DOVER Corp
Form 10-Q
April 20, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-4018

Dover Corporation
(Exact name of registrant as specified in its charter)

Delaware	53-0257888
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3005 Highland Parkway	
Downers Grove, Illinois	60515
(Address of principal executive offices)	(Zip Code)

(630) 541-1540
(Registrant’s telephone number, including area code)

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 þ No o

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 þ No o

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

Large accelerated filer þ	Accelerated filer o

Non-accelerated filer o	(Do not check if smaller reporting company)	Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act o

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

The number of shares outstanding of the Registrant’s common stock as of April 13, 2017 was 155,669,697.

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Item 1. Financial Statements

DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Revenue	$1,813,372	$1,622,273
Cost of goods and services	1,152,198	1,033,009
Gross profit	661,174	589,264
Selling, general and administrative expenses	485,290	443,448
Operating earnings	175,884	145,816
Interest expense	36,409	33,318
Interest income	(2,580)	(1,604)
Gain on sale of businesses	(90,093)	(11,228)
Other expense (income), net	176	(2,294)
Earnings before provision for income taxes	231,972	127,624
Provision for income taxes	59,725	28,268
Net earnings	$172,247	$99,356
Net earnings per share:		
Basic	$1.11	$0.64
Diluted	$1.09	$0.64
Weighted average shares outstanding:		
Basic	155,540	155,064
Diluted	157,399	156,161
Dividends paid per common share	$0.44	$0.42

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Net earnings	$172,247	$99,356
Other comprehensive earnings (loss), net of tax		
Foreign currency translation adjustments:		
Foreign currency translation gains during period	39,897	8,769
Reclassification of foreign currency translation losses to earnings upon sale of subsidiaries	3,875	—
Total foreign currency translation adjustments	43,772	8,769
Pension and other post-retirement benefit plans:		
Amortization of actuarial losses included in net periodic pension cost	1,338	1,409
Amortization of prior service costs included in net periodic pension cost	702	1,041
Total pension and other post-retirement benefit plans	2,040	2,450
Changes in fair value of cash flow hedges:		
Unrealized net gains (losses) arising during period	78	(49)
Net gains reclassified into earnings	(217)	(47)
Total cash flow hedges	(139)	(96)
Other	337	1,839
Other comprehensive earnings	46,010	12,962
Comprehensive earnings	$218,257	$112,318

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$415,530	$349,146
Receivables, net of allowances of $27,182 and $22,015	1,299,427	1,265,201
Inventories	942,176	870,487
Prepaid and other current assets	104,786	104,357
Total current assets	2,761,919	2,589,191
Property, plant and equipment, net	946,376	945,670
Goodwill	4,508,720	4,562,677
Intangible assets, net	1,782,107	1,802,923
Other assets and deferred charges	239,186	215,530
Total assets	$10,238,308	$10,115,991
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	$748,426	$414,550
Accounts payable	880,755	830,318
Accrued compensation and employee benefits	189,665	226,440
Accrued insurance	103,230	96,062
Other accrued expenses	320,555	332,595
Federal and other income taxes	76,572	40,353
Total current liabilities	2,319,203	1,940,318
Long-term debt	2,887,962	3,206,637
Deferred income taxes	643,363	710,173
Other liabilities	434,365	459,117
Stockholders' equity:		
Total stockholders' equity	3,953,415	3,799,746
Total liabilities and stockholders' equity	$10,238,308	$10,115,991

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY
(In thousands, except share data)
(Unaudited)

	Common Stock $1 Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2016	$256,538	$946,755	$(4,972,016)	$7,927,795	$ (359,326)	$ 3,799,746
Net earnings	—	—	—	172,247	—	172,247
Dividends paid	—	—	—	(68,516)	—	(68,516)
Common stock issued for the exercise of share-based awards	229	(9,106)	—	—	—	(8,877)
Share-based compensation expense	—	12,805	—	—	—	12,805
Other comprehensive earnings, net of tax	—	—	—	—	46,010	46,010
Balance at March 31, 2017	$256,767	$950,454	$(4,972,016)	$8,031,526	$ (313,316)	$ 3,953,415

