

DOVER CORP
Form 10-Q
July 23, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT
PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010
Commission File Number: 1-4018
Dover Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

53-0257888
(I.R.S. Employer Identification No.)

3005 Highland Parkway, Suite 200
Downers Grove, Illinois
(Address of principal executive offices)

60515
(Zip Code)

(630) 541-1540

(Registrant's telephone number)

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12-b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a smaller
reporting company)

Smaller reporting
company ☐

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

The number of shares outstanding of the Registrant's common stock as of July 16, 2010 was 186,660,653.

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EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

(All other schedules are not required and have been omitted)

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share figures)
(unaudited)

| | Three Months Ended June | | Six Months Ended June | |
|---|--------------------------------|--------------|------------------------------|--------------|
| | 30, | | 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | \$ 1,786,696 | \$ 1,390,331 | \$ 3,369,966 | \$ 2,769,417 |
| Cost of goods and services | 1,097,998 | 897,021 | 2,069,111 | 1,793,963 |
| Gross profit | 688,698 | 493,310 | 1,300,855 | 975,454 |
| Selling and administrative expenses | 423,809 | 364,962 | 832,978 | 732,352 |
| Operating earnings | 264,889 | 128,348 | 467,877 | 243,102 |
| Interest expense, net | 26,942 | 24,840 | 54,111 | 47,238 |
| Other expense (income), net | (4,708) | 1,513 | (5,949) | (223) |
| Total interest/other expense, net | 22,234 | 26,353 | 48,162 | 47,015 |
| Earnings before provision for income taxes and discontinued operations | 242,655 | 101,995 | 419,715 | 196,087 |
| Provision for income taxes | 70,762 | 1,121 | 126,337 | 34,118 |
| Earnings from continuing operations | 171,893 | 100,874 | 293,378 | 161,969 |
| Loss from discontinued operations, net | (2,023) | (3,794) | (15,381) | (11,463) |
| Net earnings | \$ 169,870 | \$ 97,080 | \$ 277,997 | \$ 150,506 |
| Basic earnings (loss) per common share: | | | | |
| Earnings from continuing operations | \$ 0.92 | \$ 0.54 | \$ 1.57 | \$ 0.87 |
| Loss from discontinued operations, net | (0.01) | (0.02) | (0.08) | (0.06) |
| Net earnings | 0.91 | 0.52 | 1.49 | 0.81 |
| Weighted average shares outstanding | 186,823 | 186,070 | 186,998 | 186,041 |
| Diluted earnings (loss) per common share: | | | | |
| Earnings from continuing operations | \$ 0.91 | \$ 0.54 | \$ 1.55 | \$ 0.87 |
| Loss from discontinued operations, net | (0.01) | (0.02) | (0.08) | (0.06) |
| Net earnings | 0.90 | 0.52 | 1.47 | 0.81 |
| Weighted average shares outstanding | 188,720 | 186,292 | 188,948 | 186,198 |
| Dividends paid per common share | \$ 0.26 | \$ 0.25 | \$ 0.52 | \$ 0.50 |

The following table is a reconciliation of the share amounts used in computing earnings per share:

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|---------|------------------------------------|-------------|----------------------------------|-------------|
| | | 2010 | 2009 | 2010 | 2009 |
| Weighted average shares outstanding | Basic | 186,823 | 186,070 | 186,998 | 186,041 |
| Dilutive effect of assumed exercise of employee stock options, SARs and performance shares | | 1,897 | 222 | 1,950 | 157 |
| Weighted average shares outstanding | Diluted | 188,720 | 186,292 | 188,948 | 186,198 |
| Anti-dilutive options/SARs excluded from diluted EPS computation | | 3,790 | 13,365 | 1,501 | 13,538 |

