CHART INDUSTRIES INC
Form 10-Q
May 01, 2008

Table of Contents

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

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from ____________________ to ____________________

Commission File Number 1-11442

CHART INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	34-1712937
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant 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. (Check one):

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

(Do not check if a 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 o No þ

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

At April 30, 2008, there were 28,318,769 outstanding shares of the Company s Common Stock, par value $0.01 per share.

CHART INDUSTRIES, INC.
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 107,937	$ 92,869
Accounts receivable, net	91,372	96,940
Inventories, net	105,594	87,073
Unbilled contract revenue	29,783	24,405
Other current assets	26,704	26,775
Assets held for sale	985	985
Total Current Assets	362,375	329,047
Property, plant and equipment, net	104,264	99,579
Goodwill	248,932	248,453
Identifiable intangible assets, net	133,075	135,699
Other assets, net	12,893	12,976
TOTAL ASSETS	$ 861,539	$ 825,754
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 57,026	$ 65,027
Customer advances and billings in excess of contract revenue	77,547	60,080
Accrued expenses and other current liabilities	48,982	49,587
Total Current Liabilities	183,555	174,694
Long-term debt	250,000	250,000
Other long-term liabilities	71,991	73,069
Shareholders Equity		
Common stock, par value $.01 per share 150,000,000 shares authorized, 28,318,191 and 28,212,426 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	283	282
Additional paid-in capital	244,231	241,732
Retained earnings	85,201	70,545
Accumulated other comprehensive income	26,278	15,432

		355,993		327,991
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	861,539	$	825,754

The balance sheet at December 31, 2007 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.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Dollars and shares in thousands, except per share amounts)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Sales	$ 170,329	$ 152,463
Cost of sales	118,388	112,604
Gross profit	51,941	39,859
Selling, general and administrative expenses	23,075	19,544
Amortization expense	2,658	3,028
	25,733	22,572
Operating income	26,208	17,287
Other expenses (income):		
Interest expense, net	4,745	6,346
Financing costs amortization	413	404
Foreign currency income	(150)	(354)
	5,008	6,396
Income from operations before income taxes and minority interest	21,200	10,891
Income tax expense	6,573	3,713
Income from operations before minority interest	14,627	7,178
Minority interest, net of taxes	(29)	
Net income	$ 14,656	$ 7,178
Net income per common share basic	$ 0.52	$ 0.28
Net income per common share diluted	$ 0.51	$ 0.28
Weighted average number of common shares outstanding basic	28,252	25,604

Weighted average number of common shares outstanding diluted	28,959	25,810

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

Table of Contents

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

	Three Months Ended March 31,	
	2008	**2007**
OPERATING ACTIVITIES		
Net income	$ 14,656	$ 7,178
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,880	4,587
Employee stock and stock option related compensation expense	1,155	361
Financing costs amortization	413	404
Other non-cash operating activities	(181)	(354)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	6,692	(2,800)
Inventory	(15,211)	(6,812)
Unbilled contract revenues and other current assets	(3,805)	(10,481)
Accounts payable and other current liabilities	(10,979)	1,740
Customer advances and billings in excess of contract revenue	16,407	7,214
Net Cash Provided By Operating Activities	14,027	1,037
INVESTING ACTIVITIES		
Capital expenditures	(3,701)	(5,024)
Acquisition of minority interest and other assets	(616)	(1,622)
Net Cash Used In Investing Activities	(4,317)	(6,646)
FINANCING ACTIVITIES		
Payments on revolving credit facilities or short-term debt		(750)
Stock option exercise proceeds	706	5
Tax benefit from exercise of stock options	639	
Other financing activities		(183)
Net Cash Provided By (Used In) Financing Activities	1,345	(928)
Net increase (decrease) in cash and cash equivalents	11,055	(6,537)
Effect of exchange rate changes on cash	4,013	42
Cash and cash equivalents at beginning of period	92,869	18,854
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 107,937	$ 12,359

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

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(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) 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, 2007**.** 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 months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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 supplier 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 in eight states, including its principal executive offices located in Garfield Heights, Ohio and an international presence in Australia, China, the Czech Republic, Germany and the United Kingdom.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

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:

	March 31, 2008	December 31, 2007
Raw materials and supplies	$ 43,758	$ 40,547
Work in process	27,719	21,725
Finished goods	34,117	24,801
	$ 105,594	$ 87,073

