

DOVER Corp
Form 10-Q
April 17, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from to

Commission File Number: 1-4018

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

60515
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the Registrant’s common stock as of April 10, 2014 was 166,488,958.

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Item 1. Financial Statements

DOVER CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
 (in thousands, except per share figures)
 (unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenue	\$1,884,647	\$1,763,977
Cost of goods and services	1,148,438	1,082,359
Gross profit	736,209	681,618
Selling and administrative expenses	452,282	416,437
Operating earnings	283,927	265,181
Interest expense, net	32,665	30,284
Other expense (income), net	356	(2,889)
Earnings before provision for income taxes and discontinued operations	250,906	237,786
Provision for income taxes	74,582	70,573
Earnings from continuing operations	176,324	167,213
(Loss) earnings from discontinued operations, net	(16,186)	) 42,790
Net earnings	\$160,138	\$210,003
Earnings per share from continuing operations:		
Basic	\$1.04	\$0.96
Diluted	\$1.02	\$0.95
(Loss) earnings per share from discontinued operations:		
Basic	\$(0.10)	) \$0.25
Diluted	\$(0.09)	) \$0.24
Net earnings per share:		
Basic	\$0.94	\$1.21
Diluted	\$0.93	\$1.20
Dividends paid per common share	\$0.375	\$0.350

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
 (in thousands)
 (unaudited)

	Three Months Ended March 31,	
	2014	2013
Net earnings	\$ 160,138	\$ 210,003
Other comprehensive earnings (loss), net of tax		
Foreign currency translation adjustments:		
Foreign currency translation losses during period	(17,373	) (39,755
Reclassification of foreign currency translation losses to earnings upon sale of subsidiaries	—	2,905
Total foreign currency translation	(17,373	) (36,850
Pension and other postretirement benefit plans:		
Amortization of actuarial losses included in net periodic pension cost	1,442	3,857
Amortization of prior service costs included in net periodic pension cost	1,392	1,415
Total pension and other postretirement benefit plans	2,834	5,272
Changes in fair value of cash flow hedges:		
Unrealized net (losses) gains arising during period	(474	) 381
Net (gains) losses reclassified into earnings	(139) —
Total cash flow hedges	(613	) 381
Other	(126	) (82
Other comprehensive losses	(15,278	) (31,279
Comprehensive earnings	\$ 144,860	\$ 178,724

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	\$486,039	\$803,882
Receivables, net of allowances of \$20,031 and \$18,677	1,238,368	1,133,694
Inventories, net	840,490	777,830
Prepaid and other current assets	74,596	63,747
Deferred tax assets	62,216	63,935
Total current assets	2,701,709	2,843,088
Property, plant and equipment, net	817,818	818,863
Goodwill	3,329,435	3,280,993
Intangible assets, net	1,312,466	1,294,177
Other assets and deferred charges	213,581	197,243
Assets of discontinued operations	289,381	2,432,286
Total assets	\$8,664,390	\$10,866,650
Current liabilities:		
Notes payable and current maturities of long-term debt	\$77,095	\$229,278
Accounts payable	607,616	548,715
Accrued compensation and employee benefits	196,495	273,404
Accrued insurance	99,177	92,600
Other accrued expenses	215,880	228,985
Federal and other taxes on income	35,146	49,661
Total current liabilities	1,231,409	1,422,643
Long-term debt	2,602,334	2,599,201
Deferred income taxes	511,826	485,344
Other liabilities	456,715	477,748
Liabilities of discontinued operations	114,028	504,318
Stockholders' equity:		
Total stockholders' equity	3,748,078	5,377,396
Total liabilities and stockholders' equity	\$8,664,390	\$10,866,650

