

CHART INDUSTRIES INC  
Form 10-Q  
October 29, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-11442**

**CHART INDUSTRIES, INC.**

**(Exact Name of Registrant as Specified in its Charter)**

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**Delaware**  
(State or Other Jurisdiction of

**34-1712937**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

**One Infinity Corporate Centre Drive, Suite 300, Garfield Heights, Ohio 44125**

(Address of Principal Executive Offices) (ZIP Code)

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

**NOT APPLICABLE**

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

At October 29, 2009, there were 28,480,399 outstanding shares of the Company's Common Stock, par value \$0.01 per share.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****CHART INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share amounts)

|  | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current Assets   |                                      |                      |
| Cash and cash equivalents  | \$ 189,167                           | \$ 122,165           |
| Short-term investments   | 30,317                               | 32,264               |
| Accounts receivable, net   | 54,943                               | 91,698               |
| Inventories, net   | 82,019                               | 95,390               |
| Unbilled contract revenue  | 32,698                               | 38,505               |
| Other current assets   | 19,860                               | 25,003               |
| Total Current Assets   | 409,004                              | 405,025              |
| Property, plant and equipment, net   | 105,400                              | 102,372              |
| Goodwill   | 264,848                              | 261,509              |
| Identifiable intangible assets, net  | 124,402                              | 129,542              |
| Other assets, net  | 11,442                               | 10,979               |
| <b>TOTAL ASSETS</b>  | <b>\$ 915,096</b>                    | <b>\$ 909,427</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                      |                      |
| Current Liabilities  |                                      |                      |
| Accounts payable   | \$ 38,789                            | \$ 45,392            |
| Customer advances and billings in excess of contract revenue   | 48,949                               | 96,433               |
| Accrued expenses and other current liabilities   | 57,625                               | 52,336               |
| Total Current Liabilities  | 145,363                              | 194,161              |
| Long-term debt   | 243,175                              | 243,175              |
| Other long-term liabilities  | 63,555                               | 66,639               |
| Equity   |                                      |                      |
| Chart Industries' shareholders' equity:  |                                      |                      |
| Common stock, par value \$.01 per share 150,000,000 shares authorized, 28,477,334 and 28,397,821 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively | 285                                  | 284                  |
| Additional paid-in capital   | 250,893                              | 247,638              |
| Retained earnings  | 194,956                              | 149,469              |
| Accumulated other comprehensive income   | 15,247                               | 6,569                |
| Total Chart Industries, Inc. shareholders' equity  | 461,381                              | 403,960              |
| Noncontrolling interest  | 1,622                                | 1,492                |
| Total equity   | 463,003                              | 405,452              |

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|   |            |            |
|---|------------|------------|
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | \$ 915,096 | \$ 909,427 |
|---|------------|------------|

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

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

|  | <b>Three Months Ended<br/>September 30,<br/>2009</b> |            | <b>September 30,<br/>2008</b> |            |
|--|--|------------|-------------------------------|------------|
|  | <b>2009</b>  |            | <b>2008</b>                   |            |
| Sales  | \$ 127,172   | \$ 188,808 | \$ 462,665                    | \$ 556,889 |
| Cost of sales  | 87,798   | 122,644    | 304,702                       | 374,785    |
| Gross profit   | 39,374   | 66,164     | 157,963                       | 182,104    |
| Selling, general and administrative expenses                               | 20,831   | 26,759     | 70,242                        | 76,175     |
| Amortization expense   | 2,745  | 2,751      | 8,012                         | 8,234      |
| Asset impairment   | (166)  |            | 334                           |            |
|  | 23,410   | 29,510     | 78,588                        | 84,409     |
| Operating income   | 15,964   | 36,654     | 79,375                        | 97,695     |
| Other expenses (income):   |  |            |                               |            |
| Interest expense, net  | 3,948  | 4,621      | 11,758                        | 13,895     |
| Financing costs amortization   | 404  | 628        | 1,212                         | 1,454      |
| Foreign currency (income) expense  | (128)  | 2,053      | (435)                         | 443        |
|  | 4,224  | 7,302      | 12,535                        | 15,792     |
| Net income before income taxes   | 11,740   | 29,352     | 66,840                        | 81,903     |
| Income tax expense   | 3,513  | 8,806      | 21,255                        | 24,571     |
| Net income   | 8,227  | 20,546     | 45,585                        | 57,332     |
| Noncontrolling interest, net of taxes                                      | (21)   | 144        | 98                            | 82         |
| Net income attributable to Chart Industries, Inc.                          | \$ 8,248   | \$ 20,402  | \$ 45,487                     | \$ 57,250  |
| Net income attributable to Chart Industries, Inc. per common share basic   | \$ 0.29  | \$ 0.72    | \$ 1.60                       | \$ 2.02    |
| Net income attributable to Chart Industries, Inc. per common share diluted | \$ 0.28  | \$ 0.70    | \$ 1.57                       | \$ 1.97    |
| Weighted average number of common shares outstanding - basic               | 28,472   | 28,383     | 28,444                        | 28,326     |
| Weighted average number of common shares outstanding - diluted             | 29,105   | 29,147     | 28,932                        | 29,072     |

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Dollars in thousands)

|   | <b>Nine Months Ended<br/>September 30,</b> |                   |
|---|--|-------------------|
|   | <b>2009</b>                                | <b>2008</b>       |
| <b>OPERATING ACTIVITIES</b>   |  |                   |
| Net income  | \$ 45,585                                  | \$ 57,332         |
| Adjustments to reconcile net income to net cash provided by operating activities:       |  |                   |
| Depreciation and amortization   | 15,937                                     | 15,846            |
| Employee stock and stock option related compensation expense                            | 2,402                                      | 3,454             |
| Financing costs amortization  | 1,212                                      | 1,454             |
| Other non-cash operating activities   | 741  | 467               |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities: |  |                   |
| Accounts receivable   | 37,559                                     | 2,417             |
| Inventory   | 17,623                                     | (17,173)          |
| Unbilled contract revenues and other current assets                                     | 11,303                                     | (11,960)          |
| Accounts payable and other current liabilities  | (6,989)                                    | (11,133)          |
| Customer advances and billings in excess of contract revenue                            | (48,791)                                   | 46,129            |
| Net Cash Provided By Operating Activities   | 76,582                                     | 86,833            |
| <b>INVESTING ACTIVITIES</b>   |  |                   |
| Capital expenditures  | (9,404)                                    | (9,289)           |
| Acquisition of businesses, net of cash acquired   | (8,057)                                    | (18,828)          |
| Other investing activities  | 349  | (616)             |
| Proceeds from maturities of short-term investments                                      | 2,035                                      |                   |
| Net Cash Used In Investing Activities   | (15,077)                                   | (28,733)          |
| <b>FINANCING ACTIVITIES</b>   |  |                   |
| Principal payments on long-term debt  |  | (6,825)           |
| Proceeds from exercise of options   | 738  | 1,329             |
| Tax benefit from exercise of stock options  | 115  | 1,367             |
| Net Cash Provided By (Used In) Financing Activities                                     | 853  | (4,129)           |
| Net increase in cash and cash equivalents   | 62,358                                     | 53,971            |
| Effect of exchange rate changes on cash   | 4,644                                      | 2,044             |
| Cash and cash equivalents at beginning of period  | 122,165                                    | 92,869            |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                       | <b>\$ 189,167</b>                          | <b>\$ 148,884</b> |

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****NOTE A Basis of Preparation**

The accompanying unaudited condensed consolidated financial statements of Chart Industries, Inc. and its subsidiaries (the Company or Chart ) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Further, in connection with preparation of the condensed consolidated financial statements and in accordance with the Financial Accounting Standards Board Accounting Standards Codification ( ASC ) Topic on Subsequent Events, which was adopted during the second quarter of 2009, the Company evaluated subsequent events after the balance sheet date of September 30, 2009 through October 29, 2009, the date these condensed consolidated financial statements were issued.

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

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

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

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

*Short-Term Investments:* The Company's short term investments consist of highly liquid, variable rate instruments, which have stated maturities of greater than three months but not exceeding six months. These short term investments are recorded at cost which approximates fair value. The Company has determined that its investment securities are available and intended for use in current operations and, accordingly, have classified investment securities as current assets.

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

|                            | September 30,<br>2009 | December 31,<br>2008 |
|----------------------------|-----------------------|----------------------|
| Raw materials and supplies | \$ 25,718             | \$ 32,378            |
| Work in process            | 21,297                | 27,564               |
| Finished goods             | 35,004                | 35,448               |

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\$ 82,019 \$ 95,390

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

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****NOTE A Basis of Preparation Continued**

estimated minimum recoveries from claims and change orders, are charged to operations as soon as such losses are known. Change orders resulting in additional revenue and profit are recognized upon approval by the customer based on the percentage that incurred costs to date bear to total estimated costs at completion. Certain contracts include incentive-fee arrangements. The incentive fees in such contracts can be based on a variety of factors but the most common are the achievement of target completion dates, target costs, and/or other performance criteria. Incentive fee revenue is not recognized until it is earned. Timing of amounts billed on contracts varies from contract to contract and could cause a significant variation in working capital requirements.

*Product Warranties:* The Company provides product warranties with varying terms and durations for the majority of its products. The Company records warranty expense in cost of sales. The changes in the Company's consolidated warranty reserve during the three and nine months ended September 30, 2009 and 2008 are as follows:

|                   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-------------------|---|-------------|--|-------------|
|                   | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Beginning balance | \$ 8,773                                    | \$ 6,169    | \$ 8,636                                   | \$ 5,717    |
| Warranty expense  | 875   | 929         | 2,978                                      | 2,715       |
| Warranty usage    | (975)                                       | (1,143)     | (2,941)                                    | (2,477)     |
| Ending balance    | \$ 8,673                                    | \$ 5,955    | \$ 8,673                                   | \$ 5,955    |

*Goodwill and Other Intangible Assets:* As required by the Intangibles – Goodwill and Other Topic of the ASC, the Company does not amortize goodwill or other indefinite lived intangible assets, but reviews them at least annually, and on an interim basis if necessary, for impairment using a measurement date of October 1st. The Company amortizes intangible assets that have finite useful lives.

