

CHART INDUSTRIES INC

Form 10-Q

November 01, 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 September 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

(State or Other Jurisdiction of

Incorporation or Organization)

34-1712937

(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 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 November 1, 2012, there were 30,015,307 outstanding shares of the Company's Common Stock, par value \$0.01 per share.

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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)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$105,775	\$256,861
Accounts receivable, less allowances of \$4,402 and \$2,360	181,170	131,904
Inventories, net	204,779	149,822
Unbilled contract revenue	25,462	25,247
Prepaid expenses	13,403	7,088
Deferred income taxes	29,323	14,004
Other current assets	11,959	12,703
Total Current Assets	571,871	597,629
Property, plant and equipment, net	158,672	137,301
Goodwill	387,242	288,770
Identifiable intangible assets, net	194,631	140,553
Other assets, net	10,820	10,222
TOTAL ASSETS	\$1,323,236	\$1,174,475
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$85,416	\$84,297
Customer advances and billings in excess of contract revenue	106,438	102,996
Accrued salaries, wages and benefits	27,228	29,108
Current portion of warranty reserve	20,187	13,181
Short-term debt	23,157	4,758
Current portion of long-term debt	3,750	6,500
Other current liabilities	28,170	24,653
Total Current Liabilities	294,346	265,493
Long-term debt	250,640	223,224
Long-term deferred tax liability, net	68,425	43,945
Accrued pension liabilities	13,841	15,905
Other long-term liabilities	17,002	12,357
Equity		
Chart Industries' shareholders' equity:		
Common stock, par value \$.01 per share – 150,000,000 shares authorized, 30,000,390 and 29,612,684 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	300	296
Additional paid-in capital	345,707	333,034
Retained earnings	325,251	274,716
Accumulated other comprehensive income	4,357	2,993
Total Chart Industries, Inc. shareholders' equity	675,615	611,039
Noncontrolling interest	3,367	2,512
Total equity	678,982	613,551

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,323,236	\$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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales	\$254,249	\$211,311	\$710,294	\$574,950
Cost of sales	176,237	144,680	490,596	393,503
Gross profit	78,012	66,631	219,698	181,447
Selling, general and administrative expenses	42,170	34,127	117,522	105,326
Amortization expense	3,810	3,342	10,130	9,947
Impairment of intangible assets	—	—	3,070	—
Loss on disposal of assets	—	119	—	1,335
	45,980	37,588	130,722	116,608
Operating income	32,032	29,043	88,976	64,839
Other expenses (income):				
Interest expense, net	4,006	6,361	11,657	14,358
Financing costs amortization	326	445	1,203	1,094
Foreign currency losses (gains)	461	(2,390)	1,879	(2,533)
	4,793	4,416	14,739	12,919
Income before income taxes	27,239	24,627	74,237	51,920
Income tax expense	8,354	7,122	23,064	15,992
Net income	18,885	17,505	51,173	35,928
Noncontrolling interest, net of tax	369	(35)	638	267
Net income attributable to Chart Industries, Inc.	\$18,516	\$17,540	\$50,535	\$35,661
Net income attributable to Chart Industries, Inc. per common share – basic	\$0.62	\$0.60	\$1.70	\$1.23
Net income attributable to Chart Industries, Inc. per common share – diluted	\$0.61	\$0.59	\$1.68	\$1.19
Weighted average number of common shares outstanding – basic	29,839	29,288	29,743	29,088
Weighted average number of common shares outstanding – diluted	30,243	29,966	30,168	29,871
Comprehensive income, net of tax	\$21,428	\$6,459	\$52,537	\$32,292
Less: Comprehensive income (loss) attributable to noncontrolling interest, net of tax	369	(35)	638	267
Comprehensive income attributable to Chart Industries, Inc., net of tax	\$21,059	\$6,494	\$51,899	\$32,025

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)

	Nine Months Ended September 30,	
	2012	2011
OPERATING ACTIVITIES		
Net income	\$51,173	\$35,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,771	20,410
Interest accretion of convertible notes discount	6,764	1,421
Employee share-based compensation expense	5,711	4,208
Financing costs amortization	1,203	1,094
Foreign currency losses (gains)	3,095	(1,559)
Loss on disposal of assets	—	1,335
Impairment of intangible assets	3,070	—
Reversal of contingent consideration liability	(4,620)) —
Other non-cash operating activities	(609)	) (1,826)
(Decrease) increase in cash resulting from changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(28,417)	) (23,358)
Inventory	(22,594)	) (21,283)
Unbilled contract revenues and other current assets	(3,882)	) (10,244)
Accounts payable and other current liabilities	(18,134)	) 6,312
Customer advances and billings in excess of contract revenue	(1,058)	) 24,605
Net Cash Provided By Operating Activities	14,473	37,043
INVESTING ACTIVITIES		
Capital expenditures	(28,951)	) (15,161)
Proceeds from sale of assets	2,040	—
Acquisition of businesses, net of cash acquired	(182,450)	) (37,680)
Other investing activities	(359)	) 388
Net Cash Used In Investing Activities	(209,720)	) (52,453)
FINANCING ACTIVITIES		
Proceeds from long-term debt	21,375	—
Borrowings on revolving credit facilities	18,387	—
Principal payments on long-term debt	(3,500)	) (4,875)
Proceeds from issuance of convertible notes	—	250,000
Proceeds from issuance of warrants	—	48,848
Payment for call options related to convertible notes	—	(66,486)
Payment of deferred financing costs	(1,445)	) (7,340)
Proceeds from exercise of options	3,324	5,101
Tax benefit from exercise of stock options	7,934	6,984
Payment of contingent consideration	(1,300)	) (1,300)
Common stock repurchases	(4,537)	) (1,090)
Net Cash Provided By Financing Activities	40,238	229,842
Effect of exchange rate changes on cash	3,923	2,501
Net (decrease) increase in cash and cash equivalents	(151,086)	) 216,933
Cash and cash equivalents at beginning of period	256,861	165,112
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$105,775	\$382,045

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 – September 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 nine months ended September 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.

Reclassifications: Certain reclassifications have been made to the 2011 condensed consolidated balance sheet and condensed consolidated cash flow statement in order to conform to the 2012 presentation.

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 medical respiratory equipment and 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 includes 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 and amortization 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 share-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 December 31, 2011 balances include money market investments, certificates of deposit, and commercial paper. As of September 30, 2012, Chart Cryogenic Distribution Equipment (Changzhou) Company Limited, a joint venture of the Company, and Chart Cryogenic Engineering Systems (Changzhou) Company Limited held \$1,055 and \$844 in restricted cash on deposit, respectively, 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 September 30, 2012 or December 31, 2011.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 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:

	September 30, 2012	December 31, 2011
Raw materials and supplies	\$84,686	\$64,832
Work in process	46,719	36,045
Finished goods	73,374	48,945
	\$204,779	\$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. Product warranty claims not expected to occur within one year are recorded in other long-term liabilities in the condensed consolidated balance sheets. Actual experience could differ from the amounts estimated requiring adjustments to the liability in future periods. The changes in the Company’s consolidated warranty reserve during the three and nine months ended September 30, 2012 and 2011 are as follows (see Note G for further details on the acquired warranty reserves):

Three Months Ended	
September 30,	