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Common Stock \$1 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2013	\$255,320	\$871,575	\$7,954,536	\$ 67,723	\$(3,771,758)	\$5,377,396
Net earnings	—	—	160,138	—	—	160,138
Dividends paid	—	—	(63,985)	—	—	(63,985)
Separation of Knowles Corporation	—	—	(1,397,260)	(26,695)	—	(1,423,955)
Common stock issued for the exercise of stock options and SARs	151	(5,300)	—	—	—	(5,149)
Tax benefit from the exercise of stock options and SARs	—	2,975	—	—	—	2,975
Share-based compensation expense	—	8,501	—	—	—	8,501
Common stock acquired	—	(983)	—	—	(291,582)	(292,565)
Other comprehensive loss, net of tax	—	—	—	(15,278)	—	(15,278)
Balance at March 31, 2014	\$255,471	\$876,768	\$6,653,429	\$ 25,750	\$(4,063,340)	\$3,748,078

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

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2014	2013
Operating Activities of Continuing Operations		
Net earnings	\$ 160,138	\$ 210,003
Adjustments to reconcile net earnings to cash from operating activities:		
Loss (earnings) from discontinued operations, net	16,186	(42,790)
Depreciation and amortization	78,999	70,702
Share-based compensation	8,501	8,348
Loss (gain) on sale of assets	553	(8,304)
Cash effect of changes in assets and liabilities:		
Accounts receivable	(96,637	) (107,304)
Inventories	(49,293	) (27,108)
Prepaid expenses and other assets	(9,058	) (2,725)
Accounts payable	38,770	34,174
Accrued compensation and employee benefits	(96,637	) (115,133)
Accrued expenses and other liabilities	(12,498	) (22,882)
Accrued and deferred taxes, net	11,889	31,384
Other, net	(11,135	) 29,348
Net cash provided by operating activities of continuing operations	39,778	57,713
Investing Activities of Continuing Operations		
Additions to property, plant and equipment	(33,402	) (26,326)
Acquisitions (net of cash and cash equivalents acquired)	(109,870) —
Proceeds from the sale of property, plant and equipment	1,231	3,708
Other	(4,236	) 1,125
Net cash used in investing activities of continuing operations	(146,277	) (21,493)
Financing Activities of Continuing Operations		
Cash received from Knowles Corporation, net of cash distributed	359,197	—
Purchase of common stock	(292,565	) (291,935)
Net proceeds from exercise of share-based awards, including tax benefits	(2,174	) 7,711
Dividends paid to stockholders	(63,985	) (60,297)
Change in commercial paper and notes payable, net	(152,200	) 91,905
Reduction of long-term debt	(47	) (56)
Net cash used in financing activities of continuing operations	(151,774	) (252,672)
Cash Flows from Discontinued Operations		
Net cash (used in) provided by operating activities of discontinued operations	(55,942	) 18,362
Net cash provided by (used in) investing activities of discontinued operations	61	(22,145)
Net cash used in discontinued operations	(55,881) (3,783)
Effect of exchange rate changes on cash and cash equivalents	(3,689) (8,482)

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Net decrease in cash and cash equivalents	(317,843) (228,717)
Cash and cash equivalents at beginning of period	803,882	800,076	
Cash and cash equivalents at end of period	\$486,039	\$571,359	

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission (“SEC”) rules for interim periods, do not include all of the information and notes for complete financial statements as required by accounting principles generally accepted in the United States of America. As such, the accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Dover Corporation (“Dover” or the “Company”) Annual Report on Form 10-K for the year ended December 31, 2013, which provides a more complete understanding of the Company’s accounting policies, financial position, operating results, business properties, and other matters. The year-end condensed consolidated balance sheet was derived from audited financial statements. Certain amounts in the prior year have been reclassified to conform to the current year presentation.

During the first quarter of 2014, the Company announced the realignment of its businesses into a new segment structure, consisting of four segments, organized around its key end markets to better focus on growth strategies. See Note 16 Segment Information for additional information about the new segments, including segment results for the three months ended March 31, 2014 and 2013.

As discussed in Note 4 Discontinued Operations, the Company is reporting certain businesses held for sale as discontinued operations at March 31, 2014. Therefore, the Company has classified the results of operations of these businesses as discontinued operations for all periods presented. In addition, the historical results of Knowles, including the results of operations, cash flows, and related assets and liabilities have been reclassified to discontinued operations for all periods presented herein.

