

DOVER Corp  
Form 10-Q  
April 21, 2016

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, 2016

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

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

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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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 14, 2016 was 155,148,745.

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## Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2016	2015
Revenue	\$1,622,273	\$1,715,501
Cost of goods and services	1,033,009	1,088,342
Gross profit	589,264	627,159
Selling and administrative expenses	443,448	434,634
Operating earnings	145,816	192,525
Interest expense, net	31,714	32,037
Other income, net	(13,522)	(4,187)
Earnings before provision for income taxes and discontinued operations	127,624	164,675
Provision for income taxes	28,268	47,485
Earnings from continuing operations	99,356	117,190
Earnings from discontinued operations, net	—	92,320
Net earnings	\$99,356	\$209,510
Earnings per share from continuing operations:		
Basic	\$0.64	\$0.72
Diluted	\$0.64	\$0.72
Earnings per share from discontinued operations:		
Basic	\$—	\$0.57
Diluted	\$—	\$0.57
Net earnings per share:		
Basic	\$0.64	\$1.30
Diluted	\$0.64	\$1.28
Weighted average shares outstanding:		
Basic	155,064	161,650
Diluted	156,161	163,323
Dividends paid per common share	\$0.42	\$0.40

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,	
	2016	2015
Net earnings	\$99,356	\$209,510
Other comprehensive earnings (loss), net of tax		
Foreign currency translation adjustments:		
Foreign currency translation gains (losses) during period	8,769	(83,829 )
Reclassification of foreign currency translation gains to earnings upon sale of subsidiaries	—	(280 )
Total foreign currency translation	8,769	(84,109 )
Pension and other postretirement benefit plans:		
Amortization of actuarial losses included in net periodic pension cost	1,409	2,598
Amortization of prior service costs included in net periodic pension cost	1,041	1,228
Total pension and other postretirement benefit plans	2,450	3,826
Changes in fair value of cash flow hedges:		
Unrealized net (losses) gains arising during period	(49 )	1,158
Net gains reclassified into earnings	(47 )	(99 )
Total cash flow hedges	(96 )	1,059
Other	1,839	214
Other comprehensive earnings (loss)	12,962	(79,010 )
Comprehensive earnings	\$112,318	\$130,500

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$243,720	\$ 362,185
Receivables, net of allowances of \$20,445 and \$18,050	1,167,313	1,120,490
Inventories, net	849,830	802,895
Prepaid and other current assets	84,893	133,440
Total current assets	2,345,756	2,419,010
Property, plant and equipment, net	858,984	854,269
Goodwill	4,034,620	3,737,389
Intangible assets, net	1,543,397	1,413,223
Other assets and deferred charges	198,138	182,185
Total assets	\$8,980,895	\$ 8,606,076
Current liabilities:		
Notes payable and current maturities of long-term debt	\$405,858	\$ 151,122
Accounts payable	706,191	650,880
Accrued compensation and employee benefits	178,784	223,039
Accrued insurance	101,584	99,642
Other accrued expenses	247,033	235,971
Federal and other taxes on income	9,359	6,528
Total current liabilities	1,648,809	1,367,182
Long-term debt, net	2,610,642	2,603,655
Deferred income taxes	603,496	575,709
Other liabilities	419,815	414,955
Stockholders' equity:		
Total stockholders' equity	3,698,133	3,644,575
Total liabilities and stockholders' equity	\$8,980,895	\$ 8,606,076

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, 2015	\$256,113	\$928,409	\$7,686,642	\$ (254,573 )	\$(4,972,016)	\$3,644,575
Net earnings	—	—	99,356	—	—	99,356
Dividends paid	—	—	(65,340 )	—	—	(65,340 )
Common stock issued for the exercise of share-based awards	138	(4,971 )	—	—	—	(4,833 )
Tax benefit from the exercise of share-based awards	—	26	—	—	—	26
Share-based compensation expense	—	11,387	—	—	—	11,387
Other comprehensive earnings, net of tax	—	—	—	12,962	—	12,962
Balance at March 31, 2016	\$256,251	\$934,851	\$7,720,658	\$ (241,611 )	\$(4,972,016)	\$3,698,133

