

CHART INDUSTRIES INC
Form 10-Q
October 27, 2011
Table of Contents

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, 2011

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)

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Delaware
(State or Other Jurisdiction of

34-1712937
(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 October 27, 2011, there were 29,456,659 outstanding shares of the Company's Common Stock, par value \$0.01 per share.

Table of Contents

CHART INDUSTRIES, INC.

INDEX

Part I. Financial Information

<u>Item 1. Financial Statements</u>	Page
<u>Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	35

Part II. Other Information

<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 6. Exhibits</u>	36
<u>Signatures</u>	38

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)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 382,045	\$ 165,112
Accounts receivable, net	123,135	88,131
Inventories, net	135,732	104,435
Unbilled contract revenue	25,557	22,070
Other current assets	31,348	26,733
Total Current Assets	697,817	406,481
Property, plant and equipment, net	137,681	116,158
Goodwill	286,222	275,913
Identifiable intangible assets, net	145,662	144,286
Other assets, net	13,385	13,047
TOTAL ASSETS	\$ 1,280,767	\$ 955,885
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 76,010	\$ 54,749
Customer advances and billings in excess of contract revenue	76,687	51,661
Accrued expenses and other current liabilities	63,538	59,319
Current portion of long-term debt	169,675	6,500
Total Current Liabilities	385,910	172,229
Long-term debt	222,681	218,425
Other long-term liabilities	68,671	63,857
Equity		
Chart Industries' shareholders' equity:		
Common stock, par value \$.01 per share 150,000,000 shares authorized, 29,454,870 and 28,481,586 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	295	288
Additional paid-in capital	328,115	258,425
Retained earnings	266,301	230,640
Accumulated other comprehensive income	6,175	9,811
Total Chart Industries, Inc. shareholders' equity	600,886	499,164
Noncontrolling interest	2,619	2,210
Total equity	603,505	501,374

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TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,280,767	\$ 955,885
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The balance sheet at December 31, 2010 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	\$ 211,311	\$ 139,205	\$ 574,950	\$ 396,617
Cost of sales	144,680	96,404	393,503	281,965
Gross profit	66,631	42,801	181,447	114,652
Selling, general and administrative expenses	34,127	26,225	105,326	75,711
Amortization expense	3,342	2,728	9,947	8,227
Asset impairment		609		1,309
Loss on disposal of assets	119		1,335	
	37,588	29,562	116,608	85,247
Operating income	29,043	13,239	64,839	29,405
Other expenses (income):				
Gain on acquisition of business				(1,124)
Interest expense, net	6,361	4,077	14,358	12,318
Financing costs amortization	445	370	1,094	2,736
Foreign currency (gains) losses	(2,390)	(143)	(2,533)	1,286
	4,416	4,304	12,919	15,216
Income before income taxes	24,627	8,935	51,920	14,189
Income tax expense	7,122	2,270	15,992	3,647
Net income	17,505	6,665	35,928	10,542
Noncontrolling interest, net of taxes	(35)	90	267	184
Net income attributable to Chart Industries, Inc.	\$ 17,540	\$ 6,575	\$ 35,661	\$ 10,358
Net income attributable to Chart Industries, Inc. per common share basic	\$ 0.60	\$ 0.23	\$ 1.23	\$ 0.36
Net income attributable to Chart Industries, Inc. per common share diluted	\$ 0.59	\$ 0.23	\$ 1.19	\$ 0.35
Weighted average number of common shares outstanding - basic	29,288	28,528	29,088	28,519
Weighted average number of common shares outstanding - diluted	29,966	29,172	29,871	29,196

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)

	Nine Months Ended September 30,	
	2011	2010
OPERATING ACTIVITIES		
Net income	\$ 35,661	\$ 10,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,410	17,575
Interest accretion of convertible notes discount	1,421	
Employee stock and stock option related compensation expense	4,208	3,561
Financing costs amortization	1,094	2,736
Gain on acquisition of business		(1,124)
Foreign currency (gains) losses	(2,533)	1,286
Asset impairment charge		1,309
Loss on disposal of assets	1,335	
Other non-cash operating activities	(1,828)	2,775
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(22,403)	(4,923)
Inventory	(22,193)	(9,052)
Unbilled contract revenues and other current assets	(10,244)	5,589
Accounts payable and other current liabilities	7,510	5,397
Customer advances and billings in excess of contract revenue	24,605	1,598
Net Cash Provided By Operating Activities	37,043	37,085
INVESTING ACTIVITIES		
Capital expenditures	(15,161)	(11,785)
Acquisition of businesses, net of cash acquired	(37,680)	(9,165)
Other investing activities	388	(400)
Net Cash Used In Investing Activities	(52,453)	(21,350)
FINANCING ACTIVITIES		
Principal payments on long-term debt	(4,875)	(16,625)
Proceeds from exercise of options	5,101	44
Tax benefit from exercise of stock options	6,984	
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 contingent consideration	(1,300)	
Payment of deferred financing costs	(7,340)	(2,820)
Other financing activities	(1,090)	(56)
Net Cash Provided By (Used In) Financing Activities	229,842	(19,457)
Net increase (decrease) in cash and cash equivalents	214,432	(3,722)
Effect of exchange rate changes on cash	2,501	1,200
Cash and cash equivalents at beginning of period	165,112	211,168
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 382,045	\$ 208,646

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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 September 30, 2011

(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, 2010. 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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 across the United States, including principal executive offices located in Ohio, and an international presence in Asia, Australia and Europe.

