CHART INDUSTRIES INC
Form 10-Q
July 27, 2017
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 June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-11442

CHART INDUSTRIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	34-1712937
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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 x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

At July 24, 2017, there were 30,754,773 outstanding shares of the Company’s Common Stock, par value $0.01 per share.

CHART INDUSTRIES, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
CHART INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$234,427	$281,959
Accounts receivable, less allowances of $9,667 and $10,217	154,319	142,762
Inventories, net	184,291	169,683
Unbilled contract revenue	28,963	26,736
Prepaid expenses	16,924	16,762
Other current assets	16,760	15,075
Total Current Assets	635,684	652,977
Property, plant, and equipment, net	259,791	251,049
Goodwill	228,237	217,970
Identifiable intangible assets, net	97,106	93,443
Other assets	18,491	17,643
TOTAL ASSETS	$1,239,309	$1,233,082
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$82,351	$79,953
Customer advances and billings in excess of contract revenue	72,221	74,702
Accrued salaries, wages, and benefits	33,863	41,746
Current portion of warranty reserve	11,529	15,293
Short-term debt and current portion of long-term debt	6,642	6,487
Other current liabilities	34,246	43,353
Total Current Liabilities	240,852	261,534
Long-term debt	237,894	233,711
Long-term deferred tax liabilities	4,585	4,241
Long-term portion of warranty reserve	2,893	2,978
Accrued pension liabilities	14,051	14,362
Other long-term liabilities	18,609	17,579
Total Liabilities	518,884	534,405
Equity		
Common stock, par value $0.01 per share – 150,000,000 shares authorized, 30,749,836 and 30,613,166 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	307	306
Additional paid-in capital	402,851	395,843
Retained earnings	336,199	336,328
Accumulated other comprehensive loss	(20,892)	(35,212)
Total Chart Industries, Inc. Shareholders' Equity	718,465	697,265
Noncontrolling interests	1,960	1,412

Total Equity	720,425	698,677
TOTAL LIABILITIES AND EQUITY	$ 1,239,309	$ 1,233,082

The balance sheet at December 31, 2016 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

See accompanying notes to these unaudited condensed consolidated financial statements.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)
(Dollars and shares in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Sales	$238,213	$247,095	$442,308	$440,852
Cost of sales	174,998	160,144	323,433	301,200
Gross profit	63,215	86,951	118,875	139,652
Selling, general, and administrative expenses	50,205	48,896	102,632	98,432
Amortization expense	3,075	3,116	6,061	6,244
Operating expenses	53,280	52,012	108,693	104,676
Operating income	9,935	34,939	10,182	34,976
Other expenses:				
Interest expense, net	3,839	4,171	8,217	8,265
Financing costs amortization	321	321	642	642
Foreign currency loss (gain)	240	(93)	504	113
Other expenses, net	4,400	4,399	9,363	9,020
Income before income taxes	5,535	30,540	819	25,956
Income tax expense	2,203	10,977	439	11,065
Net income	3,332	19,563	380	14,891
Noncontrolling interests, net of taxes	549	(1,590)	509	(1,611)
Net income (loss) attributable to Chart Industries, Inc.	$2,783	$21,153	$(129)	$16,502
Net income (loss) attributable to Chart Industries, Inc. per common share:				
Basic	$0.09	$0.69	$—	$0.54
Diluted	$0.09	$0.68	$—	$0.53
Weighted-average number of common shares outstanding:				
Basic	30,727	30,582	30,711	30,575
Diluted	31,280	30,939	30,711	30,904
Comprehensive income, net of taxes	$15,006	$13,471	$14,739	$15,315
Less: Comprehensive income (loss) attributable to noncontrolling interests, net of taxes	579	(1,708)	548	(1,705)
Comprehensive income attributable to Chart Industries, Inc., net of taxes	$14,427	$15,179	$14,191	$17,020

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
OPERATING ACTIVITIES		
Net income	$380	$14,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,481	19,186
Interest accretion of convertible notes discount	6,619	6,118
Employee share-based compensation expense	7,986	7,188
Financing costs amortization	642	642
Unrealized foreign currency transaction loss	258	349
Other non-cash operating activities	(268)	1,054
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(5,847)	32,529
Inventory	(17,357)	7,052
Unbilled contract revenues and other assets	6,235	30,312
Accounts payable and other liabilities	(16,587)	(39,907)
Customer advances and billings in excess of contract revenue	(3,429)	7,415
Net Cash (Used In) Provided By Operating Activities	(2,887)	86,829
INVESTING ACTIVITIES		
Capital expenditures	(16,757)	(9,418)
Proceeds from sale of assets	740	—
Government grants	276	612
Acquisition of businesses, net of cash acquired	(23,162)	(1,383)
Net Cash Used In Investing Activities	(38,903)	(10,189)
FINANCING ACTIVITIES		
Borrowings on revolving credit facilities	2,176	3,820
Repayments on revolving credit facilities	(5,097)	(3,816)
Borrowings on term loan	—	13,167
Repayments on term loan	—	(1,508)
Proceeds from exercise of options	861	17
Excess tax benefits from share-based compensation	—	54
Common stock repurchases	(1,843)	(643)
Net Cash (Used In) Provided By Financing Activities	(3,903)	11,091
Effect of exchange rate changes on cash	3,610	1,719
Net (decrease) increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	(42,083)	89,450
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period (1)	282,949	123,708
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS AT END OF PERIOD (2)	$240,866	$213,158

(1) Includes restricted cash of $990 at January 1, 2017 in other assets and no restricted cash at January 1, 2016.

(2) Includes restricted cash of $6,439 ($5,445 in other current assets and $994 in other assets) at June 30, 2017 and no restricted cash at June 30, 2016.

See accompanying notes to these unaudited condensed consolidated financial statements.