The Intangibles – Goodwill and Other Topic requires that goodwill and other indefinite lived intangible assets be tested for impairment at the reporting unit level on an annual basis. A company determines the fair value of any indefinite lived intangible assets, compares the fair value to its carrying value and records an impairment loss if the carrying value exceeds its fair value. Goodwill is tested utilizing a two-step approach. After recording any impairment losses for indefinite lived intangible assets, a company is required to determine the fair value of each reporting unit and compare the fair value to its carrying value, including goodwill, of such reporting unit (step one). If the fair value exceeds the carrying value, no impairment loss would be recognized. If the carrying value of the reporting unit exceeds its fair value, the goodwill of the reporting unit may be impaired. The amount of the impairment, if any, would then be measured by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill (step two).

Goodwill increased \$3,339 during the nine months ended September 30, 2009. \$2,700 of the increase is due to the acquisitions during the period and the remaining \$639 is due to the impact of foreign currency translation adjustments.

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

**NOTE A Basis of Preparation Continued**

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

|                                     |                       | September 30, 2009    |                          | December 31, 2008     |                          |
|-------------------------------------|-----------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                     | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Finite-lived assets:                |                       |                       |                          |                       |                          |
| Unpatented technology               | 9 years               | \$ 11,023             | \$ (5,042)               | \$ 10,808             | \$ (3,897)               |
| Patents                             | 10 years              | 8,213                 | (3,834)                  | 8,297                 | (3,229)                  |
| Product names                       | 14 years              | 2,721                 | (847)                    | 2,580                 | (677)                    |
| Non-compete agreements              | 3 years               | 3,474                 | (2,764)                  | 3,474                 | (2,445)                  |
| Customer relations                  | 13 years              | 106,189               | (29,306)                 | 103,509               | (23,450)                 |
| Other                               | ----                  |                       |                          | 50                    | (30)                     |
|                                     |                       | \$ 131,620            | \$ (41,793)              | \$ 128,718            | \$ (33,728)              |
| Indefinite-lived intangible assets: |                       |                       |                          |                       |                          |
| Goodwill                            |                       | \$ 264,848            |                          | \$ 261,509            |                          |
| Trademarks and trade names          |                       | 34,575                |                          | 34,552                |                          |
|                                     |                       | \$ 299,423            |                          | \$ 296,061            |                          |

Amortization expense for finite-lived intangible assets was \$2,745 and \$2,751 for the three months ended September 30, 2009 and 2008, respectively, and \$8,012 and \$8,234 for the nine months ended September 30, 2009 and 2008, respectively. Amortization expense is estimated to be approximately \$2,800 for the remaining three months of 2009 and \$10,000 average for each fiscal year 2010 through 2014.

*Employee Stock Options:* The Company records stock-based compensation according to the Stock Compensation Topic of the ASC, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values.

During the nine months ended September 30, 2009, the Company granted 201 stock options and 164 performance share units. The stock options vest over a four year period and the performance share units vest at the end of three years based on the achievement of certain performance and market conditions.

Stock-based compensation expense was \$754 and \$1,084 for the three months ended September 30, 2009 and 2008, respectively, and \$2,402 and \$3,454 for the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, the total stock-based compensation expected to be recognized over the weighted average period of approximately 1.8 years is \$2,850.

*Recently Issued Accounting Pronouncements:* In December 2007, the FASB issued new accounting guidance on noncontrolling interests. The new guidance requires entities to report noncontrolling interests as a component of shareholders' equity on the balance sheet. Additionally, it

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requires disclosure of consolidated net income attributable to the parent and to the noncontrolling interest on the face of the income statement. The new guidance was effective for the Company beginning January 1, 2009 and resulted in a \$1,492 reclassification of noncontrolling interests from other long-term liabilities to shareholders' equity on the December 31, 2008 consolidated balance sheet.

In March 2008, the FASB issued new accounting guidance on derivatives and hedging, which changes the disclosure requirements for derivative instruments and hedging activities. The new guidance requires entities to provide greater transparency through enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedging items are accounted for and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. The Company applied the provisions of this new guidance to its financial statement disclosures beginning in the first quarter of 2009.

In April 2008, the FASB issued new accounting guidance concerning the determination of the useful life of intangible assets. This new guidance amends the factors to be considered in developing renewal and extension assumptions used to determine the useful life of a recognized intangible asset. The Company's adoption of this new guidance did not have a material impact on its financial position or results of operations.

In May 2009, the FASB issued new accounting guidance on subsequent events. The objective of this guidance is to establish the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are

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**CHART INDUSTRIES, INC. AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009**

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

**NOTE A Basis of Preparation Continued**

available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The adoption of this new accounting guidance did not have a material impact on the Company's financial statements.

In June 2009, the FASB issued new accounting guidance entitled, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" a replacement of FASB Statement No. 162 (ASC). The ASC provides for the FASB Accounting Standards Codification to become the single source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The ASC did not change GAAP but reorganizes the literature. It also modifies the GAAP hierarchy to include only two levels of GAAP; authoritative and non-authoritative. This new guidance is effective for interim and annual periods ending after September 15, 2009. The adoption of this guidance has changed how we reference various elements of GAAP when preparing our financial statement disclosures.

**NOTE B Fair Value Measurements**

Effective January 1, 2008, the Company adopted the new fair value guidance, which clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

**Level 1** Valuations based on quoted prices for identical assets and liabilities in active markets.

**Level 2** Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

**Level 3** Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company is exposed to foreign currency exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries. The Company utilizes foreign currency forward purchase and sale contracts to manage the volatility associated with foreign currency purchases and certain intercompany transactions in the normal course of business. Contracts typically have maturities of less than one year. Principal currencies include the euro, British pound and Czech koruna. The Company's foreign currency forward contracts do not qualify as hedges under the provisions of the accounting guidance regarding derivatives and hedging. Changes in their fair value are recorded in the consolidated statement of operations as foreign currency gains or losses.

At September 30, 2009, the fair values of the Company's derivative assets and liabilities representing foreign currency forward contracts were \$15 and \$286, respectively. These were recorded on the balance sheet as other current assets and liabilities. The Company's foreign currency forward contracts are not exchange traded instruments, however, they are valued based on observable inputs for similar instruments and, accordingly, are classified as level 2 inputs. As of September 30, 2009, the Company held foreign currency forward contracts with notional amounts of 7,300 euros and 486 Polish zlotys. These contracts are at various exchange rates and expire at various dates through December 2009.

The Company does not enter into derivative instruments for trading or speculative purposes.

The fair value of the Company's Term Loan (as defined below) is estimated based on the present value of the underlying cash flows discounted at the Company's estimated borrowing rate. Under this method, the fair value of the Company's Term Loan approximated its carrying value at

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September 30, 2009 and December 31, 2008. The fair value of the Subordinated Notes (as defined below) is based on a third party's estimated bid price. The fair value approximated carrying value, \$163,175, and \$142,000 at September 30, 2009 and December 31, 2008, respectively.

**NOTE C Debt and Credit Arrangements**

The Company has a senior secured credit facility (the Senior Credit Facility ) and \$163,175 of ~~98%~~ senior subordinated notes (the Subordinated Notes ) outstanding. The Senior Credit Facility consists of a \$180,000 term loan facility (the Term Loan ), \$80,000 of which remains outstanding and a \$115,000 revolving credit facility (the Revolver ), of which \$55,000 may be used for letters of credit extending beyond one year from their date of issuance. The Term Loan matures on October 17, 2012 and the Revolver matures on October 17, 2010. The Term Loan does not require any regular principal payments prior to the maturity date. The interest rate under the Senior Credit Facility is, at the Company's option, the Alternative Base Rate ( ABR ) plus 1.0% or LIBOR plus 2.0% on the Term Loan and ABR plus 1.0% or LIBOR plus 2.0% on the Revolver. The



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**CHART INDUSTRIES, INC. AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009**

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

**NOTE C Debt and Credit Arrangements Continued**

applicable interest margin on the Revolver could increase based upon the leverage ratio calculated at each fiscal quarter end. In addition, the Company is required to pay an annual administrative fee of \$100, a commitment fee of 0.375% on the unused Revolver balance, a letter of credit participation fee of 2.0% per annum on the letter of credit exposure and a letter of credit issuance fee of 0.25%. The obligations under the Senior Credit Facility are 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 first-tier non-U.S. subsidiaries.

The Subordinated Notes are due in 2015 with interest payable semi-annually on April 15th and October 15th. Any of the Subordinated Notes may be redeemed solely at the Company's option beginning on October 15, 2010. The initial redemption price is 104.563% of the principal amount, plus accrued interest. Also, any of the notes may be redeemed solely at the Company's option at any time prior to October 15, 2010, plus accrued interest and a make-whole premium. The Subordinated Notes are general unsecured obligations of the Company and are subordinated in right of payment to all existing and future senior debt of the Company, including the Senior Credit Facility, pari passu in right of payment with all future senior subordinated indebtedness of the Company, and senior in right of payment with any future indebtedness of the Company that expressly provides for its subordination to the Subordinated Notes. The Subordinated Notes are unconditionally guaranteed jointly and severally by substantially all of the Company's U.S. subsidiaries. During September 2008, the Company purchased \$6,825 in principal of its Subordinated Notes on the open market. The repurchased notes have been retired.

The Senior Credit Facility agreement and provisions of the indenture governing the Subordinated Notes 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, engage in mergers or consolidations, pay dividends or distributions, and make capital expenditures. The Senior Credit Facility and indenture governing the Subordinated Notes also include financial covenants relating to leverage, interest coverage and fixed charge coverage ratios. The Company is in compliance with all covenants. As of September 30, 2009, there was \$80,000 outstanding under the Term Loan, \$163,175 outstanding under the Subordinated Notes and letters of credit and bank guarantees totaling \$27,294 supported by the Revolver.

On October 5, 2008, Lehman Commercial Paper, Inc. (LCPI), a subsidiary of Lehman Brothers Holdings Inc. and a lender under the Revolver, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. LCPI had provided \$5,000 in commitments or approximately 4.3% of total commitments on the Revolver portion of the Senior Credit Facility. Representatives of LCPI have orally disclosed to the Company that they do not intend to honor their \$5,000 in commitments; therefore, the total borrowing capacity under the Revolver portion of the Senior Credit Facility is effectively limited to \$110,000.