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,	
	2016	2015
<b>Operating Activities of Continuing Operations</b>		
Net earnings	\$99,356	\$209,510
Adjustments to reconcile net earnings to cash from operating activities:		
Earnings from discontinued operations, net	—	(92,320 )
Depreciation and amortization	88,604	80,182
Share-based compensation	11,387	13,387
Gain on sale of business	(11,228 )	—
Cash effect of changes in assets and liabilities:		
Accounts receivable	20,103	27,737
Inventories	(29,478 )	(18,861 )
Prepaid expenses and other assets	(1,522 )	(2,297 )
Accounts payable	(14,299 )	(18,876 )
Accrued compensation and employee benefits	(65,887 )	(98,493 )
Accrued expenses and other liabilities	3,202	(14,198 )
Accrued and deferred taxes, net	45,654	55,843
Other, net	(12,479 )	(10,282 )
Net cash provided by operating activities of continuing operations	133,413	131,332
<b>Investing Activities of Continuing Operations</b>		
Additions to property, plant and equipment	(37,230 )	(27,956 )
Acquisitions (net of cash and cash equivalents acquired)	(436,058 )	(6,500 )
Proceeds from the sale of property, plant and equipment	619	6,041
Proceeds from the sale of businesses	47,300	185,000
Other	(488 )	—
Net cash (used in) provided by investing activities of continuing operations	(425,857 )	156,585
<b>Financing Activities of Continuing Operations</b>		
Purchase of common stock	—	(200,055 )
Proceeds from exercise of share-based awards, including tax benefits	2,181	2,786
Change in commercial paper and notes payable, net	247,099	(152,500 )
Dividends paid to stockholders	(65,940 )	(64,442 )
Payments to settle employee tax obligations on exercise of share-based awards	(4,833 )	(2,361 )
Reduction of long-term debt	—	(31 )
Net cash provided by (used in) financing activities of continuing operations	178,507	(416,603 )
<b>Cash Flows from Discontinued Operations</b>		
Net cash provided by operating activities of discontinued operations	—	2,717
Net cash provided by investing activities of discontinued operations	—	800
Net cash provided by discontinued operations	—	3,517

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Effect of exchange rate changes on cash and cash equivalents	(4,528 )	(17,926 )
Net decrease in cash and cash equivalents	(118,465 )	(143,095 )
Cash and cash equivalents at beginning of period	362,185	681,581
Cash and cash equivalents at end of period	\$243,720	\$538,486

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, 2015, 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.

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

## 2. Acquisitions

On January 7, 2016, the Company acquired the dispenser and system businesses of Tokheim Group S.A.S. ("Tokheim") within the Fluids segment for net cash consideration of \$436,058. 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	\$96,436
Property, plant and equipment	24,319
Goodwill	281,903
Intangible assets	176,693
Other non-current assets	5,429
Current liabilities	(102,317 )
Non-current liabilities	(46,405 )
Net assets acquired	\$436,058

The amounts assigned to goodwill and major intangible asset classifications for the 2016 acquisition are as follows:

	Amount allocated	Useful life (in years)
Goodwill - Non deductible	\$281,903	na
Customer intangibles	93,227	10
Trademarks	23,691	10
Other intangibles	59,775	11
	\$458,596	

The goodwill identified by this acquisition reflects the benefits expected to be derived from product line expansion and operational synergies. Upon consummation of the acquisition, with the exception of a minor noncontrolling interest in the Tokheim China subsidiary, this business is now wholly-owned by Dover.

The Company has completed the preliminary purchase price allocation for the acquisition of Tokheim. As additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the date of acquisition), the Company will refine its estimates of fair value to allocate the purchase price more

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

The unaudited Condensed Consolidated Statements of Earnings include the results of this business from the date of acquisition.

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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 impact of both 2016 and 2015 acquisitions on the Company's revenue and earnings from continuing operations for the three months ended March 31, 2016 and 2015. In 2015, the Company acquired four businesses in separate transactions for net cash consideration of \$567,843.

The 2016 and 2015 pro forma information assumes that the 2016 and 2015 acquisitions had taken place at the beginning of the prior year. As such, the 2016 pro forma earnings exclude one-time adjustments made in 2016 for 2015 acquisitions. 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 2016 and 2015 acquisitions.

	Three Months Ended	
	March 31,	
	2016	2015
Revenue from continuing operations:		
As reported	\$1,622,273	\$1,715,501
Pro forma	1,628,406	1,836,711
Earnings from continuing operations:		
As reported	\$99,356	\$117,190
Pro forma	107,613	122,404
Basic earnings per share from continuing operations:		
As reported	\$0.64	\$0.72
Pro forma	0.69	0.76
Diluted earnings per share from continuing operations:		
As reported	\$0.64	\$0.72
Pro forma	0.69	0.75

## 3. Disposed and Discontinued Operations

Management evaluates Dover's businesses periodically for their strategic fit within its operations and may from time to time sell or discontinue certain operations for various reasons.

