

FINAL TRANSCRIPT

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DOV - Q3 2006 Dover Corporation Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the third-quarter 2006 Dover Corporation earnings conference call. With us today are Ron Hoffman, President and Chief Executive Officer of Dover Corporation; and Rob Kuhbach, Vice President of Finance and Chief Financial Officer of Dover Corporation; and Paul Goldberg, Treasurer and Director of Investor Relations of Dover Corporation.

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. 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. Mr. Goldberg, please go ahead, sir.

Paul Goldberg - *Dover Corporation - Treasurer, Director, IR*

Thank you, Jackie. Good morning and welcome to Dover's third-quarter earnings call. With me today are Ron Hoffman, Dover's President and Chief Executive Officer, and Rob Kuhbach, Dover's VP of Finance and Chief Financial Officer.

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Today's call will begin with some comments from Ron and Rob on Dover's operating and financial performance. We will then open the call up to questions. In the interest of time, we kindly ask that you limit your questions to one or two with a follow-up.

Please note that our current earnings release and Form 10-Q can be found on our website, www.DoverCorporation.com. This call will be available for playback through 5 PM November 1, and the audio portion of this call will be archived on our website for three months. The replay telephone number is 877-519-4471. When accessing the playback, you will need to supply the following reservation code, 7935867.

Before we get started, I would 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 statement.

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

With that, I would like to call over to Ron.

Ron Hoffman - *Dover Corporation - President, CEO*

Thanks, Paul. Good morning, everyone. Thank you for joining today's conference call. I am pleased to report that Dover posted the best third quarter in its history. Compared to the prior year, Dover recorded increased sales of 21% and an increase in earnings from continuing operations of 27%. These numbers include one month of sales from the new Paladin acquisition, which had essentially no recorded earnings due to the impact of acquisition accounting.

Double-digit gains in sales and earnings were posted at four of our six subsidiaries with Dover Electronics posting the greatest improvement. Our operating companies generated 10.4% organic growth, which is the fourth straight quarter of impressive double-digit organic growth.

Quarterly free cash flow of \$240 million was 15% of quarterly sales and 154% of net earnings. This strong cash generation reflects the Dover metric focus on working capital improvements and the impact of our portfolio realignment to higher margin operating companies. As announced last evening, Dover had an excellent third quarter, generating revenue of \$1.65 billion, up 21% over last year and posting net earnings from continuing operations of \$156.3 million, up 27%.

As shown on slides 3 and 4, diluted EPS from continuing operations was \$0.76, up 26% from last year but down 1% sequentially. Quarterly results include \$0.02 per share related to the expensing of stock options. Net earnings for the quarter were \$167.5 million or \$0.82 EPS, which includes the impact from discontinued operations of \$11.2 million or \$0.06 EPS.

Relative to last year, all six subsidiaries posted revenue gains with electronics, resources, systems and technologies posting double-digit improvements. Four subsidiaries posted double-digit quarterly earnings increases led by six-fold improvement at electronics. The majority of the year-over-year earnings growth came from the oil and gas equipment, electronic components, product identification, and mobile equipment groups. But the improvement was very broad-based with gains at 9 of our 13 market groups.

Operating margin improved 20 basis points to 14.4 -- 14.5%, even including the revenue of Paladin with no reported margin. Operating leverage for the quarter was 15.5%. Dover's continued focus on operating metrics, global sourcing efforts, lead initiatives and operating synergies continues to drive sustainable improvements.

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Incoming orders for the quarter were strong at \$1.673 billion, up 22% over last year and up 1% sequentially, producing a record backlog of \$1.374 billion, up 32% over last year. Sequentially, double-digit order improvements were posted at oil and gas equipment, product identification, mobile equipment and packaging equipment groups, offsetting declines in automation and measurement and food equipment. Year-to-date, record earnings from continuing operations were \$446.3 million, up 38% on record revenues of \$4.81 billion, up 23%.

As shown on slide 5, earnings per share from continuing operations for the year are \$2.17, up 37%, compared to \$1.59 EPS in the prior year. Coincidentally, the year-to-date EPS of \$2.17 equals the total year 2005 EPS. Earnings from continuing operations year-to-date include \$0.06 EPS related to the expensing of stock options.

Net earnings for the year-to-date period including all discontinued operations were \$2.16 EPS compared to \$1.93 EPS in the prior year. Dover's second margin year-to-date is 15.2%, up 160 basis points, and reflects 22% margin on incremental sales for the year.

During the quarter, Dover Resources completed the acquisition of Paladin Brands, which serves a broad array of construction, demolition, utility, and forestry customers with an extensive line of specialty attachments and tools sold primarily through a diverse distribution network. Additional details on Paladin can be found on their website, www.PaladinBrands.com.

We are awaiting final regulatory approval on the previously-announced Markem acquisition, which will expand our product identification group. We anticipate Markem will close in the fourth quarter. We continue to evaluate potential acquisitions but are being very selective in today's environment.

In our second-quarter earnings release, Dover announced the planned divestiture of seven companies. Two of those companies were sold during this quarter, and four of the remaining five have buyers under contract. We anticipate those four should be completed in the fourth quarter. We're confident that the divestiture of these primarily capital goods businesses will be more than offset by the addition of companies, such as Paladin and the materials handling group and the soon-to-be-completed Markem addition to our product identification group.

These new businesses, along with the 2005 acquisitions of Knowles and Colder, serve a broader range of customers and markets with higher growth rates, improved earnings with lower volatility, increased recurring revenue opportunities and greater cash generation. Our operating companies continue to make great strides to attain the five Dover metrics, which are the foundation of our Performance Counts program.