Chart Ferox, a.s. (Ferox), a wholly-owned subsidiary of the Company based in the Czech Republic, maintains secured revolving credit facilities with borrowing capacity, including overdraft protection, of up to 100,000 Czech korunas (CSK), of which 50,000 is available only for letters of credit and bank guarantees. Under the revolving credit facilities, Ferox may make borrowings in CSK, euros and U.S. dollars. Borrowings in CSK are at PRIBOR, borrowings in euros are at EURIBOR and borrowings in U.S. dollars are at LIBOR, each with a fixed margin of 0.6 percent. Ferox is not required to pay a commitment fee to the lenders under the revolving credit facilities in respect to the unutilized commitments thereunder. Ferox must pay letter of credit and guarantee fees equal to 0.75% on the face amount of each guarantee. Ferox's land and buildings and accounts receivable secure the revolving credit facilities. As of September 30, 2009, there were no borrowings outstanding under the Ferox revolving credit facilities. However, there were \$6,159 of bank guarantees supported by the Ferox revolving credit facilities. Flow Instruments & Engineering GmbH (Flow), a wholly-owned subsidiary of Ferox, maintains two revolving lines of credit with 320 euros in borrowing capacity. As of September 30, 2009, there were no borrowings outstanding under either line of credit.

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****NOTE D Earnings per Share**

The following table presents calculations of net income per share of common stock for the three and nine months ended September 30, 2009 and 2008:

|   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Net income attributable to Chart Industries, Inc.                                 | \$ 8,248                                    | \$ 20,402   | \$ 45,487                                  | \$ 57,250   |
| Net income attributable to Chart Industries, Inc. per common share - basic        | \$ 0.29                                     | \$ 0.72     | \$ 1.60                                    | \$ 2.02     |
| Net income attributable to Chart Industries, Inc. per common share - diluted      | \$ 0.28                                     | \$ 0.70     | \$ 1.57                                    | \$ 1.97     |
| Weighted average number of common shares outstanding - basic                      | 28,472                                      | 28,383      | 28,444                                     | 28,326      |
| Incremental shares issuable upon assumed conversion and exercise of stock options | 633   | 764         | 488  | 746         |
| Total shares - diluted  | 29,105                                      | 29,147      | 28,932                                     | 29,072      |

**NOTE E Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) are as follows:

|   | <b>September 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|-------------------------------|------------------------------|
| Foreign currency translation adjustments    | \$ 22,434                     | \$ 14,264                    |
| Pension liability adjustments, net of taxes | (7,187)                       | (7,695)                      |
|   | \$ 15,247                     | \$ 6,569                     |

The following is a summary of the components of total comprehensive income, net of related income taxes:

|   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Net income  | \$ 8,227                                    | \$ 20,546   | \$ 45,585                                  | \$ 57,332   |
| Other comprehensive income (loss):                    |   |             |  |             |
| Foreign currency translation gains (losses)           | 5,828                                       | (11,935)    | 8,170                                      | 2,954       |
| Defined benefit pension plan amortization of net loss | 169   |             | 508  |             |

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|   |           |          |           |           |
|---|-----------|----------|-----------|-----------|
| Comprehensive income  | 14,224    | 8,611    | 54,263    | 60,286    |
| Less: Comprehensive (loss) income attributable to noncontrolling interest | (21)      | 144      | 98        | 82        |
| Comprehensive income attributable to Chart                                | \$ 14,245 | \$ 8,467 | \$ 54,165 | \$ 60,204 |

### NOTE F Acquisitions

In September 2009, the Company announced the purchase of Covidien's oxygen therapy business. The acquisition is expected to close by December 31, 2009.

In May and June 2009, the Company completed the acquisition of the equity interests of Chengdu Golden Phoenix Liquid Nitrogen Container Company, Ltd. (Golden Phoenix) and substantially all of the assets of Tri-Thermal, Inc. for an aggregate of \$12,700, of which \$4,100 will be paid over future periods. The estimated fair values of the net assets acquired and goodwill at the dates of acquisition were \$10,000 and \$2,700, respectively. The purchase price allocations are preliminary. Golden Phoenix manufactures liquid nitrogen aluminum storage containers used primarily in the animal breeding industry and is located in China. The results of Golden Phoenix are included in the Company's BioMedical segment. Tri-Thermal is located in Tulsa,

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****NOTE F Acquisitions - continued**

Oklahoma and sells replacement parts for air cooled heat exchangers. Tri-Thermal's results are included in the Company's Energy & Chemicals segment.

In April 2008, Ferox acquired Flow, which is based in Germany, for 11,900 euros, net of cash acquired. The fair value of the net assets acquired and goodwill at the date of acquisition was \$5,400 and \$14,800, respectively. Flow manufactures cryogenic flow meter systems for industrial gases and liquefied petroleum gas, distribution equipment for transport of CO<sub>2</sub> and other gases, and provides calibration services. Flow is included in the Company's Distribution & Storage segment and added \$6.8 million in sales in 2008.

In February 2008, the Company entered into a joint venture in Saudi Arabia with two other entities to form a company to manufacture air cooled heat exchangers. The contribution to the joint venture through September 30, 2009 was \$616 for a 34% share of the joint venture. The joint venture is accounted for under the equity method.

**NOTE G Restructuring Activities**

The Company has initiated cost containment programs to appropriately align its cost structure with expected market conditions. The programs consist primarily of planned workforce reductions and the shutdown of its Denver, Colorado BioMedical facility.

For the three and nine months ended September 30, 2009, the Company recorded \$1,222 and \$5,781, respectively, related to termination benefits primarily in the Distribution & Storage and BioMedical segments and the write-down to net realizable value of certain assets at the Denver, Colorado facility. These charges were recorded in cost of sales (\$3,234), selling, general and administrative expenses (\$2,217) and asset impairment charges (\$330). As a result, excluding recent acquisitions, the number of employees has been reduced by approximately 24% at September 30, 2009 compared with December 31, 2008 levels. Remaining planned costs associated with the Denver facility shutdown and the workforce reductions which are expected to be \$300, will be incurred during the remaining three months of 2009. The Denver facility land and building of approximately \$3,200 were reclassified to assets held for sale during the three months ended September 30, 2009.

The following tables set forth a summary of the Company's restructuring activities for the three and nine months ended September 30, 2009.

|                               | Three Months Ended September 30, 2009 |                              |            |           |          |
|-------------------------------|---------------------------------------|------------------------------|------------|-----------|----------|
|                               | Energy<br>&<br>Chemicals              | Distribution<br>&<br>Storage | BioMedical | Corporate | Total    |
| Balance at July 1, 2009       | \$ 250                                | \$ 2,070                     | \$ 834     | \$ 190    | \$ 3,344 |
| Restructuring charges         | 644                                   | 371                          | 207        |           | 1,222    |
| Asset impairment              |                                       |                              | 170        |           | 170      |
| Cash payments                 | (76)                                  | (656)                        | (633)      | (64)      | (1,429)  |
| Balance at September 30, 2009 | \$ 818                                | \$ 1,785                     | \$ 578     | \$ 126    | \$ 3,307 |

**Nine Months Ended September 30, 2009**  
**BioMedical      Corporate      Total**

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|                               | Energy<br>&<br>Chemicals | Distribution &<br>Storage |        |        |          |
|-------------------------------|--------------------------|---------------------------|--------|--------|----------|
| Balance at January 1, 2009    | \$                       | \$                        | \$     | \$     | \$       |
| Restructuring charges         | 928                      | 2,854                     | 1,716  | 283    | 5,781    |
| Asset impairment              |                          |                           | (330)  |        | (330)    |
| Cash payments                 | (110)                    | (1,069)                   | (808)  | (157)  | (2,144)  |
| Balance at September 30, 2009 | \$ 818                   | \$ 1,785                  | \$ 578 | \$ 126 | \$ 3,307 |

## NOTE H Income Taxes

At September 30, 2009, the Company has recorded a \$1,903 liability under FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), for gross unrecognized tax benefits. This amount includes \$1,565 of unrecognized tax benefits which, if ultimately recognized, will reduce the Company's annual effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. At September 30, 2009, the Company had accrued approximately \$168 for the payment of interest and penalties. There were no material adjustments to the recorded liability for unrecognized tax benefits during the third quarter of 2009.

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****NOTE I Employee Benefit Plans**

The Company has one defined benefit pension plan, which is frozen, that covers certain U.S. hourly and salary employees. The defined benefit plan provides benefits based primarily on the participants' years of service and compensation.

The following table sets forth the components of net periodic pension expense (benefit) for the three and nine months ended September 30, 2009 and 2008.

|                                 | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---------------------------------|---|-------------|--|-------------|
|                                 | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Interest cost                   | \$ 599                                      | \$ 571      | \$ 1,797                                   | \$ 1,713    |
| Expected return on plan assets  | (457)                                       | (734)       | (1,371)                                    | (2,202)     |
| Amortization of net loss        | 169   |             | 508  |             |
| Total pension expense (benefit) | \$ 311                                      | \$ (163)    | \$ 934                                     | \$ (489)    |

**NOTE J Reporting Segments**

The structure of the Company's internal organization is divided into the following three reportable segments: Energy and Chemicals ( E&C ), Distribution and Storage ( D&S ) and BioMedical. The Company's reportable segments are business units that are each managed separately because they manufacture, offer and distribute distinct products with different production processes and sales and marketing approaches. The E&C segment sells brazed aluminum and air-cooled heat exchangers, cold boxes and vacuum-insulated pipe to natural gas, petrochemical processing and industrial gas companies who use them for the liquefaction and separation of natural and industrial gases. The D&S segment sells cryogenic bulk storage systems, cryogenic packaged gas systems, cryogenic systems and components, beverage liquid CO<sub>2</sub> systems, cryogenic flow meter systems and cryogenic services to various companies for the storage and transportation of both industrial and natural gases. The BioMedical segment sells medical respiratory products, biological storage systems and other oxygen products. Due to the nature of the products that each segment sells, there are no intersegment sales. Corporate includes operating expenses for executive management, accounting, tax, treasury, human resources, information technology, legal, internal audit, risk management and stock-based compensation expenses that are not allocated to the reporting segments.

