foreign export credit programs, a lower effective foreign tax rate as well as tax benefits from continuing tax-planning programs.

For the nine months ended September 30, 2003, capital expenditures were just over \$70 million. Acquisitions used \$31.2 million. And cash and dividends paid were \$85.1 million. Subsequent to the third quarter close, Dover acquired Warn Industries, as you know for approximately \$325 million in

cash. The Warn acquisition was funded with \$150 million of existing cash and commercial paper borrowings of \$175 million of which \$50 million was borrowed in September of 2003.

The company received federal tax refunds of approximately \$144 million subsequent to the third quarter close, related to the filing of its 2002 tax return. The proceeds from the tax refunds will be used to pay down commercial paper borrowings and for other general corporate expenses.

Net debt decreased from the prior year-end to about \$674.5 million resulting in a YTD net debt to capital ratio of 20.6% less than year-end 2002 and the lowest level in ten years.

On a pro forma basis assuming the Warn acquisition had closed and the tax refund had been received in the third quarter, net debt to equity would have been 23.5%. During the quarter the company made a discretionary contribution of \$27 million to its defined benefit pension plan, making the YTD contributions approximately \$45.8 million. Dover did not make any open market purchases of shares during the quarter.

Corporate expenses have increased \$9.5 million compared to the prior YTD amounts, due to higher insurance costs, compensation costs, and consulting fees incurred for the Sarbanes-Oxley compliance, various tax planning projects and other corporate initiatives.

With that overview, let me turn this back to Tom for questions.

Tom Reece: Thanks, Rob. We'll be happy to take your questions now.

Operator: At this time, I would like to remind everyone in order to ask a question, please press star and then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Please hold for your first question.

Your first question comes from Alex Blanton of Ingalls & Snyder.

Alex Blanton: Good morning.

Tom Reece: Good morning Alex.

Alex Blanton: Congratulations on a great performance in Dover Technologies. I wanted to ask about the statement you made that North American EMS companies are beginning to buy more. Can you elaborate on that and tell us perhaps who's buying more? Because I'm not aware of any of them that have said that they are increasing capital expenditures.

Tom Reece: Well, I'm not going to name names but, actually, in the second quarter, the CEO of Flextronics, which, I think, would be included in our comment about North American EMS's although technically they are not, did mention that they felt they would be making capital expenditures by as soon as sometime in the third quarter, and I think that forecast has proven to be true.

Alex Blanton: Okay. They haven't reported their quarter yet, perhaps they'll tell us about that. But he did say equipment was wearing out and had to be replaced?

Tom Reece: Right.

Alex Blanton: You also mentioned that you had continued growth from investments in Asia. Now the Taiwanese OEMs and Chinese companies like Hunhai are growing very rapidly. I mean, Hunhai just reported their September sales are up 62% over last year. So they must be buying more equipment. Are you sharing in that in Asia? Is some of the benefit the sales increase of 26% due to greater sales to these Asian companies which are growing rapidly?

Tom Reece: Absolutely. I won't mention companies, and I don't have a breakdown in front of me about what percentage of the increase is from the three sectors, but there's no question that a significant amount of the CBAT business particularly increase is from Asian customers. And frankly, I think to some extent, one of the things that's even a little more encouraging to us in CBAT particularly is the fact that although we are in the process of developing a plant in China, particularly Universal and some of the other CBAT companies, fundamentally, a lot of the productions is still not coming out of those plants. So in some sense, we are selling product in China at Chinese prices, if you will, but producing still largely that product here in North America. That will shift as that plant comes into more full production.

Alex Blanton: Okay well, that's very encouraging, because a lot of the growth is taking place over there. And you are facing competition from Japanese companies. You seem to be overcoming that.

Tom Reece: Well, as I've said before, I don't have any market share statistics or anything else, but Universal in the CBAT companies is the only pick and place equipment company in the high end that has established a physical presence in China. And that has not been lost on the Chinese customer base.

Alex Blanton: Okay. That's terrific. I wanted to ask, you said 28 of 52 companies had higher operating earnings for YTD and four were unprofitable?

Tom Reece: Right.

Alex Blanton: What were the numbers for the quarter? Do you have those?

Tom Reece: I'll get them for you in a minute.

Alex Blanton: Okay. And finally, is there any effect on EPS from these tax refunds that you've got?

Tom Reece: No. It's just cash. Cash is important, but it is only cash.