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CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements – June 30, 2017
(Dollars and shares in thousands, except per share amounts)

NOTE 1 — Basis of Preparation
The accompanying unaudited condensed consolidated financial statements of Chart Industries, Inc. and its consolidated subsidiaries (the "Company" or "Chart") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. 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 six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.
Nature of Operations: Chart Industries, Inc. and its consolidated subsidiaries (herein referred to as the "Company," "Chart," or "we"), is a leading diversified global manufacturer of highly engineered equipment for the industrial gas, energy, and biomedical industries. Chart's equipment and engineered systems are primarily used for low-temperature and cryogenic applications utilizing our expertise in cryogenic systems and equipment which operate at low temperatures sometimes approaching absolute zero (0 Kelvin; -273° Centigrade; -459° Fahrenheit). The Company has domestic operations located across the United States, including principal executive offices located in Ohio, and an international presence in Asia, Australia, Europe, and South America.
Principles of Consolidation: The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.
Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents: The Company considers all investments with an initial maturity of three months or less when purchased to be cash equivalents. See the Debt and Credit Arrangements note for additional information about restricted cash and restricted cash equivalents, which is included in other current assets and other assets in the accompanying condensed consolidated balance sheets.
Recently Issued Accounting Standards: In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." The FASB issued the guidance to provide clarity as to when modification accounting should be applied when there is a change to the terms or conditions of a share-based payment award in order to prevent diversity in practice. The ASU requires modification accounting to be applied unless all of the following conditions exist: (1) the fair value (or calculated value or intrinsic value, if such measurement is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such measurement is used) of the original award before the original award is modified; if the modification does not affect any of the inputs to the valuation, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award before it was modified; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award before it was modified. The guidance will be applied prospectively for annual periods and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company is currently assessing the effect that the ASU will have on the Company's financial position, results of operations, and disclosures.
In March 2017, the FASB issued ASU 2017-07, "Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The new guidance requires

companies with sponsored defined benefit pension and/or other postretirement benefit plans to present the service cost component of net periodic benefit cost in the same income statement line item as other compensation costs. The other components of net periodic benefit cost will be presented separately and not included in operating income. In addition, only service costs are eligible to be capitalized as an asset. The standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and the guidance will generally be applied retrospectively, whereas the capitalization of the service cost component will be applied prospectively. Early adoption is permitted with all of the amendments adopted in the same period. If an entity early adopts the guidance in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently assessing the effect that the ASU will have on the Company's financial position, results of operations, and disclosures.

In January 2017, the FASB issued ASU 2017-04, "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current guidance's goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on current guidance's Step 1). The guidance will be applied prospectively for annual and interim impairment tests beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The adoption of this ASU would not materially impact the Company's condensed consolidated financial statements unless Step 1 of the annual goodwill impairment test fails.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The FASB issued the update to clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and the guidance will generally be applied retroactively. Early adoption is permitted with all of the amendments adopted in the same period. If an entity early adopts the guidance in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently assessing the effect that the ASU will have on the Company's condensed consolidated statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The FASB issued the update to require the recognition of lease assets and lease liabilities on the balance sheet of lessees. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. The ASU requires a modified retrospective transition method with the option to elect a package of practical expedients. Early adoption is permitted. The Company expects adoption to increase the assets and liabilities recorded on its condensed consolidated balance sheet and increase the level of disclosures related to leases. The Company also expects that adoption of the new standard will require changes to its internal controls to support recognition and disclosure requirements under the new standard. The Company is currently assessing the effect that the ASU will have on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and subsequently issued additional guidance that modified ASU 2014-09. ASU 2014-09 and the subsequent modifications are identified as "Accounting Standards Codification ("ASC") 606." ASC 606 replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and provides for expanded disclosure requirements. The update requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC. ASC 606 becomes effective for fiscal years beginning after December 15, 2017. The Company plans to adopt ASC 606 as of January 1, 2018 and has developed an implementation plan to adopt ASC 606 using the modified retrospective approach through a cumulative adjustment to equity.

As part of the implementation plan, the Company has identified its revenue streams and is in the process of performing contract reviews to assess the impact of ASC 606 on its results of operations. The Company expects to complete the contract reviews in the near future. While the Company continues to assess all impacts of the accounting change, the Company currently believes that the most significant impact will relate to the timing of revenue recognition. In addition, the Company is in the process of identifying appropriate changes to its accounting policies, information technology systems, business processes, and related internal controls to support recognition and disclosure requirements under the new standard. The Company expects to design any necessary changes to its business processes, controls and systems in the near future and implement the changes over the remainder of 2017.

Recently Adopted Accounting Standards: In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The FASB issued the update to clarify how restricted cash or restricted cash equivalents should be presented in the statement of cash flows. The Company early adopted the amendments provided in ASU 2016-18 effective January 1, 2017 as reflected in these condensed consolidated financial statements to provide financial statement users with more transparent disclosure about restricted cash and restricted cash equivalents. The amendments were applied using a retrospective transition method to each period presented. There was no impact on the condensed consolidated statements of cash flows for the six months ended June 30, 2016, because there was no restricted cash or restricted cash equivalents at the beginning and end of this period. The cash, cash equivalents, restricted cash, and restricted cash equivalents balance included $6,439 and $990 of restricted cash and restricted cash equivalents at June 30, 2017 and December 31, 2016, respectively. Restricted cash and restricted

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CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements – June 30, 2017
(Dollars and shares in thousands, except per share amounts) – Continued

cash equivalents are included in other current assets and other assets in the accompanying condensed consolidated balance sheets at June 30, 2017 and December 31, 2016.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The FASB issued the update to change certain aspects of accounting for share-based payments to employees. The update eliminated additional paid-in-capital pools and requires all income tax effects of awards to be recognized in the statements of operations when the awards vest or settle. The Company prospectively recognized the excess income tax effects of awards as income tax expense or benefit in the condensed statements of operations and has elected to continue to estimate the number of share-based awards expected to vest rather than electing to account for forfeitures as they occur. In addition, the Company prospectively recognized the excess tax benefits along with other income tax cash flows as an operating activity in the condensed consolidated statements of cash flows. The Company adopted this guidance effective January 1, 2017. The adoption of the guidance did not have a material impact on the Company's condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The amendments require an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this guidance prospectively for the fiscal year beginning January 1, 2017. The adoption of the guidance did not have a material impact on the Company's condensed consolidated financial statements.