The Company evaluates performance and allocates resources based on operating income or loss from continuing operations before net interest expense, financing costs amortization expense, foreign currency gain or loss, income taxes and noncontrolling interest. The accounting policies of the reportable segments are described in the summary of significant accounting policies.

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****NOTE J Reporting Segments - Continued**

Information for the Company's three reportable segments and its corporate headquarters is presented below:

|                         | <b>Three Months Ended September 30, 2009</b> |   |                   |                  |              |
|-------------------------|--|---|-------------------|------------------|--------------|
|                         | <b>Energy &amp;<br/>Chemicals</b>            | <b>Distribution<br/>and<br/>Storage</b> | <b>BioMedical</b> | <b>Corporate</b> | <b>Total</b> |
| Sales                   | \$ 49,689                                    | \$ 55,561                               | \$ 21,922         | \$               | \$ 127,172   |
| Operating income (loss) | 7,527  | 8,523                                   | 5,664             | (5,750)          | 15,964       |

|                         | <b>Nine Months Ended September 30, 2009</b> |                                     |                   |                  |              |
|-------------------------|---|-------------------------------------|-------------------|------------------|--------------|
|                         | <b>Energy &amp;<br/>Chemicals</b>           | <b>Distribution<br/>and Storage</b> | <b>BioMedical</b> | <b>Corporate</b> | <b>Total</b> |
| Sales                   | \$ 210,861                                  | \$ 188,306                          | \$ 63,498         | \$               | \$ 462,665   |
| Operating income (loss) | 54,132                                      | 30,009                              | 13,400            | (18,166)         | 79,375       |

|                         | <b>Three Months Ended September 30, 2008</b> |   |                   |                  |              |
|-------------------------|--|---|-------------------|------------------|--------------|
|                         | <b>Energy &amp;<br/>Chemicals</b>            | <b>Distribution<br/>and<br/>Storage</b> | <b>BioMedical</b> | <b>Corporate</b> | <b>Total</b> |
| Sales                   | \$ 78,912                                    | \$ 84,950                               | \$ 24,946         | \$               | \$ 188,808   |
| Operating income (loss) | 23,800                                       | 16,494                                  | 4,630             | (8,270)          | 36,654       |

|                         | <b>Nine Months Ended September 30, 2008</b> |                                     |                   |                  |              |
|-------------------------|---|-------------------------------------|-------------------|------------------|--------------|
|                         | <b>Energy &amp;<br/>Chemicals</b>           | <b>Distribution<br/>and Storage</b> | <b>BioMedical</b> | <b>Corporate</b> | <b>Total</b> |
| Sales                   | \$ 230,976                                  | \$ 252,459                          | \$ 73,454         | \$               | \$ 556,889   |
| Operating income (loss) | 57,276                                      | 47,453                              | 15,096            | (22,130)         | 97,695       |

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**CHART INDUSTRIES, INC. AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009**

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

**NOTE K Supplemental Guarantor Financial Information**

The Company's Subordinated Notes issued in October 2005 are guaranteed on a full, unconditional and joint and several basis by the following wholly owned subsidiaries: Chart Inc., CAIRE Inc., Chart Energy & Chemicals, Inc., Chart Cooler Service Company, Inc., Chart International Holdings, Inc., Chart Asia, Inc. and Chart International, Inc. The following subsidiaries are not guarantors of the notes:

| <b>Non-Guarantor Subsidiaries</b>  | <b>Jurisdiction</b> |
|--|---------------------|
| Abahsain Specialized Industrial Co. Ltd. (34% owned)                     | Saudi Arabia        |
| Changzhou CEM Cryo Equipment Co., Ltd.                                   | China               |
| Chart Asia Investment Company Ltd.                                       | Hong Kong           |
| Chart Australia Pty. Ltd.  | Australia           |
| Chart Biomedical Limited   | United Kingdom      |
| Chart Cryogenic Distribution Equipment (Changzhou) Co., Ltd. (50% owned) | China               |
| Chart Cryogenic Engineering Systems (Changzhou) Co., Ltd.                | China               |
| Chart Cryogenic Equipment (Changzhou) Co., Ltd.                          | China               |
| Chart Ferox a.s.   | Czech Republic      |
| Chart Ferox GmbH   | Germany             |
| Chart Biomedical GmbH  | Germany             |
| Chart Italy S.r.l.   | Italy               |
| Chart Industries Luxembourg S.à.r.l.                                     | Luxembourg          |
| Chengdu Golden Phoenix Liquid Nitrogen Container Company Ltd.            | China               |
| Flow Instruments & Engineering GmbH                                      | Germany             |
| GTC of Clarksville, LLC  | Delaware            |
| Lox Taiwan (11.25% owned)  | Taiwan              |

The following supplemental condensed consolidating and combining financial information of the Issuer (Chart Industries, Inc.), Subsidiary Guarantors and Subsidiary Non-Guarantors presents statements of operations for the three and nine months ended September 30, 2009 and 2008, balance sheets as of September 30, 2009 and December 31, 2008 and statements of cash flows for the nine months ended September 30, 2009 and 2008.



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### CHART INDUSTRIES, INC. AND SUBSIDIARIES

#### Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009

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

### CONDENSED CONSOLIDATING BALANCE SHEET

As of September 30, 2009

|   | Issuer      | Subsidiary<br>Guarantors | Subsidiary<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total      |
|---|-------------|--------------------------|----------------------------------|------------------------------|------------|
| <b>ASSETS</b>                               |             |                          |                                  |                              |            |
| Cash and cash equivalents                   | \$ 128,128  | \$ 1,719                 | \$ 59,320                        | \$                           | \$ 189,167 |
| Short-term investments                      | 30,317      |                          |                                  |                              | 30,317     |
| Accounts receivable, net                    |             | 38,028                   | 16,915                           |                              | 54,943     |
| Inventory, net                              |             | 41,922                   | 40,622                           | (525)                        | 82,019     |
| Other current assets                        | 6,020       | 40,189                   | 6,349                            |                              | 52,558     |
| Total current assets                        | 164,465     | 121,858                  | 123,206                          | (525)                        | 409,004    |
| Property, plant and equipment, net          |             | 61,251                   | 44,149                           |                              | 105,400    |
| Goodwill                                    |             | 190,902                  | 73,946                           |                              | 264,848    |
| Intangible assets, net                      |             | 116,848                  | 7,554                            |                              | 124,402    |
| Investments in affiliates                   | 381,296     | 111,367                  |                                  | (492,370)                    | 293        |
| Intercompany receivables                    | 180,866     |                          |                                  | (180,866)                    |            |
| Other assets                                | 6,648       | 11,487                   | 4,414                            | (11,400)                     | 11,149     |
| Total assets                                | \$ 733,275  | \$ 613,713               | \$ 253,269                       | \$ (685,161)                 | \$ 915,096 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |             |                          |                                  |                              |            |
| Accounts payable and accruals               | \$ (11,623) | \$ 123,491               | \$ 34,023                        | \$ (528)                     | \$ 145,363 |
| Total current liabilities                   | (11,623)    | 123,491                  | 34,023                           | (528)                        | 145,363    |
| Long-term debt                              | 243,175     |                          | 11,400                           | (11,400)                     | 243,175    |
| Intercompany payables                       |             | 92,229                   | 88,341                           | (180,570)                    |            |
| Other long-term liabilities                 | 38,720      | 16,697                   | 8,138                            |                              | 63,555     |
| Total liabilities                           | 270,272     | 232,417                  | 141,902                          | (192,498)                    | 452,093    |
| Common stock                                | 285         |                          |                                  |                              | 285        |
| Other stockholders' equity                  | 462,718     | 381,296                  | 111,367                          | (492,663)                    | 462,718    |
| Total stockholders' equity                  | 463,003     | 381,296                  | 111,367                          | (492,663)                    | 463,003    |
| Total liabilities and stockholders' equity  | \$ 733,275  | \$ 613,713               | \$ 253,269                       | \$ (685,161)                 | \$ 915,096 |

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009**

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

**CONDENSED CONSOLIDATING BALANCE SHEET****As of December 31, 2008**

|   | <b>Issuer</b>     | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b>      |
|---|-------------------|----------------------------------|--------------------------------------|--------------------------------------|-------------------|
| <b>ASSETS</b>                                     |                   |                                  |                                      |                                      |                   |
| Cash and cash equivalents                         | \$ 84,428         | \$ 2,540                         | \$ 35,197                            | \$                                   | \$ 122,165        |
| Short-term investments                            | 32,264            |                                  |                                      |                                      | 32,264            |
| Accounts receivable, net                          |                   | 70,872                           | 20,826                               |                                      | 91,698            |
| Inventory, net                                    |                   | 52,350                           | 43,855                               | (815)                                | 95,390            |
| Other current assets                              | 8,857             | 38,276                           | 16,375                               |                                      | 63,508            |
| <b>Total current assets</b>                       | <b>125,549</b>    | <b>164,038</b>                   | <b>116,253</b>                       | <b>(815)</b>                         | <b>405,025</b>    |
| Property, plant and equipment, net                |                   | 63,823                           | 38,549                               |                                      | 102,372           |
| Goodwill  |                   | 189,791                          | 71,718                               |                                      | 261,509           |
| Intangible assets, net                            |                   | 124,064                          | 5,478                                |                                      | 129,542           |
| Investments in affiliates                         | 201,709           | 86,447                           |                                      | (287,616)                            | 540               |
| Intercompany receivables                          | 327,049           |                                  |                                      | (327,049)                            |                   |
| Other assets                                      | 7,860             | 966                              | 1,613                                |                                      | 10,439            |
| <b>Total assets</b>                               | <b>\$ 662,167</b> | <b>\$ 629,129</b>                | <b>\$ 233,611</b>                    | <b>\$ (615,480)</b>                  | <b>\$ 909,427</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>       |                   |                                  |                                      |                                      |                   |
| Accounts payable and accruals                     | \$ (27,850)       | \$ 182,552                       | \$ 39,469                            | \$ (10)                              | \$ 194,161        |
| <b>Total current liabilities</b>                  | <b>(27,850)</b>   | <b>182,552</b>                   | <b>39,469</b>                        | <b>(10)</b>                          | <b>194,161</b>    |
| Long-term debt                                    | 243,175           |                                  |                                      |                                      | 243,175           |
| Intercompany payables                             |                   | 227,874                          | 99,440                               | (327,314)                            |                   |
| Other long-term liabilities                       | 41,390            | 16,994                           | 8,255                                |                                      | 66,639            |
| <b>Total liabilities</b>                          | <b>256,715</b>    | <b>427,420</b>                   | <b>147,164</b>                       | <b>(327,324)</b>                     | <b>503,975</b>    |
| Common stock                                      | 284               |                                  |                                      |                                      | 284               |
| Other stockholders' equity                        | 405,168           | 201,709                          | 86,447                               | (288,156)                            | 405,168           |
| <b>Total stockholders' equity</b>                 | <b>405,452</b>    | <b>201,709</b>                   | <b>86,447</b>                        | <b>(288,156)</b>                     | <b>405,452</b>    |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 662,167</b> | <b>\$ 629,129</b>                | <b>\$ 233,611</b>                    | <b>\$ (615,480)</b>                  | <b>\$ 909,427</b> |