Alex Blanton: It is not going to affect your fourth quarter EPS?

Tom Reece: No.

Alex Blanton: Okay. Thank you

Tom Reece: Okay. Next

Operator: Your next question comes from Don MacDougall with J.P. Morgan.

Don MacDougall: A couple questions on CBAT and then another on corporate. I was wondering if you could you elaborate, Rob or Tom, you had mentioned you've got a bunch of new products coming out that you're fairly optimistic on there. Could you give us a little more color please?

Tom Reece: Yes. We keep reporting these new products and I guess to some extent the new products that we may have talked about in the second quarter are some of the ones we were still talking about in third quarter. Let me explain that.

Usually in the CBAT area particularly these products come out and are put in beta sites. And the betas run for a period of time so that we've had numbers of selective customers that have seen these products and are pretty excited about them. Actually most of these products will be broadly introduced at the Productronica show in mid-November in Munich I think. But, this includes really a full range of new products out of Universal, an exciting new placement technology that they have been developing over the past couple of years. It has been in beta for four of five months now and the results look very good. And they are taking a variation of that product which the management there feels is going to make them a substantial competitor in the sort of mid range machine, the sort of step-down from the very top-end machine where Universal has typically only played. DEK, the screen printer company, is showing a couple of new products, significant advancements, and also capabilities that move them out of simply screen printing circuits to bumping balls and ball grid arrays and that sort of thing. So that sort of broadens their market base a little bit. Vitronics Soltec has a couple of new selective soldering machines that are frankly receiving a fair amount of positive press. OK International is coming with a completely new bench top soldering system. So it's not only new products. Frankly, in almost every case, these are products that represent substantial increases in technology and increased promised productivity for their customers.

Don MacDougall: Okay, Tom.

Tom Reece: I sound like a sales guy, don't I?

Don MacDougall: Yes. Every good CEO is a salesmen. On the margin side, for CBAT, you had a nice sequential revenue increase over the second quarter. You also had a disproportionate increase in operating profits. Was there anything going on

there in terms of mix that made incremental margins in CBAT high in the third quarter?

Tom Reece: I'm sorry, I didn't catch that.

Don MacDougall: Well your sales were up \$25 million; your operating profits were up \$9 million. It is close to a 40% incremental margin. Just wondering if there was anything unusual in the mix that was driving that kind of incremental profitability?

Tom Reece: There's nothing that I know of. Rob do you know of anything?

Robert Kuhbach: No. I would say that there is somewhat of a mix, meaning that in some cases, there are companies within CBAT that frankly, probably are getting back closer to their historic kind of margins for a couple of them, and the others are not anywhere near that. So there is a mix between the companies. And given the relative profitability level, and the absolute dollar level you can get some distortion in the numbers. The leverage you described isn't going to be systemically going forward, up.

Tom Reece: I would add just a little more flavor around that in one respect, Don, that might be interesting. Two of the companies, one of them we report directly, Alphasem is a Swiss manufacturer that is sort of in the back end of the semiconductor area. The other one is a German company we acquired just before the crash, brilliant timing, manufactures sophisticated test equipment that is also in the back end of the semiconductor arena. And I think that it's safe to say that they were sequentially up nicely in the third quarter.

And that's important for a couple of reasons. One, this is fairly expensive, sophisticated equipment where the price points have been (certainly in the

case of Multitest) held higher so that of course would have a significant impact on earnings compared to where they have been before. But the other thing that is important is if history holds true, we always would see the improvement in the semiconductor area before we would see it in the packaging equipment area, where Universal and DEK and Soltec play. So I'm glad you asked the question, because I hadn't thought about that, frankly until just now.

Don MacDougall: Okay. On SEC, you mentioned there was a K&L Microwave restructuring. Would the margins in that business have been comparable to where they have been running earlier, let's say in the second quarter had that restructuring not been affecting the reported profits?

Tom Reece: Maybe they would linger a little bit, but I don't think so. And I say that because they basically have gone through just a major shift in what happened in their business. They actually built a facility in China, with the expectation of being a major player as the Chinese companies build out the infrastructure. Their major customer, which is domestic, said come to China or you're going to miss out on the whole thing. Unfortunately, not only did we, so did they. So we've had to close that plant just because the volumes were not there. That's been very costly.