Cost of Sales: Any expenses associated with manufacturing are included in cost of sales. These costs 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 September 30, 2011 and December 31, 2010 balances include money market investments.

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 are no short term investments at September 30, 2011 or December 31, 2010.

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011****(Dollars and shares in thousands, except per share amounts)****NOTE A Basis of Preparation 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, 2011	December 31, 2010
Raw materials and supplies	\$ 54,010	\$ 35,565
Work in process	34,593	23,643
Finished goods	47,129	45,227
	\$ 135,732	\$ 104,435

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. Pre-contract costs relate primarily to salaries and benefits incurred to support the selling effort and, accordingly, are expensed as incurred. 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. Certain contracts include incentive-fee arrangements clearly defined in the agreement and are recognized as revenue when the criteria have been met. 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.

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 and nine months ended September 30, 2011 and 2010 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning balance	\$ 12,849	\$ 9,308	\$ 13,372	\$ 8,764
Warranty expense	1,631	1,112	5,233	3,212
Warranty usage	(1,949)	(545)	(6,074)	(2,101)
Acquired warranty reserves	817		817	

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Ending balance	\$ 13,348	\$ 9,875	\$ 13,348	\$ 9,875
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Goodwill and Other Intangible Assets: The Company does not amortize goodwill or other indefinite lived intangible assets, but reviews them at least annually, and on an interim basis if necessary, for impairment using a measurement date of October 1st. The Company amortizes intangible assets that have finite lives over their useful lives.

The Company determines the fair value of any indefinite-lived intangible assets using a discounted cash flow method, 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, the Company determines the fair value of each reporting unit and compares the fair value to its carrying value, including goodwill, of such reporting unit (step one). To test for impairment, the Company is required to estimate the fair value of each reporting unit. The reporting units are also the reportable segments: Energy & Chemicals, Distribution & Storage, and BioMedical. Consistent with prior years, the Company uses the income and market approaches to develop fair value estimates, which are weighted equally to arrive at a fair value estimate for each reporting unit. With respect to the income approach, a model has been developed to estimate the fair value of each reporting unit. This fair value model incorporates estimates of future cash flows, estimates of allocations of certain assets and cash flows among reporting units, estimates of future growth rates and management's judgment regarding the applicable discount rates to use to discount those estimated cash flows. With respect to the market approach, a guideline company method is used selecting companies with similar assets or businesses to estimate fair value of each reporting unit. Changes to these

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011****(Dollars and shares in thousands, except per share amounts)****NOTE A Basis of Preparation Continued**

judgments and estimates could result in a significantly different estimate of the fair value of the reporting units, which could result in a different assessment of the recoverability of goodwill and other indefinite-lived intangible assets. 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 the reporting unit's goodwill with the carrying amount of that goodwill. As of October 1, 2010, the estimated fair values substantially exceeded the carrying value for all reporting units.

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

	Estimated Useful Life	September 30, 2011		December 31, 2010	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived assets:					
Unpatented technology	9 years	\$ 18,245	\$ (8,604)	\$ 15,073	\$ (7,275)
Patents	10 years	9,047	(5,180)	8,497	(4,304)
Product names	14 years	7,083	(1,671)	5,676	(1,285)
Non-compete agreements	3 years	2,130	(2,130)	2,130	(1,952)
Customer relations	13 years	132,053	(46,292)	125,848	(39,103)
		\$ 168,558	\$ (63,877)	\$ 157,224	\$ (53,919)
Indefinite-lived intangible assets:					
Trademarks and trade names		\$ 37,911		\$ 37,911	
In-process research and development		3,070		3,070	
		\$ 40,981		\$ 40,981	

The following table represents the changes in goodwill:

Balance at December 31, 2010	\$ 275,913
Acquisition of Clever Fellows Innovation Consortium	2,821
Acquisition of GOFA Gocher Fahrzeugbau GmbH	8,518
Foreign currency adjustments	(1,030)
Balance at September 30, 2011	\$ 286,222

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Amortization expense for finite-lived intangible assets was \$3,342 and \$2,728 for the three months ended September 30, 2011 and 2010, respectively, and \$9,947 and \$8,227 for the nine months ended September 30, 2011 and 2010, respectively, and is estimated to be approximately \$14,000 for 2011 and an average of \$12,000 for years 2012 through 2016.

Stock-based Compensation: The Company records stock-based compensation according to current accounting guidance which requires all share-based payments to employees and directors, including grants of employee stock options, to be measured at fair value on the date of grant.

During the nine months ended September 30, 2011, the Company granted 150 stock options, 59 shares of restricted stock and stock unit awards and 59 performance stock units. The stock options vest over a four year period. Restricted stock and stock unit awards vest over a three year period and performance stock units are earned over a three year measurement period.

