

CHART INDUSTRIES INC  
Form 10-Q  
October 30, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014  
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 October 28, 2014, there were 30,481,331 outstanding shares of the Company's Common Stock, par value \$0.01 per share.

CHART INDUSTRIES, INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**CHART INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 140,422	\$ 137,345
Accounts receivable, less allowances of \$5,954 and \$5,654	182,307	224,114
Inventories, net	227,527	213,004
Unbilled contract revenue	56,709	31,976
Prepaid expenses	15,086	12,257
Deferred income taxes	17,252	14,675
Other current assets	13,937	16,072
Total Current Assets	653,240	649,443
Property, plant and equipment, net	246,840	224,205
Goodwill	406,345	398,905
Identifiable intangible assets, net	158,385	172,142
Other assets	30,795	16,935
<b>TOTAL ASSETS</b>	<b>\$ 1,495,605</b>	<b>\$ 1,461,630</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 104,269	\$ 101,805
Customer advances and billings in excess of contract revenue	91,840	102,048
Accrued salaries, wages and benefits	35,007	39,961
Current portion of warranty reserve	15,005	19,567
Short-term debt	7,984	3,280
Current convertible notes	—	193,437
Current portion of long-term debt	—	3,750
Other current liabilities	27,023	35,456
Total Current Liabilities	281,128	499,304
Long-term debt	266,979	64,688
Long-term deferred tax liabilities	51,613	47,716
Long-term portion of warranty reserve	10,856	14,260
Accrued pension liabilities	5,222	7,719
Other long-term liabilities	10,270	9,360
Total Liabilities	626,068	643,047
Convertible notes conversion feature	—	56,563
Equity		
Common stock, par value \$.01 per share – 150,000,000 shares authorized, 30,479,152 and 30,378,502 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	305	304
Additional paid-in capital	374,999	311,972

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Retained earnings	484,104	429,187
Accumulated other comprehensive income	3,212	13,322
Total Chart Industries, Inc. Shareholders' Equity	862,620	754,785
Noncontrolling interests	6,917	7,235
Total Equity	869,537	762,020
TOTAL LIABILITIES AND EQUITY	\$1,495,605	\$1,461,630

The balance sheet at December 31, 2013 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.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
 (UNAUDITED)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales	\$293,841	\$301,757	\$866,891	\$873,671
Cost of sales	202,608	213,112	605,931	615,770
Gross profit	91,233	88,645	260,960	257,901
Selling, general and administrative expenses	46,377	47,934	150,950	147,043
Amortization expense	4,501	4,825	13,465	14,642
Operating expenses	50,878	52,759	164,415	161,685
Operating income	40,355	35,886	96,545	96,216
Other expenses:				
Interest expense, net	4,234	4,143	12,520	12,111
Financing costs amortization	326	326	979	979
Foreign currency loss (gain)	507	(393)	1,016	44
Other expenses, net	5,067	4,076	14,515	13,134
Income before income taxes	35,288	31,810	82,030	83,082
Income tax expense	12,136	6,963	26,168	21,524
Net income	23,152	24,847	55,862	61,558
Noncontrolling interests, net of taxes	301	402	945	1,578
Net income attributable to Chart Industries, Inc.	\$22,851	\$24,445	\$54,917	\$59,980
Net income attributable to Chart Industries, Inc. per common share:				
Basic	\$0.75	\$0.81	\$1.81	\$1.99
Diluted	\$0.74	\$0.74	\$1.77	\$1.90
Weighted-average number of common shares outstanding:				
Basic	30,396	30,275	30,377	30,181
Diluted	30,771	32,851	31,056	31,614
Comprehensive income, net of taxes	\$15,110	\$29,420	\$45,693	\$65,454
Less: Comprehensive income attributable to noncontrolling interests, net of taxes	372	433	886	1,633
Comprehensive income attributable to Chart Industries, Inc., net of taxes	\$14,738	\$28,987	\$44,807	\$63,821

See accompanying notes to these unaudited condensed consolidated financial statements.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
 (Dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net income	\$55,862	\$61,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,596	30,243
Interest accretion of convertible notes discount	7,917	7,317
Employee share-based compensation expense	7,613	6,782
Financing costs amortization	979	979
Unrealized foreign currency transaction loss (gain)	2,295	(51)
Other non-cash operating activities	(67)	) 4,049
Changes in asset and liabilities, net of acquisitions:		
Accounts receivable	39,771	(60,051)
Inventory	(19,106)	) (12,071)
Unbilled contract revenues and other assets	(40,301)	) (16,424)
Accounts payable and other liabilities	(11,361)	) (17,952)
Customer advances and billings in excess of contract revenue	(9,093)	) 15,054
Net Cash Provided By Operating Activities	66,105	19,433
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(42,886)	) (50,809)
Proceeds from sale of assets	1,692	64
Acquisition of businesses, net of cash acquired	(11,943)	) (2,965)
Net Cash Used In Investing Activities	(53,137)	) (53,710)
<b>FINANCING ACTIVITIES</b>		
Borrowings on revolving credit facilities	7,884	173,550
Repayments on revolving credit facilities	(3,252)	) (136,782)
Principal payments on long-term debt	(2,813)	) (2,813)
Proceeds from exercise of stock options	706	5,285
Excess tax benefit from share-based compensation	1,753	5,495
Payment of contingent consideration	(741)	) —
Common stock repurchases	(3,326)	) (1,979)
Dividend distribution to noncontrolling interest	(1,206)	) (1,369)
Net Cash (Used In) Provided By Financing Activities	(995)	) 41,387
Effect of exchange rate changes on cash	(8,896)	) 3,220
Net increase in cash and cash equivalents	3,077	10,330
Cash and cash equivalents at beginning of period	137,345	141,498
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$140,422</b>	<b>\$151,828</b>

See accompanying notes to these unaudited condensed consolidated financial statements.

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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

## NOTE 1 — Basis of Preparation

The accompanying unaudited condensed consolidated financial statements of Chart Industries, Inc. and its consolidated 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, 2013. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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

**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.

**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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Recently Issued Accounting Standards:** In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers.” The amendment requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The ASU allows full retrospective or modified retrospective adoption. Early adoption is not permitted. The Company is currently assessing the transition method and effect that the ASU will have on the Company’s financial position, results of operations and cash flows.

## NOTE 2 — Inventories

The following table summarizes the components of inventory:

	September 30, 2014	December 31, 2013
Raw materials and supplies	\$89,551	\$93,014
Work in process	42,336	42,996
Finished goods	95,640	76,994
Total inventories, net	\$227,527	\$213,004

The allowance for excess and obsolete inventory was \$4,806 and \$6,556 at September 30, 2014 and December 31, 2013, respectively.





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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

## NOTE 3 — Goodwill and Intangible Assets

## Goodwill

The following table represents the changes in goodwill by segment:

	Energy & Chemicals	Distribution & Storage	BioMedical	Total
Balance at December 31, 2013	\$83,215	\$160,054	\$155,636	\$398,905
Foreign currency translation adjustments and other	101	(1,954 )	—	(1,853 )
Goodwill acquired during the year	9,293	—	—	9,293
Balance at September 30, 2014	\$92,609	\$158,100	\$155,636	\$406,345

## Intangible Assets

The following table displays the gross carrying amount and accumulated amortization for finite-lived intangible assets and indefinite-lived intangible assets (exclusive of goodwill)<sup>(1)</sup>:

	September 30, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets:				
Unpatented technology	\$36,048	\$(6,512 )	\$43,133	\$(11,776 )
Patents	7,829	(6,036 )	7,904	(5,397 )
Product names	9,048	(5,801 )	9,244	(4,525 )
Non-compete agreements	420	(28 )	—	—
Customer relations	157,704	(82,015 )	159,143	(73,460 )
Total finite-lived intangible assets	\$211,049	\$(100,392 )	\$219,424	\$(95,158 )
Indefinite-lived intangible assets:				
Trademarks and trade names	\$47,728		\$47,876	

<sup>(1)</sup>Amounts include the impact of foreign currency translation. Fully amortized amounts are written off.

Amortization expense for intangible assets subject to amortization was \$4,501 and \$4,825 for the three months ended September 30, 2014 and 2013, respectively. Amortization expense for intangible assets subject to amortization was \$13,465 and \$14,642 for the nine months ended September 30, 2014 and 2013, respectively. The Company estimates amortization expense to be recognized during the next five years as follows:

For the Year Ending December 31,

2014	\$17,900
2015	16,300
2016	14,400
2017	13,500
2018	12,800

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

NOTE 4 — Debt and Credit Arrangements

Convertible Notes

The outstanding aggregate principal amount of the Company's 2.0% Convertible Senior Subordinated Notes due 2018 (the "Convertible Notes") is \$250,000. The Convertible Notes bear interest at a fixed rate of 2.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, and will mature on August 1, 2018. The effective interest rate at issuance was 7.9%.