NOTE 2 — Inventories

In January 2017, the Company prospectively adopted the guidance per ASU 2015-11, "Simplifying the Measurement of Inventory." The Company previously measured its inventory at the lower of cost or market with cost being determined by the first-in, first-out ("FIFO") method. Based on the new guidance, the Company measures its inventory at the lower of cost or net realizable value with net realizable value being the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of the guidance did not have a material impact on the Company's condensed consolidated financial statements.

The following table summarizes the components of inventory:

	June 30, 2017	December 31, 2016
Raw materials and supplies	$72,692	$ 65,719
Work in process	33,369	31,576
Finished goods	78,230	72,388
Total inventories, net	$184,291	$ 169,683

The allowances for excess and obsolete inventory was $9,370 and $10,069 at June 30, 2017 and December 31, 2016, respectively.

NOTE 3 — Goodwill and Intangible Assets

Goodwill

The following table represents the changes in goodwill by segment:

	Energy & Chemicals	Distribution & Storage	BioMedical	Total
Balance at December 31, 2016	$ 27,873	$ 165,520	$ 24,577	$217,970
Foreign currency translation adjustments and other	—	1,522	(104)	1,418
Goodwill acquired during the year	8,849	—	—	8,849
Balance at June 30, 2017	$ 36,722	$ 167,042	$ 24,473	$228,237
Accumulated goodwill impairment loss at June 30, 2017 and December 31, 2016	$ 64,603	$ —	$ 131,243	$195,846

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CHART INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements – June 30, 2017
(Dollars and shares in thousands, except per share amounts) – Continued

Intangible Assets
The following table displays the gross carrying amount and accumulated amortization for finite-lived intangible assets and indefinite-lived intangible assets (exclusive of goodwill)[1][2]:

	June 30, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets:				
Unpatented technology	$8,392	$ (3,566)	$8,186	$ (3,132)
Patents and other	1,394	(444)	1,235	(695)
Trademarks and trade names	5,317	(2,572)	4,918	(2,198)
Customer relationships	125,372	(84,454)	119,320	(81,614)
Land use rights	12,953	(1,010)	12,650	(860)
Total finite-lived intangible assets	$153,428	$ (92,046)	$146,309	$ (88,499)
Indefinite-lived intangible assets:				
Trademarks and trade names	$35,724	—	$35,633	—
Total intangible assets	$189,152	$ (92,046)	$181,942	$ (88,499)

(1) Amounts include the impact of foreign currency translation. Fully amortized amounts are written off.
(2) The Company amortizes certain identifiable intangible assets primarily on a straight-line basis over their estimated useful lives, which range from one to 50 years.

Expense for intangible assets subject to amortization was $3,075 and $3,116 for the three months ended June 30, 2017 and 2016, respectively, and $6,061 and $6,244 for the six months ended June 30, 2017 and 2016, respectively. The Company estimates future amortization expense for its current finite-lived intangible assets as follows:

For the Year Ending December 31,	
2017	$11,700
2018	10,700
2019	10,600
2020	9,100
2021	3,000

Government Grants
The Company received $276 in government grants during the first six months of 2017. The government grants are related to property, plant, and equipment and land use rights related to expansion in China. The grants are recorded in other current liabilities and other long-term liabilities in the condensed consolidated balance sheets and recognized into income over the useful life of the associated assets (10 to 50 years).
Government grants at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
Current	$ 472	$ 446
Long-term	8,300	8,153
Total government grants	$ 8,772	$ 8,599

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

NOTE 4 — Debt and Credit Arrangements

Summary of Outstanding Borrowings

The following table represents the components of the Company’s borrowings:

	June 30, 2017	December 31, 2016
Convertible notes, due August 2018, effective interest rate of 7.9%	$234,734	$ 228,115
Foreign facilities	10,572	13,208
Total debt	245,306	241,323
Unamortized debt issuance costs	(770)	(1,125)
Total debt, net of unamortized debt issuance costs	244,536	240,198
Less: current maturities	(6,642)	(6,487)
Long-term debt	$237,894	$ 233,711

Convertible Notes

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

The Convertible Notes are senior subordinated unsecured obligations of the Company and are not guaranteed by any of the Company’s subsidiaries. The Convertible Notes are senior in right of payment to the Company’s future subordinated debt, equal in right of payment with the Company’s future senior subordinated debt, and are subordinated in right of payment to the Company’s existing and future senior indebtedness, including indebtedness under the Company’s existing credit agreement.

In connection with the issuance of the Convertible Notes, the Company entered into privately-negotiated convertible note hedge and capped call transactions with affiliates of certain of the underwriters (the “Option Counterparties”). The convertible note hedge and capped call transactions relate to, collectively, 3,622 shares, which represents the number of shares of the Company’s common stock underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes. These convertible note hedge and capped call transactions are expected to reduce the potential dilution with respect to the Company’s common stock upon conversion of the Convertible Notes and/or reduce the Company’s exposure to potential cash or stock payments that may be required upon conversion of the Convertible Notes, except, in the case of the capped call transactions, to the extent that the market price per share of the Company’s common stock exceeds the cap price of the capped call transactions. The Company also entered into separate warrant transactions with the Option Counterparties initially relating to the number of shares of the Company’s common stock underlying the convertible note hedge transactions, subject to customary anti-dilution adjustments. The warrant transactions will have a dilutive effect with respect to the Company’s common stock to the extent that the price per share of the Company’s common stock exceeds the strike price of the warrants unless the Company elects, subject to certain conditions, to settle the warrants in cash. These warrants were exercisable as of the issuance date of the Convertible Notes. The cap price of the capped call transactions and the strike price of the warrant transactions was initially $84.96 per share. Proceeds received from the issuance of the warrants totaled approximately $48,848 and were recorded as an addition to additional paid-in-capital. The net cost of the convertible note hedge and capped call transactions, taking into account the proceeds from the issuance of the warrants, was approximately $17,638.

