

CHART INDUSTRIES INC
Form 10-Q
August 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____
Commission File Number 1-11442

CHART INDUSTRIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware 34-1712937
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

One Infinity Corporate Centre Drive, Suite 300, Garfield Heights, Ohio 44125
(Address of Principal Executive Offices) (ZIP Code)

Registrant's Telephone Number, Including Area Code: (440) 753-1490

NOT APPLICABLE

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

At August 2, 2012, there were 29,907,760 outstanding shares of the Company's Common Stock, par value \$0.01 per share.

CHART INDUSTRIES, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CHART INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in thousands, except per share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$254,709	\$256,861
Accounts receivable, net	144,355	131,904
Inventories, net	175,064	149,822
Unbilled contract revenue	28,629	25,247
Prepaid expenses	12,158	7,088
Other current assets	22,248	26,707
Total Current Assets	637,163	597,629
Property, plant and equipment, net	145,279	137,301
Goodwill	288,250	288,770
Identifiable intangible assets, net	130,581	140,553
Other assets, net	10,586	10,222
TOTAL ASSETS	\$1,211,859	\$1,174,475
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$67,682	\$84,297
Customer advances and billings in excess of contract revenue	105,587	102,996
Accrued salaries, wages and benefits	22,548	29,108
Warranty reserve	11,248	13,181
Short-term debt	4,717	4,758
Current portion of long-term debt	3,750	6,500
Other current liabilities	26,015	24,653
Total Current Liabilities	241,547	265,493
Long-term debt	249,278	223,224
Long-term deferred tax liability, net	45,411	43,945
Accrued pension liabilities	14,906	15,905
Other long-term liabilities	8,093	12,357
Equity		
Chart Industries' shareholders' equity:		
Common stock, par value \$.01 per share – 150,000,000 shares authorized, 29,906,739 and 29,612,684 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	299	296
Additional paid-in capital	340,919	333,034
Retained earnings	306,735	274,716
Accumulated other comprehensive income	1,814	2,993
Total Chart Industries, Inc. shareholders' equity	649,767	611,039
Noncontrolling interest	2,857	2,512
Total equity	652,624	613,551
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,211,859	\$1,174,475

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The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

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

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CHART INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 (UNAUDITED)

(Dollars and shares in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Sales	\$239,939	\$200,698	\$456,045	\$363,639
Cost of sales	165,810	138,368	314,359	248,823
Gross profit	74,129	62,330	141,686	114,816
Selling, general and administrative expenses	34,726	36,337	75,352	71,199
Amortization expense	3,250	3,288	6,320	6,605
Impairment of intangible assets	3,070	—	3,070	—
Loss on disposal of assets	—	1,216	—	1,216
Operating income	33,083	21,489	56,944	35,796
Other expenses (income):				
Interest expense, net	3,689	4,063	7,651	7,997
Financing costs amortization	556	324	877	649
Foreign currency losses (gains)	1,770	616	1,418	(143)
Income before income taxes	6,015	5,003	9,946	8,503
Income tax expense	27,068	16,486	46,998	27,293
Net income	8,932	5,466	14,710	8,870
Noncontrolling interest, net of tax	18,136	11,020	32,288	18,423
Net income attributable to Chart Industries, Inc.	200	429	269	302
Net income attributable to Chart Industries, Inc. per common share – basic	\$17,936	\$10,591	\$32,019	\$18,121
Net income attributable to Chart Industries, Inc. per common share – diluted	\$0.60	\$0.36	\$1.08	\$0.63
Weighted average number of common shares outstanding – basic	\$0.59	\$0.35	\$1.06	\$0.61
Weighted average number of common shares outstanding – diluted	29,797	29,202	29,695	28,986
Comprehensive income, net of tax	30,200	29,966	30,130	29,823
Less: Comprehensive income attributable to noncontrolling interest, net of tax	\$14,693	\$12,304	\$31,109	\$25,833
Comprehensive income attributable to Chart Industries, Inc., net of tax	200	429	269	302
	\$14,493	\$11,875	\$30,840	\$25,531

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

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CHART INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 (Dollars in thousands)

	Six Months Ended June 30,	
	2012	2011
OPERATING ACTIVITIES		
Net income	\$32,288	\$18,423
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14,558	13,389
Interest accretion of convertible notes discount	4,465	—
Employee stock and stock option related compensation expense	4,181	2,801
Financing costs amortization	877	649
Foreign currency losses (gains)	1,418	(143)
Loss on disposal of assets	—	1,216
Impairment of intangible assets	3,070	—
Reversal of contingent consideration liability	(4,620) —
Other non-cash operating activities	737	(13)
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(14,092	) (29,109)
Inventory	(23,674	) (16,099)
Unbilled contract revenues and other current assets	(4,036	) (6,360)
Accounts payable and other current liabilities	(23,036	) (12,731)
Customer advances and billings in excess of contract revenue	2,939	13,198
Net Cash Used In Operating Activities	(4,925	) (14,779)
INVESTING ACTIVITIES		
Capital expenditures	(16,802	) (10,433)
Acquisition of businesses, net of cash acquired	—	(1,610)
Other investing activities	—	388
Net Cash Used In Investing Activities	(16,802	) (11,655)
FINANCING ACTIVITIES		
Proceeds from long-term debt	21,375	—
Principal payments on long-term debt	(2,563	) (3,250)
Payment of deferred financing costs	(1,458	) (347)
Proceeds from exercise of options	1,843	4,885
Tax benefit from exercise of stock options	6,355	6,984
Common stock repurchases	(4,491	) (1,090)
Net Cash Provided By Financing Activities	21,061	7,182
Effect of exchange rate changes on cash	(1,486	) 6,515
Net decrease in cash and cash equivalents	(2,152	) (12,737)
Cash and cash equivalents at beginning of period	256,861	165,112
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$254,709	\$152,375