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 senior in right of payment to the Company's future subordinated debt, equal in right of payment with the Company's future senior subordinated debt and are subordinated in right of payment to the Company's existing and future senior indebtedness, including indebtedness under the Company's existing credit agreement.

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

Upon 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 initially 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 represented the Company's interest rate for similar debt instruments at that time without a conversion feature and is being accreted to interest expense over the term of the Convertible Notes. At September 30, 2014 and December 31, 2013, the carrying amount of the liability component was \$201,354 and \$193,437, respectively, and the unamortized debt discount of the Convertible Notes was \$48,646 and \$56,563, respectively.

For the three months ended September 30, 2014 and 2013, interest expense for the Convertible Notes was \$3,941 and \$3,737, respectively, which included \$2,691 and \$2,487 of non-cash interest accretion expense related to the carrying amount of the Convertible Notes, respectively, and \$1,250 of 2.0% cash interest for both periods. For the nine months

ended September 30, 2014 and 2013, interest expense for the Convertible Notes was \$11,667 and \$11,067, respectively, which included \$7,917 and \$7,317 of non-cash interest accretion expense related to the carrying amount of the Convertible Notes, respectively, and \$3,750 of 2.0% cash interest for both periods. 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 remaining balance of \$4,974 is being amortized over the term of the Convertible Notes. For the three months ended September 30, 2014 and 2013, total expense

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

associated with the amortization of these debt issuance costs was \$178 for both periods. For the nine months ended September 30, 2014 and 2013, total expense associated with the amortization of these debt issuance costs was \$533 for both periods.

Prior to 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 (currently \$69.03) 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 on the Convertible Notes 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. 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. For purposes of calculating earnings per share, if the average market price of the Company's common stock exceeds the applicable conversion price during the periods reported, as was the case during the three and nine months ended September 30, 2014 and 2013, shares contingently issuable under the Convertible Notes will have a dilutive effect with respect to the Company's common stock.

The Company reassesses the convertibility of the Convertible Notes and the related balance sheet classification on a quarterly basis. As of December 31, 2013, the notes were convertible, thus, the liability component of the Convertible Notes was classified as a current liability, and the equity component was classified as temporary equity in the condensed consolidated balance sheet. As of September 30, 2014, the notes are not convertible, thus, the liability component of the Convertible Notes was classified as long-term debt, and the \$48,646 equity component was classified as permanent equity in the condensed consolidated balance sheet. At October 1, 2014, the Convertible Notes were not convertible. There have been no conversions as of the date of this filing.

**Senior Credit Facility and Senior Secured Revolving Credit Facility**

At September 30, 2014, the Company had a five-year \$375,000 senior secured credit facility ("Senior Credit Facility"), which originally consisted of a \$75,000 term loan ("Term Loan") and a \$300,000 revolving credit facility ("Revolving Credit Facility"). The Senior Credit Facility had a maturity date of April 25, 2017. The Revolving Credit Facility included a \$25,000 sub-limit for the issuance of swingline loans and a \$100,000 sub-limit to be used for letters of

credit. There was a foreign currency limit of \$50,000 under the Revolving Credit Facility 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 \$50,000 under the Revolving Credit Facility made by the Company's wholly-owned subsidiary, Chart Industries Luxembourg S.à r.l. The Senior Credit Facility also included 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 and potential new lenders.

The Company recorded \$1,445 in deferred financing costs related to the Senior Credit Facility which are being amortized over the five-year term of the loan. For the three months ended September 30, 2014 and 2013, financing costs amortization associated with the Senior Credit Facility was \$148 for both periods. For the nine months ended September 30, 2014 and 2013, financing costs amortization associated with the Senior Credit Facility was \$446 for both periods.

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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

Loans under the Senior Credit Facility bear interest, at the applicable Borrower's election, at either LIBOR or the greatest of (a) the JPMorgan prime rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1% or (c) the Adjusted LIBOR Rate (as defined in the Senior Credit Facility) for a one month interest period on such day (or if such day is not a business day, the immediately preceding business day) plus 1% (the "Adjusted Base Rate"), plus a margin that varies with the Company's leverage ratio. In addition, the Company is required to pay a commitment fee of between 0.25% and 0.40% of the unused Revolver balance and a letter of credit participation fee equal to the daily aggregate letter of credit exposure at the rate per annum equal to the Applicable Margin for Eurocurrency Revolving Facility Borrowings (ranging from 1.5% to 3.0%, depending on the leverage ratio calculated at each fiscal quarter end). A fronting fee must be paid on each letter of credit that is issued equal to 0.125% per annum of the stated dollar amount of the letter of credit. Under the terms of the Senior Credit Facility, 5% of the original \$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.

At September 30, 2014, there was \$65,625 outstanding under the Term Loan and \$31,816 in letters of credit issued. At September 30, 2014, availability under the Revolving Credit Facility was \$268,184. 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 and its 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.

Subsequent to the end of the third quarter, on October 29, 2014, the Company amended and extended its five-year \$375,000 Senior Credit Facility with a five-year \$450,000 senior secured revolving credit facility (the "SSRCF") which matures on October 29, 2019. The SSRCF includes a \$25,000 sub-limit for the issuance of swingline loans and a \$100,000 sub-limit to be used for letters of credit. There is a foreign currency limit of \$100,000 under the SSRCF which can be used for foreign currency denominated letters of credit and borrowings in a foreign currency, in each case in currencies agreed upon with the lenders. In addition, the facility permits borrowings up to \$100,000 made by the Company's wholly-owned subsidiaries, Chart Industries Luxembourg S.à r.l. ("Chart Luxembourg") and Chart Asia Investment Company Limited ("Chart Asia"). The SSRCF also includes an expansion option permitting the Company to add up to an aggregate \$200,000 in term loans or revolving credit commitments from its lenders. Loans under the SSRCF bear interest at LIBOR or the Adjusted Base Rate, plus a margin, which was reduced compared to the prior Senior Credit Facility, that varies with the Company's leverage ratio. Significant financial covenants for the SSRCF include a minimum liquidity requirement equal to the principal amount of the Convertible Notes outstanding six months prior to the maturity date of the Convertible Notes and when holders of the Convertible Notes have the option to require the Company to repurchase the Convertible Notes, a maximum leverage ratio of 3.25 and a minimum interest coverage to EBITDA ratio of 3.0. The required leverage ratio can be relaxed on up to two occasions, upon notification to the lenders, to 3.75 for up to four consecutive fiscal quarters, for acquisitions and plant expansions of \$100,000 or greater.

The Senior Credit Facility and SSRCF contain a number of customary covenants, including but not limited to restrictions on the Company's ability to incur additional indebtedness, create liens or other encumbrances, sell assets, enter into sale and lease-back transactions, make certain payments, investments, loans, advances or guarantees, make acquisitions and engage in mergers or consolidations and pay dividends or distributions. At September 30, 2014, the Company was in compliance with all covenants.

## Foreign Facilities – China

Chart Cryogenic Engineering Systems (Changzhou) Company Limited ("CCESC") and Chart Energy & Chemicals Wuxi Co., Ltd. ("Wuxi"), wholly-owned subsidiaries of the Company, and Chart Cryogenic Distribution Equipment (Changzhou) Company Limited ("CCDEC"), a joint venture of the Company, maintain joint banking facilities (the "China Facilities") which include a revolving line with 50.0 million Chinese yuan (equivalent to \$8,147) in borrowing capacity, a bonding/guarantee facility with up to 30.0 million Chinese yuan (equivalent to \$4,888) in borrowing

capacity, and an overdraft facility with 10.0 million Chinese yuan (equivalent to \$1,630) in borrowing capacity. Any borrowings made by CCEC, CCDEC or Wuxi under the China Facilities are guaranteed by the Company. At September 30, 2014, there was 39.0 million Chinese yuan (equivalent to \$6,354) outstanding under the revolving line, bearing interest at 5.9% on a weighted-average basis.

CCDEC maintains a facility with Bank of China with capacity of up to 10.0 million Chinese yuan (equivalent to \$1,630). At September 30, 2014, there was 10.0 million Chinese yuan (equivalent to \$1,630) outstanding under this facility, bearing interest at 6.6%. The facility matures on April 3, 2015. CCDEC also maintains a credit facility with Bank of China whereby CCDEC may borrow up to 50.0 million Chinese yuan (equivalent to \$8,147) for working capital purposes, and 30.0 million

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CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

Chinese yuan (equivalent to \$4,888) for non-financing bank guarantee purposes. This credit facility is effective until August 7, 2015. There were no borrowings under this facility as of September 30, 2014.

CCESC maintains a credit facility with Bank of China whereby CCESC may borrow up to 100.0 million Chinese yuan (equivalent to \$16,293) for working capital purposes. This credit facility is effective until July 8, 2015. There were no borrowings under this facility as of September 30, 2014.