It is the opinion of management that these financial statements reflect all adjustments necessary for a fair statement of the interim results. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

2. Spin-off of Knowles Corporation

On February 28, 2014, Dover completed the distribution of Knowles to its stockholders. The transaction was completed through the pro rata distribution of 100% of the common stock of Knowles to Dover’s shareholders of record as of the close of business on February 19, 2014. Each Dover shareholder received one share of Knowles common stock for every two shares of Dover common stock held as of the record date.

The following is a summary of the assets and liabilities distributed to Knowles as part of the separation on February 28, 2014:

Assets:	
Cash and cash equivalents	\$40,803
Other current assets	340,945
Non-current assets	1,678,820
	\$2,060,568
Liabilities:	
Current liabilities	\$252,673
Non-current liabilities	383,940
	\$636,613

Net assets distributed to Knowles Corporation	\$1,423,955
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Knowles incurred \$100,000 of borrowings under its revolving credit facility and \$300,000 of borrowings under its term loan facility to finance a cash payment of \$400,000 to Dover immediately prior to the distribution. Dover received net cash of \$359,197 upon separation, which reflects \$40,803 of cash held by Knowles on the distribution date and retained by it in connection with its separation from Dover. As a condition of the tax-free nature of the distribution as set forth by the related tax opinions, Dover utilized the net proceeds of \$359,197 from Knowles to pay down commercial paper and to repurchase shares of its common stock in the first quarter of 2014.

In addition to the net assets reflected above, the Company also reallocated approximately \$26,695 of accumulated other comprehensive earnings to Knowles, relating primarily to foreign currency translation gains, offset by unrecognized losses on pension obligations. Also, the Company was required to reallocate a portion of its goodwill from continuing operations to a reporting

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

unit included in the Knowles distribution. The reallocation of \$19,749 of goodwill was determined using a relative fair value approach. See Note 7 Goodwill and Other Intangibles for additional information.

The historical results of Knowles, including the results of operations, cash flows, and related assets and liabilities have been reclassified to discontinued operations for all periods presented herein. See Note 4 Discontinued Operations. Pursuant to the separation of Knowles from Dover, and the related separation and distribution agreements, any liabilities due from Dover to Knowles are not significant and will be paid in the near future.

3. Acquisitions

The following acquisitions were made during the three months ended March 31, 2014, contributing total revenue of \$16,000 to the Company's consolidated revenue for the three months ended March 31, 2014. Earnings for these acquisitions during the period were not significant.

2014 Acquisitions

Date	Type	Company / Product Line Acquired	Location (Near)	Segment
Jan 1	Stock	Heidelberg CSAT GmbH	Germany	Engineered Systems
Manufacturer of digital printing systems that are installed in-packaging-line for the identification of pharmaceutical and medical products.				

Feb 3	Stock	MS Printing Solutions	Italy	Engineered Systems
Manufacturer of innovative digital ink jet printing systems for the textile and specialty material industries.				

The Company acquired these businesses in two separate transactions for net cash consideration of \$109,870. The following presents the allocation of acquisition cost to the assets acquired and liabilities assumed, based on their estimated fair values:

Current assets, net of cash acquired	\$25,694
Property, plant and equipment	926
Goodwill	64,922
Intangible assets	51,617
Current liabilities	(16,287)
Non-current liabilities	(17,002)
Net assets acquired	\$109,870

The amounts assigned to goodwill and major intangible asset classifications for the 2014 acquisitions are as follows:

	Amount allocated	Useful life (in years)
Goodwill - Non deductible	\$64,922	na
Customer intangibles	33,033	12
Trademarks	6,622	10
Technology	11,962	6
	\$116,539	

The businesses were acquired to complement and expand upon existing operations within the Printing & Identification platform of the Engineered Systems segment. The goodwill identified by these acquisitions reflects the benefits expected to be derived from product line expansion and operational synergies. Upon consummation of the acquisitions, each of these entities is now wholly-owned by Dover. The Company made no acquisitions during the

three months ended March 31, 2013.