Stock-based compensation expense was \$1,407 and \$1,300 for the three months ended September 30, 2011 and 2010, respectively, and \$4,208 and \$3,561 for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, the total stock-based compensation expected to be recognized over the weighted average period of approximately 2.1 years is \$4,934.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011

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

NOTE A Basis of Preparation Continued

Convertible Debt: The Company determines if the embedded conversion feature within the Convertible Senior Subordinated Notes (the Convertible Notes) is indexed to the Company's common stock and therefore exempt from separate accounting treatment under ASC 815, Accounting for Derivative Instruments and Hedging Activities. Convertible Notes exempt from derivative accounting are recognized according to ASC 470-20, Debt with Conversion and Other Options by bifurcating the principal balance into a liability component and an equity component where the fair value of the liability component is estimated by calculating the present value of its cash flows discounted at an interest rate that the Company would have received for similar debt instruments that have no conversion rights (the straight-debt rate), and the equity component is the residual amount, which creates a discount on the Convertible Notes. The Company subsequently recognizes non-cash interest expense as the carrying value of the Convertible Notes is accreted back to its principal amount.

Recently Issued Accounting Pronouncements: In December 2010, the FASB issued ASU 2010-28, Intangibles—Goodwill and Other (Topic 350). This ASU modifies the first step of the goodwill impairment test to include reporting units with zero or negative carrying amounts. For these reporting units, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any, when it is more likely than not that a goodwill impairment exists. This ASU is effective for fiscal years and interim periods beginning after December 15, 2010. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220). The amendments in the ASU revise the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in Topic 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income. This ASU is effective for fiscal years beginning after December 15, 2011. The Company does not believe that the adoption of this guidance will have a material effect on the financial statements of the Company since the amendments affect financial statement presentation only.

In September 2011, the FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350) Testing Goodwill for Impairment. The amendments in the ASU permit companies to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company is currently evaluating the guidance and does not believe it will have a material effect on the financial statements of the Company.

NOTE B Fair Value Measurements

The Company measures financial assets and liabilities at fair value in three levels of input. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

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The Company is exposed to foreign currency exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries. The Company utilizes foreign currency forward purchase and sale contracts to manage the volatility associated with foreign currency purchases and certain intercompany transactions in the normal course of business. Contracts typically have maturities of less than one year. Principal currencies include the euro, British pound, Japanese yen, and Czech koruna. The Company's foreign currency forward contracts do not qualify as hedges as defined by accounting guidance. Changes in their fair value are recorded in the consolidated statement of operations as foreign currency expense or income. The changes in fair value generated net gains of \$1,379 and \$1,943 for the three and nine months ended September 30, 2011, respectively, and a net gain of \$20 and a net loss of \$681 for the three and nine months ended September 30, 2010, respectively.

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011

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

NOTE B Fair Value Measurements Continued

At September 30, 2011, the fair value of the Company's derivative assets and liabilities representing foreign currency forward contracts was \$1,380 and \$180, respectively. At December 31, 2010, the fair value of the Company's derivative liabilities representing foreign currency forward contracts was \$807. These amounts were recorded on the balance sheet as other current liabilities. As of September 30, 2011, the Company held forward currency contracts to sell (i) 16,600 euros against the U.S. dollar, (ii) 130,000 Japanese yen against the U.S. dollar, (iii) 560 Australian dollars against the U.S. dollar, (iv) 180 British pounds against the U.S. dollar, (v) 5,700 Norwegian kroner against the euro, and (vi) 3,210 euros against the Czech koruna. As of December 31, 2010, the Company held forward currency contracts to sell (i) 16,900 euros against the Czech koruna, (ii) 386,853 Japanese yen against the U.S. dollar, (iii) 5,000 U.S. dollars against the euro, (iv) 500 Australian dollars against the U.S. dollar, and (v) 75 British pounds against the euro. The Company's foreign currency forward contracts are not exchange traded instruments and, accordingly, are classified as being valued using level 2 inputs which are based on observable inputs such as quoted prices for similar assets and liabilities in active markets.

The Company does not enter into derivative instruments for trading or speculative purposes.

The fair value of the Company's Term Loan is estimated based on the present value of the underlying cash flows discounted at the Company's estimated borrowing rate. Under this method, the fair value of the Company's Term Loan approximated its carrying value at September 30, 2011 and December 31, 2010.

The fair value of the liability component of the Company's Convertible Notes is based on the present value of its associated cash flows using the Company's interest rate for similar debt instruments without a conversion feature. Under this method, the fair value of the liability component of the Convertible Notes approximated its carrying value at September 30, 2011.

NOTE C Debt and Credit Arrangements

In August 2011, the Company issued 2.00% Convertible Notes due 2018 in the aggregate principal amount of \$250,000 in an offering registered under the Securities Act of 1933, as amended. The net proceeds from the offering were approximately \$242,700 after deducting the underwriters discount and estimated offering expenses. The Convertible Notes bear interest at a fixed rate of 2.00% per year, payable semiannually in arrears on February 1 and August 1 of each year beginning February 1, 2012. The Convertible Notes will mature on August 1, 2018.