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, vacuum-insulated pipe, 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 that incurred costs to date bear 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. Change orders resulting in additional revenue and profit are recognized upon approval by the customer based on the percentage that incurred costs to date bear to total estimated costs at completion. Timing of amounts billed on contracts varies from contract to contract and could cause a significant variation in working capital requirements.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)

NOTE A Basis of Preparation Continued

Product Warranties: The Company provides product warranties with varying terms and durations for the majority of its products. The Company records warranty expense in cost of sales. The changes in the Company s consolidated warranty reserve during the three months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Balance as of January 1	$ 5,731	$ 4,765
Warranty expense	532	518
Warranty usage	(649)	(421)
Balance as of March 31	$ 5,614	$ 4,682

Goodwill and Other Intangible Assets: In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, the Company does not amortize goodwill or other indefinite lived intangible assets, but reviews them at least annually for impairment using a measurement date of October 1st. The Company amortizes intangible assets that have finite useful lives.

SFAS No. 142 requires that goodwill and other indefinite lived intangible assets be tested for impairment at the reporting unit level on an annual basis. Under SFAS No. 142, a company determines the fair value of any indefinite lived intangible assets, compares the fair value to its carrying value and records an impairment loss if the carrying value exceeds its fair value. Goodwill is tested utilizing a two-step approach. After recording any impairment losses for indefinite lived intangible assets, a company is required to determine the fair value of each reporting unit and compare the fair value to its carrying value, including goodwill, of such reporting unit (step one). If the fair value exceeds the carrying value, no impairment loss would be recognized. If the carrying value of the reporting unit exceeds its fair value, the goodwill of the reporting unit may be impaired. The amount of the impairment, if any, would then be measured in step two, which compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill.

The following table displays the gross carrying amount and accumulated amortization for all intangible assets.

		March 31, 2008		December 31, 2007	
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived assets:					
Unpatented technology	9 years	$ 9,400	$ (2,776)	$ 9,400	$ (2,494)
Patents	10 years	8,138	(2,490)	8,138	(2,257)
Product names	14 years	2,580	(519)	2,580	(466)
Non-compete agreements	3 years	3,474	(2,069)	3,474	(1,850)
Customer relations	13 years	101,066	(17,822)	101,066	(15,987)
Other		60	(27)	60	(25)
		$ 124,718	$ (25,703)	$ 124,718	$ (23,079)

Indefinite-lived intangible assets:		
Goodwill	$ 248,932	248,453
Trademarks and trade names	34,060	34,060
	$ 282,992	$ 282,513

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)

NOTE A Basis of Preparation Continued

Amortization expense for finite-lived intangible assets was $2,658 and $3,028 for the three months ended March 31, 2008 and 2007, respectively, and is estimated to be approximately $10,900 for 2008 and $9,600 for fiscal years 2009 through 2013.

Stock-Based Compensation: The Company records stock-based compensation according to SFAS No. 123(R) Share-Based Payments , which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values.

During the three months ended March 31, 2008, the Company granted 116 stock options and 107 performance share units. The stock options vest over a four year period and the performance share units vest at the end of three years based on the achievement of certain performance and market conditions.

The Company recognized $1,155 and $361 in stock-based compensation expense for the three months ended March 31, 2008 and 2007, respectively. As of March 31, 2008, the total stock-based compensation expected to be recognized over the weighted average period of 3.1 years is $5,715.

Recently Issued Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 which delayed the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 was effective for the Company on January 1, 2008. The adoption of SFAS No. 157 for the Company s financial assets and liabilities did not have any impact on the Company s financial position or results of operations and did not require expanded disclosure.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to voluntarily choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 at January 1, 2008 did not have any impact on the Company s financial position or results of operations.

In December 2007, SFAS No. 141(R), Business Combinations was issued. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of the assets acquired and liabilities assumed in the transaction at the acquisition date, the immediate recognition of acquisition-related transaction costs and the recognition of contingent consideration arrangements at their acquisition date fair value. SFAS No. 141(R) is effective for acquisitions that occur on or after the beginning of the fiscal year beginning on or after December 15, 2008. SFAS No. 141(R) will impact the Company s financial position and results of operations for any business combinations entered into after the date of adoption.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 . SFAS No. 160 requires entities to report noncontrolling interests (formerly known as minority) as a component of shareholders equity on the balance sheet. SFAS No. 160 will be effective for fiscal years beginning on or after December 15, 2008. The Company is currently evaluating the impact of adoption on its financial positions and results of operations.