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2017	2016
Operating Activities:		
Net earnings	$172,247	$99,356
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	95,598	88,604
Stock-based compensation expense	12,805	11,387
Gain on sale of businesses	(90,093)	(11,228)
Cash effect of changes in assets and liabilities:		
Accounts receivable, net	(23,207)	20,103
Inventories	(75,485)	(29,478)
Prepaid expenses and other assets	(8,189)	(1,522)
Accounts payable	43,833	(14,299)
Accrued compensation and employee benefits	(42,186)	(65,887)
Accrued expenses and other liabilities	(41,782)	3,202
Accrued and deferred taxes, net	41,572	45,654
Other, net	(7,042)	(12,479)
Net cash provided by operating activities	78,071	133,413
Investing Activities:		
Additions to property, plant and equipment	(42,259)	(37,230)
Acquisitions, net of cash and cash equivalents acquired	—	(436,058)
Proceeds from sale of property, plant and equipment	1,273	619
Proceeds from sale of businesses	120,397	47,300
Other	2,369	(488)
Net cash provided by (used in) investing activities	81,780	(425,857)
Financing Activities:		
Proceeds from exercise of share-based awards, including tax benefits	—	2,181
Change in commercial paper and notes payable	(15,900)	247,099
Dividends paid to stockholders	(68,516)	(65,940)
Payments to settle employee tax obligations on exercise of share-based awards	(8,877)	(4,833)
Net cash (used in) provided by financing activities	(93,293)	178,507
Effect of exchange rate changes on cash and cash equivalents	(174)	(4,528)
Net increase (decrease) in cash and cash equivalents	66,384	(118,465)
Cash and cash equivalents at beginning of period	349,146	362,185
Cash and cash equivalents at end of period	$415,530	$243,720

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

1. Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim periods and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. These unaudited Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes for Dover Corporation ("Dover" or the "Company") for the year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on February 10, 2017. The year end Condensed Consolidated Balance Sheet was derived from audited financial statements. Certain amounts in the prior year have been reclassified to conform to the current year presentation.

The accompanying unaudited interim Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair statement of results for these interim periods. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

2. Acquisitions

During the three months ended March 31, 2017, the Company did not have any acquisitions. During the three months ended March 31, 2016, the Company acquired the dispenser and systems businesses of Tokheim Group S.A.S. ("Tokheim") within the Fluids segment for net cash consideration of $436,058. During the measurement period, we recorded working capital adjustments which resulted in final net cash consideration of $417,238.

See Note 6 — Goodwill and Other Intangible Assets for purchase price adjustments related to acquisitions made in 2016. Purchase price allocation adjustments may arise through working capital adjustments, asset appraisals or to reflect additional facts and circumstances in existence as of the acquisition date. Identified measurement period adjustments will be recorded, including any related impacts to net earnings, in the reporting period in which the adjustments are determined and may be significant.

Subsequent Event - Acquisition

On April 5, 2017, the Company purchased 100% of the voting stock of Caldera Graphics S.A.S. for approximately €35 million (approximately $37 million). At the date of issuance of the consolidated financial statements, the initial purchase price allocation was not complete for this acquisition. See Note 19 — Subsequent Event for additional information regarding the acquisition.

Pro Forma Information

The following unaudited pro forma information illustrates the impact of 2016 acquisitions on the Company’s revenue and earnings from operations for the three months ended March 31, 2017 and 2016, respectively. In 2016, the

Company acquired six businesses in separate transactions for total net consideration of $1,562 million. During the measurement period, we recorded working capital adjustments which resulted in final net cash consideration of $1,559 million.

The pro forma information assumes that the 2016 acquisitions had taken place at the beginning of the prior year. Pro forma earnings are also adjusted to reflect the comparable impact of additional depreciation and amortization expense, net of tax, resulting from the fair value measurement of tangible and intangible assets relating to the year of acquisition.