As of September 30, 2014, CCESC, CCDEC and Wuxi had 8.3 million Chinese yuan (equivalent to \$1,345), 1.2 million Chinese yuan (equivalent to \$199) and 0.8 million Chinese yuan (equivalent to \$127) in bank guarantees, respectively.

Foreign Facilities – Europe

Chart Ferox, a.s. (“Ferox”), a wholly-owned subsidiary of the Company, maintains two secured credit facilities with capacity of up to 175.0 million Czech koruna (equivalent to \$8,039). Both of the facilities allow Ferox to request bank guarantees and letters of credit. Neither of the facilities allows revolving credit borrowings. Under both facilities, Ferox must pay letter of credit and guarantee fees equal to 0.70% per annum on the face amount of each guarantee or letter of credit. Ferox’s land, buildings and accounts receivable secure the credit facilities. As of September 30, 2014, there were bank guarantees of 82.9 million Czech koruna (equivalent to \$3,807) supported by the Ferox credit facilities.

Chart Luxembourg, maintains an overdraft facility with \$5,000 in borrowing capacity. There were no borrowings under the Chart Luxembourg facility as of September 30, 2014.

Fair Value Disclosures

The fair value of the term loan portion of the Company’s Senior Credit Facility was 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 approximated its carrying amount as of September 30, 2014 and December 31, 2013. The fair value of the Company’s Term Loan was determined using Level 2 inputs as defined in Note 8.

The fair value of the Convertible Notes was approximately 117% of their par value as of September 30, 2014 and approximately 154% of their par value as of December 31, 2013. The Convertible Notes are actively quoted instruments and, accordingly, the fair value of the Convertible Notes was determined using Level 1 inputs as defined in Note 8.

NOTE 5 — Derivative Financial Instruments

The Company utilizes certain derivative financial instruments to enhance its ability to manage foreign currency risk that exists as part of its ongoing business operations. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes, nor is it a party to any leveraged derivative instruments. 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 U.S. dollar, the euro, the Japanese yen, the Czech koruna, and the Chinese yuan. The Company’s foreign currency forward contracts do not qualify as hedges as defined by accounting guidance. Foreign currency forward contracts are measured at fair value and recorded in the condensed consolidated balance sheets as other current liabilities or assets. Changes in their fair value are recorded in the condensed consolidated statements of income and comprehensive income as foreign currency gains or losses. The Company’s foreign currency forward contracts are not exchange traded instruments and, accordingly, the valuation is performed using Level 2 inputs as defined in Note 8. Gains or losses on settled or expired contracts are recorded in the condensed consolidated statements of income and comprehensive income as foreign currency gains or losses.

The changes in fair value with respect to the Company’s foreign currency forward contracts generated a net gain of \$2,502 and a net loss of \$2,558 for the three months ended September 30, 2014 and 2013, respectively. The changes



in fair value with respect to the Company's foreign currency forward contracts generated a net gain of \$2,556 and a net loss of \$1,939 for the nine months ended September 30, 2014 and 2013, respectively.

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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

## NOTE 6 — Product Warranties

The Company provides product warranties with varying terms and durations for the majority of its products. The Company estimates its warranty reserve by considering historical and projected warranty claims, historical and projected cost-per-claim and knowledge of specific product issues that are outside its typical experience. The Company records warranty expense in cost of sales. Product warranty claims not expected to occur within one year are recorded in the long-term portion of the warranty reserve in the condensed consolidated balance sheets.

The following table represents changes in the Company’s consolidated warranty reserve:

Balance at December 31, 2013	\$33,827	
Warranty expense	10,950	
Warranty usage	(18,916	)
Balance at September 30, 2014	\$25,861	

## NOTE 7 — Business Combinations

## Wuxi Acquisition

On May 27, 2014, Chart Asia finalized the acquisition of 100% of the equity of Wuxi Zhongbo Gas and Air Equipment Manufacturing Co. Ltd., which changed its name to Chart Energy & Chemicals Wuxi Co., Ltd. (“Wuxi”), for an aggregate cash purchase price of 73.3 million Chinese yuan (equivalent to \$11,943), net of cash acquired. The fair value of the net assets acquired and goodwill at the date of acquisition was 15.6 million Chinese yuan and 57.7 million Chinese yuan, respectively. Wuxi, located in Wuxi, Jiangsu Province, China, designs, manufactures and sells low-pressure brazed aluminum heat exchangers. In addition, cold box fabrication operations were relocated from Changzhou, China to the Wuxi facility. Wuxi’s results are included in the Company’s Energy & Chemicals business segment as of the date of acquisition.

## Xinye Acquisition

On June 8, 2013, Chart Asia acquired 80% of the equity of Nanjing Xinye Electric Engineering Co., Ltd. (“Xinye”) for an aggregate cash purchase price of 18.3 million Chinese yuan (equivalent to \$2,965), net of cash acquired. The remaining 20% was retained by one of the original shareholders. The fair value of the net assets acquired and goodwill at the date of acquisition was 16.4 million Chinese yuan and 1.9 million Chinese yuan, respectively. Xinye, located in Nanjing, Jiangsu Province, China, designs, manufactures and sells control systems and dispensers for liquefied natural gas, compressed natural gas, and industrial gas applications. It also engages in the design and production of integrated circuit card systems and remote monitoring systems for natural gas mobile equipment. Xinye provides the Company localized dispensing and control technology and increases the Company’s penetration into the high growth natural gas markets in Asia. Xinye’s results are included in the Company’s Distribution & Storage business segment.

## Contingent Consideration

The estimated fair value of total contingent consideration relating to a prior acquisition was valued using a discounted cash flow approach, which includes assumptions for the probabilities of achieving gross sales targets and the discount rate applied to the projected payments. The valuation is performed using Level 3 inputs as defined in Note 8. Changes in fair value of contingent consideration are recorded as selling, general and administrative expenses in the condensed consolidated statements of income and comprehensive income.

Potential payments may be paid between October 1, 2014 and March 31, 2016 based on the attainment of certain revenue targets. The remaining maximum potential payout related to total contingent consideration is \$2,259.

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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

Balance at December 31, 2013	\$2,289	
Increase in fair value of contingent consideration liabilities	187	
Payment of contingent consideration	(741	)
Balance at September 30, 2014	\$1,735	

For the three months ended September 30, 2014 and 2013, the fair value of contingent consideration related to the BioMedical segment increased by \$63 and \$81, respectively. For the nine months ended September 30, 2014 and 2013, the fair value of contingent consideration related to the BioMedical segment increased by \$187 and \$216, respectively.

## NOTE 8 — Fair Value Measurements

The Company measures its financial assets and liabilities at fair value on a recurring basis using a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies. The three levels of inputs used to measure fair value are as follows:

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.

Financial assets and liabilities measured at fair value on a recurring basis and presented in the Company's condensed consolidated balance sheets are as follows:

	September 30, 2014		
	Total	Level 2	Level 3
Foreign currency forward contracts	\$9	\$9	\$—
Total financial assets	\$9	\$9	\$—
Foreign currency forward contracts	\$45	\$45	\$—
Contingent consideration liabilities	1,735	—	1,735
Total financial liabilities	\$1,780	\$45	\$1,735
	December 31, 2013		
	Total	Level 2	Level 3
Foreign currency forward contracts	\$13	\$13	\$—
Total financial assets	\$13	\$13	\$—
Foreign currency forward contracts	\$394	\$394	\$—
Contingent consideration liabilities	2,289	—	2,289
Total financial liabilities	\$2,683	\$394	\$2,289

Refer to Note 5 for further information regarding derivative financial instruments and Note 7 for further information regarding contingent consideration liabilities.