Referring to slide 6, Dover improved all five metrics year-over-year but margin was down compared to the second quarter. Inventory turns are up to 6.3, an increase of 0.9 turns from last year. We currently have 38% of Dover's revenue being generated in companies at or above the 8 inventory turn target, and 63% of Dover's revenue is at or above our 15% margin metric.

As shown on slides 7 and previously stated, Dover posted 10.4% organic growth for the quarter with four subsidiaries posting double-digit organic revenue growth. Acquisitions accounted for 9.4% of quarterly revenue growth, and foreign exchange contributed 1.3% growth.

In summary, I'm very pleased with our third-quarter performance as Dover continues to post record results for 2006 with strong organic growth, innovative new product developments, solid contributions from recent acquisitions and internal improvements driven by the Performance Counts initiatives. Our talented employees around the world continue to maximize their efforts to drive the improved performance of Dover, and I want to thank them for producing the best third-quarter results in Dover's history.

Looking forward, Dover enters the fourth quarter with a record backlog and we anticipate continued strength in the oil and gas, electronic components, product identification and process equipment markets, offset by softness in light construction, automotive and food equipment markets. We're hopeful that the pullback in the semiconductor market impacting the automation

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and measurement companies is approaching the bottom of its cycle. And it was encouraging to see this group maintain Dover metric margins during this slowdown.

Overall, we anticipate a solid fourth quarter, well ahead of prior-year results but moderating from this quarter given the effects of acquisition accounting costs related to Paladin and Markem as well as the normal impact of the holiday season. With that, I will turn it over to Rob Kuhbach for an overview of our subsidiary performance and financial highlights before we open the call for your questions. Rob?

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

Thanks, Ron. Good morning, ladies and gentlemen. Since Ron has already summarized Dover's overall performance, let me briefly review the individual segment results and provide some additional financial information for the third quarter of 2006. I will be going through slides 8 through 16 in our website earnings presentation in my remarks on the segment results.

First, slide 8 provides a graphic summary of Dover's overall revenue and earnings by segment. Resources and technologies companies were the biggest contributors to Dover's performance with relatively balanced contribution from the companies in the other four segments.

Dover Diversified experienced a 6% revenue growth due to strong energy and heat exchanger markets, while earnings remained flat due to challenges in the industrial equipment group. Bookings remain strong, and the backlog reached a new high of \$339 million.

Revenue in the industrial equipment group increased 2%, primarily reflecting a strong commercial aerospace market, offset by a soft power sports market. However, product mix, rising material costs and the cost of plant productivity initiatives resulted in a decrease in earnings of 17%. Operational improvement actions are under way to address the lack of earnings leverage.

Process equipment's 15% revenue increase leveraged 19% earnings growth. Strong demand in the HVAC, boiler and energy markets drove the revenue growth, while improved pricing, productivity and volume all contribute to the earnings growth despite higher material costs.

Dover Electronics had record quarterly revenue, earnings, bookings and margins. Revenue earnings and margin gains over the prior-year third quarter were largely driven by the 2005 acquisitions of Knowles and Colder as well as operational improvements in the core components businesses.

Strength in the military, aerospace and telecom markets drove record order levels in the third quarter. The components group had revenue growth of 126% with earnings up over three times due to the Knowles and Colder acquisitions and margin improvements in the frequency control product, ceramic product and microwave product businesses. Order levels remain strong in the MEMS, military and telecom markets.

The commercial equipment group had a revenue increase of 33%, while earnings were up 10 times, primarily due to improvement in the ATM business, which was severely disrupted in the third quarter of 2005 by Hurricane Katrina.

Dover Industries had record quarterly revenue, earnings and bookings -- the 7% revenue increase due to strength in mobile equipment leveraged and 11% earnings increase over last year's third quarter due to productivity gains and reduced warranty expenditures.

Bookings and backlog both reached their highest levels in the past seven quarters, suggesting continued strength predominantly in the mobile equipment group. The mobile equipment group experienced robust demand in transport products and market share gains in the refuse business, resulting in positive leverage as a 14% increase in revenue produced a 29% improvement in

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earnings. The earnings growth was due to the increased revenue and productivity and was partially offset by a meaningful increase in material costs.

Revenue declined 4% in service equipment due to continued weakness in the automotive repair and carwash markets. The volume shortfall, which was partially offset by lower SG&A costs, contributed to the earnings decrease of 14% compared to last year's quarter.

Dover Resources generated record revenue up 19%, resulting in higher earnings of 18%. Bookings also set a new record. The oil and gas equipment group and the Paladin acquisition accounted for most of the revenue increase, while the earnings improvement was substantially due to the oil and gas equipment group.

Leading Resources' performance was the oil and gas equipment group with increased revenue and earnings of 37% and 58% respectively over the prior-year third quarter due to global energy demand despite some softness and recent softness in energy prices. The group is selectively adding capacity at three companies in this market sector.

The fluid solutions group revenue increased 10%, while earnings increased 4%. New markets and products drove the revenue growth; although, higher material costs negatively impacted margins. The material handling group's revenue grew 13%, while earnings were flat compared to the prior-year third quarter. The revenue growth reflects the Paladin acquisition, partly offset by softness in the automotive and light construction markets. Earnings were impacted by automotive market weakness.