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

The proforma effects for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,	
	2017	2016
Revenue:		
As reported	$1,813,372	$1,622,273
Pro forma	1,813,372	1,820,228
Earnings:		
As reported	$172,247	$99,356
Pro forma	172,247	110,690
Basic earnings per share:		
As reported	$1.11	$0.64
Pro forma	1.11	0.71
Diluted earnings per share:		
As reported	$1.09	$0.64
Pro forma	1.09	0.71

3. Disposed Operations

On February 14, 2017, the Company completed the sale of Performance Motorsports International ("PMI"), a wholly-owned subsidiary of the Company that manufactures pistons and other engine related components serving the motorsports and powersports markets. Total consideration was $147,313 for the transaction, including cash proceeds of $118,706. We recognized a gain on sale of $88,402 for the three months ended March 31, 2017 within the Condensed Consolidated Statements of Earnings and recorded a 25% non-controlling interest at fair value of $18,607 as well as a subordinated note receivable of $10,000.

On February 17, 2016, the Company completed the sale of Texas Hydraulics, a custom manufacturer of fluid power components. Upon disposal of the business, the Company recognized total consideration of $47,300, which resulted in a gain on sale of $11,228 included within the Condensed Consolidated Statements of Earnings for the three months ended March 31, 2016.

These disposals did not represent a strategic shift in operations and, therefore, did not qualify for presentation as discontinued operations.

4. Inventories

	March 31, 2017	December 31, 2016
Raw materials	$475,708	$ 428,286
Work in progress	157,653	138,652
Finished goods	418,775	409,314
Subtotal	1,052,136	976,252
Less reserves	(109,960)	(105,765)
Total	$942,176	$ 870,487

5. Property, Plant and Equipment, net

	March 31, 2017	December 31, 2016
Land	$69,187	$ 68,575
Buildings and improvements	601,612	597,523
Machinery, equipment and other	1,815,260	1,802,832
Property, plant and equipment, gross	2,486,059	2,468,930
Total accumulated depreciation	(1,539,683)	(1,523,260)
Property, plant and equipment, net	$946,376	$ 945,670

Depreciation expense totaled $44,718 and $45,029 for the three months ended March 31, 2017 and 2016, respectively.

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DOVER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

6. Goodwill and Other Intangible Assets

The changes in the carrying value of goodwill by reportable operating segments were as follows:

	Energy	Engineered Systems	Fluids	Refrigeration & Food Equipment	Total
Balance at December 31, 2016	$1,045,774	$1,567,216	$1,413,508	$ 536,179	$4,562,677
Purchase price adjustments	—	(5,313)	(44,785)	—	(50,098)
Disposition of business	—	(27,793)	—	—	(27,793)
Foreign currency translation	941	22,030	765	198	23,934
Balance at March 31, 2017	$1,046,715	$1,556,140	$1,369,488	$ 536,377	$4,508,720

As noted in Note 3 — Disposed Operations, the Company completed the sale of its PMI business during the three months ended March 31, 2017. As a result of this sale, the Engineered Systems goodwill balance was reduced by $27,793.

During the three months ended March 31, 2017, the Company recorded $50,098 in adjustments for goodwill related to purchase price adjustments principally for deferred tax liabilities and working capital adjustments for 2016 acquisitions.

The Company tests goodwill for impairment annually in the fourth quarter of each year and whenever events or circumstances indicate an impairment may have occurred. In the first quarter of 2017, the Company re-aligned its reporting units after acquiring four companies in the retail fueling market in 2016, increasing its reporting units from nine to ten. The Company performed the goodwill impairment test for the three reporting units within the Fluids segment impacted by the change, concluding that the fair values of the reporting units were in excess of their carrying values.