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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

## NOTE 9 — Equity

## Accumulated Other Comprehensive Income

The following tables represent changes in accumulated other comprehensive income by component:

	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive income (loss)
Balance at June 30, 2014	\$16,326	\$(5,001)	\$11,325
Other comprehensive loss	(8,164)	) —	(8,164)
Actuarial losses reclassified from accumulated other comprehensive income, net of income taxes of \$29 <sup>(1)</sup>	—	51	51
Net current-period other comprehensive (loss) income, net of taxes	(8,164)	) 51	(8,113)
Balance at September 30, 2014	\$8,162	\$(4,950)	\$3,212
	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive income (loss)
Balance at June 30, 2013	\$13,080	\$(12,140)	\$940
Other comprehensive income	4,328	—	4,328
Actuarial losses reclassified from accumulated other comprehensive income, net of income taxes of \$123 <sup>(1)</sup>	—	214	214
Net current-period other comprehensive income, net of taxes	4,328	214	4,542
Balance at September 30, 2013	\$17,408	\$(11,926)	\$5,482
	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive income (loss)
Balance at December 31, 2013	\$18,425	\$(5,103)	\$13,322
Other comprehensive loss	(10,263)	) —	(10,263)
Actuarial losses reclassified from accumulated other comprehensive income, net of income taxes of \$87 <sup>(2)</sup>	—	153	153
Net current-period other comprehensive (loss) income, net of taxes	(10,263)	) 153	(10,110)
Balance at September 30, 2014	\$8,162	\$(4,950)	\$3,212
	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive income (loss)
Balance at December 31, 2012	\$14,207	\$(12,566)	\$1,641
Other comprehensive loss	3,201	—	3,201
Actuarial losses reclassified from accumulated other comprehensive income, net of income taxes of \$371 <sup>(2)</sup>	—	640	640
Net current-period other comprehensive (loss) income, net of taxes	3,201	640	3,841
Balance at September 30, 2013	\$17,408	\$(11,926)	\$5,482

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(1) Amounts reclassified from accumulated other comprehensive income were expensed and included in cost of sales (\$31 and \$133 for the three months ended September 30, 2014 and 2013, respectively) and selling, general and administrative expenses (\$49 and \$204 for the three months ended September 30, 2014 and 2013, respectively) in the condensed consolidated statements of income and comprehensive income. The components in accumulated other comprehensive income are included in the computation of net periodic pension (income) cost as reported in Note 11.

(2) Amounts reclassified from accumulated other comprehensive income were expensed and included in cost of sales (\$93 and \$399 for the nine months ended September 30, 2014 and 2013, respectively) and selling, general and administrative

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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

expenses (\$147 and \$612 for the nine months ended September 30, 2014 and 2013, respectively) in the condensed consolidated statements of income and comprehensive income. The components in accumulated other comprehensive income are included in the computation of net periodic pension (income) cost as reported in Note 11.

**Earnings Per Share**

The following table presents calculations of net income per share of common stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income attributable to Chart Industries, Inc.	\$22,851	\$24,445	\$54,917	\$59,980
Net income attributable to Chart Industries, Inc. per common share:				
Basic	\$0.75	\$0.81	\$1.81	\$1.99
Diluted	\$0.74	\$0.74	\$1.77	\$1.90
Weighted average number of common shares outstanding — basic	30,396	30,275	30,377	30,181
Incremental shares issuable upon assumed conversion and exercise of share-based awards	272	354	283	352
Incremental shares issuable due to dilutive effect of the Convertible Notes	103	1,399	396	866
Incremental shares issuable due to dilutive effect of warrants	—	823	—	215
Weighted average number of common shares outstanding — diluted	30,771	32,851	31,056	31,614
Diluted earnings per share does not reflect the following potential common shares as the effect would be anti-dilutive:				
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Share-based awards	24	—	26	6
Convertible note hedge and capped call transactions <sup>(1)</sup>	103	1,336	396	850
Warrants	3,368	—	3,368	—
Total anti-dilutive securities	3,495	1,336	3,790	856

(1) The convertible note hedge and capped call transactions offset any dilution upon actual conversion of the Convertible Notes up to a common stock price of \$84.96. See Note 4 for further information.

**NOTE 10 — Income Taxes**

The effective income tax rate of 34.4% and 31.9% for the three and nine months ended September 30, 2014, respectively, differed from the U.S. federal statutory rate of 35% primarily due to the effect of income earned by certain of the Company's foreign entities being taxed at lower rates than the U.S. federal statutory rate. The effective income tax rate of 21.9% and 25.9% for the three and nine months ended September 30, 2013, respectively, differed from the U.S. federal statutory rate of 35% primarily due to the effect of income earned by certain of the Company's foreign entities being taxed at lower rates than the federal statutory rate, the positive effect of the domestic production activities deduction and increased research and development credits. Strong operating performance in China during 2013 facilitated the recognition of certain net operating losses and other deferred tax assets.

As of September 30, 2014, the Company has recorded a \$1,149 liability for gross unrecognized tax benefits. This amount includes \$593 of unrecognized tax benefits which, if ultimately recognized, will reduce the Company's annual effective income tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2014, the Company had accrued approximately \$121 for the payment of interest and penalties.

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## CHART INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – September 30, 2014

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

## NOTE 11 — Employee Benefit Plans

The Company has a defined benefit pension plan which is frozen, that covers certain U.S. hourly and salaried employees. The defined benefit plan provides benefits based primarily on the participants' years of service and compensation. The following table represents the components of net periodic pension (income) cost:

	Three Months Ended		Nine Months Ended September 30,	
	September 30,			
	2014	2013	2014	2013
Interest cost	\$590	\$528	\$1,770	\$1,584
Expected return on plan assets	(776	) (676	) (2,328	) (2,028
Amortization of net loss	80	337	240	1,011
Total net periodic pension (income) cost	\$(106	) \$189	\$(318	) \$567

## NOTE 12 — Share-based Compensation

During the nine months ended September 30, 2014, the Company granted 74 stock options, 37 shares of restricted stock and restricted stock units, 16 performance units and 19 leveraged restricted share units. Non-employee directors received 5 stock awards with a fair value of \$417. During the nine months ended September 30, 2014, participants in the Company's stock option plans exercised options to purchase 19 shares of the Company's common stock while 4 stock options were forfeited.

Stock options generally have a four-year graded vesting period. Restricted stock and restricted stock units generally vest ratably over a three-year period, and performance units and leveraged restricted share units generally vest at the end of a three-year performance period based on the achievement of certain performance conditions. During the nine months ended September 30, 2014, 42 restricted stock and restricted stock units vested while 1 shares of restricted stock were forfeited. Also, during the nine months ended September 30, 2014, 51 performance units vested while 1 performance units were forfeited.

Share-based compensation expense was \$1,730 and \$1,707 for the three months ended September 30, 2014 and 2013, respectively, and \$7,613 and \$6,782 for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, total share-based compensation of \$10,815 is expected to be recognized over the weighted-average period of approximately 2.0 years.

## NOTE 13 — Contingencies

In November 2012, Chart Energy & Chemicals, Inc. ("CEC"), a subsidiary of the Company, filed a declaratory judgment action in the United States District Court for the Western District of Oklahoma (the "Federal Court") seeking a judgment that certain claims for damages alleged by Enogex Holdings LLC, Enogex Gathering & Processing, LLC and affiliated companies with respect to a December 2010 fire at the Enogex natural gas processing plant in Cox City, Oklahoma were barred based on multiple defenses, including Oklahoma's statute of repose. This action was precipitated by the receipt of a letter from Enogex alleging that CEC was responsible for damages in excess of \$75,000 with respect to the fire as a result of the alleged failure of CEC's equipment that was a component of the unit involved in the fire. Subsequent to the filing of CEC's declaratory judgment action, in December 2012, Enogex filed suit in the District Court of Tulsa County, State of Oklahoma (the "State Court") against the Company, CEC and its predecessors, a former employee of a predecessor of CEC, as well as other entities and an individual not affiliated with the Company, formalizing the allegations and claims contained in the November demand letter. Each party filed one or more motions to dismiss the other's lawsuit. Enogex's motion to dismiss initially was denied by the Federal Court in February 2013, but Enogex moved for rehearing on its motion to dismiss, which the Federal Court granted on May 17, 2013 based on a lack of jurisdictional diversity. The Company's and CEC's motions to dismiss were denied by the State Court on April 10, 2013. Accordingly, litigation continues in the State Court, and Enogex has asserted damages of approximately \$105,000, including investigation and repair costs and business interruption losses, some of which may be offset by Enogex's saved costs and mitigation efforts. The Company continues to believe that the allegations against the Company, CEC and their affiliates lack merit. The Company believes that it, CEC and their



affiliates have strong factual and legal defenses to Enogex's claims and intends to vigorously assert such defenses. Accordingly, an accrual related to any damages that may result from the lawsuit has not been recorded because a potential loss is not currently probable. Furthermore, the Company believes that its existing product liability insurance is adequate for potential losses associated with these claims. While the Company cannot predict with certainty the ultimate result of these proceedings, the Company does not believe that the final outcome of these proceedings will have a material adverse effect 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 – September 30, 2014

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

## NOTE 14 — Reportable Segments

The structure of the Company's internal organization is divided into the following reportable segments, which are also the Company's operating segments: Energy & Chemicals ("E&C"), Distribution & Storage ("D&S") and BioMedical. Corporate includes operating expenses for executive management, accounting, tax, treasury, human resources, information technology, legal, internal audit, risk management and share-based compensation expenses that are not allocated to the reportable segments.