NOTE B Debt and Credit Arrangements

The Company has a senior secured credit facility (the Senior Credit Facility) and $170,000 of 9½% senior subordinated notes (the Subordinated Notes) outstanding. The Senior Credit Facility consists of a $180,000 term loan facility (the Term Loan) and a $115,000 revolving credit facility (the Revolver), of which $55,000 may be used for letters of credit extending beyond one year from their date of issuance. The Term Loan matures on October 17, 2012 and the Revolver matures on October 17, 2010. The Term Loan does not require any regular principal payments prior to the maturity date. The interest rate under the Senior Credit Facility is, at the Company s option, the Alternative Base Rate (ABR) plus 1.0% or LIBOR plus 2.0% on the Term Loan and ABR plus 1.0% or LIBOR plus 2.0% on the Revolver. The applicable interest margin on the Revolver could increase based upon the leverage ratio calculated at each fiscal quarter end. In addition, the Company is required to pay an annual administrative fee of $100, a commitment fee of 0.375% on the unused Revolver balance, a letter of credit participation fee of 2.5% per annum on the letter of credit exposure and a letter of credit issuance fee of 0.25%. The obligations under the Senior Credit Facility are secured by

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)

NOTE B Debt and Credit Arrangements Continued

substantially all of the assets of the Company and its U.S. subsidiaries and 65% of the capital stock of the Company s non-U.S. subsidiaries.

The Subordinated Notes are due in 2015 with interest payable semi-annually on April 15th and October 15th. The registration rights agreement required the Company to file an Exchange Offer Registration Statement and complete the exchange offer for the Subordinated Notes by August 14, 2006. Since the exchange offer was not completed when required, additional interest at a rate of 0.50% was incurred for the 90-day period commencing November 12, 2006 and additional interest at a rate of 0.75% was incurred for the 90-day period commencing February 10, 2007. The exchange offer was completed on April 6, 2007 and this additional interest ceased accruing as of that date. Any of the Subordinated Notes may be redeemed solely at the Company s option beginning on October 15, 2010. The initial redemption price is 104.563% of the principal amount, plus accrued interest. Also, any of the notes may be redeemed solely at the Company s option at any time prior to October 15, 2010, plus accrued interest and a make-whole premium. In addition, before October 15, 2008, up to 35% of the Subordinated Notes may be redeemed solely at the Company s option at a price of 109.125% of the principal amount, plus accrued interest, using the proceeds from the sales of certain kinds of capital stock. The Subordinated Notes are general unsecured obligations of the Company and are subordinated in right of payment to all existing and future senior debt of the Company, including the Senior Credit Facility, pari passu in right of payment with all future senior subordinated indebtedness of the Company, and senior in right of payment with any future indebtedness of the Company that expressly provides for its subordination to the Subordinated Notes. The Subordinated Notes are unconditionally guaranteed jointly and severally by substantially all of the Company s U.S. subsidiaries.

The Senior Credit Facility agreement and provisions of the indenture governing the Subordinated Notes contain a number of customary covenants, including but not limited to restrictions on the Company s ability to incur additional indebtedness, create liens or other encumbrances, sell assets, enter into sale and lease-back transactions, make certain payments, investments, loans, advances or guarantees, make acquisitions, engage in mergers or consolidations, pay dividends or distributions, and make capital expenditures. The Senior Credit Facility and indenture governing the Subordinated Notes also include financial covenants relating to leverage, interest coverage and fixed charge coverage ratios. The Company is in compliance with all covenants. As of March 31, 2008, there was $80,000 outstanding under the Term Loan, $170,000 outstanding under the Subordinated Notes and letters of credit and bank guarantees totaling $32,899 supported by the Revolver.