## Disposed Businesses

On February 17, 2016, the company completed the sale of Texas Hydraulics. This disposal did not represent a strategic shift in operations and, therefore, did not qualify for presentation as a discontinued operation. Upon disposal of the business the Company recognized total proceeds of \$47,300, which resulted in a gain on sale of \$11,228 included within Other income, net within the Condensed Consolidated Statements of Earnings.

## Discontinued Operations

The results of discontinued operations for the three months ended March 31, 2015 reflect the net earnings of businesses held for sale, Datamax O'Neil and Sargent Aerospace, prior to their respective sale dates. On March 2, 2015, the Company completed the sale of Datamax O'Neil for total proceeds of \$185,000, which resulted in a net gain on sale of \$87,781.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Three Months Ended March 31, 2015
Revenue	\$64,495
Gain on sale, net of tax	87,354
Earnings from operations before taxes	8,980
Provision for income taxes	(4,014 )
Earnings from operations, net of tax	4,966

Earnings from discontinued operations, net of tax \$92,320

The Company had no assets or liabilities classified as held for sale as of March 31, 2016 and December 31, 2015.

## 4. Inventories, net

	March 31, 2016	December 31, 2015
Raw materials	\$347,674	\$ 333,551
Work in progress	145,952	135,624
Finished goods	467,199	443,032
Subtotal	960,825	912,207
Less reserves	(110,995 )	(109,312 )
Total	\$849,830	\$ 802,895

## 5. Property, Plant and Equipment, net

	March 31, 2016	December 31, 2015
Land	\$56,376	\$ 55,567
Buildings and improvements	543,292	546,809
Machinery, equipment and other	1,764,139	1,772,031
Subtotal	2,363,807	2,374,407
Less accumulated depreciation	(1,504,823 )	(1,520,138 )
Total	\$858,984	\$ 854,269

Depreciation expense totaled \$45,029 and \$40,208 for the three months ended March 31, 2016 and 2015, respectively.

## 6. Goodwill and Other Intangible Assets

The following table provides the changes in carrying value of goodwill by segment for the three months ended March 31, 2016:

Energy	Engineered Systems	Fluids	Refrigeration & Food	Total
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				Equipment	
Balance at December 31, 2015	\$1,047,180	\$1,473,864	\$655,745	\$ 560,600	\$3,737,389
Acquisitions	—	—	281,903	—	281,903
Purchase price adjustments	—	363	4,781	580	5,724
Disposition of business	—	(9,615 )	—	—	(9,615 )
Foreign currency translation	1,580	6,916	9,968	755	19,219
Balance at March 31, 2016	\$1,048,760	\$1,471,528	\$952,397	\$ 561,935	\$4,034,620



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

As noted in Note 3 Disposed and Discontinued Operations, the Company completed the sale of its Texas Hydraulics business during the three months ended March 31, 2016. As a result of this sale, the Engineered Systems goodwill balance was reduced by \$9,615.

During the three months ended March 31, 2016, the Company recorded adjustments totaling \$5,724 to goodwill relating to the purchase price adjustments as a result of working capital adjustments and refinements of estimates to assets acquired and liabilities assumed for the 2015 acquisitions of Gemtron, JK Group, Gala Industries and Reduction Engineering Scheer.

In accordance with the applicable accounting standard, Dover performs its annual goodwill impairment testing in the fourth quarter of each year. In addition to the annual impairment test, the Company is required to regularly assess whether a triggering event has occurred which would require interim impairment testing. The Company has considered the economic environments in which its businesses operate, particularly within those reporting units exposed to the decline in oil and gas markets, and the long-term outlook for those businesses. The Company has determined that a triggering event has not occurred which would require impairment testing at this time.