Dover Systems had 10% revenue growth over the prior-year third quarter. However, earnings decreased 15%. Both groups saw revenue increases. But rising commodity costs, customer delays and capacity issues negatively impacted food equipment margins for the quarter. The food equipment group saw an 8% increase in revenue and a 24% decrease in earnings.

Revenue grew due to continued strength in the supermarket equipment and food equipment markets. However, earnings were significantly impacted by near-term rising material costs and increased outsourcing expenses and late quarter customer shipment delays. Pricing initiatives are being taken, and capacity issues are being addressed.

The packaging group had a 20% increase in revenue and a 34% increase in earnings due to strong leverage on the higher sales of can necking and trimming equipment. Technologies' revenue increased 20%, and earnings increased 17% over the prior-year third quarter, reflecting the impact of acquisitions and continued strength in the semiconductor and product identification markets.

The automation and measurement group experienced sales and earnings increases of 18% and 19% respectively, reflecting the overall global electronics industry. Sequentially, there is some softness in the semiconductor and circuit board assembly markets that has negatively impacted sequential sales, earnings and bookings.

The product identification group had a 22% increase in revenue, and earnings rose 30%. Acquisitions provided over half of the revenue growth, and the core business turned in strong performances as well, particularly in North America, Latin America and Asia.

Having covered quarterly segment operations, let me briefly review some of the information found on slides 15 and 16. First, on slide 16, you'll see that Dover's free cash flow, defined as cash from operations less capital expenditures, for the quarter and year to date was strong at 14.6% and 9.5% respectively, even with year-to-date capital expenditures at \$137.6 million, up 56% over the prior year.

Net debt to capital decreased to 24.1% from almost 29% due to increased cash generated from operations and cash proceeds from the sales of discontinued businesses. Dover's third-quarter effective tax rate was 24.2% compared to last year's rate of 25.8%. Both periods had discrete items that lowered the effective tax rate. We continue to expect the full-year rate to be in the range of 28 to 30%.

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Turning to slide 16, you can see the steady trend of improvements in Dover's free cash flow over the first three quarters of 2006 as well as over prior-year comparable periods. I would note that total cash tax payments year-to-date in 2006 have been about \$25 million less than in the comparable 2005 period, contributing in part to the favorable year-over-year comparisons in the first and third quarterly periods. That said, Dover has been able to significantly increase free cash flow as a result of its earnings growth and focus on working capital and margin improvements.

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

Ron Hoffman - *Dover Corporation - President, CEO*

With that, we will turn it back to the operator to queue up questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Wendy Caplan, Wachovia Securities.

Wendy Caplan - *Wachovia Securities - Analyst*

The Paladin acquisition, can you say something about what we could have expected in terms of pennies per share from that, excluding the acquisition -- the purchase accounting?

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

Well, we only had a month of it in the quarter. So, it would have been a relatively low revenue number. And I would say it might have been in the range before acquisition accounting issues of maybe \$0.01 EPS.

Wendy Caplan - *Wachovia Securities - Analyst*

That's fair. And a couple of questions on the food equipment area. You mention material costs still being an issue. Actually, you mentioned it in industrial equipment and mobile equipment and fluid solutions as well. Can you address the material cost problem that still exists and at this point where we are relative to covering those costs?

Ron Hoffman - *Dover Corporation - President, CEO*

I think each of our companies has a different profile of their costs of course. We've seen the majority of the price increases being in aluminum and copper and certainly in various grades of steel, especially those that use a lot of nickel alloy. That's where we've seen the majority of the impact.

So I think if you look at Hill PHOENIX where they use a lot of copper and a lot of aluminum in their product, they certainly had significant headwinds in material price issues certainly period to period. I think as they go through that, many times they lock in on quarterly buys at certain rates and then those prices change. And they have to always make certain that they have that properly in focus; they can pass it on in the marketplace in an appropriate way. You are always lagging that a little bit.

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Certainly, we had some of that issue occur in the third quarter. They are addressing that, not only looking at their own internal efficiencies, looking at what they think the trends of those commodity costs are going to be long-term and also looking at their pricing in the marketplace.

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

I would add that it isn't just Hill PHOENIX as you commented. SWEP had some challenges in their space and a number of these companies. I think in each case, we're satisfied that they are making significant efforts to continue to pass those prices along. But as Ron said, there tends to be a bit of a delay factor.

Particularly, Hill PHOENIX will be booking business earlier in the year, which they will ship later in the year. So, to some degree, the relatively rapid quarter-to-quarter change in some of these commodities impacted them in the third quarter. But, we do expect this to be addressed in the near-term.

The expectation at Hill Phoenix at least is that they are going to make significant efforts to improve that situation into the fourth quarter. Although, they generally have a somewhat slower fourth quarter as you historically just because of the way the supermarket industry looks at new construction that time of year.

Ron Hoffman - *Dover Corporation - President, CEO*

I might also add that as I chattered with each of our six subsidiary CEOs yesterday, I did ask the question about headwinds on material prices. I would say the consensus of those discussions is that -- yes, there are still headwinds out there, but they don't see it at an escalating rate. They see it kind of stabilize. Where it is coming out of the third quarter, they don't sense as much increase. Looking forward to the fourth quarter -- I'm not suggesting our crystal ball is perfectly clear -- but they are not feeling that as strongly at the moment.

I will be attending a meeting of our supply chain managers. I believe it's week after next in Chicago where they will all report on their various commodities. So, I'll have a little more clarity at that time also. But we have been fighting those headwinds during the year.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

I just wanted to start with you talked about the outlook for the fourth quarter. With all the discontinues that have moved around, our model is a little bit messy on this front. But, what do you mean by -- what is normal seasonality these days with kind of the new Dover? And how can we think about that, both in terms of earnings as well as I think cash is usually seasonally strong in the fourth quarter? So does that mean that we have another nice cash quarter coming in the fourth quarter?

