

CHART INDUSTRIES INC
Form 10-Q
July 30, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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 **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. (Check one):

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 July 30, 2009, there were 28,455,377 outstanding shares of the Company's Common Stock, par value \$0.01 per share.

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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)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 175,041	\$ 122,165
Short-term investments	30,317	32,264
Accounts receivable, net	66,644	91,698
Inventories, net	86,821	95,390
Unbilled contract revenue	29,927	38,505
Other current assets	19,764	25,003
Total Current Assets	408,514	405,025
Property, plant and equipment, net	105,788	102,372
Goodwill	263,744	261,509
Identifiable intangible assets, net	127,405	129,542
Other assets, net	11,406	10,979
TOTAL ASSETS	\$ 916,857	\$ 909,427
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 41,457	\$ 45,392
Customer advances and billings in excess of contract revenue	63,175	96,433
Accrued expenses and other current liabilities	57,019	52,336
Total Current Liabilities	161,651	194,161
Long-term debt	243,175	243,175
Other long-term liabilities	64,467	66,639
Equity		
Chart Industries shareholders equity:		
Common stock, par value \$.01 per share 150,000,000 shares authorized, 28,450,370 and 28,397,821 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	285	284
Additional paid-in capital	249,672	247,638
Retained earnings	186,707	149,469
Accumulated other comprehensive income	9,250	6,569
Total Chart Industries, Inc. shareholders equity	445,914	403,960
Noncontrolling interest	1,650	1,492

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Total equity	447,564	405,452
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 916,857	\$ 909,427

The balance sheet at December 31, 2008 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales	\$ 155,301	\$ 197,752	\$ 335,493	\$ 368,081
Cost of sales	99,378	133,752	216,904	252,140
Gross profit	55,923	64,000	118,589	115,941
Selling, general and administrative expenses	23,478	26,342	49,412	49,417
Amortization expense	2,616	2,825	5,267	5,483
Asset impairment charge	500		500	
	26,594	29,167	55,179	54,900
Operating income	29,329	34,833	63,410	61,041
Other expenses (income):				
Interest expense, net	3,968	4,529	7,810	9,274
Financing costs amortization	404	413	808	826
Foreign currency expense (income)	(988)	(1,460)	(307)	(1,610)
	3,384	3,482	8,311	8,490
Net income before income taxes	25,945	31,351	55,099	52,551
Income tax expense	8,180	9,192	17,742	15,765
Net income	17,765	22,159	37,357	36,786
Noncontrolling interest, net of taxes	(11)	(33)	119	(62)
Net income attributable to Chart Industries, Inc.	\$ 17,776	\$ 22,192	\$ 37,238	\$ 36,848
Net income attributable to Chart Industries, Inc. per common share - basic	\$ 0.62	\$ 0.78	\$ 1.31	\$ 1.30
Net income attributable to Chart Industries, Inc. per common share - diluted	\$ 0.61	\$ 0.76	\$ 1.29	\$ 1.27
Weighted average number of common shares outstanding - basic	28,443	28,343	28,430	28,297
Weighted average number of common shares outstanding - diluted	29,014	29,100	28,840	29,029

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)

	Six Months Ended June 30,	
	2009	2008
OPERATING ACTIVITIES		
Net income	\$ 37,357	\$ 36,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,538	10,178
Employee stock and stock option related compensation expense	1,648	2,369
Financing costs amortization	808	826
Other non-cash operating activities	760	(1,593)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	25,457	1,801
Inventory	11,422	(18,254)
Unbilled contract revenues and other current assets	14,359	(10,088)
Accounts payable and other current liabilities	(9,652)	(11,512)
Customer advances and billings in excess of contract revenue	(33,810)	16,711
Net Cash Provided By Operating Activities	58,887	27,224
INVESTING ACTIVITIES		
Capital expenditures	(5,059)	(6,383)
Acquisition of businesses, net of cash acquired	(5,247)	(18,828)
Acquisition of minority interest and other assets		(616)
Proceeds from maturities of short-term investments	2,035	
Net Cash Used In Investing Activities	(8,271)	(25,827)
FINANCING ACTIVITIES		
Proceeds from exercise of warrants and options	283	1,018
Tax benefit from exercise of stock options	104	1,154
Net Cash Provided By Financing Activities	387	2,172
Net increase in cash and cash equivalents	51,003	3,569
Effect of exchange rate changes on cash	1,873	4,797
Cash and cash equivalents at beginning of period	122,165	92,869
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 175,041	\$ 101,235

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 June 30, 2009****(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, 2008. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Further, in connection with preparation of the condensed consolidated financial statements and in accordance with Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS 165), which was adopted during the second quarter of 2009, the Company evaluated subsequent events after the balance sheet date of June 30, 2009 through July 30, 2009, the date these condensed consolidated financial statements were issued.

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

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

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

Cash and Cash Equivalents: The Company considers all investments with an initial maturity of three months or less when purchased to be cash equivalents. The June 30, 2009 and December 31, 2008 balances include money market investments.

Short-Term Investments: The Company's short term investments consist of highly liquid, variable rate instruments, which have stated maturities of greater than three months but not exceeding 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, have classified investment securities as current assets.

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

	June 30, 2009	December 31, 2008
Raw materials and supplies	\$ 29,902	\$ 32,378
Work in process	22,317	27,564
Finished goods	34,602	35,448

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\$ 86,821 \$ 95,390

Revenue Recognition: For the majority of the Company's products, revenue is recognized when products are shipped, title has transferred and collection is reasonably assured. For these products, there is also persuasive evidence of an arrangement, and the selling price to the buyer is fixed or determinable. For brazed aluminum heat exchangers, cold boxes, vacuum-insulated pipe, liquefied natural gas fueling stations and engineered tanks, the Company uses the percentage of completion method of accounting. Earned revenue is based on the percentage that incurred costs to date bear to total estimated costs at completion after giving effect to the most current estimates. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Earned revenue reflects the original contract price adjusted for agreed upon claims and change orders, if any. Losses expected to be incurred on contracts in process, after consideration of estimated minimum recoveries from claims and change orders, are charged to operations as soon as such losses are known. Change orders resulting in additional revenue and profit are recognized

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements June 30, 2009

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

NOTE A Basis of Preparation Continued

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. 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.