In accordance with ASC 815, contracts are initially classified as equity if (1) the contract requires physical settlement or net-share settlement, or (2) the contract gives the entity a choice of net-cash settlement in its own shares (physical settlement or net-share settlement). The Company concluded that the settlement terms of the convertible note hedge, capped call, and warrant transactions permit net-share settlement. As such, the convertible note hedge, capped call, and warrant transactions were recorded in equity.

Upon issuance of the Convertible Notes, the Company bifurcated the $250,000 principal balance of the Convertible Notes into a liability component of $170,885, which was recorded as long-term debt, and an equity component of $79,115, which was initially recorded as additional paid-in-capital. The liability component was recognized at the present value of its associated cash flows using a 7.9% straight-debt rate which represented the Company’s interest rate for similar debt instruments at that time without a conversion feature and is being accreted to interest expense over the term of the Convertible Notes. At June 30, 2017 and December 31, 2016, the carrying amount of the liability component was $234,734 (less debt issuance costs of $770) and $228,115 (less debt issuance costs of $1,125), respectively, and the unamortized debt discount of the Convertible Notes was $15,266 and $21,885, respectively.

For the three months ended June 30, 2017 and 2016, interest expense for the Convertible Notes was $4,592 and $4,339, respectively, which included $3,342 and $3,089 of non-cash interest accretion expense related to the carrying amount of the Convertible Notes, respectively, and $1,250 of cash interest for both periods. For the six months ended June 30, 2017 and 2016, interest expense for the Convertible Notes was $9,119 and $8,618, respectively, which included $6,619 and $6,118 of non-cash interest accretion expense related to the carrying amount of the Convertible Notes, respectively, and $2,500 of 2.0% cash interest for both periods. In accordance with ASC 470-20, which requires issuers to separately account for the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, the Company allocated debt issuance costs to the liability and equity components in proportion to their allocated value. Debt issuance costs were $7,277, with $2,303 recorded as a reduction in additional paid-in-capital. The remaining balance of $4,974 is being amortized over the term of the Convertible Notes. For the three months ended June 30, 2017 and 2016, total expense associated with the amortization of these debt issuance costs was $178 for both periods. For the six months ended June 30, 2017 and 2016, total expense associated with the amortization of these debt issuance costs was $355 for both periods.

Prior to May 1, 2018, the Convertible Notes will be convertible at the option of the holders thereof only under the following circumstances: (1) during any fiscal quarter commencing after September 30, 2011 (and only during such fiscal quarter), if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price (currently $69.03) for the Convertible Notes on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “Measurement Period”) in which, as determined following a request by a holder of Convertible Notes as provided in the bond indenture (the “Indenture”), the trading price per $1,000 principal amount of Convertible Notes for each trading day of such Measurement Period was less than 97% of the product of the last reported sale price of the Company’s common stock and the applicable conversion rate for the Convertible Notes on each such trading day; or (3) upon the occurrence of specified corporate events pursuant to the terms of the Indenture. On or after May 1, 2018, until the close of business on the second scheduled trading day immediately preceding the maturity date of the Convertible Notes, holders of the Convertible Notes may convert their Convertible Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock, at the Company’s election, in respect of the remainder, if any, of the Company’s conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. It is the Company’s intention to settle any excess conversion value in shares of the Company’s common stock.

The conversion rate on the Convertible Notes will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. In addition, following the occurrence of a make-whole fundamental change, the Company will, in certain circumstances, increase the conversion rate for a holder that converts its Convertible Notes in connection with such make-whole fundamental change. The Company may not redeem the Convertible Notes prior to maturity. If the Company undergoes a fundamental change, subject to certain conditions, holders may require the Company to purchase the Convertible Notes in whole or in part for cash at a fundamental change purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date. For purposes of calculating earnings per share, if the average market price of the Company’s common stock exceeds the applicable conversion price during the periods reported, shares contingently issuable under the Convertible Notes will have a dilutive effect with respect to the Company’s common stock.

The Company reassesses the convertibility of the Convertible Notes and the related balance sheet classification on a quarterly basis. At the end of the second quarter of 2017, events for early conversion were not met, and thus the Convertible Notes were not convertible as of and for the fiscal quarter beginning July 1, 2017. There have been no conversions as of the date of this filing.

Senior Secured Revolving Credit Facility

The Company has a five-year $450,000 senior secured revolving credit facility (the “SSRCF”) which matures on October 29, 2019. The SSRCF includes a $25,000 sub-limit for the issuance of swingline loans and a $100,000 sub-limit to be used for letters of credit. There is a foreign currency limit of $100,000 under the SSRCF which can be used for foreign currency denominated letters of credit and borrowings in a foreign currency, in each case in currencies agreed upon with the lenders. In addition, the facility permits borrowings up to $100,000 made by the Company's wholly-owned subsidiaries, Chart Industries Luxembourg S.à. r.l. ("Chart Luxembourg") and Chart Asia Investment Company Limited ("Chart Asia"). The SSRCF also includes an expansion option permitting the Company to add up to an aggregate $200,000 in term loans or revolving credit commitments from its lenders.

The Company recorded $2,869 in deferred debt issuance costs associated with the SSRCF which are being amortized over the five-year term of the SSRCF. For the three months ended June 30, 2017 and 2016, total expense associated with the amortization of these debt issuance costs was $143 for both periods. For the six months ended June 30, 2017 and 2016, the related financing costs amortization was $287 for both periods.