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION CONDENSED
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands)
(unaudited)

| | June 30, 2010 | December 31, 2009 |
|---|--------------------------|------------------------------|
| Current assets: | | |
| Cash and equivalents | \$ 738,817 | \$ 714,365 |
| Short-term investments | 234,720 | 223,809 |
| Receivables, net of allowances of \$38,765 and \$41,832 | 1,076,132 | 878,754 |
| Inventories, net | 671,682 | 570,858 |
| Prepaid and other current assets | 56,677 | 64,922 |
| Deferred tax asset | 68,038 | 69,999 |
| Total current assets | 2,846,066 | 2,522,707 |
| Property, plant and equipment, net | 819,827 | 828,922 |
| Goodwill | 3,313,802 | 3,350,217 |
| Intangible assets, net | 908,224 | 950,748 |
| Other assets and deferred charges | 114,115 | 113,108 |
| Assets of discontinued operations | 81,273 | 116,701 |
| Total assets | \$ 8,083,307 | \$ 7,882,403 |
| Current liabilities: | | |
| Notes payable and current maturities of long-term debt | \$ 83,705 | \$ 35,624 |
| Accounts payable | 493,474 | 357,004 |
| Accrued compensation and employee benefits | 214,913 | 210,804 |
| Accrued insurance | 105,073 | 107,455 |
| Other accrued expenses | 236,692 | 219,295 |
| Federal and other taxes on income | 125,992 | 38,994 |
| Total current liabilities | 1,259,849 | 969,176 |
| Long-term debt | 1,790,642 | 1,825,260 |
| Deferred income taxes | 274,804 | 292,344 |
| Other deferrals | 550,980 | 573,137 |
| Liabilities of discontinued operations | 121,759 | 138,878 |
| Commitments and contingent liabilities | | |
| Stockholders' Equity: | | |
| Total stockholders' equity | 4,085,273 | 4,083,608 |
| Total liabilities and stockholders' equity | \$ 8,083,307 | \$ 7,882,403 |

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

| | Common Stock \$1 Par Value | Additional Paid-In Capital | Accumulated Other Comprehensive Earnings (Loss) | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|--|---|---|--|------------------------------|---------------------------|---|
| Balance at December 31, 2009 | \$ 247,342 | \$ 497,291 | \$ 84,842 | \$ 5,453,022 | \$ (2,198,889) | \$ 4,083,608 |
| Net earnings | | | | 277,997 | | 277,997 |
| Dividends paid | | | | (97,277) | | (97,277) |
| Common stock issued for options exercised | 1,132 | 39,442 | | | | 40,574 |
| Tax benefit from the exercise of stock options | | 2,216 | | | | 2,216 |
| Stock-based compensation expense | | 12,125 | | | | 12,125 |
| Common stock acquired | | | | | (64,454) | (64,454) |
| Translation of foreign financial statements | | | (171,465) | | | (171,465) |
| Unrealized holding gains, net of tax SFAS 158 | | | 461 | | | 461 |
| amortization, net of tax | | | 1,488 | | | 1,488 |
| Balance at June 30, 2010 | \$ 248,474 | \$ 551,074 | \$ (84,674) | \$ 5,633,742 | \$ (2,263,343) | \$ 4,085,273 |

Preferred Stock; \$100 par value per share; 100,000 shares authorized; no shares issued.

See Notes to Condensed Consolidated Financial Statements

Table of Contents**DOVER CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS****(in thousands)****(unaudited)**

