

CHART INDUSTRIES INC
Form 10-Q
April 26, 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 March 31, 2012

OR

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

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

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

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

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

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

NOT APPLICABLE

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

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

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

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

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

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

At April 26, 2012, there were 29,900,660 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)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$242,520	\$256,861
Accounts receivable, net	127,254	131,904
Inventories, net	167,855	149,822
Unbilled contract revenue	26,735	25,247
Prepaid expenses	9,199	7,088
Other current assets	32,194	26,707
Total Current Assets	605,757	597,629
Property, plant and equipment, net	141,952	137,301
Goodwill	289,436	288,770
Identifiable intangible assets, net	137,334	140,553
Other assets, net	9,908	10,222
TOTAL ASSETS	\$1,184,387	\$1,174,475
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	\$4,761	\$4,758
Accounts payable	72,304	84,297
Customer advances and billings in excess of contract revenue	109,894	102,996
Accrued salaries wages, and benefits	21,284	29,108
Warranty reserve	12,197	13,181
Current portion of long-term debt	6,500	6,500
Other current liabilities	28,210	24,653
Total Current Liabilities	255,150	265,493
Long-term debt	223,837	223,224
Long-term deferred tax liability, net	45,841	43,945
Accrued pension liabilities	15,457	15,905
Other long-term liabilities	7,998	12,357
Equity		
Chart Industries' shareholders' equity:		
Common stock, par value \$.01 per share – 150,000,000 shares authorized, 29,899,189 and 29,612,684 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	299	296
Additional paid-in capital	339,145	333,034
Retained earnings	288,799	274,716
Accumulated other comprehensive income	5,257	2,993
Total Chart Industries, Inc. shareholders' equity	633,500	611,039
Noncontrolling interest	2,604	2,512
Total equity	636,104	613,551
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,184,387	\$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 March 31,	
	2012	2011
Sales	\$216,106	\$162,941
Cost of sales	148,549	110,455
Gross profit	67,557	52,486
Selling, general and administrative expenses	40,626	34,862
Amortization expense	3,070	3,317
	43,696	38,179
Operating income	23,861	14,307
Other expenses (income):		
Interest expense, net	3,962	3,934
Financing costs amortization	321	325
Foreign currency gains	(352) (759
	3,931	3,500
Income before income taxes	19,930	10,807
Income tax expense	5,778	3,404
Net income	14,152	7,403
Noncontrolling interest, net of tax	69	(127
)
Net income attributable to Chart Industries, Inc.	\$14,083	\$7,530
Net income attributable to Chart Industries, Inc. per common share – basic	\$0.48	\$0.26
Net income attributable to Chart Industries, Inc. per common share – diluted	\$0.47	\$0.25
Weighted average number of common shares outstanding – basic	29,593	28,768
Weighted average number of common shares outstanding – diluted	30,061	29,678
Comprehensive income, net of tax	\$16,416	\$13,468
Less: Comprehensive income attributable to noncontrolling interest, net of tax	69	(127
)
Comprehensive income attributable to Chart Industries, Inc., net of tax	\$16,347	\$13,595

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)

	Three Months Ended March 31,	
	2012	2011
OPERATING ACTIVITIES		
Net income	\$14,152	\$7,403
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,223	6,652
Interest accretion of convertible notes discount	2,238	—
Employee stock and stock option related compensation expense	2,505	1,401
Financing costs amortization	321	325
Foreign currency gains	(352)	(759)
Other non-cash operating activities	243	(291)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	5,391	(2,648)
Inventory	(17,074)	(12,911)
Unbilled contract revenues and other current assets	(1,662)	(255)
Accounts payable and other current liabilities	(27,619)	(12,548)
Customer advances and billings in excess of contract revenue	5,462	(7,207)
Net Cash Used In Operating Activities	(9,172)	(20,838)
INVESTING ACTIVITIES		
Capital expenditures	(6,345)	(4,266)
Other investing activities	—	388
Net Cash Used In Investing Activities	(6,345)	(3,878)
FINANCING ACTIVITIES		
Principal payments on long-term debt	(1,625)	(1,625)
Proceeds from exercise of options	1,725	2,238
Tax benefit from exercise of stock options	6,355	2,452
Common stock repurchases	(4,473)	(1,090)
Net Cash Provided By Financing Activities	1,982	1,975
Effect of exchange rate changes on cash	(806)	4,625
Net decrease in cash and cash equivalents	(14,341)	(18,116)
Cash and cash equivalents at beginning of period	256,861	165,112
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$242,520	\$146,996

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 – March 31, 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 months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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

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

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

Reclassification: Certain reclassifications have been made to the 2011 condensed consolidated statement of cash flow in order to conform to the 2012 presentation.