Chart Ferox, a.s. (Ferox), a wholly-owned subsidiary of the Company, maintains secured revolving credit facilities with borrowing capacity, including overdraft protection, of up to $9,600, of which $4,400 is available only for letters of credit and bank guarantees. Under the revolving credit facilities, Ferox may make borrowings in Czech Korunas, Euros and U.S. dollars. Borrowings in Koruna are at PRIBOR, borrowings in Euros are at EUROBOR and borrowings in U.S. dollars are at LIBOR, each with a fixed margin of 0.6 percent. Ferox is not required to pay a commitment fee to the lenders under the revolving credit facilities in respect to the unutilized commitments thereunder. Ferox must pay letter of credit and guarantee fees equal to 0.75% on the face amount of each guarantee. Ferox s land and buildings and accounts receivable secure $4,600 and $2,500, respectively, of the revolving credit facilities. As of March 31, 2008, there were no borrowings outstanding under the Ferox revolving credit facilities. However, there were $1,128 of bank guarantees supported by the Ferox revolving credit facilities.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)

NOTE C Earnings per Share

The following table presents calculations of net income per share of common stock for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net income	$ 14,656	$ 7,178
Net income per common share basic	$ 0.52	$ 0.28
Net income per common share diluted	$ 0.51	$ 0.28
Weighted average number of common shares outstanding basic	28,252	25,604
Incremental shares issuable upon assumed conversion and exercise of stock options	707	206
Total shares diluted	28,959	25,810

NOTE D Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows:

	March 31, 2008	December 31, 2007
Foreign currency translation adjustments	$ 26,493	$ 15,647
Pension liability adjustments, net of taxes	(215)	(215)
	$ 26,278	$ 15,432

Comprehensive income for the three months ended March 31, 2008 and 2007 was $25,502 and $6,863, respectively.

NOTE E Acquisitions

In February 2008, the Company entered into a joint venture in Saudi Arabia with two other entities to form a company to manufacture air cooled heat exchangers. The contribution to the joint venture is $616 for a 34% share of the joint venture. The joint venture will be accounted for under the equity method.

In March 2007, the Company purchased the remaining minority interest in Ferox for a purchase price of $1,612. The purchase price was applied to eliminate the minority interest in Ferox of approximately $2,000. The difference between the purchase price and the value of the minority interest eliminated was allocated to adjust the fair value of the assets originally acquired.

NOTE F Assets Held for Sale

The Company completed the sale of its Plaistow, New Hampshire building, and a portion of the land, in November 2007 for a net purchase price of $2,099. The remaining Plaistow land carrying value of $985 is classified as assets held for sale as of March 31, 2008 and December 31, 2007.

NOTE G Income Taxes

The Internal Revenue Service (IRS) commenced an examination of the Company s U.S. income tax returns for 2004 and 2005 during the three months ended March 31, 2007. The Company expects the examination to be concluded and settled during 2008. The Company is also currently under examination by a number of state tax authorities. It is reasonably possible the Company s unrecognized tax benefits at March 31, 2008 may decrease within the next 12 months, by a range of zero to $1,200.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)

NOTE H Employee Benefit Plans

The Company had four defined benefit pension plans which were combined into one plan as of January 1, 2008. The plan covers certain U.S. hourly and salary employees. The plan has been frozen since February 2006. The defined benefit plan provides benefits based primarily on the participants years of service and compensation.

The following table sets forth the components of net periodic pension benefit for the three months ended March 31, 2008 and 2007.

	Three Months Ended March 31,	
	2008	2007
Interest cost	$ 571	$ 523
Expected return on plan assets	(734)	(680)
Total pension benefit	$ (163)	$ (157)

NOTE I Reporting Segments

The structure of the Company s internal organization is divided into the following three reportable segments: Energy and Chemicals (E&C), Distribution and Storage (D&S) and BioMedical. The Company s reportable segments are business units that offer different products and are each managed separately because they manufacture and distribute distinct products with different production processes and sales and marketing approaches. The E&C segment sells heat exchangers, cold boxes and liquefied natural gas vacuum-insulated pipe to natural gas, petrochemical processing and industrial gas companies that use them for the liquefaction and separation of natural and industrial gases. The D&S segment sells cryogenic bulk storage systems, cryogenic packaged gas systems, cryogenic systems and components, beverage liquid CO_2 systems and cryogenic services to various companies for the storage and transportation of both industrial and natural gases. The BioMedical segment sells medical respiratory products, biological storage systems and magnetic resonance imaging cryostat components. Due to the nature of the products that each segment sells, there are no intersegment sales. Corporate includes operating expenses for executive management, accounting, tax, treasury, human resources, information technology, legal, internal audit, risk management and stock-based compensation expenses that are not allocated to the reporting segments.