Ron Hoffman - *Dover Corporation - President, CEO*

I think from our standpoint -- first of all, I would like to say we recognize that models have moved around because of the discontinued operations in the portfolio restructuring that we've done in the past year. So we appreciate that issue. We have -- if you go back and look at Dover before we did the restructuring, we typically had a model. And if you looked at it over an expanded period of time, you would see a second/third-quarter improvement over first quarter and then a little bit of a settle-back in the fourth quarter.

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With the new portfolio, we think we're going to soften that trend. But, I do think you have less workdays in the fourth quarter. You have shutdown issues from customers around the holiday period that impact the number of workdays. So I think we will always see a little bit of settle-back in the fourth quarter. It just seems to be traditional in industrial companies.

But I would say I think we're softening that because we've taken a lot of these heavy capital good companies out of Dover that tend to get impacted by budget cycles that tend to wane in the fourth quarter and impact results. So, I think we will see that seasonality impact still be there to some degree. But, I would like to anticipate that it is going to be softening from our historical trend because of the reduction in capital goods businesses. But we need a little time to verify that trend, Steve.

Steve Tusa - JPMorgan - Analyst

But what you mean by those comments is basically slightly down from the third quarter. And then, you throw in the dilution from the deals.

Ron Hoffman - Dover Corporation - President, CEO

Yes, that is a fair summary. Your cash question, we anticipate probably the continued pattern of somewhat stronger seasonal cash in the fourth quarter. On top of which, we still have some divestitures that should flow through. So, I think you can anticipate that cash will look good in the fourth quarter.

Steve Tusa - JPMorgan - Analyst

And that earnings is despite the higher tax rate from the third quarter as you have to adjust to get back to your 28 to 30% rate, correct?

Ron Hoffman - Dover Corporation - President, CEO

Correct. Our year-to-date rate is 28 right now.

Steve Tusa - JPMorgan - Analyst

Then lastly, just as a follow-up on the food equipment business. It was a pretty dramatic difference relative to what we were expecting. Is there something competitive that is going on there that we should be worried about? Is there something other than just these kind of -- raw materials to me would seem to be somewhat transitory.

But is there something else we should be concerned about within either the marketplace or I noticed that Wal-Mart was slowing its capacity expansion plans? I am just wondering if you could maybe comment on the longer-term outlook -- fundamental outlook for Hill PHOENIX.

Ron Hoffman - Dover Corporation - President, CEO

Yes, well first of all, there isn't any competitive issue that we certainly are aware of that has changed the impact of Hill PHOENIX's marketplace. We feel it continues to gain share and continues to grow at a rate in excess of that food equipment market that it serves.

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I would say that also the Green initiatives and the sustainability initiatives that Hill PHOENIX has been bringing to the marketplace has been rewarded by many of their customers. We think that's going to increase their share over time. So, we feel very comfortable about that.

We did have some customer move-outs that impacted the quarter that were more than normal, which kind of caught us short at the end of the period, which meant we had the cost -- all the variable costs in without the ability to ship and get the earnings.

I would also comment on the Wal-Mart announcement just briefly and say that at least from our interpretation, they're going to build somewhere around 630 to 640 stores in the US this year. And they are forecasting 630 stores next year.

So if you put that in perspective, even though maybe it's a reduction of their rate of growth, it's settling at a very high activity level, an activity level that we've had to increase capacity for, build onto plants to accommodate. So it's a very healthy level and one that we feel comfortable with. So, we don't see that as an overly negative impact because I think we have share gains and other customers that we serve and Wal-Mart will remain strong. So, we're comfortable with what we anticipate for next year.

Steve Tusa - JPMorgan - Analyst

So, Hill PHOENIX is still looking at growth though is what you're saying?

Ron Hoffman - Dover Corporation - President, CEO

Absolutely. Even though Hill PHOENIX certainly caught all of our eyes I think for this quarter because of some unique issues relative to the quarter, let's still keep in mind that this is a company that has significantly improved its performance over the past year from what it has been historically. And we remain very comfortable with the management team and the results down there.

Operator

Jack Kelly, Goldman Sachs.

Jack Kelly - Goldman Sachs - Analyst

Ron, in the past, you've talked about incremental operating margins maybe in the mid-20s or so, and that's where they were in the second quarter. They fell to 15 or 16 in the third quarter. We had some issues, which you've already discussed, whether it be raw materials, etc. As we look forward over the next couple of quarters, is there any reason to think that we can't get back to that mid-20s kind of incremental margin level?

Ron Hoffman - Dover Corporation - President, CEO

Well, Jack, I think if you look at us year-to-date, we're running about 22%, much in line with your comment. And we have had a very good year of incremental margins. I think the 15% that we ran this period is certainly nothing to make excuses for, but we think that we can find that 20% range again.

I think acquisitions are impacting these results a little bit. Because again, we're posting sales without incremental earnings and that impacts our margins and increments and has impact on incremental numbers as well, so a little bit of impact from that. But I think in general, your comment is probably well founded that we should trend probably more to 20% in a normal time frame.

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Jack Kelly - *Goldman Sachs - Analyst*

And just on Knowles, can you talk about MEMS capacity? Where are we now and what might we ramp up to? It sounds like on unit volume maybe this year, you're going to year-over-year triple the volume and still pretty strong demand for the products. I just want to get a sense of where that could ramp up to next year.