The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset:

	March 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Trademarks	\$172,554	\$ 49,245	\$150,926	\$ 45,536
Patents	155,225	117,441	150,570	112,399
Customer Intangibles	1,663,762	628,709	1,567,048	595,635
Unpatented Technologies	133,362	55,971	137,919	56,495
Drawings & Manuals	34,701	16,757	34,232	15,760
Distributor Relationships	120,957	39,592	64,614	37,610
Other	23,390	18,497	23,923	18,168
Total	2,303,951	926,212	2,129,232	881,603
Unamortized intangible assets:				
Trademarks	165,658		165,594	
Total intangible assets, net	\$1,543,397		\$1,413,223	

For the three months ended March 31, 2016 and 2015, amortization expense was \$43,574 and \$39,974, respectively.

## 7. Restructuring Activities

The following table details restructuring charges incurred by segment for the periods presented:

	Three Months Ended March 31,	
	2016	2015
Energy	\$6,416	\$17,822
Engineered Systems	1,967	4,355
Fluids	5,226	2,097
Refrigeration & Food Equipment	21	(282 )

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Corporate	757	111
Total	\$14,387	\$24,103

These amounts are classified in the unaudited  
Condensed Consolidated Statements of Earnings as  
follows:

Cost of goods and services	\$5,851	\$7,454
Selling and administrative expenses	8,536	16,649
Total	\$14,387	\$24,103

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The restructuring expenses of \$14,387 incurred in the three months ended March 31, 2016 related to restructuring programs initiated during 2016 and 2015. These programs are designed to better align the Company's costs and operations with current market conditions through targeted facility consolidations, headcount reductions and other measures to further optimize operations. The Company expects the programs currently underway to be substantially completed in the next twelve to eighteen months.

The \$14,387 of restructuring charges incurred during the first quarter of 2016 primarily included the following items:

The Energy segment incurred restructuring charges of \$6,416 related to various programs across the segment focused on workforce reductions and field and service consolidations. These programs were initiated to better align cost base with the anticipated demand environment.

The Engineered Systems segment recorded \$1,967 of restructuring charges relating to headcount reductions across various businesses primarily related to optimization of administrative functions within the Printing & Identification platform and U.S. manufacturing consolidation within the Industrial platform.

The Fluids segment recorded \$5,226 of restructuring charges principally related to headcount reductions and facility consolidations at various businesses across the segment.

The Refrigeration and Food Equipment segment and corporate incurred restructuring charges related to headcount reductions.

The following table details the Company's severance and other restructuring accrual activity:

	Severance	Exit	Total
Balance at December 31, 2015	\$ 11,036	\$ 2,955	\$ 13,991
Restructuring charges	10,681	3,706	14,387
Payments	(8,234 )	(1,491 )	(9,725 )
Foreign currency translation	121	40	161
Other, including write-offs of fixed assets and acquired balances	2,458	(1,119 )	1,339
Balance at March 31, 2016	\$ 16,062	\$ 4,091	\$ 20,153

The accrual balance at March 31, 2016 primarily reflects restructuring plans initiated during the year, as well as ongoing lease commitment obligations for facilities closed in earlier periods.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 8. Borrowings

Borrowings consist of the following:

	March 31, 2016	December 31, 2015		March 31, 2016	December 31, 2015
<b>Short-term</b>					
Current portion of long-term debt	\$4,558	\$ 122			
Commercial paper	401,300	151,000			
	\$405,858	\$ 151,122			
<b>Long-term</b>					
5.45% 10-year notes due March 15, 2018	349,340	349,258			
2.125% 7-year notes due December 1, 2020 (Euro-denominated)	334,783	328,592			
4.30% 10-year notes due March 1, 2021	449,872	449,865			
3.150% 10-year notes due November 15, 2025	397,028	396,951			
6.65% 30-year debentures due June 1, 2028	199,560	199,552			
5.375% 30-year debentures due October 15, 2035	296,884	296,844			
6.60% 30-year notes due March 15, 2038	248,058	248,036			
5.375% 30-year notes due March 1, 2041	346,029	345,989			
Other, less current installments	2,233	2,255			
Total long-term debt	2,623,787	2,617,342			
Unamortized debt issuance costs	(13,145 )	(13,687 )			
Long-term debt, net of debt issuance costs	\$2,610,642	\$ 2,603,655			

The Company adopted new accounting guidance effective January 1, 2016 which requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of the related debt. Upon adoption, the Company reclassified \$13,687 from assets to long-term debt to reflect this guidance in the comparable balance as of December 31, 2015.