The following table represents information for the Company's reportable segments and its corporate function:

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2014	2013	2014	2013
Sales				
Energy & Chemicals	\$98,759	\$79,986	\$277,859	\$239,563
Distribution & Storage	140,203	152,895	418,830	428,784
BioMedical	54,879	68,876	170,202	205,324
Consolidated	\$293,841	\$301,757	\$866,891	\$873,671
Operating Income (Loss)				
Energy & Chemicals	\$22,993	\$14,493	\$55,642	\$42,226
Distribution & Storage	22,005	22,337	64,314	65,019
BioMedical	5,960	9,970	15,779	25,475
Corporate	(10,603	) (10,914	) (39,190	) (36,504
Consolidated	\$40,355	\$35,886	\$96,545	\$96,216

## NOTE 15 — Subsequent Event

On October 29, 2014, the Company amended and extended its five-year \$375,000 Senior Credit Facility with a five-year \$450,000 senior secured revolving credit facility which matures on October 29, 2019. Refer to Note 4 – Debt and Credit Arrangements for further information.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Chart Industries, Inc. (the "Company," "Chart," or "we") is a leading independent global manufacturer of highly engineered equipment used in the production, storage and end-use of hydrocarbon and industrial gases. The largest portion of end-use applications for our products is energy-related. We are a leading manufacturer of standard and engineered equipment primarily used for low-temperature and cryogenic applications. We have developed an expertise in medical respiratory equipment and cryogenic systems equipment, which operate at low temperatures sometimes approaching absolute zero (0 kelvin; -273° Centigrade; -459° Fahrenheit). The majority of our products, including vacuum insulated containment vessels, heat exchangers, cold boxes, other cryogenic components, and respiratory therapy products, are used throughout the liquid gas supply chain for the purification, liquefaction, distribution, storage and end-use of hydrocarbon and industrial gases.

Sales for the nine months ended September 30, 2014 were \$866.9 million compared to sales of \$873.7 million for the nine months ended September 30, 2013, reflecting a decrease of \$6.8 million, or 0.8%. This decrease was mainly attributable to a decrease in respiratory oxygen therapy products and commercial oxygen generation system sales within our BioMedical segment, offset by volume increases in small to mid-scale LNG and petrochemical projects within our E&C segment. Furthermore, sales of equipment within our D&S segment increased in the U.S. and Europe, but were more than offset by lower LNG-related sales in China due to continued regulatory and customer delays. Gross profit for the nine months ended September 30, 2014 was \$261.0 million, or 30.1% of sales, as compared to \$257.9 million, or 29.5% of sales, for the nine months ended September 30, 2013. Gross profit and the related margin percentage increased during the period mainly as a result of increased volume and favorable project change orders related to process systems within our E&C segment, partially offset by lower sales volume and higher warranty costs in our BioMedical segment. Operating income for the nine months ended September 30, 2014 was \$96.5 million compared to \$96.2 million for the nine months ended September 30, 2013.

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The following table represents selected financial data for our operating segments for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

	Three Months Ended September		Nine Months Ended September		
	30,		30,		
	2014	2013	2014	2013	
Sales					
Energy & Chemicals	\$98,759	\$79,986	\$277,859	\$239,563	
Distribution & Storage	140,203	152,895	418,830	428,784	
BioMedical	54,879	68,876	170,202	205,324	
Consolidated	\$293,841	\$301,757	\$866,891	\$873,671	
Gross Profit					
Energy & Chemicals	\$31,343	\$21,698	\$80,679	\$65,479	
Distribution & Storage	40,641	42,984	122,667	121,341	
BioMedical	19,249	23,963	57,614	71,081	
Consolidated	\$91,233	\$88,645	\$260,960	\$257,901	
Gross Profit Margin					
Energy & Chemicals	31.7	% 27.1	% 29.0	% 27.3	%
Distribution & Storage	29.0	% 28.1	% 29.3	% 28.3	%
BioMedical	35.1	% 34.8	% 33.9	% 34.6	%
Consolidated	31.0	% 29.4	% 30.1	% 29.5	%
SG&A Expenses					
Energy & Chemicals	\$7,709	\$6,388	\$23,174	\$20,798	
Distribution & Storage	17,352	19,336	54,482	52,551	
BioMedical	10,713	11,296	34,104	37,190	
Corporate	10,603	10,914	39,190	36,504	
Consolidated	\$46,377	\$47,934	\$150,950	\$147,043	
SG&A Expenses (% of Sales)					
Energy & Chemicals	7.8	% 8.0	% 8.3	% 8.7	%
Distribution & Storage	12.4	% 12.6	% 13.0	% 12.3	%
BioMedical	19.5	% 16.4	% 20.0	% 18.1	%
Consolidated	15.8	% 15.9	% 17.4	% 16.8	%
Operating Income					
Energy & Chemicals	\$22,993	\$14,493	\$55,642	\$42,226	
Distribution & Storage	22,005	22,337	64,314	65,019	
BioMedical	5,960	9,970	15,779	25,475	
Corporate	(10,603	) (10,914	) (39,190	) (36,504	)
Consolidated	\$40,355	\$35,886	\$96,545	\$96,216	
Operating Margin					
Energy & Chemicals	23.3	% 18.1	% 20.0	% 17.6	%
Distribution & Storage	15.7	% 14.6	% 15.4	% 15.2	%
BioMedical	10.9	% 14.5	% 9.3	% 12.4	%
Consolidated	13.7	% 11.9	% 11.1	% 11.0	%

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Results of Operations for the Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Sales

Sales for the three months ended September 30, 2014 were \$293.8 million compared to \$301.8 million for the three months ended September 30, 2013, reflecting a decrease of \$8.0 million, or 2.6%. E&C segment sales increased by \$18.7 million, or 23.5%, compared to the prior year quarter. This increase in E&C segment sales was primarily due to improved volume in process systems related to small to mid-scale LNG liquefaction and petrochemical applications as well as favorable project change orders. D&S segment sales decreased by \$12.7 million, or 8.3%, compared to the prior year quarter. This decrease in D&S segment sales was mainly attributable to lower volume related to LNG equipment, largely in China as a result of continued regulatory and customer delays, partially offset by improved volume in the U.S. and Europe. BioMedical segment sales decreased by \$14.0 million, or 20.3%, compared to the prior year quarter. This decrease in BioMedical segment sales was mainly due to lower sales of respiratory oxygen therapy equipment driven by customer consolidation and inventory rationalization in addition to reduced prescriptions of oxygen therapy to patients resulting from Medicare audits of providers and physicians in the U.S.

Gross Profit and Margin

Gross profit for the three months ended September 30, 2014 was \$91.2 million, or 31.0% of sales, versus \$88.6 million, or 29.4% of sales, for the three months ended September 30, 2013, which reflected an increase of \$2.6 million, while the related margin increased by 1.6 percentage points. E&C segment gross profit increased by \$9.6 million while the related margin increased by 4.6 percentage points. The increase in gross profit and the related margin percentage for the E&C segment was primarily due to improved volume, favorable project change orders and improved cost performance related to process systems. The impact of project change orders improved the E&C segment margin percentage by approximately 5.0 percentage points. Gross profit for the D&S segment decreased by \$2.3 million while margin increased by 0.9 percentage points. The decrease in gross profit was mainly due to lower volume in LNG equipment in China, while the related margin percentage increase related to improved product mix in the U.S. BioMedical segment gross profit decreased by \$4.7 million as margin increased by 0.3 percentage points compared to the prior year quarter. The decrease in BioMedical gross profit was primarily due to lower volume in respiratory oxygen therapy equipment, while the increase in the related margin percentage was primarily due to favorable product mix as well as lower warranty costs and improved manufacturing costs. The BioMedical segment's warranty expense as a percent of sales was 2.5% during the three months ended September 30, 2014, compared to 3.5% in the prior year quarter.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses for the three months ended September 30, 2014 were \$46.4 million, or 15.8% of sales, compared to \$47.9 million, or 15.9% of sales, for the three months ended September 30, 2013, representing a decrease of \$1.5 million. SG&A expenses for the E&C segment increased by \$1.3 million compared to the prior year quarter mainly due to higher employee-related costs and commissions. D&S segment SG&A expenses decreased by \$1.9 million compared to the prior year quarter mainly due to lower commissions and a reduction in variable short-term incentive compensation estimates mainly due to year-to-date performance. SG&A expenses for the BioMedical segment decreased by \$0.6 million compared to the prior year quarter mainly due to lower commissions and a reduction in variable short-term incentive compensation estimates mainly due to year-to-date performance. Corporate SG&A expenses decreased by \$0.3 million compared to the prior year quarter primarily due a reduction in variable short-term incentive compensation estimates mainly due to year-to-date performance, partially offset by an increase in employee headcount which drove greater payroll expenses during the quarter.

Amortization Expense

Amortization expense for the three months ended September 30, 2014 was \$4.5 million, or 1.5% of sales compared to \$4.8 million, or 1.6% of sales, for the three months ended September 30, 2013.

Operating Income

As a result of the foregoing, operating income for the three months ended September 30, 2014 was \$40.4 million, or 13.7% of sales, an increase of \$4.5 million compared to operating income of \$35.9 million, or 11.9% of sales, for the

same period in 2013.