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009**

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

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Three Months Ended September 30, 2009**

|  | <b>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|----------------------------------|---|--------------------------------------|--------------|
| Net sales  | \$            | \$ 92,023                        | \$ 35,605                                 | \$ (456)                             | \$ 127,172   |
| Cost of sales  |               | 59,789                           | 28,573                                    | (564)                                | 87,798       |
| Gross profit   |               | 32,234                           | 7,032                                     | 108                                  | 39,374       |
| Selling, general and administrative expenses                                 | 354           | 19,389                           | 3,667                                     |                                      | 23,410       |
| Operating income   | (354)         | 12,845                           | 3,365                                     | 108                                  | 15,964       |
| Interest expense   | 4,440         | (13)                             | (75)                                      |                                      | 4,352        |
| Other expense (income), net  |               | 78                               | (206)                                     |                                      | (128)        |
| Noncontrolling interest, net of tax  |               |                                  | (21)                                      |                                      | (21)         |
| Income (loss) before income taxes and equity in net (income) of subsidiaries | (4,794)       | 12,780                           | 3,667                                     | 108                                  | 11,761       |
| Income tax (benefit) provision   | 1,195         | 1,107                            | 1,211                                     |                                      | 3,513        |
| Equity in net (income) of subsidiaries                                       | (14,237)      | (2,564)                          |   | 16,801                               |              |
| Net income   | \$ 8,248      | \$ 14,237                        | \$ 2,456                                  | \$ (16,693)                          | \$ 8,248     |

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Three Months Ended September 30, 2008**

|  | <b>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary<br/>Non-<br/>Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|----------------------------------|---|--------------------------------------|--------------|
| Net sales                                    | \$            | \$ 139,126                       | \$ 51,300                                 | \$ (1,618)                           | \$ 188,808   |
| Cost of sales                                |               | 84,595                           | 39,641                                    | (1,592)                              | 122,644      |
| Gross profit                                 |               | 54,531                           | 11,659                                    | (26)                                 | 66,164       |
| Selling, general and administrative expenses | 399           | 25,230                           | 3,881                                     |                                      | 29,510       |
| Operating income                             | (399)         | 29,301                           | 7,778                                     | (26)                                 | 36,654       |
| Interest expense                             | 5,365         | 51                               | (167)                                     |                                      | 5,249        |
| Other (income) expense, net                  |               | 1,276                            | 921                                       |                                      | 2,197        |

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|  |           |           |          |             |           |
|--|-----------|-----------|----------|-------------|-----------|
| Income (loss) before income taxes and equity in net (income) of subsidiaries | (5,764)   | 27,974    | 7,024    | (26)        | 29,208    |
| Income tax (benefit) provision   | (7,827)   | 15,489    | 1,144    |             | 8,806     |
| Equity in net (income) of subsidiaries                                       | (18,339)  | (5,854)   |          | 24,193      |           |
| Net income   | \$ 20,402 | \$ 18,339 | \$ 5,880 | \$ (24,219) | \$ 20,402 |

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2009**

|  | Issuer    | Subsidiary<br>Guarantors | Subsidiary<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total      |
|--|-----------|--------------------------|----------------------------------|------------------------------|------------|
| Net sales  | \$        | \$ 349,950               | \$ 114,743                       | \$ (2,028)                   | \$ 462,665 |
| Cost of sales  |           | 217,422                  | 89,599                           | (2,319)                      | 304,702    |
| Gross profit   |           | 132,528                  | 25,144                           | 291                          | 157,963    |
| Selling, general and administrative expenses                                 | 1,105     | 67,054                   | 10,429                           |                              | 78,588     |
| Operating income   | (1,105)   | 65,474                   | 14,715                           | 291                          | 79,375     |
| Interest expense   | 13,246    | (23)                     | (253)                            |                              | 12,970     |
| Other (income) expense, net  |           | (78)                     | (357)                            |                              | (435)      |
| Noncontrolling interest, net of tax  |           |                          | 98                               |                              | 98         |
| Income (loss) before income taxes and equity in net (income) of subsidiaries | (14,351)  | 65,575                   | 15,227                           | 291                          | 66,742     |
| Income tax (benefit) provision   | (4,427)   | 22,028                   | 3,654                            |                              | 21,255     |
| Equity in net (income) of subsidiaries                                       | (55,411)  | (11,864)                 |                                  | 67,275                       |            |
| Net income   | \$ 45,487 | \$ 55,411                | \$ 11,573                        | \$ (66,984)                  | \$ 45,487  |

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2008**

|  | Issuer  | Subsidiary<br>Guarantors | Subsidiary<br>Non-<br>Guarantors | Consolidating<br>Adjustments | Total      |
|--|---------|--------------------------|----------------------------------|------------------------------|------------|
| Net sales                                    | \$      | \$ 407,783               | \$ 153,279                       | \$ (4,173)                   | \$ 556,889 |
| Cost of sales                                |         | 259,428                  | 118,606                          | (3,249)                      | 374,785    |
| Gross profit                                 |         | 148,355                  | 34,673                           | (924)                        | 182,104    |
| Selling, general and administrative expenses | 1,107   | 71,457                   | 11,845                           |                              | 84,409     |
| Operating income                             | (1,107) | 76,898                   | 22,828                           | (924)                        | 97,695     |
| Interest expense                             | 15,867  | (1)                      | (517)                            |                              | 15,349     |
| Other (income) expense, net                  |         | 681                      | (156)                            |                              | 525        |

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|  |           |           |           |             |           |
|--|-----------|-----------|-----------|-------------|-----------|
| Income (loss) before income taxes and equity in net (income) of subsidiaries | (16,974)  | 76,218    | 23,501    | (924)       | 81,821    |
| Income tax (benefit) provision   | (11,191)  | 32,072    | 3,690     |             | 24,571    |
| Equity in net (income) of subsidiaries                                       | (63,033)  | (18,887)  |           | 81,920      |           |
| Net income   | \$ 57,250 | \$ 63,033 | \$ 19,811 | \$ (82,844) | \$ 57,250 |

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2009**

|  | <b>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary Non-<br/>Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|----------------------------------|---------------------------------------|--------------------------------------|--------------|
| Cash flows from operating activities:                |               |                                  |                                       |                                      |              |
| Net cash provided by (used in) operating activities  | \$ 7,684      | \$ 47,981                        | \$ 23,687                             | \$ (2,770)                           | \$ 76,582    |
| Cash flows from investing activities:                |               |                                  |                                       |                                      |              |
| Capital expenditures                                 |               | (7,520)                          | (1,884)                               |                                      | (9,404)      |
| Acquisition of businesses, net of cash acquired      |               | (1,250)                          | (6,807)                               |                                      | (8,057)      |
| Other investing activities                           | 2,035         | 667                              | (318)                                 |                                      | 2,384        |
| Net cash provided by (used in) investing activities  | 2,035         | (8,103)                          | (9,009)                               |                                      | (15,077)     |
| Cash flows from financing activities:                |               |                                  |                                       |                                      |              |
| Net change in debt                                   |               |                                  | 11,400                                | (11,400)                             |              |
| Other financing activities                           | 853           |                                  |                                       |                                      | 853          |
| Intercompany account changes                         | 33,128        | (40,699)                         | (6,599)                               | 14,170                               |              |
| Net cash provided by (used in) financing activities  | 33,981        | (40,699)                         | 4,801                                 | 2,770                                | 853          |
| Net increase (decrease) in cash and cash equivalents | 43,700        | (821)                            | 19,479                                |                                      | 62,358       |
| Effect of exchange rate changes                      |               |                                  | 4,644                                 |                                      | 4,644        |
| Cash and cash equivalents, beginning of period       | 84,428        | 2,540                            | 35,197                                |                                      | 122,165      |
| Cash and cash equivalents, end of period             | \$ 128,128    | \$ 1,719                         | \$ 59,320                             | \$                                   | \$ 189,167   |

**Table of Contents****CHART INDUSTRIES, INC. AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements September 30, 2009****(Dollars and shares in thousands, except per share amounts)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2008**

|  | <b>Issuer</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Subsidiary Non-<br/>Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|----------------------------------|---------------------------------------|--------------------------------------|--------------|
| Cash flows from operating activities:                |               |                                  |                                       |                                      |              |
| Net cash (used in) provided by operating activities  | \$ (16,438)   | \$ 79,471                        | \$ 22,562                             | \$ 1,238                             | \$ 86,833    |
| Cash flows from investing activities:                |               |                                  |                                       |                                      |              |
| Capital expenditures                                 |               | (4,360)                          | (4,929)                               |                                      | (9,289)      |
| Acquisition of business                              |               |                                  | (18,828)                              |                                      | (18,828)     |
| Acquisition of minority interest and other assets    |               | (616)                            |                                       |                                      | (616)        |
| Net cash (used in) investing activities              |               | (4,976)                          | (23,757)                              |                                      | (28,733)     |
| Cash flows from financing activities:                |               |                                  |                                       |                                      |              |
| Net change in debt                                   | (6,825)       |                                  |                                       |                                      | (6,825)      |
| Other financing activities                           | 2,696         |                                  |                                       |                                      | 2,696        |
| Intercompany account changes                         | 77,432        | (77,642)                         | 1,448                                 | (1,238)                              |              |
| Net cash provided by (used in) financing activities  | 73,303        | (77,642)                         | 1,448                                 | (1,238)                              | (4,129)      |
| Net increase (decrease) in cash and cash equivalents | 56,865        | (3,147)                          | 253                                   |                                      | 53,971       |
| Effect of exchange rate changes                      |               |                                  | 2,044                                 |                                      | 2,044        |
| Cash and cash equivalents, beginning of period       | 49,184        | 4,595                            | 39,090                                |                                      | 92,869       |
| Cash and cash equivalents, end of period             | \$ 106,049    | \$ 1,448                         | \$ 41,387                             | \$                                   | \$ 148,884   |



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**Table of Contents**

**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. We supply engineered equipment used throughout the global liquid supply chain. 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 cryogenic systems and 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 and other cryogenic components are used throughout the liquid gas supply chain for the purification, liquefaction, distribution, storage and end-use of hydrocarbon and industrial gases.