The Company's definite-lived and indefinite-lived intangible assets by major asset class were as follows:

	March 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Customer intangibles	$1,967,835	$ 759,061	$1,208,774	$1,942,974	$ 718,135	$1,224,839
Trademarks	247,013	60,910	186,103	246,619	56,455	190,164
Patents	158,538	122,633	35,905	157,491	119,828	37,663
Unpatented technologies	157,146	68,791	88,355	155,752	64,648	91,104
Distributor relationships	119,267	47,344	71,923	113,463	44,914	68,549
Drawings & manuals	38,803	24,518	14,285	37,744	23,114	14,630
Other	33,037	21,866	11,171	31,632	21,184	10,448
Total	2,721,639	1,105,123	1,616,516	2,685,675	1,048,278	1,637,397
Unamortized intangible assets:						
Trademarks	165,591	—	165,591	165,526	—	165,526
Total intangible assets, net	$2,887,230	$ 1,105,123	$1,782,107	$2,851,201	$ 1,048,278	$1,802,923

Amortization expense was $50,880 and $43,574 for the three months ended March 31, 2017 and 2016, respectively.

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DOVER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

7. Restructuring Activities

The Company's restructuring charges by segment were as follows:

	Three Months Ended March 31,	
	2017	2016
Energy	$185	$6,416
Engineered Systems	1,064	1,967
Fluids	3,251	5,226
Refrigeration & Food Equipment	1,513	21
Corporate	—	757
Total	$6,013	$14,387
These amounts are classified in the unaudited Condensed Consolidated Statements of Earnings as follows:		
Cost of goods and services	$4,071	$5,851
Selling, general and administrative expenses	1,942	8,536
Total	$6,013	$14,387

The restructuring expenses of $6,013 incurred during the three months ended March 31, 2017 were related to restructuring programs initiated during 2017 and 2016. These programs are designed to better align the Company's costs and operations with current market conditions through targeted facility consolidations, headcount reductions and other measures to further optimize operations. The Company expects the programs currently underway to be substantially completed in the next 12 to 18 months.

The $6,013 of restructuring charges incurred during the first quarter of 2017 primarily included the following items:

- The Engineered Systems segment recorded $1,064 of restructuring charges related to headcount reduction and facility consolidations primarily within the Industrial platform.

- The Fluids segment recorded $3,251 of restructuring charges principally related to operational synergies, headcount reductions and facility consolidations at various businesses across the segment.

- The Refrigeration & Food Equipment segment recorded $1,513 of restructuring charges related primarily to facility consolidations.

The Company’s severance and exit accrual activities were as follows:

	Severance	Exit	Total
Balance at December 31, 2016	$10,908	$1,439	$12,347
Restructuring charges	4,686	1,327	6,013
Payments	(7,514)	(1,196)	(8,710)
Foreign currency translation	212	35	247
Other, including write-offs of fixed assets	(627)	(301)	(928)
Balance at March 31, 2017	$7,665	$1,304	$8,969

DOVER CORPORATION
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(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

8. Borrowings

Borrowings consisted of the following:

	March 31, 2017	December 31, 2016
Short-term		
Current portion of long-term debt and short-term borrowings	$357,126	$ 6,950
Commercial paper	391,300	407,600
Notes payable and current maturities of long-term debt	$748,426	$ 414,550

	Principal	Carrying amount [(1)] March 31, 2017	December 31, 2016
Long-term			
5.45% 10-year notes due March 15, 2018	$350,000	$349,623	$349,502
2.125% 7-year notes due December 1, 2020 (euro-denominated)	323,957	322,207	311,851
4.30% 10-year notes due March 1, 2021	450,000	448,554	448,458
3.150% 10-year notes due November 15, 2025	400,000	394,189	394,042
1.25% 10-year notes due November 9, 2026 (euro-denominated)	647,913	637,200	616,893
6.65% 30-year debentures due June 1, 2028	200,000	198,879	198,830
5.375% 30-year debentures due October 15, 2035	300,000	295,374	295,316
6.60% 30-year notes due March 15, 2038	250,000	247,628	247,593
5.375% 30-year notes due March 1, 2041	350,000	343,393	343,323
Other		1,716	1,969
Total debt		3,238,763	3,207,777
Less long-term debt current portion		(350,801)	(1,140)
Net long-term debt		$2,887,962	$3,206,637

(1) Carrying amount is net of unamortized debt discount and deferred debt issuance costs. Total unamortized debt discounts were $18.2 million and $18.8 million as of March 31, 2017 and December 31, 2016, respectively. Total deferred debt issuance costs were $16.3 million and $16.5 million as of March 31, 2017 and December 31, 2016, respectively.