Ron Hoffman - *Dover Corporation - President, CEO*

Well, I think you are right directionally in the magnitude of change that we have experienced at Knowles and our MEMS business this year. And we've put three tranches of capacity addition into Knowles. In fact, one of those tranches just came online I think in the current month or at the end of September.

So I think from ability to serve the marketplace, we've been putting in ample capacity to allow them to serve their customers without impacting their customers' ability to meet their market demands. And I would have to say that we continue to look at that. We continue to look at the trends in the market, the customers we think that they will garner. They are adding capacity as fast as they need to serve their market.

I don't think they've had any issues shipping to customers. They have certainly been challenged from the standpoint of getting people hired, keeping their quality levels up, getting their yields up. But I think they've met that very gracefully, considering the amount of impact of increased business they've dealt with this year.

Jack Kelly - *Goldman Sachs - Analyst*

Then just finally, Rob, in terms of the dilution in the fourth quarter from acquisitions, can you give us a number on that?

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

I would say, given that Markem is likely to be delayed into the -- later into the fourth quarter than what we had initially anticipated, we think that the dilution impact in the quarter will be in the range of \$0.02 more or less. And then, some of that will carry over obviously into the first quarter of next year, perhaps in the range of \$0.02 for the first quarter, just because Markem's impact will not hit us fully until the first quarter of next year.

Jack Kelly - *Goldman Sachs - Analyst*

So the \$0.02 includes all acquisitions and that would be Paladin as well as Markem?

Ron Hoffman - *Dover Corporation - President, CEO*

Yes, that's correct.

Operator

Nigel Coe, Deutsche Bank.

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Nigel Coe - *Deutsche Bank - Analyst*

Just a quick question on industrial equipment. We saw a negative leverage there, and one of the reasons cited was a shift in product mix. Is that because aerospace is fundamentally a lower margin business for Dover?

Ron Hoffman - *Dover Corporation - President, CEO*

Well, I think a number of things when we talk about the product mix there. Certainly, Sargent is one of the drivers in that arena. And Sargent certainly has been dealing with some issues in its Canadian operations as well as at Avborne. They've been having some redundancy costs as they've moved some of their product to Mexico. So, a little bit of that has impacted.

The mix issue has to deal with some of the markets they serve outside aerospace, whether it be railroad or submarine. Some of those items come and go period to period.

If we look at the other two companies in there, being Crenlo and PMI -- Crenlo, certainly by serving the construction market, has seen some move-outs -- or excuse me -- some rescheduling of business levels that has impacted their performance. We're also going through some productivity initiatives in our Florence plant to improve the performance of that facility that has added some cost at least upfront.

And as we look at PMI, there's been kind of a -- certainly, Europe has been down for PMI. There has also been a shift to four-cycle engines away from two-stroke engines. And quite candidly, there's probably not as much premium for the amount of work that goes into a four-cycle piston versus a two cycle. So, that impacts margins a little bit also.

Nigel Coe - *Deutsche Bank - Analyst*

Second question is looking at the contribution from Knowles and Colder in electronics, it looks like revenues in 3Q fell slightly from 2Q. Is that normal seasonality within those businesses?

Ron Hoffman - *Dover Corporation - President, CEO*

You're speaking to--?

Nigel Coe - *Deutsche Bank - Analyst*

Knowles and Colder. Just doing the calculation on the revenue impact from acquisitions in that segment, it looks like there was a slight decline. Is that because of seasonal pattern within Knowles?

Ron Hoffman - *Dover Corporation - President, CEO*

Well, Knowles did not suffer a revenue decline. I think maybe that's a misread on your part. They had a revenue increase during the period. Colder's period-to-period business was up. If we look sequentially, Colder was down slightly. I don't know that is a seasonality issue as much as just saying the business cycle of certain customers. But I wouldn't chuck that off to seasonality.

Nigel Coe - *Deutsche Bank - Analyst*

I will go back to my numbers there. Finally, any comments on revenue growth by geography?

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Ron Hoffman - *Dover Corporation - President, CEO*

I think revenue growth has predominantly been driven in domestic markets in the third quarter and really over the year. Certainly, Asia continues to be a significant driver for our electronic businesses, and we have seen some step-up in Europe over the course of the year let's say for over the year-to-year comparison.

But I would put the domestic market as the primary driver. Keep in mind that we have a significant oil patch involvement that is more of a domestic business also.

Operator

Alex Blanton, Ingalls & Snyder.

Alex Blanton - *Ingalls & Snyder - Analyst*

Just quickly on that materials cost issue, those costs that aren't being recovered in a number of those divisions that you mentioned. There was a shortfall in your EPS for the quarter from what the analyst had expected. I believe it was \$0.40 to \$0.49 was the consensus with \$0.46 actual.

Was that due to that factor of not recovering? How much did that cost you not recovering all of the material costs and that lag that you talked about?

Ron Hoffman - *Dover Corporation - President, CEO*

Well, first of all, if you don't mind, let me correct you. I think those numbers should be \$0.76 and \$0.78, not --

Alex Blanton - *Ingalls & Snyder - Analyst*

I'm sorry. Yes, you're right, \$0.76.

Ron Hoffman - *Dover Corporation - President, CEO*

Material cost issues period to period, we always have some impact of that. I would say the material cost issues were a part of the EPS downfall, but I wouldn't put that as the majority -- I don't know, Rob; you might have some numbers that reflect differently?