At the same time, K&L Microwave is moving back away from the datacom, telecom area, (not entirely) but their emphasis is much more heavily on military where, in fact, at one time they were dominant. But they're finding out if you have been away from it for 12 years or so there are costs associated with getting back in there and being successful. So I think that's a work in progress. I think as they develop those volumes and develop the capability to handle that military business we should see their profitability come up. By the

way, it is one of those four companies that is on a loss on a year-to-year basis. I don't know if that would be true were it not for those restructuring costs.

Don MacDougall: Okay. Just one more quick one on corporate expense. It was a lot higher than I was expecting. You cited some of the factors behind that, Rob. What's the run rate we should think about for corporate expense going forward? Some of those do sound unusual or one-time in nature.

Robert Kuhbach: Well, I think it's going to be higher than the annualized rate from last year, but I wouldn't take this quarter's adjustment and multiply it by four. If that answers your question?

Don MacDougall: Well, it doesn't really answer the question. It gives me the right direction.

Robert Kuhbach: Well before we take the next question, I will say that we have 25 companies that had earnings improvement for the quarter, and seven companies that experienced profit loss during the quarter. I think going forward; we're probably looking at \$8-9 million a quarter normalized. It's going to vary somewhat. The more profitable we get, the more likely it is that number will go up. Okay. Next question.

Operator: Your next question comes from Michael Regan of CSFB.

Robert Kuhbach: Good morning Michael. Michael? Hello?

Michael Regan: Tom, I just wanted to confirm, did you say cash wasn't important? I was just kidding.

Hey Rob, quickly, your tax rate, you've done great things with the tax rate. You've talked about planning to do that, but you've also talked about the

benefit of lower North American earnings and some losses there. How should we think about the tax rate in '04, and as kind of the world gets back to normal, what the normal tax rate should be?

Robert Kuhbach: I would say the normalized tax rate in Dover would move up incrementally into the high 20s over time. There is not precision to that, but some of the things as you well know, the whole issue of foreign export tax credit is under a great debate in Congress and nobody knows what that's going to do with the rest of us. That's a factor, and we optimize that like most companies that are in our position, and for some companies, that's within Dover, that's a meaningful component of their tax rate. So we have to assume that there will be some replacement in the future, but what that will look like and how that will affect those of us who have utilized the current programs and the prior programs is hard to predict. But our rates will generally, will tend upward because some of our recent tax rate experience reflects, needless to say, the low operating performance and in some cases loss situations that we've had to live with in the last two years.

Michael Regan: How about in 2004 specifically?

Robert Kuhbach: You mean the rate in '04?

Michael Regan: Yes. Just to think about. Is it going up?

Robert Kuhbach: It's going up but I can't give you a precise number. It's probably north of 25% and lower than 30%.

Michael Regan: Okay.

Robert Kuhbach: But it's really hard to predict.

Tom Reece: It went from a 21% to a 24% change this year, year over year, something along that line probably wouldn't be too far off the base.

Michael Regan: Okay, and Tom, I kind of asked this question of the second quarter, but I just want to sort of confirm what we're doing or direction. I mean, obviously CBAT had phenomenal margin performance both year-over-year and sequentially. We've seen that throughout the year. But as I go back in time to sort of this sort of sales level for CBAT, kind of second quarter of '99, \$208 million of revenues. They had almost 14% margins, 13.9%, on \$204.5 million, you did 9.5% margins. Is a lot of that just customers have moved to China or as you said, you're ramping up China or, you know, are we thinking about sort of a secular change in the profitability of the business?

Tom Reece: We are not thinking of a secular change. And I think a lot of the reason for enthusiasm around these new products as is you have 'me too' products you have 'me too' pricing. If you have technologically advanced products then that's where you can get higher gross margins. So I think ultimately that's going to help those margins up.

And I think there's little question that double digit margins in CBAT is a very exciting number at this point in the upward cycle in the industry that they're serving, particularly thinking in terms of where their customer base has shifted to and what their cost relationships are. From a production standpoint, and also the pricing situation, it's tough to do business in China.

We're holding our own. We're getting good volumes. As soon as we get more assembly production out of our Chinese plant, I think we'll see those volumes continue on up in that mid double digit area, and I don't know when,

so don't ask. But, it will be a progression over the next few quarters, assuming the volumes continue at this level or increasingly higher levels.

Michael Regan: Okay. Great. Thank you.

Operator: You're next question comes from Wendy Caplan of Wachovia Securities.

Tom Reece: Good morning Wendy.