The Company has substantially completed the purchase price allocations for the 2014 acquisitions. However, if additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the date of acquisition), including through asset appraisals and learning more about the newly acquired businesses, the Company will refine its estimates of fair value to allocate the purchase price more accurately; however, any such revisions are not expected to be significant.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Pro Forma Information

The following unaudited pro forma information illustrates the effect on the Company's revenue and earnings from continuing operations for the three months ended March 31, 2014 and 2013, assuming that the 2014 and 2013 acquisitions had taken place at the beginning of the prior year. As a result, the supplemental pro forma earnings for the three months ended March 31, 2014 reflect adjustments to earnings from continuing operations as reported in the Unaudited Condensed Consolidated Statements of Comprehensive Earnings to exclude \$1,267 for nonrecurring expense related to the fair value adjustments to acquisition-date inventory (after-tax) and \$1,163 of acquisition-related costs (after tax) and to reflect such items in 2013. The 2014 and 2013 supplemental pro forma earnings are also adjusted to reflect the comparable impact of additional depreciation and amortization expense (net of tax) resulting from the fair value measurement of tangible and intangible assets relating to 2014 and 2013 acquisitions.

	Three Months Ended March 31,	
	2014	2013
Revenue from continuing operations:		
As reported	\$1,884,647	\$1,763,977
Pro forma	1,888,476	1,829,705
Earnings from continuing operations:		
As reported	\$176,324	\$167,213
Pro forma	178,711	165,867
Basic earnings per share from continuing operations:		
As reported	\$1.04	\$0.96
Pro forma	1.05	0.96
Diluted earnings per share from continuing operations:		
As reported	\$1.02	\$0.95
Pro forma	1.04	0.94

4. Discontinued Operations

The results of discontinued operations for the three months ended March 31, 2014 and 2013 include the historical results of Knowles prior to its distribution on February 28, 2014, including costs incurred by Dover to complete the spin-off of Knowles totaling \$25,760 for the three months ended March 31, 2014. There were no such costs incurred during the three months ended March 31, 2013. See also Note 2 Spin-off of Knowles Corporation.

Additionally, the results of discontinued operations reflect certain non-core businesses serving the electronic assembly and test markets that are either held for sale or have been previously sold. In the fourth quarter of 2013, the Company signed a definitive agreement to sell the remaining business classified as held for sale at March 31, 2014. Management intends to complete the sale of this business in the second quarter of 2014.

Summarized results of the Company's discontinued operations are as follows:

	Three Months Ended March 31,	
	2014	2013
Revenue	\$201,168	\$363,482
(Loss) earnings from operations before taxes	(17,138	) 34,499
Benefit from income taxes	952	8,291
(Loss) earnings from discontinued operations, net of tax	\$(16,186) \$42,790

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Assets and liabilities of discontinued operations are summarized below:

	March 31, 2014	December 31, 2013
Assets of Discontinued Operations:		
Accounts receivable	\$100,096	\$346,486
Inventories, net	21,054	166,948
Prepaid and other current assets	12,671	79,356
Total current assets	133,821	592,790
Property, plant and equipment, net	6,456	370,586
Goodwill and intangible assets, net	145,691	1,425,909
Other assets and deferred charges	3,413	43,001
Total assets	\$289,381	\$2,432,286
Liabilities of Discontinued Operations:		
Accounts payable	\$37,064	\$252,605
Other current liabilities	23,867	99,009
Total current liabilities	60,931	351,614
Deferred income taxes	17,264	78,723
Other liabilities	35,833	73,981
Total liabilities	\$114,028	\$504,318

At March 31, 2014, the assets and liabilities of discontinued operations relate primarily to the one remaining business classified as held for sale. In addition, amounts included tax-related accruals and unrecognized benefits, as well as other accruals for compensation, legal, environmental, and warranty contingencies, relating to businesses that were sold in prior years, none of which are individually significant. At December 31, 2013, these balances also reflect the historical assets and liabilities of Knowles, which was spun off in the first quarter of 2014.

5. Inventories, net

	March 31, 2014	December 31, 2013
Raw materials	\$379,455	\$361,880
Work in progress	161,337	145,789
Finished goods	434,355	400,281
Subtotal	975,147	907,950
Less reserves	(134,657)	) (130,120)
Total	\$840,490	\$777,830

6. Property, Plant and Equipment, net