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

Yes, I would say if you are trying to do some metrics on that, material cost was probably not the most significant driver. I think there were some pockets of moderation in certain markets when you're thinking about Dover, which is in a lot of different markets. We've commented by group where that has shown up.

But \$0.02 if you sort of annualize that is not -- \$0.02 for the quarter is not a big -- it's not a big number. We don't capture material costs precisely. But I would say anecdotally, it's probably not the significant factor. It's probably more some revenue moderation in some of the segments that had a very strong second quarter and have slowed down compared to those.

Our second quarter if you look back was very strong in all areas. And I think we had some moderation as we have described it in various places in number of spots compared to year-over-year. So I think as a practical matter, it's not that huge.

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I think the other factor in the equation is we did have some relatively higher AD&A this year over last year. So I think to some degree that has had an impact on the quarter as well.

Alex Blanton - *Ingalls & Snyder - Analyst*

On slide 14, you mentioned softer semiconductor and circuit board markets, which surprise me because the third quarter now is really becoming a quarter of seasonal ramp-up in those markets. At least on the consumer side, the ramp-ups are coming a little bit earlier than they used to.

So, the, for example, EMS companies are feeling a seasonal uptick in the third quarter and that would include circuit boards. So, could you just elaborate on where that weakness is? Because it isn't showing up really in the results of the OEMs that sell these items.

Ron Hoffman - *Dover Corporation - President, CEO*

I think you have to look at the type of components that are sold. I agree with your comment directionally. If you look at our telecom business at Knowles, if you look at some of our component businesses -- electronics components where they are supplying components that would fuel that demand that you spoke to, we have seen upticks in all of those businesses.

When you look at the capital goods side or let's say the supplying of equipment for that next level of capacity requirement, that's really where the companies, such as DEK and Everett Charles and OK brands which are in our A&M group -- automation and measurement group -- would play. So I think at this point in time, we're seeing the utilization rates be high on the equipment that those ODMs have in place. They are buying some parts that would feed that, some new fixtures for new testing products and so forth.

But they kind of have the capacity in place, and they are playing that capacity through. And they are buying a lot of components. That will shift as they change to new product platforms. They'll need equipment for that, and we will see that reflect back in equip buys. But, it's all a function of where the cycle is at.

And on the semicon side that would impact our semiconductor test machinery, we have seen that side of the business wane and again no loss of business, no loss of market share. It's just that's not where they're putting their attention at the moment. They have that capacity in place.

Alex Blanton - *Ingalls & Snyder - Analyst*

Finally, a quick clarification on the 29% increase real growth in I guess it's the electronics division. Is that all from MEMS or majority from MEMS? You mentioned that MEMS had tripled or somebody did.

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

I would say that the growth in electronics was pretty broad-based because you had a significant improvement in a number of the other components companies. Secretly, Vectron quarter-to-quarter was up. Some of our other components companies had significant improvement. Obviously to some degree, that was also Knowles's contribution.

But I would say we also had a fairly positive impact in the electronics space from the Triton change quarter-to-quarter. So you have to look back at that as well.

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Alex Blanton - *Ingalls & Snyder - Analyst*

Oh, right. Yes.

Ron Hoffman - *Dover Corporation - President, CEO*

The wireline/wireless business continues to drive that sector as well as a lot of military business. So it's pretty broad-based participation and growth in that. Certainly, Knowles has been one of the leaders.

I would like to also step back if I might and address the automation and measurement question you asked a while ago with just a little more color if I might. But we certainly don't have a crystal ball to say when the capacity build will come back.

But as I talked to Dave Van Loan yesterday, who runs our Dover Technologies group, just anecdotally, he commented it feels an awful lot to him like last year. If you recall last year, we saw this same phenomenon but really at more depressed rates than what we are feeling this year. And we were kind of saying, well, gee, after the Christmas season, is it going to get worse or are they going to start buying capacity?

Quite candidly what happened was all of a sudden they did start buying new capacity for new platforms, and we had rampant orders all the way through April to serve the marketplace. Just in general, his sense and feel is it sounds a little like last year.

I think if you think about consumer dynamics that drive that spending -- I am certainly not a world-renowned authority here, but I guess I would say that as we have seen gasoline prices come down, that has improved disposable income a little bit. I would like to anticipate that that might improve spending during the Christmas season that might drive demand for additional products, which would really fuel the growth going into next year. But we will wait and see what those numbers are.

Operator

Shannon O'Callaghan, Lehman.

Shannon O'Callaghan - *Lehman - Analyst*

In terms of some of the margin pressure in the segments, it looks like four out of the six saw margins come down a bit year-over-year. Can you just talk about which of those maybe were a surprise to you and less of a surprise? And then going forward, which ones you expect to sort of stay under pressure and which can start to put up year-over-year growth rates again?

Ron Hoffman - *Dover Corporation - President, CEO*

Well, I think if we look at our -- let's say our most impacting companies relative to the size of Dover, certainly Hill PHOENIX was a pullback that was a little bit more than anticipated. And we think it was impacted again as we said with customer reschedules and the price issues.

Everett Charles certainly had headwinds in their marketplace as we mentioned with pullback in semiconductor shipments. Warn certainly was impacted from the automotive standpoint. There is a significantly supplier to the Ford pickup programs, which saw volume reductions. That was also coupled with declines in the ATV business a little bit.

But I think if you look forward, certainly each of these companies have unique products stories to tell. But as you look to Warn, they have some brand-new products coming out, such as their PowerPlant winch, their [Pulls All], a new line of ATV winches that are certainly going to generate growth into '07. So, we're very comfortable with what they have queued up that they're just in the process of introducing to the marketplace now.