Wendy Caplan: Hi, just to follow along on these discussions of China a bit. Can you just remind us how much of your CBAT production is current, just to get a sense of leverage here. How much of your CBAT production is currently in China versus North America? And can you give us some quantitative or qualitative feel for what that movement would do to margin, assuming, you know, kind of volumes remaining at this level?

Tom Reece: Frankly, I can't. That's an interesting question, and it's one that I think, rather than try to take a winger at it, it might be better for us to think in terms of doing a little research around that. I can't even tell you the number on total CBAT production out of China versus North America, the U.K. and Holland. Because we have production in both North American and in those other places. And all of those companies, DEK, Vitronics, Soltec, Universal, to a lesser extent, but developing, Everett Charles, OK International are taking significant positions in China. I think they are all developmental, except for DEK, which, in fact, has had a low-end product available to the Chinese market from their Chinese assembly operation for well over two years. So, I think that's something I'd like to just defer, and maybe comment on at the end of the next quarter, in a little more depth.

Robert Kuhbach: I think it's fair to say , Wendy, that right now, the facility that was opened in February that Universal is sort of overseeing, and a lion's share relates to that but a lot of the other companies are participating in. temporarily at least, is still not generating a lot of manufacturing/assembly actively. I mean, it's still very incrementally growing from relatively low levels. So, most of the machines that are being sold today are going to be built either in North America or in Europe.

Tom Reece: A lot of the activity, I think is happening out of the Chinese operations are sort of training, developmental, and after-sales service activities and so on. What compounding this is a little bit, by the way, if you think about it, is that all these companies are coming with significant new products right now. So not only are they trying to teach people how produce the product that we've been producing for awhile, but we're going to have to learn how to produce this new product and then go teach a new employee base in China how to produce that new product. Which, to my mind, makes the margin successes in these businesses even that much more interesting.

Wendy Caplan: Thank you, and one last question. Some sense of how much realignment or downsizing costs, activities cost in the quarter, and whether that's kind of the sustainable rate that we should be thinking about. Whether there was anything unusual in this quarter?

Robert Kuhbach: I would say in the aggregate that number, depending on what you want to call unusual. I mean one of the things we are consciously trying to get away from is qualifying things quarter-to-quarter. But that number is somewhere between \$5-10 million pretax. Probably on the higher end of that.

Tom Reece: And obviously, that largely would be a number that we can capture pretty easily because it is cost directly associated with a couple of plant closures.

One at Waukesha, established a new plant during the height of the power gen business. Little bit of a boom-bust just like the datacom, telecom if you will. And another consolidations of facilities in Heil Environmental would be the two most significant ones.

Wendy Caplan: Thank you very much.

Operator: Your next question comes from Brian Langenberg of Langenberg & Co.

Tom Reece: Good morning Brian.

Brian Langenberg: Just a couple things. First of all, if you think about going into '04. The sense that you are more optimistic, how should we be thinking about free cash flow for the balance of the year going into 2004? If you want to talk about it between discretionary spending versus P & L, working capital, capex? And the second thing, one of the things I note anecdotally is particularly in Resources, a lot of the business you talk about are your international businesses being up. Was that mostly currency or was there something going on that was organic in local currencies?

Robert Kuhbach: Why don't we start with the second question first? You were asking about international sales out of resources? Is that your question?

Brian Langenberg: Yes. There are a number of things in here, whether it be Wilden, Blackmer, Hydro Systems, what have you. I was just wondering if there's something organic there or if it's just currency impact?

Robert Kuhbach: I would characterize it as organic. The currency impact is not as meaningful to them, frankly, they would probably benefit because they're selling in dollars. To Europe, at least, it's probably in their favor. But, I think for most

of those companies they've had improved volume; the Energy Products Group have had improved export sales outside of North America. So the dollar numbers are not hugely impacted necessarily by currency, but more by genuine export activity increases. In Wilden's case, they have a plant in China that has been profitable from the get-go.

Tom Reece: Blackmer has a not so insignificant facility in France that I think has probably contributed. The currencies are all over the place. And a lot of times, as happens in many of our companies, since we are very niche in terms of the markets that we serve, you know, the market we serve has to be moving. In the case of some of our companies, we're suffering because there are markets that haven't moved. I think in Diversified, particularly, Mark Andy and SWF which are in the printing and packaging arena, both are suffering. Those marketplaces still are not spending much on new capital, new product introductions in the consumer field and so on would help them.