On March 15, 2018, the outstanding 5.45% notes with a principal value of $350.0 million will mature. These notes have been classified as a current maturity of long-term debt as of March 31, 2017.

The Company maintains a $1.0 billion five-year unsecured revolving credit facility (the "Credit Agreement") with a syndicate of banks which expires on November 10, 2020. The Company was in compliance with all covenants in the Credit Agreement and other long-term debt covenants at March 31, 2017 and had a coverage ratio of 10.1 to 1.0. The Company primarily uses the Credit Agreement as liquidity back-up for its commercial paper program and has not drawn down any loans under the facility and does not anticipate doing so. The Company generally uses commercial paper borrowings for general corporate purposes, funding of acquisitions and repurchases of its common stock.

As of March 31, 2017, the Company had approximately $136,523 outstanding in letters of credit and performance and other guarantees which expire on various dates in 2017 through 2039. These letters of credit are primarily maintained as security for insurance, warranty and other performance obligations. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations, the probability of which we believe is remote.

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

9. Financial Instruments

Derivatives

The Company is exposed to market risk for changes in foreign currency exchange rates due to the global nature of its operations and certain commodity risks. In order to manage these risks, the Company has hedged portions of its forecasted sales and purchases to occur within the next twelve months that are denominated in non-functional currencies, with currency forward contracts designated as cash flow hedges. At March 31, 2017 and December 31, 2016, the Company had contracts with U.S. dollar equivalent notional amounts of $104,133 and $59,932, respectively, to exchange foreign currencies, principally the Chinese Yuan, Pound Sterling, Swedish Krona, Euro, Canadian Dollar and Swiss Franc. The Company believes it is probable that all forecasted cash flow transactions will occur.

In addition, the Company had outstanding contracts with a total notional amount of $56,987 and $56,189 as of March 31, 2017 and December 31, 2016, respectively, that are not designated as hedging instruments. These instruments are used to reduce the Company's exposure for operating receivables and payables that are denominated in non-functional currencies. Gains and losses on these contracts are recorded in Other expense (income), net in the Condensed Consolidated Statements of Earnings.

The following table sets forth the fair values of derivative instruments held by the Company as of March 31, 2017, and December 31, 2016 and the balance sheet lines in which they are recorded:

	Fair Value Asset (Liability)		
	March 31, 2017	December 31, 2016	Balance Sheet Caption
Foreign currency forward	$665	$ 1,058	Prepaid / Other assets
Foreign currency forward	(700)	(705)	Other accrued expenses

For a cash flow hedge, the effective portion of the change in estimated fair value of a hedging instrument is recorded in Accumulated other comprehensive loss as a separate component of the Condensed Consolidated Statements of Stockholders' Equity and is reclassified into Cost of goods and services in the Condensed Consolidated Statements of Earnings during the period in which the hedged transaction is recognized. The amount of gains or losses from hedging activity recorded in earnings is not significant, and the amount of unrealized gains and losses from cash flow hedges that are expected to be reclassified to earnings in the next twelve months is not significant; therefore, additional tabular disclosures are not presented. There are no amounts excluded from the assessment of hedge effectiveness and the Company's derivative instruments that are subject to credit risk contingent features were not significant.

The Company is exposed to credit loss in the event of nonperformance by counterparties to the financial instrument contracts held by the Company; however, nonperformance by these counterparties is considered unlikely as the Company’s policy is to contract with highly-rated, diversified counterparties.

The Company has designated the €600,000 and €300,000 of euro-denominated notes issued November 9, 2016 and December 4, 2013, respectively, as hedges of a portion of its net investment in euro-denominated operations. Changes in the value of the euro-denominated debt are recognized in foreign currency translation adjustments within Other comprehensive earnings (loss) of the Condensed Consolidated Statements of Comprehensive Earnings to offset changes in the value of the net investment in euro-denominated operations.