The Convertible Notes are senior subordinated unsecured obligations of the Company and are not guaranteed by any of the Company's subsidiaries. The Convertible Notes are subordinated in right of payment to the Company's existing and future senior indebtedness, including indebtedness under the Company's existing credit agreement, and rank equally in right of payment with any future senior subordinated debt. The Convertible Notes rank senior in right of payment to the Company's future subordinated debt.

Prior to the close of business on the business day immediately preceding May 1, 2018, the Convertible Notes will be convertible at the option of the holders thereof only under the following circumstances: (1) during any fiscal quarter commencing after September 30, 2011 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price for the Convertible Notes on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the Measurement Period) in which, as determined following a request by a holder of Convertible Notes as provided in the bond indenture (the Indenture), the trading price per \$1,000 principal amount of Convertible Notes for each trading day of such Measurement Period was less than 97% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate for the Convertible Notes on each such trading day; or (3) upon the occurrence of specified corporate events pursuant to the terms of the Indenture. On or after May 1, 2018, until the close of business on the second scheduled trading day immediately preceding the maturity date of the Convertible Notes, holders of the Convertible Notes may convert their Convertible Notes at any time, regardless of the

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foregoing circumstances. Upon conversion, the Company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. It is the Company's intention to settle any excess conversion value in shares of the Company's common stock.

The conversion rate will initially equal 14.4865 shares of the Company's common stock per \$1,000 principal amount of Convertible Notes, which represents a conversion price of approximately \$69.03 per share. The conversion rate will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. In addition, following the occurrence of a make-whole fundamental change, the Company will, in certain circumstances, increase the conversion rate for a holder that converts its Convertible Notes in connection with such make-whole fundamental change. The Company may not redeem the Convertible Notes prior to maturity. No sinking fund will be provided for the Convertible Notes. If the Company undergoes a fundamental change, subject to certain conditions, holders may require the Company to purchase

Table of Contents

CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011

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

NOTE C Debt and Credit Arrangements Continued

the Convertible Notes in whole or in part for cash at a fundamental change purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date. In certain Events of Default, as defined in the Indenture, the Trustee by notice to the Company, or the holders of at least 25% in principal amount of then outstanding Convertible Notes by notice to the Company and to the Trustee, may declare 100% of the principal of, and accrued and unpaid interest, if any, on, all then outstanding Convertible Notes to be due and payable. Upon such a declaration, such principal and accrued and unpaid interest, if any, will be due and payable immediately.

As of September 30, 2011, the Convertible Notes were not convertible.

In connection with the issuance of the Convertible Notes, the Company entered into privately-negotiated convertible note hedge and capped call transactions with affiliates of certain of the underwriters (the Option Counterparties). The convertible note hedge and capped call transactions relate to, collectively, 3,622 shares, which represents the number of shares of the Company's common stock underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes. These convertible note hedge and capped call transactions are expected to reduce the potential dilution with respect to the Company's common stock upon conversion of the Convertible Notes and/or reduce the Company's exposure to potential cash or stock payments that may be required upon conversion of the Convertible Notes, except, in the case of the capped call transactions, to the extent that the market price per share of the Company's common stock exceeds the cap price of the capped call transactions. The convertible note hedge and capped call transactions, which cost the Company \$66,486, were recorded as a reduction of additional paid-in-capital.

The Company also entered into separate warrant transactions with the Option Counterparties initially relating to the number of shares of the Company's common stock underlying the convertible note hedge transactions, subject to customary anti-dilution adjustments. The warrant transactions will have a dilutive effect with respect to the Company's common stock to the extent that the price per share of the Company common stock exceeds the strike price of the warrants unless the Company elects, subject to certain conditions, to settle the warrants in cash. The cap price of the capped call transactions and the strike price of the warrant transactions was initially \$84.96 per share. Proceeds received from the issuance of the warrants totaled approximately \$48,848 and were recorded as an addition to additional paid-in-capital. The net cost of the convertible note hedge and capped call transactions, taking into account the proceeds from the issuance of the warrants, was approximately \$17,638. In accordance with ASC 815, contracts are initially classified as equity if (1) the contract requires physical settlement or net-share settlement, or (2) the contract gives the entity a choice of net-cash settlement in its own shares (physical settlement or net-share settlement). The Company concluded that the settlement terms of the convertible note hedge, capped call and warrant transactions permit net-share settlement. As such, the convertible note hedge, capped call and warrant transactions were recorded in equity.

At the issuance of the Convertible Notes, the Company bifurcated the \$250,000 principal balance of the Convertible Notes into a liability component of \$170,885 which was recorded as long-term debt and an equity component of \$79,115 which was recorded as additional paid-in-capital. The liability component was recognized at the present value of its associated cash flows using a 7.9% straight-debt rate which represents the Company's interest rate for similar debt instruments without a conversion feature and is being accreted to interest expense over the term of the Convertible Notes. For purposes of fair value measurement, the Company determined that valuation of the Convertible Notes falls under Level 2 of the fair value hierarchy. For the three and nine months ended September 30, 2011, interest expense for the Convertible Notes was \$2,254 which included \$833 of contractual 2.00% coupon interest and \$1,421 of non-cash interest accretion expense related to the carrying value of the Convertible Notes.