The Company evaluates performance and allocates resources based on operating income or loss from continuing operations before net interest expense, financing costs amortization expense, foreign currency gain or loss, income taxes and minority interest. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Information for the Company s three reportable segments and its corporate headquarters is presented below:

	Three Months Ended March 31, 2008				
	Energy and Chemicals	Distribution and Storage	BioMedical	Corporate	Total
Sales	$73,868	$74,344	$22,117	$	$170,329
Operating income (loss)	15,171	13,332	4,534	(6,829)	26,208

	Three Months Ended March 31, 2007	
	Energy	Distribution

	and Chemicals	and Storage	BioMedical	Corporate	Total
Sales	$52,277	$76,779	$23,407	$	$152,463
Operating income (loss)	150	18,038	4,910	(5,811)	17,287

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)

NOTE J Subsequent Event

On April 1, 2008, Ferox acquired Flow Instruments & Engineering GmbH (Flow), which is based in Germany for 12,000 Euros in cash, subject to customary working capital and indemnification holdback adjustments. Flow manufactures cryogenic flow meter systems for industrial gases and liquefied petroleum gas, distribution equipment for transport of CO_2 and other gases, and provides calibration services. Flow will be included in the Company s Distribution & Storage segment. Flow s 2007 sales were approximately $9,000.

NOTE K Supplemental Guarantor Financial Information

The Company s Subordinated Notes issued in October 2005 are guaranteed on a full, unconditional and joint and several basis by the following wholly owned subsidiaries: Chart Inc., CAIRE Inc., Chart Energy and Chemicals, Inc., Chart Cooler Service Company, Inc., Chart International Holdings, Inc., Chart Asia Inc. and Chart International Inc. (collectively, the Subsidiary Guarantors). The following subsidiaries are not guarantors of the notes:

Non-Guarantor Subsidiaries	Jurisdiction
Abahsain Specialized Industrial Co. Ltd. (34% owned)	Saudi Arabia
Changzhou CEM Cryo Equipment Co., Ltd.	China
Chart Asia Investment Company Ltd.	Hong Kong
Chart Australia Pty. Ltd.	Australia
Chart Biomedical Limited	United Kingdom
Chart Cryogenic Distribution Equipment (Changzhou) Co., Ltd. (50% owned)	China
Chart Cryogenic Engineering Systems (Changzhou) Co., Ltd.	China
Chart Cryogenic Equipment (Changzhou) Co., Ltd.	China
Chart Ferox, a.s.	Czech Republic
Chart Ferox GmbH	Germany
GTC of Clarksville, LLC	Delaware
Lox Taiwan (16% owned)	Taiwan
Zhangjigang Chart Hailu Cryogenic Equipment Co., Ltd. (dissolved during 2007)	China

The following supplemental condensed consolidating and combining financial information of the Issuer, Subsidiary Guarantors and Subsidiary Non-Guarantors presents statements of operations for the three months ended March 31, 2008 and 2007, balance sheets as of March 31, 2008 and December 31, 2007 and statements of cash flows for the three months ended March 31, 2008 and 2007.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)
CONDENSED CONSOLIDATING BALANCE SHEET
As of March 31, 2008

	Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Total
ASSETS					
Cash and cash equivalents	$ 58,921	$ 868	$ 48,148	$	$ 107,937
Accounts receivable, net		69,308	22,064		91,372
Inventory, net		54,533	52,183	(1,122)	105,594
Other current assets	10,416	34,029	13,027		57,472
Total current assets	69,337	158,738	135,422	(1,122)	362,375
Property, plant and equipment, net		63,281	40,983		104,264
Goodwill		190,657	58,275		248,932
Intangible assets, net		131,395	1,680		133,075
Investments in affiliates	255,946	95,784		(351,112)	618
Intercompany receivables	331,901			(331,901)	
Other assets	9,305	1,418	1,552		12,275
Total assets	$ 666,489	$ 641,273	$ 237,912	$ (684,135)	$ 861,539
LIABILITIES AND STOCKHOLDERS EQUITY					
Accounts payable and accruals	$ 6,375	$ 137,540	$ 38,953	$ 687	$ 183,555
Total current liabilities	6,375	137,540	38,953	687	183,555
Long-term debt	250,000				250,000
Intercompany payables		237,061	96,031	(333,092)	
Other long-term liabilities	54,121	10,726	7,144		71,991
Total liabilities	310,496	385,327	142,128	(332,405)	505,546
Common Stock	283				283
Other stockholders equity	355,710	255,946	95,784	(351,730)	355,710
Total stockholders equity	355,993	255,946	95,784	(351,730)	355,993
Total liabilities and stockholders equity	$ 666,489	$ 641,273	$ 237,912	$ (684,135)	$ 861,539