Amounts recognized in Other comprehensive earnings (loss) for the gains (losses) on net investment hedges were as follows:

	Three Months Ended March 31,	
	2017	2016
Loss on euro-denominated debt	$(30,521)	$(6,165)
Tax benefit	10,682	2,158
Net loss on net investment hedges, net of tax	$(19,839)	$(4,007)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

Fair Value Measurements

Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016:

	March 31, 2017 Level 2	December 31, 2016 Level 2
Assets:		
Foreign currency cash flow hedges	$ 665	$ 1,058
Liabilities:		
Foreign currency cash flow hedges	700	705

In addition to fair value disclosure requirements related to financial instruments carried at fair value, accounting standards require interim disclosures regarding the fair value of all of the Company's financial instruments.

The estimated fair value of long-term debt, net at March 31, 2017, and December 31, 2016 was $3,189,216 and $3,534,553, respectively, compared to the carrying value of $3,238,763 and $3,207,777, respectively. The estimated fair value of long-term debt is based on quoted market prices for similar instruments and is, therefore, classified as Level 2 within the fair value hierarchy.

The carrying values of cash and cash equivalents, trade receivables, accounts payable, and notes payable are reasonable estimates of their fair values as of March 31, 2017, and December 31, 2016 due to the short-term nature of these instruments.

10. Income Taxes

The effective tax rates for the three months ended March 31, 2017 and 2016 were 25.7% and 22.1%, respectively. The increase in the effective tax rate for the three months ended March 31, 2017 relative to the prior comparable period is principally due to the larger benefit from the discrete items in 2016 compared to 2017.

The discrete items for the three months ended March 31, 2017 primarily resulted from the gain on the sale of PMI. The discrete items for the three months ended March 31, 2016 principally resulted from the impact on deferred tax balances of a tax rate reduction in a non-US jurisdiction.

In the first quarter of 2017, stock-based compensation excess tax benefits of $3,346 were reflected in the Condensed Consolidated Statement of Earnings as a component of the provision for income taxes as a result of adopting Accounting Standards Update ("ASU") 2016-09, Compensation Stock Compensation (Topic 718). See Note 18 — Recent Accounting Pronouncements regarding the adoption of the standard.

Dover and its subsidiaries file tax returns in the U.S., including various state and local returns, and in other foreign jurisdictions. We believe adequate provision has been made for all income tax uncertainties. The Company is routinely audited by taxing authorities in its filing jurisdictions, and a number of these audits are currently underway. The Company believes that within the next twelve months uncertain tax positions may be resolved and statutes of limitations will expire, which could result in a decrease in the gross amount of unrecognized tax benefits of approximately zero to $17,905.

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

11. Equity Incentive Program

The Company typically grants equity awards annually at its regularly scheduled first quarter meeting of the Compensation Committee of the Board of Directors. During the first quarter of 2017, the Company issued stock-settled appreciation rights ("SARs") covering 1,028,116 shares, performance share awards of 57,958 and restricted stock units ("RSUs") of 170,310.

The Company uses the Black-Scholes option pricing model to determine the fair value of each SAR on the date of grant. Expected volatilities are based on Dover's stock price history, including implied volatilities from traded options on Dover stock. The Company uses historical data to estimate SAR exercise and employee termination patterns within the valuation model. The expected life of SARs granted is derived from the output of the option valuation model and represents the average period of time that SARs granted are expected to be outstanding. The interest rate for periods within the contractual life of the SARs is based on the U.S. Treasury yield curve in effect at the time of grant.