| | Six Months Ended June 30, | |
|--|----------------------------------|------------------|
| | 2010 | 2009 |
| Operating Activities of Continuing Operations | | |
| Net earnings | \$ 277,997 | \$ 150,506 |
| Adjustments to reconcile net earnings to net cash from operating activities: | | |
| Loss from discontinued operations | 15,381 | 11,463 |
| Depreciation and amortization | 132,013 | 127,560 |
| Stock-based compensation | 12,963 | 11,039 |
| Gain on sale of assets | (5,088) | |
| Cash effect of changes in current assets and liabilities (excluding effects of acquisitions, dispositions and foreign exchange): | | |
| Accounts receivable | (228,007) | 152,340 |
| Inventories | (114,408) | 58,915 |
| Prepaid expenses and other assets | 7,715 | (24,665) |
| Accounts payable | 151,731 | (26,839) |
| Accrued expenses | 29,689 | (119,433) |
| Accrued and deferred taxes, net | 69,834 | (14,512) |
| Other non-current, net | (31,555) | (19,072) |
| Net cash provided by operating activities of continuing operations | 318,265 | 307,302 |
| Investing Activities of Continuing Operations | | |
| Proceeds from sales of short-term investments | 304,278 | 226,794 |
| Purchase of short-term investments | (350,583) | (96,193) |
| Proceeds from the sale of property, plant and equipment | 11,315 | 8,727 |
| Additions to property, plant and equipment | (86,281) | (58,451) |
| Proceeds from the sales of businesses | 4,500 | 1,375 |
| Acquisitions (net of cash and cash equivalents acquired) | (9,985) | (34,288) |
| Net cash (used in) provided by investing activities of continuing operations | (126,756) | 47,964 |
| Financing Activities of Continuing Operations | | |
| Change in notes payable, net | 30,000 | (92,270) |
| Reduction of long-term debt | (16,537) | (14,545) |
| Purchase of common stock | (64,454) | |
| Proceeds from exercise of stock options, including tax benefits | 42,787 | 3,966 |
| Dividends to stockholders | (97,277) | (93,033) |
| Net cash provided by (used in) financing activities of continuing operations | (105,481) | (195,882) |

Cash Flows from Discontinued Operations

| | | |
|--|---------|----------|
| Net cash used in operating activities of discontinued operations | (1,434) | (18,664) |
| Net cash used in investing activities of discontinued operations | (140) | (244) |

| | | |
|---|----------------|-----------------|
| Net cash used in discontinued operations | (1,574) | (18,908) |
|---|----------------|-----------------|

| | | |
|--|----------|-------|
| Effect of exchange rate changes on cash and cash equivalents | (60,002) | 5,675 |
|--|----------|-------|

| | | |
|--|---------------|----------------|
| Net increase in cash and cash equivalents | 24,452 | 146,151 |
|--|---------------|----------------|

| | | |
|--|---------|---------|
| Cash and cash equivalents at beginning of period | 714,365 | 547,409 |
|--|---------|---------|

| | | |
|---|-------------------|-------------------|
| Cash and cash equivalents at end of period | \$ 738,817 | \$ 693,560 |
|---|-------------------|-------------------|

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission (SEC) rules for interim periods, do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Dover Corporation (Dover or the Company) Annual Report on Form 10-K for the year ended December 31, 2009, which provides a more complete understanding of the Company's accounting policies, financial position, operating results, business properties and other matters. The year-end condensed consolidated balance sheet was derived from audited financial statements. It is the opinion of management that these financial statements reflect all adjustments necessary for a fair statement of the interim results. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

2. Acquisitions

The following table details the acquisitions made during the six months ended June 30, 2010.

2010 Acquisitions

| Date | Type | Company Acquired | Location (Near) | Segment | Platform | Company |
|-------------|-------------|-------------------------|------------------------|-------------------------|-----------------|------------------------------------|
| May 4 | Stock | BSC Filters | York, UK | Electronic Technologies | N/A | Ceramic & Microwave Products Group |
| June 1 | Asset | Chemilizer | Largo, FL | Fluid Management | Fluid Solutions | HydroSystems |

The 2010 acquisitions are wholly-owned and had an aggregate cost of \$10.0 million, net of cash acquired, at the dates of acquisition. The Company is in the process of finalizing appraisals of tangible and intangible assets and continuing to evaluate the initial purchase price allocations for the 2010 acquisitions. Accordingly, management has used its best estimate in the preliminary purchase price allocations as of the date of these financial statements.

During the six months ended June 30, 2010, the Company recorded adjustments to goodwill by allocating \$15.6 million primarily to customer-related intangibles and property, plant and equipment.