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Again, as I spoke earlier, we do like all of the focus on Green initiatives and sustainability that came from Hill PHOENIX. We think that is going to reverberate in the marketplace. And again, Everett Charles has significant new product introductions, such as their new Eliminator that really changes the scope of how you test boards. I think the marketplace will reward them for their product development.

So, we feel very comfortable going forward. We always will have some of these quarterly blips, but we're very comfortable with what's going on. And again, the acquisition impact is certainly there, and that will continue for about three months because we have these two large acquisitions coming in right at the tail end of the year.

Shannon OCallaghan - *Lehman - Analyst*

And then, just on sort of a follow-up to that I guess on technologies in particular, you had 11% organic growth there over the segment but the margins were down a bit. Is that mainly Everett Charles being less of the mix because it was down more?

Ron Hoffman - *Dover Corporation - President, CEO*

Well, I think Everett Charles was down more. Again, I think you're talking technologies and certainly our product identification group performed very well. It continues to be a growing subsidiary for us. We certainly put focus on that, which is exhibited also in our acquisition of Markem. So we're quite pleased with the performance of that group. So really the automation and measurement is where most of the downfall -- or predominantly all the downfall was at. And certainly, Everett Charles had the majority of that.

Shannon OCallaghan - *Lehman - Analyst*

Then just last one on the tax rate guidance. 28 to 30% for the year -- we have only one quarter to go -- seems a little wide maybe at this point. Are there things that could come in the quarter that are uncertain or what is the outlook?

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

I would say there is some uncertainty, and this would not be unique to Dover. I think as you are well aware, FIN 48 is in the process of being adopted effective next year. But, a lot of companies like Dover are in the process of evaluating tax positions, which for us are quite complex. I think there's a distinct possibility that we could be looking at trying to resolve issues with the IRS in areas that would work to our advantage, given the circumstance of how FIN 48 will apply going forward.

So, I think the reason we left the range wider than you might typically think of it as is that there could be a discreet situation which could change that one way or the other from where we are year-to-date. And we really are at this point not -- we're not lacking in certainty in an absolute sense. But we're trying to be cautious because we know that given our status as a very current taxpayer with the IRS, we don't give extensions. We are closer to marking to market our tax position, and we want to be careful that we don't narrow our range too early in the process.

Operator

Robert McCarthy, Robert W. Baird.

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Robert McCarthy - Robert W. Baird - Analyst

I'm sorry; I have to ask you to go back to the first question you got that, Rob, your answer was a penny. It related to Paladin. It wasn't clear to me whether that was dilution in the quarter or whether that was the effect of purchase accounting adjustments.

Rob Kuhbach - Dover Corporation - VP, Finance, CFO

I think the question if I remember was -- if we didn't have purchase accounting, what would Paladin's contribution have been to Dover's earnings in the quarter? I think that was the question.

Robert McCarthy - Robert W. Baird - Analyst

And your answer was it would've been a penny better.

Rob Kuhbach - Dover Corporation - VP, Finance, CFO

About a penny.

Robert McCarthy - Robert W. Baird - Analyst

So, what was the -- can you tell us what the combined impact of acquisitions was in the quarter?

Rob Kuhbach - Dover Corporation - VP, Finance, CFO

You mean just for --

Robert McCarthy - Robert W. Baird - Analyst

Earnings per share.

Rob Kuhbach - Dover Corporation - VP, Finance, CFO

Well, there wouldn't have been any impact from -- if you're talking about Paladin, it would be additional AD&A write-off that basically it neutralized out. So there was no impact -- no earnings impact for the quarter from Paladin.

Robert McCarthy - Robert W. Baird - Analyst

Okay, okay, that's perfect. Oil and gas, you commented that you saw a double-digit improvement in order rates sequentially. You're also moving forward with capacity additions in three businesses. I wondered how closely linked those are.

In other words, is the increase in order rates anticipating the incremental capacity and so people are lining up to get more business? Or is this a simple step-up in level of activity that then we might step up further from as capacity comes up?

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Ron Hoffman - *Dover Corporation - President, CEO*

Well, I think if you think we have a broad play in energy -- and we have a number of companies that make up our energy play -- in each case, each of those businesses are running pretty much at record levels across the board. And they also have some opportunities via their new products, certainly looking inside two or three of those companies that have some significant opportunities with new customers that want to utilize their new products, which is going to cause us to have to dial up capacity to support that.

So, we're putting that in focus, and we're spending money in the oil patch to build capacity. Because we think the run rate that we've experienced for this year will continue into next year, will continue as long as we see these commodity prices. We think the oil companies continue to look at about a \$40 base for their capital spending -- \$40 -- excuse me -- a barrel. And certainly, we are exceeding that.

The activity levels are staying very strong. In fact, the orders in energy were as we mentioned up again in the third quarter. And we just want to make certain that we can gracefully handle that. So we're adding capacity discreetly in that group.

Robert McCarthy - *Robert W. Baird - Analyst*

Well, that means better than -- you make mention of sustaining your run rate. You actually expect to do better than the current run rate, right?

Ron Hoffman - *Dover Corporation - President, CEO*

I think we are very optimistic about some customer opportunities that could put another spurt of growth beyond what we experience this year.

Robert McCarthy - *Robert W. Baird - Analyst*

I just had a couple of other little follow-ups. In automation and measurement where you commented that orders declined in the quarter, is this the first quarter that they have done that? Were they down last quarter sequentially as well?