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

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – June 30, 2012

(Dollars and shares in thousands, except per share amounts)

NOTE A — Basis of Preparation

The accompanying unaudited condensed consolidated financial statements of Chart Industries, Inc. and its subsidiaries (the “Company” or “Chart”) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Principles of Consolidation: The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. Investments in affiliates where the Company’s ownership is between 20 percent and 50 percent, or where the Company does not have control, but has the ability to exercise significant influence over operations or financial policy, are accounted for under the equity method.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Nature of Operations: The Company is a leading global manufacturer of standard and custom-engineered products and systems serving a wide variety of low-temperature and cryogenic applications. The Company has developed an expertise in cryogenic systems and equipment, which operate at low temperatures sometimes approaching absolute zero. The majority of the Company’s products, including vacuum insulated containment vessels, heat exchangers, cold boxes and other cryogenic components, are used throughout the liquid-gas supply chain for the purification, liquefaction, distribution, storage and end-use of industrial gases and hydrocarbons. The Company has domestic operations located across the United States, including the principal executive offices located in Ohio, and an international presence in Asia, Australia and Europe.

Cost of Sales: Manufacturing expenses associated with sales are included in cost of sales. Cost of sales include all materials, direct and indirect labor, inbound freight, purchasing and receiving, inspection, internal transfers and distribution and warehousing of inventory. In addition, shop supplies, facility maintenance costs, manufacturing engineering, project management and depreciation expense for assets used in the manufacturing process are included in cost of sales.

Selling, general and administrative costs (“SG&A”): SG&A includes selling, marketing, customer service, product management, design engineering, and other administrative costs not directly supporting the manufacturing process as well as depreciation expense associated with non-manufacturing assets. In addition, SG&A includes corporate operating expenses for executive management, accounting, tax, treasury, human resources, information technology, legal, internal audit, risk management and stock-based compensation expense.

Cash and Cash Equivalents: The Company considers all investments with an initial maturity of three months or less when purchased to be cash equivalents. The June 30, 2012 and December 31, 2011 balances include money market investments, certificates of deposit, and commercial paper. As of June 30, 2012, Chart Cryogenic Distribution Equipment (Changzhou) Company Limited, a joint venture of the Company, held \$979 in restricted cash on deposit to cover guarantees.

Short-Term Investments: From time to time, the Company invests in short-term, highly liquid, variable rate instruments, which have stated maturities of greater than three months but less than six months. These short-term investments are recorded at cost which approximates fair value. The Company has determined that its investment securities are available and intended for use in current operations and, accordingly, classifies investment securities as current assets. There were no short term investments at June 30, 2012 or December 31, 2011.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – June 30, 2012

(Dollars and shares in thousands, except per share amounts) – Continued

Inventories: Inventories are stated at the lower of cost or market with cost being determined by the first-in, first-out (“FIFO”) method. The components of inventory are as follows:

	June 30, 2012	December 31, 2011
Raw materials and supplies	\$75,033	\$64,832
Work in process	44,108	36,045
Finished goods	55,923	48,945
	\$175,064	\$149,822

Revenue Recognition: For the majority of the Company’s products, revenue is recognized when products are shipped, title has transferred and collection is reasonably assured. For these products, there is also persuasive evidence of an arrangement and the selling price to the buyer is fixed or determinable. For brazed aluminum heat exchangers, cold boxes, liquefied natural gas fueling stations and engineered tanks, the Company uses the percentage of completion method of accounting. Earned revenue is based on the percentage of incurred costs to date compared to total estimated costs at completion after giving effect to the most current estimates. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Earned revenue reflects the original contract price adjusted for agreed upon claims and change orders, if any. Losses expected to be incurred on contracts in process, after consideration of estimated minimum recoveries from claims and change orders, are charged to operations as soon as such losses are known. Pre-contract costs relate primarily to salaries and benefits incurred to support the selling effort and are expensed as incurred. Change orders resulting in additional revenue and profit are recognized upon approval by the customer based on the percentage of incurred costs to date compared to total estimated costs at completion. Certain contracts include incentive-fee arrangements. The incentive fees in such contracts can be based on a variety of factors but the most common are the achievement of target completion dates, target costs, and/or other performance criteria. Incentive-fee revenue is not recognized until it is earned. Timing of amounts billed on contracts varies from contract to contract and could cause a significant variation in working capital requirements. The Company reports sales net of tax assessed by qualifying governmental authorities.

Product Warranties: The Company provides product warranties with varying terms and durations for the majority of its products. The Company calculates its warranty reserve by considering historical warranty experience and specifically identified warranty issues. The Company records warranty expense in cost of sales. The changes in the Company’s consolidated warranty reserve during the three and six months ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Beginning balance	\$12,197	\$13,561	\$13,181	\$13,372
Warranty expense	2,613	1,429	3,602	3,602
Warranty usage	(3,562	) (2,141	) (5,535	) (4,125
Ending balance				