**Interest Expense, Net and Financing Costs Amortization**

Net interest expense for the three months ended September 30, 2014 and 2013 was \$4.2 million and \$4.1 million, respectively. Interest expense for the three months ended September 30, 2014 included \$1.3 million of 2.0% cash interest and

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\$2.7 million of non-cash interest accretion expense related to the carrying value of the Convertible Notes. For the three months ended September 30, 2014 and 2013, financing costs amortization was \$0.3 million for both periods.

Foreign Currency Loss (Gain)

For the three months ended September 30, 2014 foreign currency losses were \$0.5 million while foreign currency gains were \$0.4 million for the three months ended September 30, 2013. Losses increased by \$0.9 million during the three months ended September 30, 2014 due to exchange rate volatility, especially with respect to the euro.

Income Tax Expense

Income tax expense of \$12.1 million and \$7.0 million for the three months ended September 30, 2014 and 2013, respectively, represents taxes on both U.S. and foreign earnings at a combined effective income tax rate of 34.4% and 21.9%, respectively. The increase in the effective income tax rate was primarily due to a higher mix of U.S. earnings, which are taxed at a higher rate than foreign earnings, and the expiration of a research & development credit at December 31, 2013.

Net Income

As a result of the foregoing, net income attributable to the Company for the three months ended September 30, 2014 and 2013 was \$22.9 million and \$24.4 million, respectively.

Results of Operations for the Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Sales

Sales for the nine months ended September 30, 2014 were \$866.9 million compared to \$873.7 million for the nine months ended September 30, 2013, reflecting a decrease of \$6.8 million, or 0.8%. E&C segment sales increased by \$38.3 million, or 16.0%, compared to the prior year period. This increase in E&C segment sales was primarily due to improved volume in process systems related to small to mid-scale LNG liquefaction and petrochemical applications. D&S segment sales decreased by \$10.0 million, or 2.3%, compared to the prior year period. This decrease in D&S segment sales was mainly attributable to decreased volume in LNG equipment in China as a result of continued regulatory and customer delays, partially offset by higher volume related to LNG equipment in Europe and the U.S. BioMedical segment sales decreased by \$35.1 million, or 17.1%, compared to the prior year period. This decrease in BioMedical segment sales was mainly due to lower sales of respiratory therapy equipment in the U.S. driven by customer consolidation and inventory rationalization in addition to reduced prescriptions of oxygen therapy to patients resulting from Medicare audits of providers and physicians in the U.S. and lower sales of commercial oxygen generation systems. This decrease was partially offset by an increase in cryobiological systems sales.

Gross Profit and Margin

Gross profit for the nine months ended September 30, 2014 was \$261.0 million, or 30.1% of sales, versus \$257.9 million, or 29.5% of sales, for the nine months ended September 30, 2013, which reflected an increase of \$3.1 million, while the related margin percentage increased by 0.6 percentage points. E&C segment gross profit increased by \$15.2 million while the related margin increased by 1.7 percentage points. The increase in gross profit and the related margin percentage for the E&C segment was primarily due to improved volume and favorable project change orders related to process systems. Gross profit for the D&S segment increased by \$1.3 million while margin increased by 1.0 percentage points mainly due to improved volume related to LNG equipment, largely in the U.S. and Europe partially offset by lower volume in LNG equipment in China. BioMedical segment gross profit decreased by \$13.4 million and margin decreased by 0.7 percentage points compared to the prior year period. The decrease in BioMedical gross profit was primarily due to lower volume in respiratory oxygen therapy equipment and commercial oxygen generation systems while the decline in the related margin percentage was mainly attributable to higher warranty costs. In the first quarter of 2014, we experienced a higher rate of warranty claims in our BioMedical segment within the AirSep product lines. The increased claims and revisions to the estimated cost of warranty claims resulted in an adjustment to our estimated warranty reserve in the first quarter. This led to an increase in the BioMedical segment's warranty expense as a percent of sales to 4.2% year-to-date compared to 2.6% in the prior year period. See the critical accounting policy disclosure for further information regarding the warranty accruals.

SG&A Expenses

SG&A expenses for the nine months ended September 30, 2014 were \$151.0 million, or 17.4% of sales, compared to \$147.0 million, or 16.8% of sales, for the nine months ended September 30, 2013 representing an increase of \$4.0 million.



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SG&A expenses for the E&C segment increased by \$2.4 million compared to the prior year period mainly due to higher commissions and variable short-term incentive compensation estimates. D&S segment SG&A expenses increased by \$2.0 million compared to the prior year period mainly due to higher employee-related costs, partially offset by lower commissions and a reduction in variable short-term incentive compensation estimates mainly due to year-to-date performance. SG&A expenses for the BioMedical segment decreased by \$3.1 million compared to the prior year period primarily due to lower commissions and a reduction in variable short-term incentive compensation estimates mainly due to year-to-date performance. This decrease in the BioMedical segment's SG&A expenses was also due to lower research and development expenses. Corporate SG&A expenses increased by \$2.7 million compared to the prior year period primarily due to higher employee-related costs, share-based compensation expense and workers' compensation expense, partially offset by a reduction in variable short-term incentive compensation estimates mainly due to year-to-date performance.

**Amortization Expense**

Amortization expense for the nine months ended September 30, 2014 was \$13.5 million, or 1.6% of sales compared to \$14.6 million, or 1.7% of sales, for the nine months ended September 30, 2013.

**Operating Income**

As a result of the foregoing, operating income for the nine months ended September 30, 2014 was \$96.5 million, or 11.1% of sales, an increase of \$0.3 million compared to operating income of \$96.2 million, or 11.0% of sales, for the same period in 2013.

**Interest Expense, Net and Financing Costs Amortization**

Net interest expense for the nine months ended September 30, 2014 and 2013 was \$12.5 million and \$12.1 million, respectively. Interest expense for the nine months ended September 30, 2014 included \$3.8 million of 2.0% cash interest and \$7.9 million of non-cash interest accretion expense related to the carrying value of the Convertible Notes. For the nine months ended September 30, 2014 and 2013, financing costs amortization was \$1.0 million for both periods.

**Foreign Currency Loss**

For the nine months ended September 30, 2014 and 2013, foreign currency losses were \$1.0 million and \$0.1 million, respectively. Losses increased by \$0.9 million during the nine months ended September 30, 2014 due to exchange rate volatility, especially with respect to the euro.

**Income Tax Expense**

Income tax expense of \$26.2 million and \$21.5 million for the nine months ended September 30, 2014 and 2013, respectively, represents taxes on both U.S. and foreign earnings at a combined effective income tax rate of 31.9% and 25.9%, respectively. The increase in the effective income tax rate was primarily due to a higher mix of U.S. earnings, which are taxed at a higher rate than foreign earnings, and the expiration of a research & development credit at December 31, 2013.

**Net Income**

As a result of the foregoing, net income attributable to the Company for the nine months ended September 30, 2014 and 2013 was \$54.9 million and \$60.0 million, respectively.

**Liquidity and Capital Resources****Debt Instruments and Related Covenants**

**Convertible Notes:** The outstanding aggregate principal amount of the Company's Convertible Notes is \$250.0 million. The Convertible Notes bear interest at a fixed rate of 2.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, and will mature on August 1, 2018. The effective interest rate at issuance, under generally accepted accounting principles, was 7.9%. Upon conversion, holders of the Convertible Notes will receive cash up to the principal amount of the Convertible Notes, and it is the Company's intention to settle any excess conversion value in shares of the Company's common stock. However, the Company may elect to settle, at its discretion, any such excess value in cash, shares of the Company's common stock or a combination of cash and shares. The initial conversion price of \$69.03 per share represents a conversion premium of 30% over the last reported sale price of the Company's common stock on July 28, 2011, the date of the Convertible Notes offering, which was \$53.10

per share. At the end of the third quarter of 2014, events for early conversion were not met, and thus the Convertible Notes were not convertible as of, and for the fiscal quarter beginning October 1, 2014. There have

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been no conversions as of the date of this filing. In the event that holders of Convertible Notes elect to convert, the Company expects to fund any cash settlement of any such conversion from cash balances or borrowings under its senior credit facility.