Brian Langenberg: Okay. That's encouraging. And on the capital side. How should we think about going into 2004?

Robert Kuhbach: We indicated that near the beginning of this year that our capex would probably run around \$100 million. I think through the third quarter, we're at \$70 million. So, we're sort of on track for that. And obviously, in the acquisition arena we think we've done well by ourselves YTD. We'll come out around \$360 million. Obviously, as earnings continue to improve, cash flow will improve. But that earnings improvement and sales growth will tend to drive some increases in inventory. We're seeing a little bit of that in the third quarter. Receivables will also go up. So I think, net, we'll continue to gain on the overall cash flow process, but as we ramp back up, there will be uses.

Brian Langenberg: So if we were to think in terms of your historical normalized base, 8-9% of free cash flow, is that a broad way to think of that?

Robert Kuhbach: I don't know that's quite that high. More like, six, seven is my guess depending on how you want to do the math. We also have to keep in mind one of the dynamics that shows up in a couple of places is pension plan funding, which does use up some cash, a corollary to an earlier question, and does necessarily generate an increase in the corporate expense line. So we have to keep that in mind, although we think the pension funding rate from the last two years will go down. The cash usage for that will probably drop down to more like half of what we spent this year.

Brian Langenberg: Okay. Thank you very much.

Robert Kuhbach: Okay.

Operator: Your next question comes from Walt Liptak of McDonald Investments.

Robert Kuhbach: Good morning Walt.

Walt Liptak: Good morning. Congratulations on the acquisition. But I've got a question, I guess on deal pricing. There was, I guess when they started marketing Warn Industries, they said that they were looking for about \$280 million and it sold for \$325 million. And it looks like enterprise EBITDA if the numbers are right that you paid somewhere around 8.2 or 8.3 times. Is that correct, and what does the deal pipeline look like in pricing?

Tom Reece: Well, first, I don't know exactly which way to go from first, but let me talk about Warn just a second. I think whenever you look at this, what you see is an earnings number and you see a cash number that's out there. Underlying

that, I can tell you right now that there's close to \$100 million worth of tax benefit that came to Dover along with that acquisition. Now, that will be realized over about the next 12 years. But still, when you do the discounted cash flow model, that's not an insignificant amount.

So sometimes these things aren't always just exactly what you see. I would say, and I think it's safe to say that we probably paid for Warn, on the upper end of the scale, on a multiple basis, or economic basis, than we have for most acquisitions in the past. That was done very consciously. We love this company. We really like the brand position. We like their intellectual property position very well. And, we think the prospects of using that as a base for growth in the future is quite good. And by the way, for those of you who will have a chance, John Kreitz will introduce the company at Dover Day on October 27. So that will be everybody's first chance to learn firsthand about Warn. As to the deal pricing, it's a little hard for me to comment on that. My sense is that certainly the expectation is still a little higher than we might like.

But I can also tell you that there still is not a real robust flow of the kinds of deals that we tend to like to do. I think it's a little better. It's improved from where it was this time last year. But still, we're not seeing a lot of real strong opportunities going forward. And we'll still continue to evaluate every one on its own merit and based on our assessment of what the situation is from a competitiveness standpoint and doing the acquisition and if gets too rich for our blood, we have no problem walking away. We've never had an acquisition that we had to do, ever.

Robert Kuhbach: Just to be clear, Walt, that \$100 million, that we discussed earlier, you know, has a tax benefit value of after tax of \$38 million. So when you start thinking about price that was a clear factor. I would also say that Warn, just looking at

a simple metric of price paid to sales, was not the most expensive deal Dover's ever done either. It was on the higher end, but frankly, we are very comfortable and given some of the internal dynamics of that business and its near-term prospects and platforms that it's on and new product development I think we feel pretty comfortable that some of the near-term advantages and operating leverage that it should generate will fully justify the kind of price we were prepared to pay.

Walt Liptak: Okay. Given some of the hidden value in Warn, can you put parameter around the accretion comment?

Robert Kuhbach: I would say the accretion comment would be in the mid to high single digits on a cents per share basis. But there's no way to calculate that. Frankly, we haven't even done the valuation for the acquisition that we normally do. So we have some work to do. That is a full year EPS number.

Walt Liptak: Okay. Great. Thanks.

Operator: Your next question comes from Dan Whang of Lehman Brothers.