The Company maintains a \$1.0 billion five-year unsecured revolving credit facility with a syndicate of banks (the "Credit Agreement") which expires on November 10, 2020. The Company was in compliance with its revolving credit and other long-term debt covenants at March 31, 2016 and had a coverage ratio of 12.3 to 1. The Company primarily uses this facility as liquidity back-up for its commercial paper program and has not drawn down any loans under the facility and does not anticipate doing so. The Company generally uses commercial paper borrowings for general corporate purposes, funding of acquisitions, and the repurchases of its common stock.

Interest expense and interest income for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,	
	2016	2015
Interest expense	\$33,318	\$33,005
Interest income	(1,604 )	(968 )
Interest expense, net	\$31,714	\$32,037

Letters of Credit

As of March 31, 2016, the Company had approximately \$91,840 outstanding in letters of credit and guarantees with financial institutions which expire at various dates within 2016 through 2020. These letters of credit are primarily maintained as security for insurance, warranty, and other performance obligations.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 9. Financial Instruments

## Derivatives

The Company is exposed to market risk for changes in foreign currency exchange rates due to the global nature of its operations and certain commodity risks. In order to manage these risks the Company has hedged portions of its forecasted sales and purchases to occur within the next twelve months that are denominated in non-functional currencies, with currency forward or collar contracts designated as cash flow hedges. At March 31, 2016 and December 31, 2015, the Company had contracts with U.S. dollar equivalent notional amounts of \$30,859 and \$37,735, respectively, to exchange foreign currencies, principally the U.S. dollar, Chinese Yuan, Euro, and pound sterling. The Company believes it is probable that all forecasted cash flow transactions will occur.

In addition, the Company had outstanding contracts with a total notional amount of \$66,310 and \$51,369 at March 31, 2016 and December 31, 2015, respectively, that are not designated as hedging instruments. These instruments are used to reduce the Company's exposure for operating receivables and payables that are denominated in non-functional currencies.

The following table sets forth the fair values of derivative instruments held by the Company as of March 31, 2016 and December 31, 2015 and the balance sheet lines in which they are recorded:

	Fair Value Asset (Liability)		
	March 2016	December 31, 2015	Balance Sheet Caption
Foreign currency forward / collar contracts	\$ 113	\$ 170	Prepaid / Other assets
Foreign currency forward / collar contracts	(416 )	(452 )	Other accrued expenses

The amount of gains or losses from hedging activity recorded in earnings is not significant, and the amount of unrealized gains and losses from cash flow hedges that are expected to be reclassified to earnings in the next twelve months is not significant; therefore, additional tabular disclosures are not presented. There are no amounts excluded from the assessment of hedge effectiveness, and the Company's derivative instruments that are subject to credit risk contingent features were not significant.

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

Additionally, the Company has designated the €300.0 million of Euro-denominated notes issued December 4, 2013 as a hedge of a portion of its net investment in Euro-denominated operations. Due to the high degree of effectiveness between the hedging instruments and the exposure being hedged, fluctuations in the value of the Euro-denominated debt due to exchange rate changes are offset by changes in the net investment. Accordingly, changes in the value of the Euro-denominated debt are recognized in the cumulative translation adjustment section of other comprehensive income to offset changes in the value of the net investment in Euro-denominated operations.

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

Three Months  
Ended March 31,

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	2016	2015
(Loss) gain on Euro-denominated debt	\$(6,165)	\$35,350
Loss on Swiss franc cross-currency swap	—	(1,333 )
Total (loss) gain on net investment hedges before tax	(6,165 )	34,017
Tax benefit (expense)	2,158	(11,906 )
Net (loss) gain on net investment hedges, net of tax	\$(4,007)	\$22,111

Fair Value Measurements

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
	Level 2	Level 2
Assets:		
Foreign currency cash flow hedges	\$ 113	\$ 170
Liabilities:		
Foreign currency cash flow hedges	416	452

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

The estimated fair value of long-term debt, net of unamortized debt issuance costs at March 31, 2016 and December 31, 2015 was \$3,024,157 and \$2,880,734, respectively, compared to the carrying value of \$2,610,642 and \$2,603,655, respectively. The estimated fair value of long-term debt is based on quoted market prices for similar instruments and is, therefore, classified as Level 2 within the fair value hierarchy.

The carrying values of cash and cash equivalents, trade receivables, accounts payable, and notes payable are reasonable estimates of their fair values as of March 31, 2016 and December 31, 2015 due to the short-term nature of these instruments.