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

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

Cash and Cash Equivalents: The Company considers all investments with an initial maturity of three months or less when purchased to be cash equivalents. The March 31, 2012 and December 31, 2011 balances include money market investments, certificates of deposit, and commercial paper. Chart Cryogenic Distribution Equipment (Changzhou) Company, Limited, a joint venture of the Company, held \$988 in restricted cash on deposit to cover guarantees.

Short-Term Investments: From time to time, the Company invests in short-term, highly liquid, variable rate instruments, which have stated maturities of greater than three months but less than six months. These short term investments are recorded at cost which approximates fair value. The Company has determined that its investment securities are available and intended for use in current operations and, accordingly, classifies investment securities as

current assets. There are no short term investments at March 31, 2012 or December 31, 2011.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – March 31, 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:

	March 31, 2012	December 31, 2011
Raw materials and supplies	\$69,833	\$64,832
Work in process	41,093	36,045
Finished goods	56,929	48,945
	\$167,855	\$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 are expensed as incurred. Change orders resulting in additional revenue and profit are recognized upon approval by the customer based on the percentage of incurred costs to date compared to total estimated costs at completion. Certain contracts include incentive-fee arrangements. The incentive fees in such contracts can be based on a variety of factors but the most common are the achievement of target completion dates, target costs, and/or other performance criteria. Incentive fee revenue is not recognized until it is earned. Timing of amounts billed on contracts varies from contract to contract and could cause a significant variation in working capital requirements. The Company reports sales net of tax assessed by qualifying governmental authorities.

Product Warranties: The Company provides product warranties with varying terms and durations for the majority of its products. The Company calculates its warranty reserve by considering historical warranty experience and specifically identified warranty issues. The Company records warranty expense in cost of sales. The changes in the Company’s consolidated warranty reserve during the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31,	
	2012	2011
Beginning balance	\$13,181	\$13,372
Warranty expense	989	2,171
Warranty usage	(1,973) (1,982
Ending balance	\$12,197	\$13,561

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, and on an interim basis if necessary, using a measurement date of October 1st. The Company amortizes intangible assets that have finite lives over their useful lives.

With respect to goodwill, the Company assesses 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 reporting units are the same as our operating segments, which are also the reportable segments: Energy & Chemicals, Distribution & Storage, and BioMedical. The Company first evaluates relevant events and circumstances, such as macroeconomic conditions and the Company’s overall financial performance to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. The Company then evaluates how significant each of the identified factors could be to the fair value or carrying amount of a reporting unit and weighs these factors in totality in forming a conclusion

whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the first and second steps of the goodwill impairment test are not necessary. Otherwise, the Company would perform the first step of the two-step goodwill impairment test. As of October 1, 2011 and based on the Company's qualitative assessment, the Company determined that it was not more likely than not that the fair value is less than the carrying amount of each reporting unit and, therefore, the two-step goodwill impairment test was not necessary.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – March 31, 2012

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

With respect to other indefinite-lived intangible assets, the Company determines the fair value of any indefinite-lived intangible assets using an income approach, compares the fair value to its carrying amount and records an impairment loss if the carrying amount exceeds its fair value. The Company uses the relief from royalty method to develop fair value estimates for trade names and trademarks. This method focuses on the level of royalty payments that the user of an intangible asset would be willing to pay for the use of the asset if it were not owned by the user. This method has been consistently applied between years. As of October 1, 2011, the Company determined that the fair values of trademarks, trade names, and in-process research and development exceeded their carrying amounts.