Revolving loans under the SSRCF bear interest, at the applicable Borrower's election, at either LIBOR or the greatest of (a) the JPMorgan prime rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%, or (c) the Adjusted LIBOR Rate (as defined in the SSRCF) for the relative interest period on such day (or if such day is not a business day, the immediately preceding business day) plus 1% (the "Adjusted Base Rate"), plus a margin that varies with the Company's leverage ratio. In addition, the Company is required to pay a commitment fee of between 0.25% and 0.40% of the unused revolver balance and a letter of credit participation fee equal to the daily aggregate letter of credit exposure at the rate per annum equal to the Applicable Margin for Eurocurrency Revolving Facility Borrowings (ranging from 1.5% to 2.75%, depending on the leverage ratio calculated at each fiscal quarter end). A fronting fee must be paid on each letter of credit that is issued equal to 0.125% per annum of the stated dollar amount of the letter of credit.

Significant financial covenants for the SSRCF include a minimum liquidity requirement equal to the principal amount of the Convertible Notes outstanding six months prior to the maturity date of the Convertible Notes and when holders of the Convertible Notes have the option to require the Company to repurchase the Convertible Notes, a maximum leverage ratio of 3.25 and a minimum interest coverage to EBITDA ratio of 3.0. The required leverage ratio can be relaxed on up to two occasions, upon notification to the lenders, to 3.75 for up to four consecutive fiscal quarters, for acquisitions and plant expansions of $100,000 or greater. The SSRCF contains a number of other customary covenants including, but not limited to, restrictions on the Company's ability to incur additional indebtedness, create liens or other encumbrances, sell assets, enter into sale and lease-back transactions, make certain payments, investments, loans, advances or guarantees, make acquisitions and engage in mergers or consolidations, and pay dividends or distributions. At June 30, 2017, the Company was in compliance with all covenants.

As of June 30, 2017, there were no borrowings outstanding under the SSRCF. The Company had $33,528 in letters of credit and bank guarantees supported by the SSRCF, which had availability of $416,472 at June 30, 2017. The obligations under the SSRCF are guaranteed by the Company and substantially all of its U.S. subsidiaries and secured by substantially all of the assets of the Company and its U.S. subsidiaries and 65% of the capital stock of the Company's material non-U.S. subsidiaries (as defined by the SSRCF) that are owned by U.S. subsidiaries.

Foreign Facilities – China

Chart Cryogenic Engineering Systems (Changzhou) Company Limited ("CCESC"), Chart Energy & Chemicals Wuxi Co., Ltd. ("Wuxi"), and Chart Biomedical (Chengdu) Co. Ltd. ("Chengdu"), wholly-owned subsidiaries of the Company, and Chart Cryogenic Distribution Equipment (Changzhou) Company Limited ("CCDEC"), a joint venture of the Company, maintain joint banking facilities (the "China Facilities") which include a revolving facility with 50.0 million Chinese yuan (equivalent to $7,381) in borrowing capacity which can be utilized for either revolving loans, bonds/guarantees, or bank draft acceptances. Any borrowings made by CCESC, CCDEC, Chengdu, or Wuxi under the China Facilities are guaranteed by the Company. At June 30, 2017, there were no borrowings outstanding under the revolving facility, but CCESC and CCDEC had 2.3 million Chinese yuan (equivalent to $341), and 0.05 million Chinese yuan (equivalent to $7) in bank guarantees, respectively.

CCDEC maintains an unsecured credit facility whereby CCDEC may borrow up to 30.0 million Chinese yuan (equivalent to $4,428) for working capital purposes. At June 30, 2017, there was 15.0 million Chinese yuan (equivalent to $2,213) outstanding under this facility, bearing interest at 4.35%. CCDEC was negotiating new terms of

this facility including a new maturity date as of the end of the second quarter of 2017.
CCESC entered into a term loan during the second quarter of 2016. The term loan is secured by certain CCESC land use rights and allows for up to 86.6 million Chinese yuan (equivalent to $12,787) in borrowings. The loan has a term of eight years with semi-annual installment payments of at least 10.0 million Chinese yuan and a final maturity date of May 26, 2024. At June 30, 2017, there was 56.6 million Chinese yuan (equivalent to $8,359) outstanding on this loan, bearing interest at 5.39%.

Foreign Facilities – Europe

Chart Ferox, a.s. ("Ferox"), a wholly-owned subsidiary of the Company, maintains a secured credit facility with capacity of up to 125.0 million Czech koruna (equivalent to $5,445) and two secured credit facilities with capacity of up to 5.6 million euros (equivalent to $6,366). All three facilities allow Ferox to request bank guarantees and letters of credit. None of these facilities allow revolving credit borrowings. Under two of the facilities, Ferox must pay letter of credit and guarantee fees equal to 0.70% per annum on the face amount of each guarantee or letter of credit, and under one facility, Ferox must pay the letter of credit and guarantee fees equal to 0.50%. Ferox's land, buildings, and cash collateral secure the credit facilities. As of June 30, 2017, there were bank guarantees of 158.2 million Czech koruna (equivalent to $6,892) supported by the Ferox credit facilities.

Chart Luxembourg maintains an overdraft facility with $5,000 in borrowing capacity. There were no borrowings under the Chart Luxembourg facility as of June 30, 2017.

Letters of Credit

In August 2016, Chart Energy & Chemicals, Inc. ("Chart E&C"), a wholly-owned subsidiary of the Company, deposited $990 in a bank outside of our credit facility to secure a letter of credit which expires in August 2021. In February 2017, an additional amount of $5,445 was deposited into the same bank to secure an additional letter of credit which expires in October 2017. The deposit is treated as restricted cash and restricted cash equivalents in the condensed consolidated balance sheets ($5,445 in other current assets and $994 in other assets at June 30, 2017 and $990 in other assets at December 31, 2016).