For the nine months ended September 30, 2009, orders were \$252.2 million and backlog has decreased to \$189.2 million compared to \$398.8 million at December 31, 2008. For the nine months ended September 30, 2009, we experienced a decline in sales, gross profit and operating income compared to the same period in 2008 due to the impact from the global economic downturn. Sales for the nine months ended September 30, 2009 were \$462.7 million compared to sales of \$556.9 million for the nine months ended September 30, 2008, reflecting a decrease of \$94.2 million, or 16.9%. Our gross profit for the nine months ended September 30, 2009 was \$158.0 million, or 34.0% of sales, as compared to \$182.1 million, or 32.7% of sales, for the same period in 2008. In addition, our operating income for the nine months ended September 30, 2009 was \$79.4 million compared to \$97.7 million for the same period in 2008. Our gross profit margin improvement was primarily due to improved project mix and project execution at our E&C segment.

The global economic downturn has impacted order volume and project timing. Our backlog provided strong first half 2009 earnings. Although overall industrial production and durable goods orders seem to have stabilized, the decline in our order rates and backlog will impact our fourth quarter 2009 and first half 2010 earnings. Nonetheless, based on current expectations, we believe that our cash flow from operations, existing cash and available borrowings under our senior secured credit facility (Senior Credit Facility) should be adequate to meet our working capital, capital expenditure, debt service and other operational funding requirements for the remaining three months of 2009 and into 2010.

**Table of Contents****Results of Operations for the Three Months Ended September 30, 2009 and 2008**

The following table sets forth sales, gross profit, gross profit margin and operating income or loss for our three operating segments for the three and nine months ended September 30, 2009 and 2008:

|                                | <b>Three Months Ended<br/>September 30,</b> |                   | <b>Nine Months Ended<br/>September 30,</b> |                   |
|--------------------------------|---|-------------------|--|-------------------|
|                                | <b>2009</b>                                 | <b>2008</b>       | <b>2009</b>                                | <b>2008</b>       |
| <b>Sales</b>                   |   |                   |  |                   |
| Energy & Chemicals             | \$ 49,689                                   | \$ 78,912         | \$ 210,861                                 | \$ 230,976        |
| Distribution & Storage         | 55,561                                      | 84,950            | 188,306                                    | 252,459           |
| BioMedical                     | 21,922                                      | 24,946            | 63,498                                     | 73,454            |
| <b>Total</b>                   | <b>\$ 127,172</b>                           | <b>\$ 188,808</b> | <b>\$ 462,665</b>                          | <b>\$ 556,889</b> |
| <b>Gross Profit</b>            |   |                   |  |                   |
| Energy & Chemicals             | \$ 14,460                                   | \$ 30,926         | \$ 78,480                                  | \$ 77,466         |
| Distribution & Storage         | 15,843                                      | 26,239            | 55,182                                     | 76,916            |
| BioMedical                     | 9,071                                       | 8,999             | 24,301                                     | 27,722            |
| <b>Total</b>                   | <b>\$ 39,374</b>                            | <b>\$ 66,164</b>  | <b>\$ 157,963</b>                          | <b>\$ 182,104</b> |
| <b>Gross Profit Margin</b>     |   |                   |  |                   |
| Energy & Chemicals             | 29.1%                                       | 39.2%             | 37.2%                                      | 33.5%             |
| Distribution & Storage         | 28.5%                                       | 30.9%             | 29.3%                                      | 30.5%             |
| BioMedical                     | 41.4%                                       | 36.1%             | 38.3%                                      | 37.7%             |
| <b>Total</b>                   | <b>31.0%</b>                                | <b>35.0%</b>      | <b>34.1%</b>                               | <b>32.7%</b>      |
| <b>Operating Income (Loss)</b> |   |                   |  |                   |
| Energy & Chemicals             | \$ 7,527                                    | \$ 23,800         | \$ 54,132                                  | \$ 57,276         |
| Distribution & Storage         | 8,523                                       | 16,494            | 30,009                                     | 47,453            |
| BioMedical                     | 5,664                                       | 4,630             | 13,400                                     | 15,096            |
| Corporate                      | (5,750)                                     | (8,270)           | (18,166)                                   | (22,130)          |
| <b>Total</b>                   | <b>\$ 15,964</b>                            | <b>\$ 36,654</b>  | <b>\$ 79,375</b>                           | <b>\$ 97,695</b>  |

**Sales**

Sales for the three months ended September 30, 2009 were \$127.2 million compared to \$188.8 million for the three months ended September 30, 2008, reflecting a decrease of \$61.6 million, or 32.6%. E&C segment sales were \$49.7 million for the three months ended September 30, 2009 compared with sales of \$78.9 million for the three months ended September 30, 2008, which reflected a decrease of \$29.2 million or 37.0%. The decline in sales occurred in the brazed aluminum heat exchangers and systems product lines due to the lack of new orders as a result of the economic downturn and the fact that a number of large projects are nearing completion. D&S segment sales decreased \$29.4 million, or 34.6%, to \$55.6 million for the three months ended September 30, 2009 from \$85.0 million for the three months ended September 30, 2008. The decrease was primarily due to lower prices and volume resulting from decreased demand in both bulk and package gas systems throughout the global industrial gas market as industrial gas customers continue to restrict their purchases as a result of the economic downturn. In addition, D&S segment sales were negatively affected in the third quarter of 2009 by the weakening of the euro and the Czech koruna against the U.S. dollar as compared to exchange rates experienced during the same period in 2008. BioMedical segment sales for the three months ended September 30, 2009 were \$21.9 million compared to \$24.9 million for the same period in 2008, which reflected a decrease of \$3.0 million, or 12.0%. Sales decreased \$1.0 million in biological storage systems largely due to continued weakness in the beef and dairy artificial insemination markets. Medical respiratory product sales increased slightly reflecting higher volume in European markets. Other product sales declined \$2.2 million due to the shutdown of the Denver, Colorado BioMedical facility. In April 2009, the Company made the decision to shut down the Denver facility and exit the MRI component product line. The government contract work previously done at the Denver facility has been transferred to other Chart facilities.



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### ***Gross Profit and Margin***

Gross profit for the three months ended September 30, 2009 was \$39.4 million, or 31.0% of sales, versus \$66.2 million, or 35.0% of sales, for the three months ended September 30, 2008, a \$26.8 million decrease. E&C segment gross profit decreased \$16.4 million and its margin decreased 10.1 percentage points, primarily due to project mix and lower volume in systems and brazed aluminum heat exchangers due to a decline in backlog, which included higher margin projects. This decrease is partially offset by lower material costs in air cooled heat exchangers. Gross profit for the D&S segment decreased \$10.4 million, as margin declined 2.4 percentage points, for the three months ended September 30, 2009 as compared to the same period in 2008. Lower volume and pricing, partially offset by lower material costs, contributed to the decline in gross profit. BioMedical gross profit increased \$0.1 million and margin increased 5.3 percentage points for the three months ended September 30, 2009 as compared to the same period in 2008. The increase was primarily due to higher sales volume in medical respiratory products and lower material pricing, partially offset by lower volume in biological storage systems and restructuring charges of \$0.3 million related to the Denver facility shutdown.

### ***Selling, General and Administrative Expenses ( SG&A )***

SG&A expenses for the three months ended September 30, 2009 were \$20.8 million, or 16.4% of sales, compared to \$26.8 million, or 14.2% of sales, for the three months ended September 30, 2008. SG&A expenses for the E&C segment were \$6.0 million for the three months ended September 30, 2009 compared to \$6.9 million for the three months ended September 30, 2008, a decrease of \$0.9 million. The decrease for the E&C segment was primarily the result of decreased sales commissions and variable incentive compensation due to lower sales volume. D&S segment SG&A expenses for the three months ended September 30, 2009 were \$6.1 million compared to \$8.4 million for the three months ended September 30, 2008, a decrease of \$2.3 million. This decrease was primarily attributable to lower compensation costs due to workforce reductions, lower outside consulting expenses as well as reduced travel and entertainment costs. SG&A expenses for the BioMedical segment were \$3.0 million for the three months ended September 30, 2009 and \$3.2 million for the three months ended September 30, 2008. The decline was primarily attributable to lower compensation and travel and entertainment costs. Corporate SG&A expenses for the three months ended September 30, 2009 were \$5.7 million compared to \$8.3 million for the three months ended September 30, 2008. This decrease of \$2.6 million was attributable to lower stock-based compensation expense, compensation costs including variable incentive compensation, travel and entertainment and outside consulting fees as a result of our cost reduction initiatives.

### ***Asset Impairment***

An asset impairment gain of \$0.2 million for the three months ended September 30, 2009 was the result of the sale of certain equipment at the BioMedical facility in Denver, Colorado which had been written down to its estimated net realizable value as part of the facility shutdown during the second quarter of 2009.