**Senior Credit Facility and Senior Secured Revolving Credit Facility:** As of September 30, 2014, the Company had a five-year \$375.0 million senior secured credit facility (“Senior Credit Facility”), which originally consisted of a \$75.0 million term loan (the “Term Loan”) and a \$300.0 million revolving credit facility (the “Revolving Credit Facility”). The Senior Credit Facility had a maturity date of April 25, 2017. The Senior Credit Facility also included an expansion option permitting the Company to add up to an aggregate \$150.0 million in term loans or revolving credit commitments from its existing and potential new lenders. Under the terms of the Senior Credit Facility, 5% of the \$75.0 million Term Loan was payable annually in quarterly installments over the first three years, 10% was payable annually in quarterly installments over the final two years, and the remaining balance was due on April 25, 2017. Significant financial covenants for the Senior Credit Facility included a leverage ratio and an interest ratio. At September 30, 2014, there was \$65.6 million in borrowings outstanding under the Term Loan. The Company also had \$31.8 million in letters of credit and bank guarantees supported by the Revolving Credit Facility, which had availability of \$268.2 million at September 30, 2014. The Company was in compliance with all covenants, including its financial covenants, at September 30, 2014.

Subsequent to the end of the third quarter, on October 29, 2014, the Company amended and extended its five-year \$375.0 million Senior Credit Facility with a five-year \$450.0 million senior secured revolving credit facility (the “SSRCF”) which matures on October 29, 2019. The SSRCF includes a \$25.0 million sub-limit for the issuance of swingline loans and a \$100.0 million sub-limit to be used for letters of credit. There is a foreign currency limit of \$100.0 million under the SSRCF which can be used for foreign currency denominated letters of credit and borrowings in a foreign currency, in each case in currencies agreed upon with the lenders. In addition, the facility permits borrowings up to \$100.0 million made by the Company’s wholly-owned subsidiaries, Chart Industries Luxembourg S.à r.l. (“Chart Luxembourg”) and Chart Asia Investment Company Limited. The SSRCF also includes an expansion option permitting the Company to add up to an aggregate \$200.0 million in term loans or revolving credit commitments from its lenders. Loans under the SSRCF bear interest at LIBOR or the Adjusted Base Rate as defined in the Debt and Credit Arrangements note (Note 4) to our condensed consolidated financial statements included elsewhere in this report, plus a margin, which was reduced compared to the prior Senior Credit Facility, that varies with the Company’s leverage ratio. Significant financial covenants for the SSRCF include a minimum liquidity requirement equal to the principal amount of the Convertible Notes outstanding six months prior to the maturity date of the Convertible Notes and when holders of the Convertible Notes have the option to require the Company to repurchase the Convertible Notes, a maximum leverage ratio of 3.25 and a minimum interest coverage to EBITDA ratio of 3.0. The required leverage ratio can be relaxed on up to two occasions, upon notification to the lenders, to 3.75 for up to four consecutive fiscal quarters, for acquisitions and plant expansions of \$100.0 million or greater.

**Foreign Facilities – China:** Chart Cryogenic Engineering Systems (Changzhou) Company Limited (“CCESC”) and Chart Energy & Chemicals Wuxi Co., Ltd. (“Wuxi”), wholly-owned subsidiaries of the Company, and Chart Cryogenic Distribution Equipment (Changzhou) Company Limited (“CCDEC”), a joint venture of the Company, maintain joint banking facilities (the “China Facilities”) which include a revolving line with 50.0 million Chinese yuan (equivalent to \$8.1 million) in borrowing capacity, a bonding/guarantee facility with up to 30.0 million Chinese yuan (equivalent to \$4.9 million) in borrowing capacity, and an overdraft facility with 10.0 million Chinese yuan (equivalent to \$1.6 million) in borrowing capacity. Any borrowings made by CCESC, CCDEC or Wuxi under the China Facilities are guaranteed by the Company. At September 30, 2014, there was 39.0 million Chinese yuan (equivalent to \$6.4 million) outstanding under the revolving line, bearing interest at 5.9% on a weighted-average basis.

CCDEC maintains a facility with Bank of China with capacity of up to 10.0 million Chinese yuan (equivalent to \$1.6 million). At September 30, 2014, there was 10.0 million Chinese yuan (equivalent to \$1.6 million) outstanding under this facility, bearing interest at 6.6%. The facility matures on April 3, 2015. CCDEC also maintains a credit facility with Bank of China whereby CCDEC may borrow up to 50.0 million Chinese yuan (equivalent to \$8.1 million) for working capital purposes, and 30.0 million Chinese yuan (equivalent to \$4.9 million) for non-financing bank

guarantee purposes. This credit facility is effective until August 7, 2015. There were no borrowings under this facility as of September 30, 2014.

CCESC maintains a credit facility with Bank of China whereby CCESC may borrow up to 100.0 million Chinese yuan (equivalent to \$16.3 million) for working capital purposes. This credit facility is effective until July 8, 2015. There were no borrowings under this facility as of September 30, 2014.

As of September 30, 2014, CCESC, CCDEC and Wuxi had 8.3 million Chinese yuan (equivalent to \$1.3 million), 1.2 million Chinese yuan (equivalent to \$0.2 million) and 0.8 million Chinese yuan (equivalent to \$0.1 million) in bank guarantees, respectively.

Foreign Facilities – Europe: Chart Ferox, a.s. (“Ferox”), a wholly-owned subsidiary of the Company, maintains two secured revolving credit facilities with capacity of up to 175.0 million Czech koruna (equivalent to \$8.0 million). Both of the

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facilities allow Ferox to request bank guarantees and letters of credit. Neither of the facilities allows revolving credit borrowings. Under both facilities, Ferox must pay letter of credit and guarantee fees equal to 0.70% per annum on the face amount of each guarantee or letter of credit. Ferox's land, buildings and accounts receivable secure the credit facilities. At September 30, 2014, there were 82.9 million Czech koruna (equivalent to \$3.8 million) of bank guarantees supported by such facilities.

Chart Luxembourg maintains an overdraft facility with \$5.0 million in borrowing capacity. There were no borrowings under the Chart Luxembourg facility as of September 30, 2014.

Our debt and related covenants are further described in the Debt and Credit Arrangements note (Note 4) to our condensed consolidated financial statements included elsewhere in this report.

### Sources and Use of Cash

Our cash and cash equivalents totaled \$140.4 million at September 30, 2014, an increase of \$3.1 million from the balance at December 31, 2013. Our foreign subsidiaries held cash of approximately \$114.6 million and \$97.1 million at September 30, 2014 and December 31, 2013, respectively, to meet their liquidity needs. No material restrictions exist in accessing cash held by our foreign subsidiaries and we expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring incremental U.S. taxes. Cash equivalents are invested in money market funds that invest in high quality, short-term instruments, such as U.S. government obligations, certificates of deposit, repurchase obligations and commercial paper issued by corporations that have been highly rated by at least one nationally recognized rating organization. We believe that our existing cash and cash equivalents, funds available under our SSRCF and cash provided by operations will be sufficient to finance our normal working capital needs, and investments in properties, facilities and equipment for the foreseeable future.

Cash provided by operating activities was \$66.1 million and \$19.4 million for the nine months ended September 30, 2014 and 2013, respectively. The increase of \$46.7 million in cash provided by operations was primarily due to cash collections in accounts receivable.

Cash used in investing activities was \$53.1 million and \$53.7 million for the nine months ended September 30, 2014 and 2013, respectively. Capital expenditures were \$42.9 million for the nine months ended September 30, 2014, primarily for expansion projects in the E&C segment for additional brazed aluminum heat exchanger capacity and construction of a new plant in China that was previously announced. Also during the nine months ended September 30, 2014, we used \$11.9 million of cash (net of cash acquired) to fund the Chart Energy & Chemicals Wuxi Co., Ltd. acquisition.

Cash used in financing activities for the nine months ended September 30, 2014 was \$1.0 million compared to \$41.4 million of cash provided by financing activities for the nine months ended September 30, 2013 primarily as a result of reduced borrowings on revolving credit facilities as compared to the prior year period. During the nine months ended September 30, 2014, the Company made \$2.8 million in scheduled quarterly principal payments on the term loan portion of the Senior Credit Facility. We borrowed \$7.9 million and repaid \$3.3 million on our foreign facilities. Excess tax benefits from share-based compensation were \$1.8 million. We received \$0.7 million in proceeds from stock option exercises. We also used \$3.3 million for the purchase of common stock which was surrendered to cover tax withholding elections. Other uses of cash during the nine months ended September 30, 2014 included a \$0.7 million contingent consideration payment related to a prior BioMedical segment acquisition and a \$1.2 million distribution to one of our joint venture noncontrolling interests.

### Cash Requirements

The Company does not currently anticipate any unusual cash requirements for working capital needs for the year ending December 31, 2014. Management anticipates the Company will be able to satisfy cash requirements for its ongoing business for the foreseeable future with cash generated by operations, existing cash balances and available borrowings under our SSRCF. We expect capital expenditures for the remaining three months of 2014 to be in the range of \$20.0 to \$30.0 million, primarily for capital expansion and improvement projects across our D&S and E&C segments, which includes an ongoing project to increase our capacity in China for both LNG and industrial gas applications and additional equipment for the brazed aluminum heat exchanger facility in La Crosse, Wisconsin.