Dan Whang: Just wanted to ask about the general pricing environment that you're seeing right now. Are you seeing any sequential improvement, and I think last quarter there's some talk at least in Resources, there have been some opportunities to push some increased pricing through. Some general comments around that please?

Tom Reece: Well, I think if I remember right in Rob's comments, the only place he mentioned pricing was in Resources. And I think most of this input is anecdotal. You have to sift through lots of company reports that come in.

But I think there are areas where the market place is more robust, or where there have not been price increases and the competitive situation has changed a little bit. We have companies that keep trying to probe that. Not only in Resources, but everywhere else. But I also can think of a couple cases where the company's probed a higher price and frankly couldn't make it stick. So it's always that tradeoff between can you get higher price, and what does it do to your competitiveness situation, and to the market share situation that people have to keep their eyes on all of it.

And again, you go back to the comment that I made earlier. Just to put it in perspective. Around the whole issue, we still, as far as I am concerned, are not in a very robust general manufacturing environment worldwide. I mean, we're getting some nice benefit from Technologies and from a few other areas; we still have a lot of companies that are struggling every day in a very competitive, difficult marketplace where volumes are not increasing. Having said that, we also have vast majority of our companies are solidly profitable and as a result of that, they're trying to be sure that they stay positioned in the marketplace while they retain some level of profitability, looking for the day when, the robustness in their market returns.

Dan Whang: All right. So I think in general, it seemed like you were sequentially a little bit more optimistic this quarter?

Tom Reece: Well, I think for sure, and the reason for that is, I think the optimism at the end of the second quarter had to be tempered by the fact that in the two previous years we went through first and second quarter that represented a nice up tick, only to get smashed in the third and fourth quarter. So at the end of the second quarter, I did feel more optimistic, but still with the prospect of something bad happening in the third quarter.

Which of course could still happen, I can't foresee it, I do think today, though, that our own internal, the sense that I get from our subsidiary CEO's and our operating company presidents is that there's a fairly solid feeling that things are, in fact, feeling a little better, even in some of the places where our companies are struggling, and certainly, the general economic news, in an overall sense and even more specifically from a manufacturing sense, seems to be pointing in the right direction to me. And I think we feel that in Dover.

Dan Whang: Okay. Great. And then skipping over to CBAT. Just based upon what you're seeing now, what seems to be sort of a pickup in this semiconductor capital equipment cycle? How is this different from the previous up cycles and are you seeing any telltale signs that this could be an extended and significant pickup?

Tom Reece: Well, certainly you can't compare it with other cycles like the '97, '98, '99 cycle. That was a cycle. This was like a roller coaster, up to the top of the mountain and then down in the deepest valley. So I think we're all just trying to sort through what this really does mean long-term. We also have to sort through, and try to assess where we stand now from a market share standpoint. And I think that will be particularly more important after Productronica and after we see what the broad customer base feels about some of these new product introductions and how those are then translated into orders.

It may be that the whole industry isn't going to move all that robustly, but if have something that is truly technologically more capable and provides more productive opportunity for your customer, then they're going to have to move with it. Because if their competition does, then they're going to be disadvantaged. So that's sort of out in our future. Our past results are not

based at all on that. So I think this is all good stuff, looking out into the future for our CBAT businesses particularly.

Dan Whang: Okay. Great. And that one final question was, I know you talked about the various new products that are being tested and introduced in periods coming up, but are any of these new products specifically designed for the 300mm wafer fabrications technology? I guess there are various expectations about that technology going into next year.

Tom Reece: No questions that Alphasem was in fact the first company in their arena picking dyes to introduce a 300mm machine. And I can't speak particularly to Multitest and some of the reason for that is that technology may not relate directly to the wafer size. But yes, absolutely, we're not left behind in the shift to a 300mm.

Dan Whang: Great. Thank you very much.

Tom Reece: Okay. I think we only have two more people that have questions to ask. So we'll try to do that as expeditiously and end this call in five, six minutes or so.

Operator: Your next question comes from Karen Ubelhart of GIC.

Karen Ubelhart: Good morning. I actually had three questions and every one was answered. So I'm in good shape.

Tom Reece: All right, very good. Thank you. We'll take one more question.

Operator: Your next question comes from Jack Kelly of Goldman Sachs.

Tom Reece: Good morning Jack.