In accordance with ASC 470-20 which requires issuers to separately account for the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, the Company allocated debt issuance costs to the liability and equity components in proportion to their allocated value. As such, \$2,323 was recorded as a reduction in additional paid-in-capital, and the balance of \$5,017 was recorded as deferred financing fees which is being amortized over the term of the Convertible Notes.

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The following table represents the principal balance, the unamortized discount and the net carrying amount of the liability component and the carrying amount of the equity component of the Convertible Notes:

	September 30, 2011
Principal balance of liability component	\$ 250,000
Unamortized discount	(77,694)
Carrying value of liability component	\$ 172,306
Equity Component	\$ 79,115

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011****(Dollars and shares in thousands, except per share amounts)****NOTE C Debt and Credit Arrangements Continued**

On May 18, 2010, the Company refinanced its prior senior secured credit facility with a five-year \$200,000 senior credit facility (the Senior Credit Facility). As a result of the refinancing, the Company wrote off \$1,706 of deferred financing fees related to the prior senior credit facility. The new Senior Credit Facility consisted of a \$65,000 term loan (the Term Loan), of which \$56,875 remains outstanding and a \$135,000 revolving credit facility (the Revolver) with a scheduled maturity date of May 18, 2015 (the Maturity Date). The Revolver includes a \$25,000 sub-limit for the issuance of swingline loans and a \$50,000 sub-limit to be used for letters of credit. There is a foreign currency limit of \$40,000 under the Revolver which can be used for foreign currency denominated letters of credit and borrowings in a foreign currency, in each case in currencies agreed upon with the lenders. In addition, the facility permits borrowings up to \$40,000 under the Revolver made by the Company's wholly-owned subsidiary, Chart Industries Luxembourg S.à r.l. The Company also had \$163,175 of 9 1/8% senior subordinated notes (the Subordinated Notes) outstanding at September 30, 2011.

On September 30, 2010, the Company began repaying the principal balance of the Term Loan with its first quarterly installment of \$1,625 and will continue to make quarterly installments through the Maturity Date. The Company may select a Eurocurrency Borrowing or an ABR Borrowing rate. If the Company elects the Eurocurrency Borrowing, the base rate for the elected period equals the applicable Adjusted LIBOR rate plus the applicable margin (as defined in the Senior Credit Facility). If the Company elects an ABR Borrowing, the base rate for any day equals an applicable interest margin (as defined in the Senior Credit Facility) plus the greatest of the Prime Rate in effect on such day, the Federal Funds Effective Rate in effect on such day plus 0.5%, and the Adjusted LIBOR Rate for a one month interest period on such day plus 1.0%. The applicable interest margin on the Senior Credit Facility could change based upon the leverage ratio calculated at each fiscal quarter end. In addition, the Company is required to pay a commitment fee of between 0.3% and 0.5% of the unused Revolver balance and a letter of credit participation fee equal to the daily aggregate letter of credit exposure at the rate per annum equal to the Applicable Margin for Eurocurrency Revolving Facility Borrowings (ranging from 2% to 3.5%, depending on the leverage ratio calculated at each fiscal quarter end). A fronting fee must be paid on each letter of credit that is issued equal to 0.125% per annum of the stated dollar amount of the letter of credit. The obligations under the Senior Credit Facility are guaranteed by the Company and substantially all of its U.S. subsidiaries and secured by substantially all of the assets of the Company's U.S. subsidiaries and 65% of the capital stock of the Company's Material non-U.S. subsidiaries (as defined by the Senior Credit Facility) that are owned by U.S. subsidiaries.

On October 17, 2011, the Company redeemed the \$163,175 million outstanding principal amount of its 9 1/8% Subordinated Notes due in 2015, which were classified as current liabilities in the Company's consolidated balance sheet at September 30, 2011. The redemption price was 103.042% of the principal amount plus accrued and unpaid interest to, but not including, the redemption date, which totaled approximately \$175,600. The Subordinated Notes were general unsecured obligations of the Company and were 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 were 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 and 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 net leverage and interest coverage ratios. The Company is in compliance with all covenants. As of September 30, 2011, there was \$56,875 outstanding under the Term Loan and \$163,175 outstanding under the Subordinated Notes and \$30,629 in letters of credit issued but no borrowings outstanding under the Revolver. As a result of the redemption of the Subordinated Notes, the above-described covenants will not be applicable going forward.