The assumptions used in determining the fair value of the SARs awarded during the respective periods were as follows:

	SARs	
	2017	2016
Risk-free interest rate	1.80 %	1.05 %
Dividend yield	2.27 %	3.09 %
Expected life (years)	4.6	4.6
Volatility	21.90 %	26.17 %
Grant price	$79.28	$57.25
Fair value per share at date of grant	$12.63	$9.25

The performance share awards granted in 2017 and 2016 are considered performance condition awards as attainment is based on Dover's performance relative to established internal metrics. The fair value of these awards was determined using Dover's closing stock price on the date of grant. The expected attainment of the internal metrics for these awards is analyzed each reporting period, and the related expense is adjusted based on expected attainment, if that attainment differs from previous estimates. The cumulative effect on current and prior periods of a change in attainment is recognized in selling, general and administrative expenses in the unaudited Condensed Consolidated Statements of Earnings in the period of change.

The fair value and average attainment used in determining stock-based compensation cost for the performance shares issued in 2017 and 2016 is as follows for the three months ended March 31, 2017:

	Performance shares	
	2017	2016
Fair value per share at date of grant	$79.28	$57.25
Average attainment rate reflected in expense	169.95 %	39.91 %

The Company also has granted RSUs, and the fair value of these awards was determined using Dover's closing stock price on the date of grant.

Stock-based compensation is reported within selling, general and administrative expenses in the accompanying unaudited Condensed Consolidated Statements of Earnings. The following table summarizes the Company's compensation expense relating to all stock-based incentive plans:

	Three Months Ended March 31,	
	2017	2016
Pre-tax stock-based compensation expense	$12,805	$11,387
Tax benefit	(4,554)	(4,050)
Total stock-based compensation expense, net of tax	$8,251	$7,337

(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

On January 1, 2017, the Company adopted ASU 2016-09, Compensation: Stock Compensation (Topic 718). See Note 18 — Recent Accounting Pronouncements for further details.

12. Commitments and Contingent Liabilities

Litigation

A few of the Company's subsidiaries are involved in legal proceedings relating to the cleanup of waste disposal sites identified under federal and state statutes that provide for the allocation of such costs among "potentially responsible parties." In each instance, the extent of the Company's liability appears to be very small in relation to the total projected expenditures and the number of other "potentially responsible parties" involved and is anticipated to be immaterial to the Company. In addition, a few of the Company's subsidiaries are involved in ongoing remedial activities at certain current and former plant sites, in cooperation with regulatory agencies, and appropriate reserves have been established. At March 31, 2017, and December 31, 2016, the Company has reserves totaling $30,018 and $29,959, respectively, for environmental and other matters, including private party claims for exposure to hazardous substances that are probable and estimable.

The Company and certain of its subsidiaries are also parties to a number of other legal proceedings incidental to their businesses. These proceedings primarily involve claims by private parties alleging injury arising out of use of the Company's products, patent infringement, employment matters, and commercial disputes. Management and legal counsel, at least quarterly, review the probable outcome of such proceedings, the costs and expenses reasonably expected to be incurred and currently accrued to-date, and the availability and extent of insurance coverage. The Company has reserves for legal matters that are probable and estimable and not otherwise covered by insurance, and at March 31, 2017 and December 31, 2016, these reserves were not significant. While it is not possible at this time to predict the outcome of these legal actions, in the opinion of management, based on the aforementioned reviews, the Company is not currently involved in any legal proceedings which, individually or in the aggregate, could have a material effect on its financial position, results of operations, or cash flows.

Warranty Accruals

Estimated warranty program claims are provided for at the time of sale. Amounts provided for are based on historical costs and adjusted for new claims. The changes in the carrying amount of product warranties through March 31, 2017 and 2016 were as follows:

	2017	2016
Beginning Balance, December 31 of the Prior Year	$84,997	$44,466
Provision for warranties	18,202	14,031
Settlements made	(17,633)	(12,462)
Other adjustments, including acquisitions and currency translation	805	4,666
Ending Balance, March 31	$86,371	$50,701

During the fourth quarter of 2016, the Company determined that there was a quality issue with a product component part in the Fluids segment and voluntarily reported this issue to the U.S. Consumer Product Safety Commission ("CPSC"). During the first quarter of 2017, the Company announced a voluntary recall of the product in collaboration with the CPSC. Based on the currently available information, at December 31, 2016, the Company recorded a warranty accrual of $23,150 in Other liabilities in the Consolidated Balance Sheet to cover the estimated costs of the recall. At March 31, 2017, the warranty accrual was reduced to $21,750 reflecting payments made against the accrual and was also reclassed from a non-current liability to a current liability.