Ron Hoffman - *Dover Corporation - President, CEO*

Well, no, last quarter was a good quarter for the automation and measurement group. And it certainly fell off this quarter but --

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

The order rate in the third quarter was lower than the second and the first, but it was about equal to last year's fourth quarter. I'm talking order rate; that was your question I believe.

Robert McCarthy - *Robert W. Baird - Analyst*

So, you had a first and second-quarter surge if you will, and it has come back from that a little bit.

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Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

It's moderated back down --

Robert McCarthy - *Robert W. Baird - Analyst*

To fourth-quarter levels.

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

-- but it's still higher than last year's third quarter. So, quarter-over-quarter, it's higher.

Ron Hoffman - *Dover Corporation - President, CEO*

Yes, I think we had a great run-up. And it has settled back, but it settled back at levels that exceed a year ago's activity level.

Robert McCarthy - *Robert W. Baird - Analyst*

And on this tax question you answered earlier, Rob, when the uncertainty resolves itself and you end up reporting it, are we just talking about whether there will be a tax benefit? Or did I understand you to say that it could cut either way?

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

At this point, I would say it could cut either way. Although, it's more likely to work in our favor than the other way around.

Robert McCarthy - *Robert W. Baird - Analyst*

I've got to ask about Triton. You'd tenfold improvement in income there. You had numbers of course very depressed last year at this time. How does Triton look today on an operating margin basis, relative to sort of non-Katrina recent -- recently, there's been a lot of noise there of course. But the Company has a long history, has an established profitability profile. Are we back to those levels yet?

Ron Hoffman - *Dover Corporation - President, CEO*

Yes, I think you are certainly correct that the comp issue is one, that the hurricane impact last year was quite significant at Triton, and so we're looking at a pretty easy comp there. Certainly, I think if we look at Triton, they have improved through the course of the year and are approaching let's say their pre-hurricane-type margins.

But we also dealt with what we feel is a slower overall retail market for ATMs this year. And that may be the fact that just the market is kind of redressing itself, is kind of breathing where they are at. We don't see a downturn. I wouldn't characterize it as that. But we see the rate of growth in the retail market not being as strong this year as it has been in past years.

Robert McCarthy - *Robert W. Baird - Analyst*

And you haven't been able to overcome that with the new bank product?

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Ron Hoffman - *Dover Corporation - President, CEO*

Well, the new bank product is coming on-stream, but that takes time because we are addressing a brand-new market with that with some very established competitors. And we're doing most of that introductory work offshore more so than on continent. So, decisions are just slower in perspective.

But we're very comfortable with the product, the product's performance and the initiatives they have going. And we think we will see in '07 some fruit from all that effort.

Operator

We have time left for one more question. Ned Armstrong, FBR & Company.

Ned Armstrong - *FBR & Company - Analyst*

In your automation and measurement sector, can you talk a little bit about how the volatility might be relative to what it was before when you had the since discontinued businesses in there, how much narrower the volatility will be if any?

Ron Hoffman - *Dover Corporation - President, CEO*

Well, I think that certainly, we believe the volatility is going to be less because we think the capital goods business is what created a lot of the volatility in Dover. We're comfortable that we have addressed that with our portfolio realignment.

I think you'll still see some volatility in the A&M sector that was exhibited this quarter. However, it has much lesser impact in Dover overall. But that's about the magnitude of it. I don't know Rob; you might have some further --

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

I would say if you go back historically -- I'm going back some distance -- the old CAT space could've moved between 0 and 20% margins if you can visualize that scope over a five-year period, ten-year period. I think we think of this group now as operating at a range that is probably half that, sort of in the range of 10 to 20%.

It will move -- but of course, the whole sector is much smaller than it used to be. So, the impact -- if anything, actually the range is probably more like 10 to 25%. Because on the upside, they get really good leverage. And the consumable factor in their business today is higher than it would've been with the old model where we had much more capital goods.

Ned Armstrong - *FBR & Company - Analyst*

So, what you're saying I guess is the magnitude of the range has been reduced, but the boundaries of the range have been moved up on both the lower and the upper boundary? That's a fair assessment?

Rob Kuhbach - *Dover Corporation - VP, Finance, CFO*

Yes, that's a fair assessment.

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Operator

Thank you. I would like to hand the floor back over to Mr. Paul Goldberg for closing comments.

Ron Hoffman - *Dover Corporation - President, CEO*

Just before we hand it back to Paul, I just wanted to comment certainly I think we all hone in on quarter-to-quarter performance and I understand that's the nature of many of the questions. But I would want to make certain everybody keeps their eyes focused on the long-term developments (technical difficulty).

The sales are up 23% this year. Earnings are up 37%. We've addressed our -- or we've looked at our portfolio of companies. We've made significant realignment actions relative to that. We believe that we have reduced the overall impact of volatility in Dover by those actions. We've invested in new growth platforms that we think will spur the growth of Dover going forward. We think our Performance Counts initiatives are certainly reflecting in internal metrics improvements. I think that also facilitated the generation of the record cash that we just produced in this quarter or the significant cash we produced in this quarter.

So hopefully, everybody has that perspective. I will let Paul take the final call -- or final comment.

Paul Goldberg - *Dover Corporation - Treasurer, Director, IR*

Thanks for participating in our conference call today. This concludes our conference call. We thank you for your continued interest in Dover and look forward to speaking to you again next quarter. Thanks and goodbye.

Operator

Thank you. This concludes today's Dover Corporation conference call. You may now disconnect.

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