Jack Kelly: Good morning Tom. Just one specific question and one general one. I guess the specific first. With regard to Hill Phoenix, can you give us a sense of any market share gains there? Kind of what's going on in the marketplace, because clearly it's an overall rough market as it has been. And you guys continue to do well. So any new accounts etc.? Secondly, with regard to the restructuring charges you had mentioned, \$5-8 million in this most recent quarter.

But more broadly, if the mandate you gave to your managers at the end of last year was to kind of get your cost structure down so that we can be more profitable, if sales stay where they were at the end of third quarter and fourth quarter of last year, that's already been done. Is there any sense you can give us, Tom, of what the restructuring charges might drop, '04 over '03? I know it's difficult because you always have more restructuring charges. But any sense of magnitude? I mean, it seems to me this year should have been kind of front-end loaded and if the economy improves that number should drop.

Tom Reece: I think it was front-end loaded from a technology standpoint. Because, as we reported after the third quarter of last year proved to be less than what was expected. The management teams there really did grab the ball and say, okay, breaking even is no longer a good goal, and I don't want to go back over all that history, but we've talked about it a lot. So certainly the question in the fourth quarter last year was, was that work all done, would we see the benefit of it immediately this year, and the answer was no, it would come in over time. And that's certainly part of what's contributing to the margin improvement particularly in the CBAT businesses and really in the SEC businesses too. It's masked a little bit by the significant problems that are being experienced at K&L.

But, I think what's happening on the other arena is, all of the businesses that have just decided to close facilities, and that's actually three that I can think of, two of them I mentioned a minute ago. I think the other Heil Trailer Company is closing a facility or has closed a facility also. And of course, their new bookings for dry bulk trailers and gasoline tank trailers, just stinks. There's no two ways about it, and both in their case, and in the case of Heil Environmental, I think they were still feeling that they had good efficient plants, and that they didn't want to lose that experienced workforce.

They've just decided that, hey, the volumes that we can produce out of the remaining plants are going to take care of us for years to come that we can foresee, that decision was made and they just decided to bite the bullet and get out of those facilities. So, I think that gives us a little bit of a blip-up in the restructuring area, which as Rob said, we just chose to say that's business as usual. But, I think something in the \$10 million arena wouldn't be way off base in terms of thinking about what might not happen next year, compared to what's happened this year.

Robert Kuhbach: Keep in mind, Jack, as you know under FAS 146, you basically can't take a big number right up front and have it work through. You're almost caught on the fact that it gets spread out over time. So even some of the stuff we talked about last year in the third and fourth quarter dragged into the first and second. And so whatever we talk about now, technically, could drag into next year. But the number in general is going to be going down if we're running at the sort of \$5-10 million rate per quarter, for the balance of this year, our expectation as much as one can ever predict, that it will be lower next year quarter to quarter. But as you also know in Dover we address problems when we come up with them, and you know if we think it's meaningful we'll talk about it. But we've decided for now, that we're not going to go into that level of detail on a go-forward basis.

Jack Kelly: Your comment Tom, on the 10 was just kind of maybe '04 over '03?

Tom Reece: Yes. That would be the conservative end but if I were doing what you are doing, I wouldn't put much more into it than that.

Jack Kelly: And then just on Hill Phoenix?

Tom Reece: Hill Phoenix, no question, I mean, their results continue to be positive quarter over quarter over quarter. They're just having an outstanding business year. And as you said, the overall industry that they serve is in at least the second, maybe the third year of any overall downturn in terms of capital spending. So clearly, the only interpretation you can make is that Hill Phoenix is gaining in market share. It isn't because they have a whole bunch of new accounts. That's an every day thing. There's still lots of grocery chains out there and they're always vying with their competition for positions with the big ones and the little ones and the middle sized ones. But there is just no question in that industry as everybody knows there is one competitor who is just continuing to expand their presence significantly, and Hill Phoenix happens to be in a very positive position as a supplier to that customer.

Jack Kelly: Thank you.

Robert Kuhbach: Jack, one other thing. You didn't ask the question, but someone earlier talked about our corporate expense annualized run rate. And I just want to comment on this call that I think going forward we are probably looking at about \$8-9 million a quarter normalized. It's going to vary somewhat, frankly the more profitable we get, the more likely it is that number will go up.

Tom Reece: I guess there are no more questions, so I appreciate your attention and we will close the call now. Thank you very much.

Operator: That concludes the Dover Corporation 3rd Quarter 2003 Earnings Conference Call. You may now disconnect.

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