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Chart Ferox, a.s. (Ferox), a wholly-owned subsidiary of the Company, maintains secured credit facilities with capacity of up to 175,000 Czech koruna (CZK). Ferox maintains two separate facilities. Both of the facilities allow Ferox to request issuance of bank guarantees and letters of credit. None of the facilities allow revolving credit borrowings, including overdraft protection. Ferox is required to pay a commitment fee to the lender under its first facility in respect to the unutilized commitments thereunder. Under this first facility Ferox must pay letter of credit and guarantee fees equal to: (i) 0.70% p.a. on the face amount of each guarantee or letter of credit for maturities of up to 1 year, (ii) 0.80% p.a. for maturities between 1 and 3 years, and (iii) 1.20% p.a. for maturities between 3 and 5 years. Under the second facility Ferox must pay letter of credit and guarantee fees equal to 0.70% p.a. on the face amount of each guarantee or letter of credit. Ferox is not required to pay a commitment fee to the lender under the second facility. Ferox's land, buildings and accounts receivable secure the credit facilities. As of September 30, 2011 there were \$2,732 of bank guarantees supported by the Ferox credit facilities.

Flow Instruments & Engineering GmbH (Flow), a wholly-owned subsidiary of Ferox, maintains two revolving lines of credit with 320 euros in borrowing capacity. As of September 30, 2011, there were no borrowings outstanding under either line of credit.

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011****(Dollars and shares in thousands, except per share amounts)****NOTE D Restructuring Activities**

In April 2010, Caire Inc., a wholly-owned subsidiary of the Company, announced its plan to close its liquid oxygen therapy manufacturing facility in Plainfield, Indiana and relocate the manufacturing and customer service operations to a facility close to existing BioMedical operations in Canton, Georgia. The Plainfield facility was acquired as part of the 2009 acquisition of the liquid oxygen therapy business of Covidien plc. The closure was substantially completed in the second quarter of 2011. The total anticipated cost of the restructuring is approximately \$7,000 which includes asset impairment charges. The cost includes cash expenditures for employee retention and separation benefits, as well as lease exit costs and loss on disposal of remaining assets. For the three and nine months ended September 30, 2011, the Company recorded \$696 and \$2,905, respectively, related to the closure of the Plainfield, Indiana BioMedical facility. The Company also recorded \$372 and \$1,353, respectively, in restructuring costs for employee separation benefits related to the integration of SeQual Technologies Inc., which was acquired on December 28, 2010. These charges were recorded in cost of sales (\$696 and \$1,661 for the three and nine months ended September 30, 2011, respectively), selling, general and administrative expenses (\$372 and \$2,114 for the three and nine months ended September 30, 2011, respectively), and loss on disposal of assets (\$1,216 for the nine months ended September 30, 2011).

The following tables summarize the Company's restructuring activities for the three and nine months ended September 30, 2011 and the three and nine months ended September 30, 2010.

	\$000000	\$000000	\$000000	\$000000	\$000000
	Three Months Ended September 30, 2011				
	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Balance at June 30, 2011	\$	\$ 157	\$ 1,966	\$	\$ 2,123
Restructuring charges			1,068		1,068
Asset impairment					
Cash payments		(43)	(1,352)		(1,395)
Balance as of September 30, 2011	\$	\$ 114	\$ 1,682	\$	\$ 1,796

	\$000000	\$000000	\$000000	\$000000	\$000000
	Nine Months Ended September 30, 2011				
	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Balance at January 1, 2011	\$ 103	\$ 388	\$ 2,088	\$	\$ 2,579
Restructuring charges		26	4,528	437	4,991
Asset impairment			(1,216)		(1,216)
Cash payments	(103)	(300)	(3,718)	(437)	(4,558)
Balance as of September 30, 2011	\$	\$ 114	\$ 1,682	\$	\$ 1,796

	\$000000	\$000000	\$000000	\$000000	\$000000
	Three Months Ended September 30, 2010				

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	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Balance at June 30, 2010	\$ 256	\$ 802	\$ 1,050	\$	\$ 2,108
Restructuring charges		(2)	1,048		1,046
Asset impairment			(555)		(555)
Cash payments	(109)	(229)	(163)		(501)
Balance as of September 30, 2010	\$ 147	\$ 571	\$ 1,380	\$	\$ 2,098

	\$000000 Energy & Chemicals	\$000000 Distribution & Storage	\$000000 BioMedical	\$000000 Corporate	\$000000 Total
Nine Months Ended September 30, 2010					
Balance at January 1, 2010	\$ 682	\$ 1,608	\$ 503	\$ 88	\$ 2,881
Restructuring charges		(42)	3,043	(22)	2,979
Asset impairment			(1,255)		(1,255)
Cash payments	(535)	(995)	(911)	(66)	(2,507)
Balance as of September 30, 2010	\$ 147	\$ 571	\$ 1,380	\$	\$ 2,098

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011**

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

NOTE E Earnings per Share

The following table presents calculations of net income per share of common stock for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income attributable to Chart Industries, Inc.	\$ 17,540	\$ 6,575	\$ 35,661	\$ 10,358
Net income attributable to Chart Industries, Inc. per common share-basic	\$ 0.60	\$ 0.23	\$ 1.23	\$ 0.36
Net income attributable to Chart Industries, Inc. per common share-diluted	\$ 0.59	\$ 0.23	\$ 1.19	\$ 0.35
Weighted average number of common shares outstanding-basic	29,288	28,528	29,088	28,519
Incremental shares issuable upon assumed conversion and exercise of stock options	678	644	783	677
Total shares-diluted	29,966	29,172	29,871	29,196

Shares issuable under the Convertible Notes were excluded from diluted earnings per share since the conversion price was greater than the average market price of the Company's common stock during the period. Certain options to purchase common stock of the Company were not included in net income attributable to Chart Industries, Inc. per common share-diluted as they were anti-dilutive and consisted of 148 and 97 shares for the three and nine months ended September 30, 2011, respectively, and 466 and 422 shares, respectively, for the three and nine months ended September 30, 2010.