13. Employee Benefit Plans

Retirement Plans

The Company offers defined contribution retirement plans which cover the majority of its U.S. employees, as well as employees in certain other countries. In addition, the Company sponsors qualified defined benefit pension plans covering certain employees of the Company and its subsidiaries. The plans' benefits are generally based on years of service and employee compensation. The Company also provides to certain management employees, through non-qualified plans, supplemental retirement benefits in excess of qualified plan limits imposed by federal tax law.

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The following tables set forth the components of the Company's net periodic expense relating to retirement benefit plans:

Qualified Defined Benefits

	Three Months Ended March 31,			
	U.S. Plan		Non-U.S. Plans	
	2017	2016	2017	2016
Service cost	$3,021	$3,478	$1,317	$1,373
Interest cost	5,429	5,762	1,264	1,375
Expected return on plan assets	(9,953)	(9,698)	(1,804)	(1,948)
Amortization:				
Prior service cost (credit)	107	183	(110)	(99)
Recognized actuarial loss	1,396	1,609	841	665
Transition obligation	—	—	1	1
Net periodic expense	$—	$1,334	$1,509	$1,367

Non-Qualified Supplemental Benefits

	Three Months Ended March 31,	
	2017	2016
Service cost	$618	$740
Interest cost	1,019	1,317
Amortization:		
Prior service cost	1,102	1,567
Recognized actuarial gain	(298)	(140)
Net periodic expense	$2,441	$3,484

Post-Retirement Benefit Plans

The Company also maintains post-retirement benefit plans, although these plans are closed to new entrants. The supplemental and post retirement benefit plans are supported by the general assets of the Company. The following table sets forth the components of the Company's net periodic expense relating to its post-retirement benefit plans:

	Three Months Ended March 31,	
	2017	2016
Service cost	$8	$13
Interest cost	73	105
Amortization:		
Prior service cost (credit)	2	(36)
Recognized actuarial gain	(40)	(59)
Net periodic expense	$43	$23

The total amount amortized out of accumulated other comprehensive earnings into net periodic pension and post-retirement expense totaled $3,001 and $3,691 for the three months ended March 31, 2017 and 2016, respectively.

Defined Contribution Retirement Plans

The Company also offers defined contribution retirement plans which cover the majority of its U.S. employees, as well as employees in certain other countries. The Company’s expense relating to defined contribution plans was $11,358, and $9,808 for the three months ended March 31, 2017 and 2016, respectively.

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14. Other Comprehensive Earnings

The amounts recognized in other comprehensive earnings (loss) were as follows:

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments	$33,090	$10,682	$43,772	$6,611	$2,158	$8,769
Pension and other postretirement benefit plans	3,001	(961)	2,040	3,691	(1,241)	2,450
Changes in fair value of cash flow hedges	(213)	74	(139)	(147)	51	(96)
Other	383	(46)	337	2,090	(251)	1,839
Total other comprehensive earnings	$36,261	$9,749	$46,010	$12,245	$717	$12,962

Total comprehensive earnings were as follows:

	Three Months Ended March 31,	
	2017	2016
Net earnings	$172,247	$99,356
Other comprehensive earnings	46,010	12,962
Comprehensive earnings	$218,257	$112,318

Amounts reclassified from accumulated other comprehensive (loss) to earnings during the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,	
	2017	2016
Foreign currency translation:		
Reclassification of foreign currency translation losses to earnings from sale of subsidiary	$3,875	$—
Tax benefit	—	—
Net of tax	$3,875	$—
Pension and other postretirement benefit plans:		
Amortization of actuarial losses	$1,899	$2,076
Amortization of prior service costs	1,102	1,615
Total before tax	3,001	3,691
Tax benefit	(961)	(1,241)
Net of tax	$2,040	