Fair Value Disclosures

The fair value of the Convertible Notes was approximately 99% of their par value and approximately 96% of their par value as of June 30, 2017 and December 31, 2016, respectively. The Convertible Notes are actively quoted instruments and, accordingly, the fair value of the Convertible Notes was determined using Level 1 inputs as defined in Fair Value Measurements note.

NOTE 5 — Derivative Financial Instruments

The Company utilizes certain derivative financial instruments to enhance its ability to manage foreign currency risk that exists as part of ongoing business operations. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes, nor is it a party to any leveraged derivative instrument. The Company is exposed to foreign currency exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries. The Company utilizes foreign currency forward purchase and sale contracts to manage the volatility associated with foreign currency purchases and certain intercompany transactions in the normal course of business. Contracts typically have maturities of less than one year. Principal currencies include the U.S. dollar, the euro, the Japanese yen, the Czech koruna, the Australian dollar, the British pound, the Canadian dollar, and the Chinese yuan. The Company's foreign currency forward contracts do not qualify as hedges as defined by accounting guidance. Foreign currency forward contracts are measured at fair value and recorded on the condensed consolidated balance sheets as other current assets or liabilities and reported as financial assets and liabilities in the Fair Value Measurements note. Changes in their fair value are recorded in the condensed consolidated statements of operations and comprehensive income as foreign currency gains or losses. The Company's foreign currency forward contracts are not exchange traded instruments and, accordingly, the valuation is performed using Level 2 inputs as defined in the Fair Value Measurements note. Gains or losses on settled or expired contracts are recorded in the condensed consolidated statements of operations and comprehensive income as foreign currency gains or losses.

The changes in fair value with respect to the Company's foreign currency forward contracts generated net gains of $317 and$50 for the three months ended June 30, 2017 and 2016, respectively. The changes in fair value with respect to the Company's foreign currency forward contracts generated a net gain of $202 and a net loss of $98 for the six months ended June 30, 2017 and 2016, respectively.

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NOTE 6 — Product Warranties

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

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

Balance at December 31, 2016	$18,271
Warranty expense	3,991
Warranty usage	(7,840)
Balance at June 30, 2017	$14,422

NOTE 7 — Business Combinations

Hudson Products Acquisition

On June 30, 2017, Chart Industries, Inc. ("Chart") and Chart Sully Corporation, a wholly owned subsidiary of Chart ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with RCHPH Holdings, Inc. ("Hudson Products"), a privately held company based in Beasley, Texas, and R/C Hudson Holdings, L.P., solely in its capacity as the Initial Holder Representative under the Merger Agreement. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into Hudson Products, with Hudson Products surviving the merger as a wholly owned subsidiary of Chart (the "Acquisition").

The Acquisition purchase price is $410,000 on a cash-free, debt-free basis and subject to a working capital adjustment. The Acquisition will be funded by Chart's available cash on hand and borrowings under its SSRCF.

The Merger Agreement provides for customary representations, warranties, covenants and agreements, including, among others, that each of the parties to the Merger Agreement will use commercially reasonable efforts to complete the Acquisition, that Hudson Products will conduct its business in the ordinary course consistent with past practice during the period between the execution of the Merger Agreement and consummation of the Acquisition, and that Hudson Products will not engage in certain kinds of transactions during such period.

The Merger Agreement also contains customary termination provisions, including a provision that the Merger Agreement may be terminated by either Chart or Hudson Products if the Acquisition has not been completed by March 31, 2018; provided, however, that such right to terminate the Merger Agreement is not available to any party whose breach of any provision of the Merger Agreement results in the failure of the Acquisition to be completed. The completion of the Acquisition is subject to the satisfaction of certain customary closing conditions, including, among other things, the expiration or termination of waiting periods under the Hart-Scott-Rodino Antitrust Improvement Act of 1976. The Acquisition has been approved by the shareholders of Hudson Products pursuant to a written consent delivered to Hudson Products and Chart.

The Acquisition is expected to be completed in the third quarter of 2017 and will be included in the Company's Energy & Chemicals ("E&C") segment.

Other than with respect to the Acquisition as described herein, there are no material relationships between Chart or its affiliates and Hudson Products.

For further details regarding the Acquisition, see the Company's Current Report on Form 8-K, dated June 30, 2017.

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

Hetsco, Inc. Acquisition

On January 13, 2017, the Company acquired 100% of the equity interests in Hetsco, Inc. from Global Power Equipment Group, Inc. for an estimated purchase price of $23,162, which was paid upon closing. The purchase price allocation reported at March 31, 2017 was preliminary and was based on provisional fair values. During the second quarter, the Company received revised third-party valuations, performed other analyses and recorded $380 in accounts receivable for post-closing adjustments, which resulted in an adjusted net purchase price of $22,782. The post-closing adjustments and revised fair values resulted in the following adjustments to the net assets acquired, as previously reported at March 31, 2017:

	June 30, 2017	Adjustments	As Previously Reported March 31, 2017
Goodwill	$8,849	$ (1,271)	$ 10,120
Identifiable intangible assets	9,240	840	8,400
Other net assets	4,693	51	4,642
Net assets acquired	$22,782	$ (380)	$ 23,162

The acquisition was accounted for in accordance with ASC Topic 805, Business Combinations. The assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. Further analyses and post-close adjustments may result in additional adjustments to the value of net assets acquired.

Hetsco, Inc. is headquartered in Franklin, Indiana and provides emergency, specialty welding and construction services to natural gas processing, petrochemical, and air gas separation industries. Hetsco's results are included in the Company's E&C segment from the date of acquisition.

Contingent Consideration

The estimated fair value of contingent consideration relating to the 2015 Distribution & Storage ("D&S") Thermax acquisition was $1,800 at the date of acquisition and was valued according to a discounted cash flow approach, which includes assumptions regarding the probability of achieving certain earnings targets and a discount rate applied to the potential payments. Potential payments may be paid between July 1, 2017 and July 1, 2019 based on the attainment of certain earnings targets. The potential payments related to Thermax contingent consideration are between $0 and $11,288.