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

		March 31, 2012		December 31, 2011	
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived assets:					
Unpatented technology	9 years	\$ 18,229	\$(9,562)	\$ 18,113	\$(9,024)
Patents	10 years	8,978	(6,482)	9,080	(5,434)
Product names	14 years	5,674	(1,858)	5,638	(1,818)
Customer relations	13 years	130,614	(50,634)	130,488	(48,840)
		\$ 163,495	\$(68,536)	\$ 163,319	\$(65,116)
Indefinite-lived intangible assets:					
Trademarks and trade names		\$ 39,305		\$ 39,280	
In-process research and development		3,070		3,070	
		\$ 42,375		\$ 42,350	

The following table represents the changes in goodwill:

Balance as of January 1, 2012	\$ 288,770
Foreign currency adjustments	666
Balance as of March 31, 2012	\$ 289,436

Amortization expense for intangible assets subject to amortization was \$3,070 and \$3,317 for the three months ended March 31, 2012 and 2011, respectively, and is estimated to be approximately \$13,300 for 2012 and an average of \$10,800 for years 2013 through 2017.

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 three months ended March 31, 2012, the Company granted 104 stock options, 31 shares of restricted stock and stock unit awards and 34 performance stock units and leveraged restricted 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 and leveraged restricted stock units vest at the end of three years based on the achievement of certain performance and market conditions.

During the three months ended March 31, 2012, participants in the Company's stock option plans exercised options to purchase 184 shares of the Company's common stock.

Stock-based compensation expense was \$2,505 and \$1,401 for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, the total stock-based compensation expected to be recognized over the weighted average period of approximately 2.1 years is \$9,077.

Convertible Debt: The Company determines if the embedded conversion feature within the Convertible Senior Subordinated Notes (the "Convertible Notes") is clearly and closely related 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

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – March 31, 2012

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

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, net of tax, 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 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-12, “Comprehensive Income – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (Topic 220).” The amendments were made to allow the FASB time to consider whether there should be additional presentation and disclosure requirements for reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this update. This ASU is effective for fiscal years beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the financial statements of the Company.

In September 2011, the FASB issued ASU 2011-09, “Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80).” The Company has historically participated in the multiemployer plan for union employees at the Company's La Crosse, Wisconsin facility. The amendments in the ASU require the Company to provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. The amendments are effective for fiscal years ending after December 15, 2011 and are applied retrospectively for all prior periods presented. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

In September 2011, the FASB issued ASU 2011-08, “Intangibles – Goodwill and Other (Topic 350).” The amendments in the ASU permit an entity 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. If an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the first and second steps of the goodwill impairment test are not necessary. Otherwise, the entity would perform the first step of 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. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011. The Company early adopted the new guidance and its adoption did not have a material impact on the Company's financial position, results of operations or cash flows.

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 adoption of this guidance did not have a material impact on the financial statements of the Company since the amendments affect financial statement presentation only.

In May 2011, the FASB issued ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Topic 820).” The amendments in the ASU aim to align the principles for fair value measurements and the related disclosure requirements in accordance with U.S. GAAP and IFRS. This ASU mainly contains clarifications such as the specification that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The ASU also requires new disclosures under U.S. GAAP such as quantitative information about the unobservable inputs used in a fair value

measurement that is categorized within the Level 3 of the fair value hierarchy. This ASU is effective during interim and annual periods beginning after December 15, 2011. Early adoption by public companies is not permitted. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – March 31, 2012

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

NOTE B — Fair Value Measurements

The Company measures assets and liabilities at fair value on a recurring basis 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.

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, 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 income and comprehensive income as foreign currency gains or losses. The changes in fair value generated a net loss and net gain of \$384 and \$668 for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, the Company held forward currency contracts to sell (i) 13,700 euros against the U.S. dollar, (ii) 3,370 euros against the Czech koruna, (iii) 1,300 Polish zloty against the euro, (iv) 60,000 Japanese yen against the U.S. dollar, (v) 325 Australian dollars against the U.S. dollar, (vi) 925 British pounds against the U.S. dollar, (vii) 2,250 Norwegian kroner against the euro, and (viii) 4,700 Czech koruna against the U.S. dollar. As of March 31, 2012, the fair value of the Company's derivative assets and liabilities representing foreign currency forward contracts was \$44 and \$282, respectively. These amounts were recorded in the unaudited condensed consolidated balance sheet as other current assets and liabilities. As of December 31, 2011, the Company held forward currency contracts to buy 17,500 Czech koruna against the euro and to sell (i) 11,500 euros against the U.S. dollar, (ii) 4,700 Czech koruna against the U.S. Dollar, (iii) 130,000 Japanese yen against the U.S. dollar, (iv) 3,340 euros against the Czech koruna, (v) 3,000 Norwegian kroner against the euro, and (vi) 250 British pounds against the U.S. dollar. As of December 31, 2011, the fair value of the Company's derivative assets and liabilities representing foreign currency forward contracts was \$489 and \$191, respectively. These were recorded in the condensed consolidated balance sheet as other current assets and liabilities. 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 as described in Note C below is estimated based on the present value of the underlying cash flows discounted using market interest rates. Under this method, the fair value of the Company's term loan was \$44,659 and \$45,426 as of March 31, 2012 and December 31, 2011, respectively. The Company's term loan uses other inputs that are observable and, accordingly, are classified as being valued using Level 2 inputs.