The following unaudited pro forma information illustrates the effect on the Company's revenue and net earnings for the three and six months ended June 30, 2010 and 2009, assuming that the 2010 and 2009 acquisitions had all taken place as of the beginning of the periods presented.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|--------------|----------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| <i>(in thousands, except per share figures)</i> | | | | |
| Revenue from continuing operations: | | | | |
| As reported | \$ 1,786,696 | \$ 1,390,331 | \$ 3,369,966 | \$ 2,769,417 |
| Pro forma | 1,787,770 | 1,442,956 | 3,373,364 | 2,905,938 |
| Net earnings from continuing operations: | | | | |
| As reported | \$ 171,893 | \$ 100,874 | \$ 293,378 | \$ 161,969 |
| Pro forma | 172,007 | 103,175 | 293,709 | 166,707 |
| Basic earnings per share from continuing operations: | | | | |
| As reported | \$ 0.92 | \$ 0.54 | \$ 1.57 | \$ 0.87 |
| Pro forma | 0.92 | 0.55 | 1.57 | 0.90 |
| Diluted earnings per share from continuing operations: | | | | |
| As reported | \$ 0.91 | \$ 0.54 | \$ 1.55 | \$ 0.87 |

| | | | | |
|-----------|------|------|------|------|
| Pro forma | 0.91 | 0.55 | 1.55 | 0.90 |
|-----------|------|------|------|------|

These pro forma results of operations have been prepared for comparative purposes only and include certain adjustments to actual financial results for the periods presented, such as imputed financing costs, and estimated additional amortization and depreciation expense as a result of intangibles and fixed assets acquired, measured at fair value. They do not purport to be indicative of the results of operations that actually would have resulted had the acquisitions occurred on the date indicated or that may result in the future.

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(unaudited)

In connection with certain acquisitions that occurred prior to January 1, 2009, the Company had established reserves related to severance and facility closings as a component of the purchase price allocation. As of June 30, 2010, these reserves have been substantially paid out.

3. Inventories, net

The following table displays the components of inventory:

| <i>(in thousands)</i> | June 30, 2010 | December 31, 2009 |
|-----------------------|--------------------------|------------------------------|
| Raw materials | \$ 317,567 | \$ 291,340 |
| Work in progress | 163,002 | 136,726 |
| Finished goods | 241,111 | 191,853 |
| Subtotal | 721,680 | 619,919 |
| Less LIFO reserve | 49,998 | 49,061 |
| Total | \$ 671,682 | \$ 570,858 |

4. Property, Plant and Equipment, net

The following table details the components of property, plant and equipment, net:

| <i>(in thousands)</i> | June 30, 2010 | December 31, 2009 |
|--------------------------------|----------------------|------------------------------|
| Land | \$ 49,377 | \$ 48,010 |
| Buildings and improvements | 553,563 | 555,262 |
| Machinery, equipment and other | 1,845,899 | 1,840,638 |
| | 2,448,839 | 2,443,910 |
| Accumulated depreciation | (1,629,012) | (1,614,988) |
| Total | \$ 819,827 | \$ 828,922 |

5. Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, trade receivables, accounts payable, notes payable and accrued expenses approximated fair value as of June 30, 2010 and December 31, 2009 due to the short maturity of less than one year for these instruments.

Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instruments categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities. Level 3 inputs are unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities.

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DOVER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis by the level within the fair value hierarchy as of June 30, 2010 and December 31, 2009:

| | June 30, 2010 | | | December 31, 2009 | | |
|------------------------|----------------------|---------|---------|--------------------------|---------|---------|
| <i>(in thousands)</i> | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Short-term investments | \$234,720 | \$ | \$ | \$223,809 | \$ | \$ |

Short-term investments are included in current assets in the Unaudited Condensed Consolidated Balance Sheets, and generally consist of investment grade time deposits with original maturities between three months and one year.

6. Goodwill and Other Intangible Assets

The following table provides the changes in carrying value of goodwill by segment for the six months ended Jun