### ***Amortization Expense***

Amortization expense for the three months ended September 30, 2009 was \$2.7 million, or 2.1% of sales, compared to \$2.8 million, or 1.5% of sales for the three months ended September 30, 2008. The decrease of \$0.1 million results from certain intangible assets becoming fully amortized since the third quarter of 2008 partially offset by amortization on intangible assets from the acquisition of Golden Phoenix.

### ***Operating Income***

As a result of the foregoing, operating income for the three months ended September 30, 2009 was \$16.0 million, or 12.6% of sales, a decrease of \$20.7 million compared to operating income of \$36.7 million, or 19.4% of sales, for the same period in 2008.

### ***Net Interest Expense***

Net interest expense for the three months ended September 30, 2009 and 2008 was \$3.9 million and \$4.6 million, respectively. The decrease in interest expense of \$0.7 million for the three months ended September 30, 2009 compared to the same period in 2008 was primarily attributable to lower variable interest rates on the term loan portion of our Senior Credit Facility. Also contributing to the decrease in net interest expense was the repurchase of \$6.8 million in outstanding Subordinated Notes during the third quarter of 2008.

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### ***Other Expense and Income***

For the three months ended September 30, 2009, foreign currency gains were \$0.1 million as compared to \$2.1 million in losses for the same period in 2008. The currency losses during the three months ended September 30, 2008 were caused by the weakening of the Czech koruna against the euro and the weakening of the euro against the U.S. dollar. The change in these currencies during the third quarter of 2008 affected euro denominated transactions in many of our operations and the fair market value of the forward contracts to sell euros and purchase korunas at set rates held at our Czech Republic subsidiary. In addition, the three months ended September 30, 2008 included the write off of deferred financing fees of \$0.2 million associated with the repurchase of \$6.8 million in Subordinated Notes during the quarter.

### ***Income Tax Expense***

Income tax expense of \$3.5 million and \$8.8 million for the three months ended September 30, 2009 and 2008, respectively, represents taxes on both U.S. and foreign earnings at an effective income tax rate of 29.9% and 30.0%, respectively.

### ***Net Income***

As a result of the foregoing, reported net income for the three months ended September 30, 2009 and 2008 was \$8.2 million and \$20.4 million, respectively.

## **Results of Operations for the Nine Months Ended September 30, 2009 and 2008**

### ***Sales***

Sales for the nine months ended September 30, 2009 were \$462.7 million compared to \$556.9 million for the nine months ended September 30, 2008, reflecting a decrease of \$94.2 million, or 16.9%. E&C segment sales were \$210.9 million for the nine months ended September 30, 2009 compared with sales of \$231.0 million for the same period in 2008, which represented a decrease of \$20.1 million, or 8.7%. This decrease in sales was primarily due to lower volume in both brazed aluminum heat exchangers and systems product lines due to the decline in backlog and the lack of any significant orders and the fact that a number of large projects are nearing completion. This was partially offset by increased volume in air cooled heat exchangers. D&S segment sales decreased \$64.2 million, or 25.4%, to \$188.3 million for the nine months ended September 30, 2009 from \$252.5 million for the nine months ended September 30, 2008. Bulk storage system sales decreased \$19.1 million and package gas system sales decreased \$45.1 million for the nine months ended September 30, 2009 compared to the same period in 2008 due to lower prices and volume as industrial gas customers restricted their purchases as a result of the economic downturn. In addition, D&S segment sales were negatively affected during the nine months ended September 30, 2009 from the weakening of the euro and the Czech koruna against the U.S. dollar as compared to the same period in 2008. BioMedical segment sales decreased \$10.0 million, or 13.6%, to \$63.5 million for the nine months ended September 30, 2009 compared to \$73.5 million for the nine months ended September 30, 2008. Biological storage systems sales decreased \$5.1 million as a result of lower volume in domestic and international markets. Medical respiratory product sales increased \$0.5 million during the nine months ended September 30, 2009. MRI and other product sales decreased \$5.4 million largely due to lower MRI component product sales, which are being discontinued as part of the shutdown of the Denver, Colorado BioMedical facility which was announced during the second quarter of 2009.

### ***Gross Profit and Margin***

Gross profit for the nine months ended September 30, 2009 was \$158.0 million, or 34.1% of sales, versus \$182.1 million, or 32.7% of sales, for the nine months ended September 30, 2008 resulting in a \$24.1 million decrease. E&C segment gross profit increased \$1.0 million, or 3.7 percentage points in the 2009 period compared to the 2008 period, primarily due to improved project mix and cost performance. In addition, order cancellation fees of \$1.5 million were also billed in accordance with contract terms providing additional margin improvement in our brazed aluminum heat exchanger product line. Gross profit for the D&S segment decreased \$21.7 million, or 1.2 percentage points, for the nine months ended September 30, 2009 compared to the same period in 2008 primarily due to lower volume, pricing and restructuring charges of \$1.9 million related to workforce reductions, partially offset by lower material costs. BioMedical gross profit decreased \$3.4 million, while gross margin improved 0.6 percentage points, for the nine months ended September 30, 2009 compared to the same period in 2008. The BioMedical gross profit decreased in 2009 primarily due to lower sales volume for biological storage systems, however the margin percentage improved due to a more favorable mix and lower material costs.

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### ***SG&A***

SG&A expenses for the nine months ended September 30, 2009 were \$70.2 million, or 15.2% of sales, versus \$76.2 million, or 13.7% of sales, for the nine months ended September 30, 2008. SG&A expenses for the E&C segment were \$21.6 million for the nine months ended September 30, 2009 compared to \$19.1 million for the nine months ended September 30, 2008, an increase of \$2.5 million. The increase for the E&C segment was primarily the result of variable incentive compensation expense and sales commissions due to higher margin projects during 2009 as compared to the same period in 2008 as well as \$0.8 million in restructuring charges related to workforce reductions. D&S segment SG&A expenses for the nine months ended September 30, 2009 were \$21.4 million compared to \$25.3 million for the nine months ended September 30, 2008, a decrease of \$3.9 million. This decrease was primarily attributable to lower compensation costs, outside marketing and consulting services as well as reduced travel and entertainment costs, partially offset by restructuring charges of \$0.9 million related to workforce reductions. SG&A expenses for the BioMedical segment were \$9.1 million for the nine months ended September 30, 2009, a decrease of \$0.5 million compared to the nine months ended September 30, 2008. The decline was largely due to lower compensation costs including variable incentive compensation and reduced travel and entertainment costs partially offset by restructuring charges of \$0.2 million related to workforce reductions. Corporate SG&A expenses for the nine months ended September 30, 2009 were \$18.1 million compared to \$22.1 million for the nine months ended September 30, 2008. This decrease of \$4.0 million was attributable to lower stock-based compensation costs, variable incentive compensation, travel and entertainment and outside consulting costs as a result of cost reduction initiatives. These lower expenses were partially offset by restructuring charges of \$0.3 million related to workforce reductions.

### ***Amortization Expense***

Amortization expense for the nine months ended September 30, 2009 was \$8.0 million, or 1.7% of sales, compared to \$8.2 million, or 1.5% of sales, for the nine months ended September 30, 2008. The decrease of \$0.2 million was due to certain intangible assets being fully amortized.

### ***Asset impairment***

An asset impairment charge of \$0.3 million for the nine months ended September 30, 2009 was the result of certain equipment at the BioMedical facility in Denver, Colorado being written down to its net realizable value as part of the facility shutdown.

### ***Operating Income***

As a result of the foregoing, operating income for the nine months ended September 30, 2009 was \$79.4 million, or 17.2% of sales, a decrease of \$18.3 million compared to operating income of \$97.7 million, or 17.5% of sales, for the same period in 2008.

### ***Net Interest Expense***

Net interest expense for the nine months ended September 30, 2009 and 2008 was \$11.8 million and \$13.9 million, respectively. This decrease in interest expense of \$2.1 million for the nine months ended September 30, 2009 compared to the same period in 2008 was primarily attributable to lower variable interest rates on the term loan portion of our Senior Credit Facility. Also contributing to the decrease in net interest expense was slightly lower interest expense on the Subordinated Notes as a result of the repurchase of \$6.8 million in outstanding Subordinated Notes during the third quarter of 2008.

### ***Other Expenses and Income***

For the nine months ended September 30, 2009, foreign currency gains were \$0.4 million as compared to losses of \$0.4 million for the same period in 2008. The increase in the currency gains occurred primarily in our Czech Republic subsidiary as the Czech koruna has weakened against the euro and U.S. dollar during the past year. The majority of the currency losses in the third quarter of 2008 occurred in euro denominated transactions that occur at many of our operations as the euro weakened against the dollar. In addition, the nine months ended September 30, 2008 included the write off of deferred financing fees of \$0.2 million associated with the repurchase of \$6.8 million in Subordinated Notes during the third quarter of 2008.

### ***Income Tax Expense***

Income tax expense of \$21.3 million and \$24.6 million for the nine months ended September 30, 2009 and 2008, respectively, represents taxes on both domestic and foreign earnings at an annual effective income tax rate of 31.8% and 30.0%, respectively. The increase in the effective income tax rate was primarily due to an increase in domestic earnings, which are taxed at a higher rate as compared to foreign earnings and a decrease in the amount of foreign investment credits.



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### ***Net Income***

As a result of the foregoing, net income for the nine months ended September 30, 2009 and 2008 was \$45.5 million and \$57.3 million, respectively.

### **Liquidity and Capital Resources**

#### ***Debt Instruments and Related Covenants***

As of September 30, 2009, the Company had \$80.0 million outstanding under the term loan portion of its Senior Credit Facility, \$163.2 million outstanding under the Subordinated Notes and \$27.3 million of letters of credit and bank guarantees supported by the revolving portion of the Senior Credit Facility. The Company is in compliance with all covenants, including its financial covenants, under the Senior Credit Facility and Subordinated Notes. Availability on the revolving portion of the Senior Credit Facility was \$82.7 million at September 30, 2009.