The fair value of the Convertible Notes exceeded its carrying amount by approximately 128% to 129% as of March 31, 2012 and approximately 107% to 108% as of December 31, 2011. The Convertible Notes are actively quoted instruments and, accordingly, are classified as being valued using Level 1 inputs. The fair value of the liability component of the Convertible Notes is based on the present value of its associated cash flows using a market interest rate for similar debt instruments without a conversion feature. The liability component of the Convertible Notes use quoted prices for similar liabilities in active markets and, accordingly, are classified as being valued using Level 2 inputs.

The estimated fair value of the contingent consideration relating to the acquisitions of Clever Fellows Innovation Consortium, Inc., SeQual Technologies, Inc., and Cryotech International, Inc. as of March 31, 2012 and December 31,

2011 was \$7,584 and \$7,067, respectively, 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 three months ended March 31, 2012 of \$517 was recorded as selling, general and administrative expenses in the condensed consolidated statement of income and comprehensive income. 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.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – March 31, 2012

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

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 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 which began on 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 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

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 March 31, 2012, 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

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Notes to Unaudited Condensed Consolidated Financial Statements – March 31, 2012

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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. These warrants were exercisable as of the issuance date of the Convertible Notes. 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 months ended March 31, 2012, interest expense for the Convertible Notes was \$3,488 which included \$1,250 of contractual 2.00% coupon interest and \$2,238 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. Debt issuance costs were \$7,277 with \$2,303 recorded as a reduction in additional paid-in-capital. The balance of \$4,974 is being amortized over the term of the Convertible Notes. For the three months ended March 31, 2012, total expense associated with the amortization of debt issuance costs was \$178.

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:

	March 31, 2012	December 31, 2011
Principal balance of liability component	\$250,000	\$250,000
Unamortized discount	(73,288)	(75,526)
Carrying value of liability component	\$176,712	\$174,474
Equity Component	\$79,115	\$79,115

As of March 31, 2012, the Company had a five-year \$200,000 senior credit facility (the "Senior Credit Facility") consisting of a \$65,000 term loan (the "Term Loan"), of which \$53,625 remained outstanding as of such date and a \$135,000 revolving credit facility (the "Revolver") with a scheduled maturity date of May 18, 2015 (the "Maturity Date"). The Revolver included 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 was a foreign currency limit of \$40,000 under the Revolver which could 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 permitted borrowings up to \$40,000 under the Revolver made by the Company's wholly-owned subsidiary, Chart Industries Luxembourg S.à r.l.

Subsequent to the end of the first quarter, on April 25, 2012, the Company amended and restated its five-year \$200,000 Senior Credit Facility with a five-year \$375,000 senior credit facility (the "Restated Credit Facility") which consists of a \$75,000 term loan (the "Term Loan") and a \$300,000 revolving credit facility (the "Revolving Credit Facility") and extended it two years with a scheduled maturity date of April 25, 2017. The Restated Credit Facility also includes an expansion option permitting the Company to add up to an aggregate of \$150,000 in term loans or revolving credit commitments from its existing

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and potential new lenders. Loans under the Restated Credit Facility bear interest at LIBOR or Prime, plus a margin that varies with the Company's net debt to EBITDA ratio. Under the terms of the Restated Credit Facility, 5% of the \$75,000 Term Loan is payable annually in quarterly installments over the first three years, 10% is payable annually in quarterly installments over the final two years, and the remaining balance is due on April 25, 2017. Significant financial covenants for the Restated Credit Facility include a maximum net debt to EBITDA ratio of 3.25 and a minimum interest coverage to EBITDA ratio of 3.0, which are the same that applied under the prior Senior Credit Facility.