## 10. Income Taxes

The effective tax rates for continuing operations for the three months ended March 31, 2016 and 2015 were 22.1% and 28.8%, respectively. Reflected in the effective tax rate for the three months ended March 31, 2016 and 2015 are favorable discrete items of \$7,348 and \$703, respectively. Excluding these discrete items, the effective tax rates for the three months ended March 31, 2016 and 2015 were 27.9% and 29.3%, respectively. The 2016 discrete items resulted primarily from the impact on deferred tax balances of a tax rate reduction in a non-US jurisdiction. The 2015 discrete items principally resulted from the conclusion of certain state tax audits and an adjustment of our tax accounts to the return filed. The reduction in the effective tax rate year over year is principally due to a change in the geographic mix of earnings as well as restructuring of foreign operations.

Dover and its subsidiaries file tax returns in the U.S., including various state and local returns, and in other foreign jurisdictions. We believe adequate provision has been made for all income tax uncertainties. The Company is routinely audited by taxing authorities in its filing jurisdictions, and a number of these audits are currently underway. The Company believes that within the next twelve months uncertain tax positions may be resolved and



statutes of limitations will expire, which could result in a decrease in the gross amount of unrecognized tax benefits of approximately zero to \$19,649. A portion of these unrecognized tax benefits relate to companies previously reported as discontinued operations.

#### 11. Equity Incentive Program

The Company typically grants equity awards annually at its regularly scheduled first quarter Compensation Committee meeting. In the first quarter of 2016, the Company issued stock-settled appreciation rights ("SARs") covering 1,346,354 shares, performance share awards of 79,561 and restricted stock units of 215,181.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	SARs			
	2016		2015	
Risk-free interest rate	1.05	%	1.51	%
Dividend yield	3.09	%	2.24	%
Expected life (years)	4.6		5.1	
Volatility	26.17	%	27.19	%
Grant price	\$57.25		\$73.28	
Fair value per share at date of grant	\$9.25		\$14.55	

The performance share awards granted in 2015 and 2016 are considered performance condition awards as attainment is based on Dover's performance relative to established internal metrics. The fair value of these awards was determined using Dover's closing stock price on the date of grant. The expected attainment of the internal metrics for these awards is analyzed each reporting period, and the related expense is adjusted based on expected attainment, if that attainment differs from previous estimates. The cumulative effect on current and prior periods of a change in attainment is recognized in compensation cost in the period of change.

The fair value and average attainment used in determining compensation cost for the performance shares issued in 2015 and 2016 is as follows for the three months ended March 31, 2016:

	Performance shares			
	2016		2015	
Fair value per share at date of grant	\$57.25		\$73.28	
Average attainment rate reflected in expense	87.75	%	43.83	%

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

	Three Months			
	Ended March 31,			
	2016		2015	
Pre-tax compensation expense	\$11,387		\$13,387	
Tax benefit	(4,050 )		(4,764 )	
Total stock-based compensation expense, net of tax	\$7,337		\$8,623	

## 12. Commitments and Contingent Liabilities

## Litigation

A few of the Company's subsidiaries are involved in legal proceedings relating to the cleanup of waste disposal sites identified under federal and state statutes that provide for the allocation of such costs among "potentially responsible parties." In each instance, the extent of the Company's liability appears to be very small in relation to the total projected expenditures and the number of other "potentially responsible parties" involved and is anticipated to be immaterial to the Company. In addition, a few of the Company's subsidiaries are involved in ongoing remedial activities at certain current and former plant sites, in cooperation with regulatory agencies, and appropriate reserves have been established. At March 31, 2016 and December 31, 2015, the Company has reserves totaling \$32,453 and \$30,595, respectively, for environmental and other matters, including private party claims for exposure to hazardous substances, that are probable and estimable.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company and certain of its subsidiaries are also parties to a number of other legal proceedings incidental to their businesses. These proceedings primarily involve claims by private parties alleging injury arising out of use of the Company's products, patent infringement, employment matters, and commercial disputes. Management and legal counsel, at least quarterly, review the probable outcome of such proceedings, the costs and expenses reasonably expected to be incurred and currently accrued to-date, and the availability and extent of insurance coverage. The Company has reserves for legal matters that are probable and estimable and not otherwise covered by insurance, and at March 31, 2016 and December 31, 2015, these reserves are not significant. While it is not possible at this time to predict the outcome of these legal actions, in the opinion of management, based on the aforementioned reviews, the Company is not currently involved in any legal proceedings which, individually or in the aggregate, could have a material effect on its financial position, results of operations, or cash flows.