On October 5, 2008, Lehman Commercial Paper Inc. ( LCPI ), a subsidiary of Lehman Brothers Holdings Inc. and a lender under the revolving portion of the Senior Credit Facility ( Revolver ), filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. LCPI had provided \$5.0 million in commitments, or approximately 4.3% of total commitments, on the Revolver. A representative of LCPI has orally disclosed to the Company that it will not honor its obligation under the Senior Credit Facility. Accordingly, the total borrowing capacity under the Revolver is effectively limited to \$110.0 million. The loss of the \$5.0 million in effective capacity does not have a material adverse effect on meeting the liquidity and capital resource needs of the Company.

#### ***Sources and Use of Cash***

Cash provided by operations for the nine months ended September 30, 2009 was \$76.6 million compared with cash provided by operations of \$86.8 million for the nine months ended September 30, 2008. The decrease in cash provided by operations in the 2009 period was primarily attributable to lower net income and a reduction in customer advances and billings in excess of contract revenue due to reduced order rates and project backlog in E&C.

Cash used in investing activities for the nine months ended September 30, 2009 was \$15.1 million compared to \$28.7 million for the nine months ended September 30, 2008. Capital expenditures for the nine months ended September 30, 2009 were \$9.4 million compared with \$9.3 million for the nine months ended September 30, 2008. For the nine months ended September 30, 2009, \$8.1 million of cash, net of cash acquired, was used for two acquisitions: the equity interests of Chengdu Golden Phoenix Liquid Nitrogen Container Company, Ltd. ( Golden Phoenix ) and substantially all of the assets of Tri-Thermal, Inc. During the nine months ended September 30, 2008, \$18.8 million of cash, net of cash acquired, was used to purchase Flow Instruments & Engineering GmbH and \$0.6 million was contributed to a joint venture in Saudi Arabia for the manufacture of air cooled heat exchangers. Also, for the nine months ended September 30, 2009, certain short-term investments matured and the proceeds totaled \$2.0 million.

For the nine months ended September 30, 2009, cash provided by financing activities was \$0.9 million compared to cash used of \$4.1 million for the nine months ended September 30, 2008 largely due to the purchase of \$6.8 million of our outstanding Subordinated Notes in September 2008.

#### ***Cash Requirements***

The Company does not anticipate any unusual cash requirements for working capital needs, but expects to use \$5.0 to \$7.0 million of cash for capital expenditures for the remaining three months of 2009. A portion of the capital expenditures are expected to be used for the new industrial gas equipment repair center that is being built in Reno, Nevada.

During 2009, the Company has and will continue to consider making acquisitions as part of its strategic growth initiatives and expects to fund these acquisitions with primarily cash or stock. During the third quarter of 2009, the Company announced the purchase of Covidien's oxygen therapy products business in an all cash transaction, which is expected to close in the fourth quarter 2009.

For the remaining three months of 2009, cash requirements for debt service are forecasted to be approximately \$8.0 million for scheduled interest payments under our Senior Credit Facility and the Subordinated Notes. We are not required to make any scheduled principal payments during the remaining three months of 2009 under the Term Loan portion of the Senior Credit Facility or Subordinated Notes, but we may consider making voluntary principal payments from time to time on our Senior Credit Facility. We may also from time to time seek to purchase a portion of our Subordinated Notes outstanding through cash purchases on the





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open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements and our debt covenants. We expect to fund an additional \$15.3 million of purchase price as a result of our second and third quarter 2009 acquisition activity, of which the majority will be payable in the fourth quarter of 2009 and the remainder payable during 2010. We are also required to fund an additional \$0.9 million capital contribution to our joint venture in Saudi Arabia during the fourth quarter of 2009. For the rest of 2009, we expect to use approximately \$6.2 million of cash for both U.S. and foreign income taxes and to contribute approximately \$0.2 million of cash to our defined benefit pension plan to meet ERISA minimum funding requirements.

**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 contractual commitments received from customers that the Company has not recognized as revenue under the percentage of completion method or based upon shipment. Backlog can be significantly affected by the timing of orders for large projects, particularly in the E&C segment, and it 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 at times subject to the payment of certain costs and/or penalties. Backlog as of September 30, 2009 was \$189.2 million compared to \$224.6 million as of June 30, 2009.

The following table sets forth orders and backlog by segment for the periods indicated:

|                        | <b>Three Months Ended</b>     |                          |
|------------------------|-------------------------------|--------------------------|
|                        | <b>September 30,<br/>2009</b> | <b>June 30,<br/>2009</b> |
| <b>Orders</b>          |                               |                          |
| Energy & Chemicals     | \$ 18,782                     | \$ 5,612                 |
| Distribution & Storage | 51,722                        | 43,569                   |
| BioMedical             | 20,994                        | 22,198                   |
| <b>Total</b>           | <b>\$ 91,498</b>              | <b>\$ 71,379</b>         |
| <b>Backlog</b>         |                               |                          |
| Energy & Chemicals     | \$ 97,234                     | \$ 128,052               |
| Distribution & Storage | 86,221                        | 89,812                   |
| BioMedical             | 5,719                         | 6,781                    |
| <b>Total</b>           | <b>\$ 189,174</b>             | <b>\$ 224,645</b>        |

E&C orders for the three months ended September 30, 2009 were \$18.8 million compared to \$5.6 million for the three months ended June 30, 2009. E&C backlog totaled \$97.2 million at September 30, 2009 compared to \$128.0 million at June 30, 2009. The increase in orders of \$13.2 million was primarily attributable to increases in order intake for brazed aluminum and air cooled heat exchangers over a very weak order intake during the second quarter of 2009. We continue to see some order cancellations in our brazed aluminum heat exchanger business and potential new project timing continues to be delayed due to the economic downturn. Additionally, order flow in the E&C segment is historically volatile due to project size and it is not unusual to see order intake fluctuate significantly quarter to quarter.

D&S orders for the three months ended September 30, 2009 were \$51.7 million compared to \$43.6 million for the three months ended June 30, 2009. D&S backlog totaled \$86.2 million at September 30, 2009 compared to \$89.8 million at June 30, 2009. The D&S segment has experienced an increase in orders of \$8.1 million, or 18.7%, for the three months ended September 30, 2009 due to several large orders at our Czech Republic operation.

BioMedical orders for the three months ended September 30, 2009 were \$21.0 million compared to \$22.2 million for the three months ended June 30, 2009. BioMedical backlog at September 30, 2009 totaled \$5.7 million compared to \$6.8 million at June 30, 2009. The decline in orders of \$1.2 million, or 5.4%, was primarily due to timing of medical respiratory orders.



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### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements as defined in the Securities Act.

### **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, 2008. In particular, judgment is used in areas such as revenue recognition for long-term contracts, determining the allowance for doubtful accounts, inventory valuation reserves, goodwill, indefinite lived intangibles, environmental remediation obligations, product warranty costs, debt covenants, pensions and deferred tax assets. There have been no significant changes in accounting policies since December 31, 2008.

### **Forward-Looking Statements**

The Company is making this statement in order to satisfy the "safe harbor" provisions contained in the Private Securities Litigation Reform Act of 1995. This Quarterly Report on Form 10-Q includes forward-looking statements. These forward-looking statements include statements relating to our business. In some cases, forward-looking statements may be identified by terminology such as may, will, should, expects, anticipates, believes, projects, forecasts, continue, or the negative of such terms or comparable terminology. Forward-looking statements contained herein and in other statements made by us are made based on management's expectations and beliefs concerning future events impacting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by forward-looking statements. We believe that the following factors, among others (including those described under Item 1A Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2008), could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf:

the cyclical nature of the markets which we serve and the vulnerability of those markets to economic downturns;

the impact of the recent global economic and financial crisis;

the loss of, or a significant reduction or delay in purchases by our largest customers;

the fluctuations in the price of oil and natural gas;

degradation of our backlog as a result of modification or termination of orders;

our reliance on the availability and performance of key supplies and services;

competition in our markets;

general economic, political, business and market risks associated with our global operations;

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our ability to control our costs while maintaining customer relationships and core business resources;

our ability to successfully manage our planned operational expansions;

the loss of key employees;

the pricing and availability of raw materials and our ability to manage our fixed-price contract exposure, including exposure to fixed pricing in long-term customer contracts;

our ability to successfully acquire or integrate companies that provide complementary products or technologies;

the impairment of our goodwill and other indefinite-lived intangible assets;

fluctuations in foreign currency exchange rates and interest rates;

the cost of compliance with environmental, health and safety laws and responding to potential liabilities under these laws;

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litigation and disputes involving us, including the extent of product liability, warranty, pension and severance claims asserted against us;

labor costs and disputes and the deterioration of our relations with our employees;

disruptions in our operations due to hurricanes or other severe weather;

the underfunded status of our pension plan;

our ability to continue our technical innovation in our product lines;

our ability to protect our intellectual property and know-how;

claims that our products or processes infringe intellectual property rights of others;

regulations governing the export of our products;

additional liabilities related to taxes;

risks associated with our indebtedness, leverage, debt service and liquidity; and

fluctuations in the price of our stock.

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, 2008, as the same may be updated from time to time. We undertake no obligation to update or revise forward-looking statements 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 continuing 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.

The Company's primary interest rate risk exposure results from the various floating rate pricing mechanisms on the Senior Credit Facility. If interest rates were to increase 200 basis points (2 percent) from September 30, 2009 rates, and assuming no changes in debt from the September 30, 2009 levels, the additional annual expense would be approximately \$1.6 million on a pre-tax basis.

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 exposure is with the euro, the British pound, the Czech koruna and the Chinese yuan. Monthly measurement, evaluation 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

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financial instruments for speculative or trading purposes. The terms of the contracts are generally one year or less. The Company held positions in foreign exchange forward contracts at September 30, 2009. See Note B Fair Value Measurements for additional information.

### Item 4. Controls and Procedures

As of September 30, 2009, 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.

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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.

## **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, 2008.

### **Item 5. Other Information**

On October 27, 2009, the Compensation Committee of the Company's Board of Directors determined to increase our Chief Executive Officer's annual base salary rate from \$500,000 to \$550,000, effective November 1, 2009. The Committee made this determination in order to ensure the competitiveness of the Chief Executive Officer's base salary relative to peer group companies, based on a compensation review conducted by Mercer, the Committee's independent compensation consultant.

### **Item 6. Exhibits**

The following exhibits are filed with this report:

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer



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**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 29, 2009

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