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2007

	Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Total
ASSETS					
Cash and cash equivalents	$ 49,184	$ 4,595	$ 39,090	$	$ 92,869
Accounts receivable, net		75,354	21,586		96,940
Inventory, net		49,164	38,491	(582)	87,073
Other current assets	11,328	27,997	12,840		52,165
Total current assets	60,512	157,110	112,007	(582)	329,047
Property, plant and equipment, net		62,917	36,662		99,579
Goodwill		190,657	57,796		248,453
Intangible assets, net		133,839	1,860		135,699
Investments in affiliates	165,128	61,973		(227,101)	
Intercompany receivables	381,525			(381,525)	
Other assets	9,811	1,546	1,619		12,976
Total assets	$ 616,976	$ 608,042	$ 209,944	$ (609,208)	$ 825,754
LIABILITIES AND STOCKHOLDERS EQUITY					
Accounts payable and accruals	$ (16,175)	$ 159,966	$ 30,763	$ 140	$ 174,694
Total current liabilities	(16,175)	159,966	30,763	140	174,694
Long-term debt	250,000				250,000
Intercompany payables		272,325	109,922	(382,247)	
Other long-term liabilities	55,160	10,623	7,286		73,069
Total liabilities	288,985	442,914	147,971	(382,107)	497,763
Common stock	282				282
Other stockholders equity	327,709	165,128	61,973	(227,101)	327,709
Total stockholders equity	327,991	165,128	61,973	(227,101)	327,991
Total liabilities and stockholders equity	$ 616,976	$ 608,042	$ 209,944	$ (609,208)	$ 825,754

14

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended March 31, 2008

	Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Total
Net sales	$	$ 128,906	42,717	$ (1,294)	$ 170,329
Cost of sales		85,177	33,388	(177)	118,388
Gross profit		43,729	9,329	(1,117)	51,941
Selling, general and administrative expenses	353	22,318	3,062		25,733
Operating (loss) income	(353)	21,411	6,267	(1,117)	26,208
Interest expense, net	5,007	(41)	(221)		4,745
Other expense (income), net	413	(275)	125		263
Minority interest, net of tax			(29)		(29)
Income (loss) before income taxes and equity in net (income) loss of subsidiaries	(5,773)	21,727	6,392	(1,117)	21,229
Income tax (benefit) provision	(1,789)	7,211	1,151		6,573
Equity in net (income) loss of subsidiaries	(18,640)	(4,124)		22,764	
Net income (loss)	$ 14,656	$ 18,640	$ 5,241	$ (23,881)	$ 14,656

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended March 31, 2007

	Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Total
Net sales	$	$ 111,468	42,057	$ (1,062)	$ 152,463
Cost of sales		81,985	31,560	(941)	112,604
Gross profit		29,483	10,497	(121)	39,859
Selling, general and administrative expenses	651	19,779	2,142		22,572
Operating (loss) income	(651)	9,704	8,355	(121)	17,287
Interest expense, net	6,329	54	(37)		6,346
Other expense (income), net	404	52	(406)		50
Income (loss) before income taxes and equity in net (income) of	(7,384)	9,598	8,798	(121)	10,891

subsidiaries					
Income tax (benefit) provision	(2,518)	4,506	1,725		3,713
Equity in net (income) of subsidiaries	(12,044)	(6,952)		18,996	
Net income (loss)	$ 7,178	$ 12,044	$ 7,073	$ (19,117)	$ 7,178

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Three Months Ended March 31, 2008

	Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ 18,944	$ (8,157)	$ 471	$ 2,769	$ 14,027
Cash flows from investing activities:					
Capital expenditures		(1,783)	(1,918)		(3,701)
Other investing activities		(616)			(616)
Net cash used in investing activities		(2,399)	(1,918)		(4,317)
Cash flows from financing activities:					
Stock option exercise proceeds	706				706
Tax benefit from exercise of stock options	639				639
Other financing activities					
Intercompany account changes	(10,552)	6,829	6,492	(2,769)	
Net cash (used in) provided by financing activities	(9,207)	6,829	6,492	(2,769)	1,345
Net increase (decrease) in cash and cash equivalents	9,737	(3,727)	5,045		11,055
Effect of exchange rate changes on cash			4,013		4,013
Cash and cash equivalents, beginning of period	49,184	4,595	39,090		92,869
Cash and cash equivalents, end of period	$ 58,921	$ 868	$ 48,148	$	$ 107,937

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements March 31, 2008
(Dollars and shares in thousands, except per share amounts)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Three Months Ended March 31, 2007

	Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ 14,278	$ (11,243)	$ (3,153)	$ 1,155	$ 1,037
Cash flows from investing activities:					
Capital expenditures		(3,318)	(1,706)		(5,024)
Acquisitions of minority interest		(1,622)			(1,622)
Net cash (used in) investing activities		(4,940)	(1,706)		(6,646)
Cash flows from financing activities:					
Net change in debt		(750)			(750)
Payment of financing costs	(183)				(183)
Other financing activities	5				5
Intercompany account changes	(21,264)	17,095	5,324	(1,155)	
Net cash (used in) provided by financing activities	(21,442)	16,345	5,324	(1,155)	(928)
Net (decrease) increase in cash and cash equivalents	(7,164)	162	465		(6,537)
Effect of exchange rate changes			42		42
Cash and cash equivalents, beginning of period	6,084	114	12,656		18,854
Cash and cash equivalents, end of period	$ (1,080)	$ 276	$ 13,163	$	$ 12,359

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Chart Industries, Inc. (the Company, Chart, or we) is a leading independent global manufacturer of highly engineered equipment used in the production, storage and end-use of hydrocarbon and industrial gases. We supply engineered equipment used throughout the global liquid supply chain. The largest portion of end-use applications for our products is energy-related. We are a leading manufacturer of standard and engineered equipment primarily used for low temperature and cryogenic applications. We have developed an expertise in cryogenic systems and equipment, which operate at low temperatures sometimes approaching absolute zero (0 kelvin; -273° Centigrade; - 459° Fahrenheit). The majority of our 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 hydrocarbon and industrial gases.

For the three months ended March 31, 2008, orders were $164.8 million and backlog has decreased slightly to $468.9 million compared to $475.3 million at December 31, 2007. We experienced growth in our sales, gross profit and operating income for the three months ended March 31, 2008 compared to the same period in 2007, which was primarily attributable to an improved project mix and higher throughput in particular in our E&C business segment. Sales for the three months ended March 31, 2008 were $170.3 million compared to sales of $152.5 million for the three months ended March 31, 2007, reflecting an increase of $17.8 million, or 11.7%. Our gross profit for the three months ended March 31, 2008 was $51.9 million, or 30.5% of sales, as compared to $39.9 million, or 26.1% of sales, for the same period in 2007. In addition, our operating income for the three months ended March 31, 2008 was $26.2 million compared to $17.3 million for the same period in 2007. Our gross profit margin improvement was primarily due to our E&C segment.

As a result of the continued growth in many of the markets we serve, our present and anticipated customer order trends, our backlog and our focus on energy-related industries, we presently expect to experience continued sales and operating income growth for the remainder of 2008 as compared to the same period in 2007. While overall growth is expected in the global industrial market during the remainder of 2008, more of this growth is forecasted from international markets, particularly Central Europe and Asia, as the U.S. market is experiencing signs of moderating growth. We also believe that our cash flow from operations, available cash and available borrowings under our senior secured credit facility should be adequate to meet our working capital, capital expenditure, debt service and other operational funding requirements for the remainder of 2008.

Table of Contents

Results of Operations for the Three Months Ended March 31, 2008 and 2007

The following table sets forth sales, gross profit, gross profit margin and operating income or loss for our three operating segments for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	**2007**
Sales		
Energy & Chemicals	$ 73,868	$ 52,277
Distribution & Storage	74,344	76,779
BioMedical	22,117	23,407