## Warranty Accruals

Estimated warranty program claims are provided for at the time of sale. Amounts provided for are based on historical costs and adjusted new claims. The changes in the carrying amount of product warranties through March 31, 2016 and 2015 are as follows:

	2016	2015
Beginning Balance, January 1	\$44,466	\$49,388
Provision for warranties	14,031	11,075
Settlements made	(12,462 )	(13,395 )
Other adjustments, including acquisitions and currency translation	4,666	(630 )
Ending balance, March 31	\$50,701	\$46,438

## 13. Employee Benefit Plans

## Retirement Plans

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

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

## Qualified Defined Benefits

	Three Months Ended March 31,			
	U.S. Plan		Non-U.S. Plans	
	2016	2015	2016	2015
Service Cost	\$3,478	\$3,915	\$1,373	\$1,688
Interest Cost	5,762	5,791	1,375	1,486
Expected return on plan assets	(9,698 )	(10,393)	(1,948 )	(2,019 )
Amortization:				
Prior service cost	183	224	(99 )	23
Recognized actuarial loss	1,609	3,155	665	675

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Transition obligation	—	—	1	9
Curtailments, special termination benefits, and settlements	—	810	—	2
Net periodic expense	\$1,334	\$3,502	\$1,367	\$1,864

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## Non-Qualified Supplemental Benefits

	Three Months Ended March 31,	
	2016	2015
Service Cost	\$740	\$935
Interest Cost	1,317	1,266
Amortization:		
Prior service cost	1,567	1,732
Recognized actuarial (gain) loss	(140 )	71
Net periodic expense	\$3,484	\$4,004

## Post-Retirement Plans

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

	Three Months Ended March 31,	
	2016	2015
Service Cost	\$13	\$41
Interest Cost	105	128
Amortization:		
Prior service cost	(36 )	(93 )
Recognized actuarial gain	(59 )	(8 )
Net periodic expense	\$23	\$68

## Defined Contribution Retirement Plans

The Company also offers defined contribution retirement plans which cover the majority of its U.S. employees, as well as employees in certain other countries. The Company's expense relating to defined contribution plans was \$9,808, and \$9,006 for the three months ended March 31, 2016 and 2015, respectively.

## 14. Other Comprehensive Earnings (Loss)

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

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments	\$6,611	\$2,158	\$8,769	\$(72,203)	\$(11,906)	\$(84,109)
Pension and other postretirement benefit plans	3,691	(1,241 )	2,450	5,788	(1,962 )	3,826
Changes in fair value of cash flow hedges	(147 )	51	(96 )	1,629	(570 )	1,059

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Other	2,090	(251 )	1,839	241	(27 )	214
Total other comprehensive earnings (loss)	\$12,245	\$717	\$12,962	\$(64,545)	\$(14,465)	\$(79,010)

Total comprehensive earnings were as follows:

	Three Months Ended	
	March 31,	
	2016	2015
Net earnings	\$99,356	\$209,510
Other comprehensive earnings (loss)	12,962	(79,010 )
Comprehensive earnings	\$112,318	\$130,500

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Amounts reclassified from accumulated other comprehensive earnings (loss) to earnings (loss) during the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31, 2016    2015	
Pension and postretirement benefit plans:		
Amortization of actuarial losses	\$2,076	\$3,902
Amortization of prior service costs	1,615	1,886
Total before tax	3,691	5,788
Tax provision	(1,241 )	(1,962 )
Net of tax	\$2,450	\$3,826
Cash flow hedges:		
Net gains reclassified into earnings	\$(72 )	\$(153 )
Tax benefit	25	54
Net of tax	\$(47 )	\$(99 )

The Company recognizes net periodic pension cost, which includes amortization of net actuarial losses and prior service costs, in both selling and administrative expenses and cost of goods and services, depending on the functional area of the underlying employees included in the plans.