NOTE F Comprehensive Income (Loss)

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

	September 30, 2011	December 31, 2010
Foreign currency translation adjustments	\$ 11,029	\$ 14,938
Pension liability adjustments, net of taxes	(4,854)	(5,127)
	\$ 6,175	\$ 9,811

The following is a summary of the components of total comprehensive income (loss), net of related income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 17,505	\$ 6,665	\$ 35,928	\$ 10,542

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Other comprehensive (loss) income:

Foreign currency translation (losses) gains	(11,137)	13,212	(3,909)	1,199
Defined benefit pension plan amortization of net loss	91	67	273	202
Comprehensive income	6,459	19,944	32,292	11,943
Less: Comprehensive income (loss) attributable to noncontrolling interest	35	(90)	(267)	(184)
Comprehensive income attributable to Chart Industries, Inc.	\$ 6,494	\$ 19,854	\$ 32,025	\$ 11,759

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011****(Dollars and shares in thousands, except per share amounts)****NOTE G Acquisitions**

On August 1, 2011, Chart Germany GmbH, a wholly-owned subsidiary of the Company, completed the acquisition of 100% of the equity interests of GOFA Gocher Fahrzeugbau GmbH and related companies (GOFA) for a total potential purchase price of 25,614, net of cash acquired. The preliminary fair value of the net assets acquired and goodwill at the date of acquisition were \$29,526 and \$8,518, respectively. GOFA, located in Goch, Germany, designs, manufactures, sells and services cryogenic and non-cryogenic mobile equipment. GOFA results are included in the Company's Distribution & Storage segment and added \$2,368 in sales during the nine months ended September 30, 2011.

The purchase price allocation related to the GOFA acquisition is preliminary and is based on provisional fair values and subject to revision as the Company finalizes appraisals and other analyses. Final determination of the fair values may result in further adjustments to the values presented below:

Net assets acquired:	
Cash	\$ 1,974
Accounts receivable	4,645
Inventory	8,382
Property and equipment	15,555
Other assets	363
Intangible assets	8,810
Goodwill	8,518
Liabilities assumed	(10,203)
 Total purchase price	 \$ 38,044

On April 1, 2011, Chart Inc. completed the acquisition of 100% of the equity of Clever Fellows Innovation Consortium, Inc. (CFIC) for a total potential purchase price of \$5,000 in cash, of which \$2,000 has been paid. The remaining portion of the potential total purchase price represents contingent consideration to be paid over three years based on the attainment of certain revenue targets. The estimated value of the contingent consideration at acquisition was \$1,650, valued according to a discounted cash flow approach, which includes assumptions for the probabilities of achieving the gross sales targets and the discount rate applied to the projected payments. The estimated fair value of the contingent consideration at September 30, 2011 was \$1,790, valued according to a discounted cash flow approach, which includes assumptions for the probabilities of achieving the gross sales targets and the discount rate applied to the projected payments. The increase in fair value of the contingent consideration for the nine months ended September 30, 2011 of \$140 was recorded as selling, general and administrative expenses in the consolidated statement of operations. The valuation of contingent consideration is classified as utilizing Level 3 inputs consistent with reasonably available assumptions which would be made by other market participants. The fair value of the net assets acquired and goodwill at the date of acquisition were \$829 and \$2,821, respectively. The purchase price allocation related to the CFIC acquisition is substantially complete with the exception of intangible assets, which continue to be based on provisional fair values and are subject to revision as the Company finalizes appraisals and other analyses. CFIC is located in Troy, New York and develops and manufactures thermoacoustic technology products for cryogenic, heat transfer and related applications. CFIC's results are included in the Company's BioMedical segment.

In December 2010, Caire Inc. (Caire), a wholly-owned subsidiary of the Company, completed the acquisition of SeQual Technologies Inc. (SeQual) for a potential total purchase price of \$60,000 in cash, of which \$38,312 was paid after working capital adjustments. The cash purchase price is subject to post closing adjustments. The majority of the remaining potential total purchase price represents contingent consideration to be paid over two years beginning in 2012 based on the achievement of certain gross profit targets. The estimated fair value of the contingent consideration at September 30, 2011 was \$4,445, valued according to a discounted cash flow approach, which includes assumptions for the probabilities of achieving the gross profit targets and the discount rate applied to the projected payments. The decrease in fair value of the contingent consideration for the nine months ended September 30, 2011 of \$655 was recorded as selling, general and administrative expenses in

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the consolidated statement of operations. The valuation of contingent consideration is classified as utilizing Level 3 inputs consistent with reasonably available assumptions which would be made by other market participants. SeQual is located in San Diego, California and develops, manufactures and markets products for numerous applications utilizing pressure swing adsorption technology for air separation with its primary focus on medical oxygen concentrators. SeQual's results are included in the Company's BioMedical segment and added \$28,449 to net sales during the nine months ended September 30, 2011.