For the remaining three months of 2014, the Company is forecasting to use approximately \$0.4 million for scheduled interest payments under the SSRCF. In addition, our forecasts for the remaining three months of 2014 contemplate the use of approximately \$8.0 to \$10.0 million of cash to pay U.S. and foreign income taxes.

Orders and Backlog

We consider orders to be those for which we have received a firm signed purchase order or other written contractual commitment from the customer. Backlog is comprised of the portion of firm signed purchase orders or other written

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contractual commitments received from customers that we have not recognized as revenue upon shipment or under the percentage of completion method. Backlog can be significantly affected by the timing of orders for large projects, particularly in the E&C segment, and is not necessarily indicative of future backlog levels or the rate at which backlog will be recognized as sales. Orders included in our backlog may include customary cancellation provisions under which the customer could cancel part or all of the order, potentially subject to the payment of certain costs and/or fees. Our backlog as of September 30, 2014 was \$751.8 million compared to \$695.0 million as of June 30, 2014. The table below represents orders (net of cancellations) and backlog by segment for the periods indicated (dollar amounts in thousands):

	Three Months Ended	
	September 30, 2014	June 30, 2014
Orders		
Energy & Chemicals	\$146,839	\$56,580
Distribution & Storage	156,687	163,338
BioMedical	50,826	60,656
Total	\$354,352	\$280,574
Backlog		
Energy & Chemicals	\$333,372	\$285,181
Distribution & Storage	397,333	385,207
BioMedical	21,076	24,601
Total	\$751,781	\$694,989

E&C orders for the three months ended September 30, 2014 were \$146.8 million compared to \$56.6 million for the three months ended June 30, 2014. Third quarter E&C segment orders included a previously announced floating LNG equipment order in excess of \$20.0 million and a small to mid-scale LNG liquefaction plant order in excess of \$40.0 million. E&C backlog totaled \$333.4 million at September 30, 2014, compared to \$285.2 million as of June 30, 2014. Order flow in the E&C segment is historically volatile due to project size and it is not unusual to see order intake change significantly quarter to quarter.

D&S orders for the three months ended September 30, 2014 were \$156.7 million compared to \$163.3 million for the three months ended June 30, 2014. D&S backlog totaled \$397.3 million at September 30, 2014 compared to \$385.2 million as of June 30, 2014. Approximately 25% of D&S backlog as of September 30, 2014 related to PetroChina. During the second quarter 2014, a major oil company partially cancelled certain LNG infrastructure projects for an order previously awarded to our D&S business during 2013. The result of this action was reflected as a reduction in orders of approximately \$8 million during the second quarter 2014.

BioMedical orders for the three months ended September 30, 2014 were \$50.8 million compared to \$60.7 million for the three months ended June 30, 2014. The decrease in BioMedical orders was mainly attributable to respiratory oxygen therapy equipment. BioMedical backlog at September 30, 2014 totaled \$21.1 million compared to \$24.6 million as of June 30, 2014.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Application of Critical Accounting Policies**

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. As such, some accounting policies have a significant impact on amounts reported in these unaudited condensed consolidated financial statements. A summary of those significant accounting policies can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. In particular, judgment is used in areas such as revenue recognition for long-term contracts, determining the allowance for doubtful accounts, goodwill, indefinite-lived intangibles, product warranty costs, pensions and share-based compensation. The product warranty costs critical accounting policy has been updated and expanded as follows:

Product Warranty Costs: We provide product warranties with varying terms and durations for the majority of our products. We estimate product warranty costs and accrue for these costs as products are sold with a charge to cost of sales. Factors considered in estimating warranty costs include historical and projected warranty claims, historical and projected cost-

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- changes in government health care regulations and reimbursement policies;
- general economic, political, business and market risks associated with our global operations;
- litigation and disputes involving us, including the extent of product liability, warranty, contract, employment, intellectual property and environmental claims asserted against us;
- our warranty reserves may not adequately cover our warranty obligations;

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the loss of key employees;  
fluctuations in foreign currency exchange rates and interest rates;  
financial distress of third parties;  
United States Food and Drug Administration and comparable foreign regulation of our products;  
the pricing and availability of raw materials;  
our ability to control our costs while maintaining customer relationships and core business resources;  
our ability to protect our intellectual property and know-how;  
the impairment of our goodwill or other intangible assets;  
the cost of compliance with environmental, health and safety laws and responding to potential liabilities under these laws;  
technological security threats and our reliance on information systems;  
claims that our products or processes infringe intellectual property rights of others;  
additional liabilities related to taxes;  
our ability to continue our technical innovation in our product lines;  
labor costs and disputes and the deterioration of our relations with our employees;  
increased government regulation;  
the underfunded status of our pension plan;  
the risk of potential violations of the Foreign Corrupt Practices Act;  
disruptions in our operations due to severe weather;  
regulations governing the export of our products and other regulations applicable to us as a supplier of products to the U.S. government;  
risks associated with our indebtedness, leverage and liquidity;  
potential dilution to existing holders of our common stock as a result of the conversion of our Convertible Notes, and the need to utilize our cash balances and/or credit facility to fund any cash settlement related to such conversions;  
fluctuations in the price of our stock; and  
other factors described herein.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as the same may be updated from time to time. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the filing date of this document or to reflect the occurrence of unanticipated events.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

In the normal course of business, the Company's operations are exposed to fluctuations in foreign currency values and interest rates that can affect the cost of operating and financing. Accordingly, the Company addresses a portion of these risks through a program of risk management.

**Interest Rate Risk:** The Company's primary interest rate risk exposure results from the Senior Credit Facility's various floating rate pricing mechanisms. If interest rates were to increase 200 basis points (2 percent) from September 30, 2014 rates, and assuming no changes in debt from the September 30, 2014 levels, our additional annual expense would be approximately \$1.3 million on a pre-tax basis.

**Foreign Currency Exchange Rate Risk:** The Company has assets, liabilities and cash flows in foreign currencies creating exposure to foreign currency exchange fluctuations in the normal course of business. Chart's primary exchange rate exposures are with the euro, the Chinese yuan, the Czech koruna, and the Japanese yen. Monthly measurement, revaluation and forward exchange rate contracts are employed as methods to reduce this risk. The Company enters into foreign exchange forward contracts to hedge anticipated and firmly committed foreign currency transactions. Chart does not use derivative financial instruments for speculative or trading purposes. The terms of the contracts are generally one year or less. At September 30, 2014, a hypothetical 10% weakening of the U.S. dollar would not materially affect the Company's financial statements.



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Market Price Sensitive Instruments

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, 3.6 million shares, which represents the number of shares of the Company's common stock underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes. These convertible note hedge and capped call transactions are expected to reduce the potential dilution with respect to the Company's common stock upon conversion of the Convertible Notes and/or reduce the Company's exposure to potential cash or stock payments that may be required upon conversion of the Convertible Notes, except, in the case of the capped call transactions, to the extent that the market price per share of the Company's common stock exceeds the cap price of the capped call transactions.

The 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's common stock exceeds the strike price of the warrants unless the Company elects, subject to certain conditions, to settle the warrants in cash. The cap price of the capped call transactions and the strike price of the warrant transactions was initially \$84.96 per share. Further information is located in the Debt and Credit Arrangements note to the Company's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

As of September 30, 2014, an evaluation was performed, under the supervision and with the participation of the Company's management including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, such officers concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) is accumulated and communicated to the Company's management including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

## Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a.) None.

b.) None.

c.) During the third quarter of 2014, 325 shares of common stock were surrendered to us by participants under our share-based compensation plans to satisfy tax withholding obligations relating to the vesting or payment of equity awards for an aggregate purchase price of approximately \$24,300. The total number of shares repurchased represents the net shares issued to satisfy tax withholding. All such repurchased shares were subsequently retired during the three months ended September 30, 2014.

Period	Issuer Purchases of Equity Securities			Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	
July 1 – 31, 2014	156	\$ 83.43	—	\$ —
August 1 – 31, 2014	169	66.82	—	—
September 1 – 30, 2014	—	—	—	—
Total	325	\$ 74.80	—	\$ —

## Item 4. Mine Safety Disclosures

Not applicable.

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Item 6. Exhibits

The following exhibits are included with this report:

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer (x)
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer (x)
- 32.1 Section 1350 Certification of Chief Executive Officer (xx)
- 32.2 Section 1350 Certification of Chief Financial Officer (xx)
- 101.INS XBRL Instance Document (xxx)
- 101.SCHXBRL Taxonomy Extension Schema Document (xxx)
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document (xxx)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (xxx)
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (xxx)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (xxx)

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(x) Filed herewith.

(xx) Furnished herewith.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or (xxx) otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chart Industries, Inc.  
(Registrant)

Date: October 30, 2014

By: /s/ Michael F. Biehl  
Michael F. Biehl  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)  
(Duly Authorized Officer)