Cash flow hedges consist mainly of foreign currency forward contracts. The Company recognizes the realized gains and losses on its cash flow hedges in the same line item as the hedged transaction, such as revenue, cost of goods and services, or selling & administrative expenses.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 15. Segment Information

For management reporting and performance evaluation purposes, the Company categorizes its operating companies into four distinct reportable segments. Segment financial information and a reconciliation of segment results to consolidated results is as follows:

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Energy	\$283,230	\$430,423
Engineered Systems	576,995	573,196
Fluids	399,062	340,236
Refrigeration & Food Equipment	363,252	372,097
Intra-segment eliminations	(266)	(451)
Total consolidated revenue	\$1,622,273	\$1,715,501
Earnings from continuing operations:		
Segment earnings:		
Energy	\$11,244	\$52,305
Engineered Systems	93,748	88,149
Fluids	46,047	54,634
Refrigeration & Food Equipment	38,161	36,150
Total segments	189,200	231,238
Corporate expense / other <sup>(1)</sup>	29,862	34,526
Net interest expense	31,714	32,037
Earnings before provision for income taxes and discontinued operations	127,624	164,675
Provision for taxes	28,268	47,485
Earnings from continuing operations	\$99,356	\$117,190

<sup>(1)</sup> Certain expenses are maintained at the corporate level and not allocated to the segments. These expenses include executive and functional compensation costs, non-service pension costs, non-operating insurance expenses, and various administrative expenses relating to the corporate headquarters.

## 16. Share Repurchases

In January 2015, the Board of Directors approved a standing share repurchase authorization, whereby the Company may repurchase up to 15,000,000 shares of its common stock over the following three years. This plan replaced all previously authorized repurchase programs. During the three months ended March 31, 2016, the Company repurchased no shares of common stock under the January 2015 authorization. As of March 31, 2016, there were 6,771,458 shares available for repurchase under this plan.

A summary of share repurchase activity during the three months ended March 31, 2015 is as follows:

Shares of common stock repurchased	2,753,165
Spending on share repurchases (in thousands)	\$200,055
Average price paid per share	\$72.66



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 17. Earnings per Share

The following table sets forth a reconciliation of the information used in computing basic and diluted earnings per share:

	Three Months Ended	
	March 31,	
	2016	2015
Earnings from continuing operations	\$99,356	\$ 117,190
Earnings from discontinued operations, net	—	92,320
Net earnings	\$99,356	\$ 209,510
Basic earnings per common share:		
Earnings from continuing operations	\$0.64	\$ 0.72
Earnings from discontinued operations, net	\$—	\$ 0.57
Net earnings	\$0.64	\$ 1.30
Weighted average shares outstanding	155,064,000	161,650,000
Diluted earnings per common share:		
Earnings from continuing operations	\$0.64	\$ 0.72
Earnings from discontinued operations, net	\$—	\$ 0.57
Net earnings	\$0.64	\$ 1.28
Weighted average shares outstanding	156,161,000	163,323,000

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

	Three Months Ended	
	March 31,	
	2016	2015
Weighted average shares outstanding - Basic	155,064,000	161,650,000
Dilutive effect of assumed exercise of employee stock options and SARs and vesting of performance shares	1,097,000	1,673,000
Weighted average shares outstanding - Diluted	156,161,000	163,323,000

Diluted per share amounts are computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and SARs, and vesting of performance shares and restricted shares, as determined using the treasury stock method.

The weighted average number of anti-dilutive potential common shares excluded from the calculation above were approximately 27,000 and 56,000 for the three months ended March 31, 2016 and 2015, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

18. Recent Accounting Standards

Recently Issued Accounting Standards

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the classification of related matters in the statement of cash flows. The update is effective for the Company in the first quarter of 2017. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cashflows. This guidance will be effective for the Company on January 1, 2019. The Company is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This guidance will be effective for the Company January 1, 2018. The Company is currently evaluating this guidance to determine the impact it will have on its consolidated financial statements.

Recently Adopted Accounting Standards

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30):Simplifying the Presentation of Debt Issuance Costs. Under this guidance, debt issuance costs related to a recognized debt liability are required to be presented in the balance sheet as a direct reduction from the carrying amount of the related debt, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this guidance. The Company adopted this guidance January 1, 2016. As a result of adoption, debt issuance costs of \$13,687 were reclassified from assets to reduce long-term-debt as of December 31, 2015.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. Under this guidance the cumulative impact of purchase accounting adjustments arising during the one year measurement period from the date of acquisition will be recognized, in full, in the period identified. This guidance was effective for the Company January 1, 2016 and will be applied prospectively to adjustments arising after that date. There was no impact of adopting this standard in the current period.



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

Refer to the section below entitled "Special Notes Regarding Forward-Looking Statements" for a discussion of factors that could cause our actual results to differ from the forward-looking statements contained below an