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011****(Dollars and shares in thousands, except per share amounts)****NOTE G Acquisitions Continued**

The purchase price allocation related to the SeQual acquisition is presented below:

Net assets acquired:	
Cash	\$ 218
Accounts receivable	6,169
Inventory	4,959
Property and equipment	711
Other assets	184
Intangible assets	31,760
Goodwill	6,779
Liabilities assumed	(7,368)
 Total purchase price	 \$ 43,412

In August 2010, Chart Inc. acquired substantially all of the assets of Cryotech International, Inc. (Cryotech) for a potential total purchase price of \$6,653 in cash, of which \$4,053 was paid at closing. The remaining portion of the potential total purchase price represents contingent consideration to be paid over two years based on the achievement of certain revenue targets. After the first contingent consideration payment of \$1,300 in August 2011, the estimated fair value of the contingent consideration at September 30, 2011 was \$782. The contingent consideration was valued according to a discounted cash flow approach, which includes assumptions for the probabilities of achieving the revenue targets and the discount rate applied to the projected payments. The increase in fair value of the contingent consideration for the nine months ended September 30, 2011 of \$282 was recorded as selling, general and administrative expenses in the consolidated statement of operations. The fair value of the assets acquired and goodwill at the date of acquisition were \$1,626 and \$4,227, respectively. Cryotech is located in San Jose, California and designs, manufactures, sells, and services cryogenic injectors, vacuum insulated piping systems, and manifolds, and also repairs liquid cylinders. Cryotech's results are included in the Company's Distribution & Storage segment and added \$10,700 to net sales during the nine months ended September 30, 2011.

In April 2010, Chart Japan Co., Ltd. completed the acquisition of Covidien Japan Inc.'s liquid oxygen therapy business for \$1,008 in cash. The fair value of the assets acquired at closing was \$2,132 which exceeded the cash paid and, accordingly, resulted in a gain on acquisition of business of \$1,124 during the second quarter of 2010. Purchase accounting for this acquisition has been finalized. Available public information indicated that Covidien sought to streamline its business portfolio in an expeditious manner and reallocate resources to other businesses, therefore, the liquid oxygen therapy business was considered a non-core asset. Net sales of \$3,874 were added to the Company's BioMedical segment during the nine months ended September 30, 2011 as a result of the acquisition.

Pro-forma information related to these acquisitions has not been presented because the impact on the Company's consolidated results of operations is not material.

NOTE H Income Taxes

At September 30, 2011, the Company has recorded a \$2,334 liability, in accordance with ASC 740-10-25 Income Taxes, for gross unrecognized tax benefits. This amount, if ultimately recognized, will reduce the Company's annual effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. At September 30, 2011, the Company had accrued approximately \$61 for the

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payment of interest and penalties. There were no material adjustments to the recorded liability for unrecognized tax benefits during the third quarter of 2011.

The effective tax rate for the three and nine months ended September 30, 2011 of 28.9% and 30.8%, respectively, differs from the U.S. federal statutory rate of 35% primarily due to the effect of income earned by certain of the Company's foreign entities being taxed at lower rates than the federal statutory rate. The effective tax rate for the three and nine months ended September 30, 2010 of 25.4% and 25.7%, respectively, differs from the federal statutory rate primarily due to the effect of income earned by certain of the Company's foreign entities being taxed at lower rates than the federal statutory rate.

Table of Contents**CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2011****(Dollars and shares in thousands, except per share amounts)****NOTE I Employee Benefit Plans**

The Company has one frozen defined benefit pension plan that covers certain U.S. hourly and salaried employees. 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 expense for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest cost	\$ 603	\$ 612	\$ 1,809	\$ 1,836
Expected return on plan assets	(644)	(588)	(1,932)	(1,764)
Amortization of net loss	91	67	273	202
Total pension expense	\$ 50	\$ 91	\$ 150	\$ 274

NOTE J 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 are each managed separately because they manufacture, offer and distribute distinct products with different production processes and sales and marketing approaches. The E&C segment sells brazed aluminum and air-cooled heat exchangers, cold boxes and liquefied natural gas vacuum-insulated pipe to natural gas, petrochemical processing and industrial gas companies who 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 CO₂ systems, cryogenic flow meter 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 other oxygen products. 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, gain on acquisition of business, foreign currency gain or loss, income taxes and noncontrolling interest. The accounting policies of the reportable segments are 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 September 30, 2011				
	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Sales	\$ 57,777	\$ 100,911	\$ 52,623	\$	\$ 211,311
Operating income (loss)	12,584	16,109	8,548	(8,198)	29,043

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	Nine Months Ended September 30, 2011				
	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Sales	\$ 149,414	\$			