Valuations are performed using Level 3 inputs as defined in the Fair Value Measurements note and are evaluated on a quarterly basis based on forecasted sales and earnings targets. Contingent consideration liabilities are classified as other current liabilities and other long-term liabilities in the condensed consolidated balance sheets. Changes in fair value of contingent consideration, including accretion, are recorded as selling, general, and administrative expenses in the condensed consolidated statements of operations and comprehensive income.

The following table represents the changes in contingent consideration liabilities:

Balance at December 31, 2016	$1,923
Decrease in fair value of contingent consideration liabilities	(1,622)
Balance at June 30, 2017	$301

For the three and six months ended June 30, 2017, the fair value of contingent consideration decreased by $1,623 and $1,622, respectively. The decrease during the three months ended June 30, 2017 was primarily driven by economic circumstances that significantly reduced the likelihood of achieving certain earnings targets for the duration of the remaining potential payout period. For both the three months and six months ended June 30, 2016, the fair value of contingent consideration increased by $47.

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NOTE 8 — Fair Value Measurements
The Company measures its financial assets and liabilities at fair value on a recurring basis using a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies. The three levels of inputs used to measure fair value are as follows:
Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.
Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
Level 3 — Valuations based on unobservable inputs reflect the Company's assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.
Financial assets and liabilities measured at fair value on a recurring basis and presented in the Company's condensed consolidated balance sheets are as follows:

	June 30, 2017		
	Total	Level 2	Level 3
Foreign currency forward contracts	$163	$163	$—
Total financial assets	$163	$163	$—
Foreign currency forward contracts	$15	$15	$—
Contingent consideration liabilities	301	—	301
Total financial liabilities	$316	$15	$301

	December 31, 2016		
	Total	Level 2	Level 3
Foreign currency forward contracts	$39	$ 39	$—
Total financial assets	$39	$ 39	$—
Foreign currency forward contracts	$92	$ 92	$—
Contingent consideration liabilities	1,923	—	1,923
Total financial liabilities	$2,015	$ 92	$1,923

Refer to the Derivative Financial Instruments note for further information regarding derivative financial instruments and the Business Combinations note for further information regarding contingent consideration liabilities.
NOTE 9 — Accumulated Other Comprehensive Loss
The following tables represent changes in accumulated other comprehensive loss by component:

	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive loss
Balance at March 31, 2017	$ (22,227)	$ (10,309)	$ (32,536)
Other comprehensive income	11,443	—	11,443
Amounts reclassified from accumulated other comprehensive loss, net of income taxes of $109 (1)	—	201	201
Net current-period other comprehensive income, net of taxes	11,443	201	11,644
Balance at June 30, 2017	$ (10,784)	$ (10,108)	$ (20,892)

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	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive loss
Balance at March 31, 2016	$ (6,283)	$ (12,141)	$ (18,424)
Other comprehensive loss	(6,223)	—	(6,223)
Amounts reclassified from accumulated other comprehensive loss, net of income taxes of $135 (1)	—	249	249
Net current-period other comprehensive (loss) income, net of taxes	(6,223)	249	(5,974)
Balance at June 30, 2016	$ (12,506)	$ (11,892)	$ (24,398)

	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive loss
Balance at December 31, 2016	$ (24,701)	$ (10,511)	$ (35,212)
Other comprehensive income	13,917	—	13,917
Amounts reclassified from accumulated other comprehensive loss, net of income taxes of $217 (2)	—	403	403
Net current-period other comprehensive income, net of taxes	13,917	403	14,320
Balance at June 30, 2017	$ (10,784)	$ (10,108)	$ (20,892)

	Foreign currency translation adjustments	Pension liability adjustments, net of taxes	Accumulated other comprehensive loss
Balance at December 31, 2015	$ (12,513)	$ (12,391)	$ (24,904)
Other comprehensive income	7	—	7
Amounts reclassified from accumulated other comprehensive loss, net of income taxes of $269 (2)	—	499	499
Net current-period other comprehensive income, net of taxes	7	499	506
Balance at June 30, 2016	$ (12,506)	$ (11,892)	$ (24,398)

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(1) Amounts reclassified from accumulated other comprehensive loss were expensed and included in cost of sales ($122 and $151) and selling, general, and administrative expenses ($188 and $233) for the three months ended June 30, 2017 and 2016, respectively, in the condensed consolidated statements of operations and comprehensive income. The components in accumulated other comprehensive loss are included in the computation of net periodic pension expense as reported in the Employee Benefit Plans note.

(2) Amounts reclassified from accumulated other comprehensive loss were expensed and included in cost of sales ($244 and $302) and selling, general, and administrative expenses ($376 and $466) for the six months ended June 30, 2017 and 2016, respectively, in the condensed consolidated statements of operations and comprehensive income. The components in accumulated other comprehensive loss are included in the computation of net periodic pension expense as reported in the Employee Benefit Plans note.

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NOTE 10 — Earnings (Loss) Per Share
The following table presents calculations of net income (loss) per share of common stock:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss) attributable to Chart Industries, Inc.	$2,783	$21,153	$(129)	$16,502
Net income (loss) attributable to Chart Industries, Inc. per common share:				
Basic	$0.09	$0.69	$—	$0.54
Diluted (1)	$0.09	$0.68	$—	$0.53
Weighted average number of common shares outstanding — basic	30,727	30,582	30,711	30,575
Incremental shares issuable upon assumed conversion and exercise of share-based awards (1)	553	357	—	329
Weighted average number of common shares outstanding — diluted	31,280	30,939	30,711	30,904

(1) Zero incremental shares from share-based awards are included in the computation of diluted net loss per share for periods in which a net loss occurs because to do so would be anti-dilutive.