The Senior Credit Facility agreement, including the amended facility, contains 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 includes financial covenants relating to net leverage and interest coverage ratios. The Company is in compliance with all covenants. As of March 31, 2012, there was \$53,625 outstanding under the Term Loan, \$32,879 in letters of credit issued, and no borrowings outstanding under the Revolver. 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. 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. In conjunction with the redemption of the Subordinated Notes, the Company recorded a \$4,964 call premium and additional amortization of \$2,969 for the write-off of the remaining deferred financing fees related to the Subordinated Notes. 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.

In October 2011, Chart Cryogenic Engineering Systems (Changzhou) Co., Ltd., a wholly-owned subsidiary of the Company, entered into three separate banking facilities (the "Foreign Facilities") which include a bonding/guarantee facility, a revolving line of credit, and an overdraft facility with 30,000, 60,000, and 10,000 Chinese yuan in borrowing capacity, respectively. The Foreign Facilities are guaranteed by the Company. The revolving line of credit has a time to maturity of up to twelve months and was recorded as short-term debt at the date of issuance. As of March 31, 2012, the Company had \$4,761 of borrowings outstanding under the revolving line of credit. As of March 31, 2012, there were no amounts outstanding under the overdraft facility or the bonding/guarantee facility. 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. 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 March 31, 2012, there were bank guarantees of

\$2,600 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. During the first quarter of 2012, a line of credit with 170 euros in borrowing capacity was canceled. As of March 31, 2012, there were no borrowings outstanding under the remaining line of credit of 150 euros.

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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 cost of the restructuring was approximately \$7,300 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.

The Company recorded \$26 for the three months ended March 31, 2012 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 selling, general and administrative expenses for the three months ended March 31, 2012. The Company recorded \$199 for the three months ended March 31, 2011 related to the closure of the Plainfield, Indiana BioMedical facility. The Company also recorded \$902 for the three months ended March 31, 2011 in restructuring costs for employee separation benefits related to the integration of SeQual Technologies Inc. These charges were recorded in cost of sales (\$11 for the three months ended March 31, 2011) and selling, general and administrative expenses (\$1,090 for the three months ended March 31, 2011).

The following tables summarize the Company's restructuring activities for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012				
	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Balance as of January 1, 2012	\$—	\$115	\$998	\$—	\$1,113
Restructuring charges	—	—	26	—	26
Cash payments and other	—	(73) (517) —	(590
Balance as of March 31, 2012	\$—	\$42	\$507	\$—	\$549

	Three Months Ended March 31, 2011				
	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Balance as of January 1, 2011	\$103	\$387	\$2,088	\$—	\$2,578
Restructuring charges	—	(1) 1,102	—	1,101
Cash payments and other	(39) (128) (790) —	(957
Balance as of March 31, 2011	\$64	\$258	\$2,400	\$—	\$2,722

NOTE E — Earnings Per Share

The following table presents calculations of net income per share of common stock for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income attributable to Chart Industries, Inc.	\$14,083	\$7,530
Net income attributable to Chart Industries, Inc. per common share – basic	\$0.48	\$0.26
Net income attributable to Chart Industries, Inc. per common share – diluted	\$0.47	\$0.25
Weighted average number of common shares outstanding – basic	29,593	28,768
Incremental shares issuable upon assumed conversion and exercise of stock options	468	910
Total shares – diluted	30,061	29,678

Shares issuable under the Convertible Notes were excluded from diluted earnings per share since the average market price of the Company's common stock during the period was less than the conversion price. Certain common shares that may

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be issuable upon the vesting of share-based awards were not included in net income attributable to Chart Industries, Inc. per common share – diluted as they were anti-dilutive and consisted of 105 shares for the three months ended March 31, 2012. There were no anti-dilutive share-based awards for the three months ended March 31, 2011.

NOTE F — Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component are as follows:

	Three Months Ended March 31, 2012		
	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive income
Balance as of January 1, 2012	\$ 12,635	\$ (9,642) \$