Diluted earnings per share does not reflect the following potential common shares as the effect would be anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Share-based awards	695	525	1,737	763
Warrants	3,368	3,368	3,368	3,368
Total anti-dilutive securities	4,063	3,893	5,105	4,131

NOTE 11 — Income Taxes
The Company recorded income tax expense of $2,203 and $10,977 in the three months ended June 30, 2017 and 2016, respectively. The Company recorded income tax expense of $439 and $11,065 in the six months ended June 30, 2017 and 2016, respectively. The effective income tax rate of 39.8% and 53.6% for the three and six months ended June 30, 2017 differed from the U.S. federal statutory rate of 35% primarily due to losses incurred by certain of the Company’s Chinese operations for which no benefit was recorded, partially offset by foreign exchange losses realized upon the receipt of previously taxed income, and the effect of income earned by certain of the Company’s international entities operating in lower taxed jurisdictions. The effective income tax rate of 35.9% and 42.6% for the three and six months ended June 30, 2016 differed from the U.S. federal statutory rate of 35% primarily due to losses incurred by certain Company’s Chinese operations for which no benefit was recorded.
As of both June 30, 2017 and December 31, 2016, the Company has a liability for gross unrecognized tax benefits of $788. This amount includes $579 of unrecognized tax benefits as of June 30, 2017, which, if ultimately recognized, would reduce the Company’s annual effective income tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company accrued approximately $98 and $86 for the payment of interest and penalties as of June 30, 2017 and December 31, 2016, respectively.

CHART INDUSTRIES, INC. AND SUBSIDIARIES
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NOTE 12 — Employee Benefit Plans

The Company has a frozen defined benefit pension plan that covers certain U.S. hourly and salaried employees. The defined benefit plan provides benefits based primarily on the participants' years of service and compensation.
The components of net periodic pension expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest cost	$542	$571	$1,084	$1,142
Expected return on plan assets	(698)	(697)	(1,396)	(1,394)
Amortization of net loss	310	384	620	768
Total net periodic pension expense	$154	$258	$308	$516

The Company's funding policy is to contribute at least the minimum funding amounts required by law. Based upon current actuarial estimates, the Company does not expect to contribute to its defined benefit pension plan until 2018.

NOTE 13 — Share-based Compensation

During the six months ended June 30, 2017, the Company granted 324 stock options, 143 restricted stock units, 7 shares of restricted stock, and 22 performance units. In addition, non-employee directors received 9 stock awards with a fair value of $317. During the six months ended June 30, 2017, participants in the Company's stock option plans exercised options to purchase 34 shares of the Company's common stock, while 68 stock options were forfeited and 8 stock options expired.

Stock options generally vest ratably over a four-year vesting period. Restricted stock and restricted stock units generally vest ratably over a three-year period. Performance units generally vest at the end of a three-year performance period based on the achievement of certain performance conditions. During the six months ended June 30, 2017, 121 shares of restricted stock and restricted stock units vested while 20 restricted stock units were forfeited. Also, during the six months ended June 30, 2017, 22 performance units vested while 8 performance units were forfeited. Additionally, during the six months ended June 30, 2017, 6 leveraged restricted share units vested.

Share-based compensation expense was $1,712 and $1,651 for the three months ended June 30, 2017 and 2016, respectively. Share-based compensation expense was $7,986 and $7,188 for the six months ended June 30, 2017 and 2016, respectively. Share-based compensation expense is included in selling, general, and administrative expenses in the condensed consolidated statements of operations and comprehensive income. As of June 30, 2017, total share-based compensation of $8,651 is expected to be recognized over the weighted-average period of approximately 2.4 years.

On May 25, 2017, the Company held its annual meeting of stockholders. At the annual meeting, the Company's stockholders approved the Chart Industries, Inc. 2017 Omnibus Equity Plan (the "2017 Omnibus Equity Plan"). As described in the Company's definitive proxy statement for the annual meeting, the Company's directors, officers and employees (including its principal executive officer, principal financial officer and other "named executive officers") are eligible to be granted awards under the 2017 Omnibus Equity Plan.

NOTE 14 — Restructuring Activities

Due to economic conditions the Company has implemented a number of cost reduction or avoidance actions, including headcount reductions and facility closures and relocations relating to the consolidation of certain of our facilities in China, Buffalo BioMedical respiratory consolidation, and relocation of the corporate headquarters. The Buffalo Biomedical respiratory facility consolidation into Canton, Georgia, was completed during the first quarter of 2017. The E&C Wuxi, China facility consolidation was completed during the second quarter of 2017, and the D&S China facility consolidation is expected to be completed by the end of 2017. Our corporate headquarters move from

Cleveland, Ohio to Canton, Georgia is substantially complete. The remainder of the corporate headquarters transition is expected to be finalized in the third quarter of 2017, and the Company's Cleveland headquarters lease commitment ends December 2017.

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

The following table is a summary of the severance and other restructuring costs, which included employee-related costs, facility rent and exit costs, relocation, recruiting, travel and other, for the three months and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Severance:				
Cost of sales	$31	$981	$679	$3,342
Selling, general, and administrative expenses	1,155	1,008	1,847	2,339
Total severance costs	$1,186	$1,989	$2,526	$5,681
Other restructuring:				
Cost of sales	$1,968	$—	$3,794	$—
Selling, general, and administrative expenses	1,888	35	3,348	317
Total other restructuring costs	$3,856	$35	$7,142	$317
Total restructuring costs	$5,042	$2,024	$9,668	$5,998

The Company is closely monitoring its end markets and order rates and will continue to take appropriate and timely actions as necessary. The Company currently expects additional restructuring costs in the remaining six months of 2017 to be approximately $2,900 ($200 - E&C, $1,300 - D&S, $400 - BioMedical, and $1,000 - Corporate), but further actions may be required based on future business conditions.

The following tables summarize the Company's restructuring activities for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017				
	Energy & Chemicals	Distribution & Storage	BioMedical	Corporate	Total
Balance as of March 31, 2017	$—	$ 2,265	$ 1,439	$ 2,931	$6,635