

DOVER Corp

Form 10-Q

April 18, 2019

DOVER Corp--12-31YesLarge Accelerated

FilerFALSEFALSE10,776,562,926145,329,4372018Q110-QFALSE3/31/2019000002990529,11628,4690.480.47100100100,0

**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, 2019

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

(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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12-b-2 of the Exchange Act.

Large accelerated
filer Accelerated filer

Non-accelerated
filer 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 by Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's common stock as of April 11, 2019 was 145,329,437.

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Revenue	\$ 1,724,757	\$ 1,637,671
Cost of goods and services	1,101,215	1,034,842
Gross profit	623,542	602,829
Selling, general and administrative expenses	408,466	435,026
Loss on assets held for sale	46,946	—
Operating earnings	168,130	167,803
Interest expense	31,808	35,640
Interest income	(890)	(2,058)
Other income, net	(1,106)	(30)
Earnings before provision for income taxes	138,318	134,251
Provision for income taxes	32,613	24,841
Earnings from continuing operations	105,705	109,410
Earnings from discontinued operations, net	—	22,025
Net earnings	\$ 105,705	\$ 131,435
Earnings per share from continuing operations:		
Basic	\$ 0.73	\$ 0.71
Diluted	\$ 0.72	\$ 0.70

Earnings per share from discontinued operations:

Basic	\$	—	\$	0.14
Diluted	\$	—	\$	0.14

Net earnings per share:

Basic	\$	0.73	\$	0.85
Diluted	\$	0.72	\$	0.84

Weighted average shares outstanding:

Basic	145,087	154,520
Diluted	146,911	157,090

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,	
	2019	2018
Net earnings	\$ 105,705	\$ 131,435
Other comprehensive earnings, net of tax		
Foreign currency translation adjustments:		
Foreign currency translation gains	23,700	52,308
Reclassification of foreign currency translation losses to earnings	25,339	—
Total foreign currency translation adjustments	49,039	52,308
Pension and other post-retirement benefit plans:		
Amortization of actuarial losses included in net periodic pension cost	175	1,939
Amortization of prior service costs included in net periodic pension cost	572	743
Total pension and other post-retirement benefit plans	747	2,682
Changes in fair value of cash		

flow hedges:

Unrealized net gains arising during period	2,594	1,362
Net gains reclassified into earnings	(230)	(253)
Total cash flow hedges	2,364	1,109
Other comprehensive earnings, net of tax	52,150	56,099
Comprehensive earnings	\$ 157,855	\$ 187,534

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

March 31, 2019	December 31, 2018
Assets	
Current assets:	
Cash and cash equivalents	
\$ 243,014	\$ 396,221
Receivables, net of allowances of \$29,116 and \$28,469	
1,272,053	1,231,859
Inventories	
828,098	748,796
Prepaid and other current assets	
41,891	126,878
Assets held for sale	
44,210	—
Total current assets	
2,510,466	2,503,754
Property, plant and equipment, net	
77,682	806,497
Goodwill	
77	3,677,328
Intangible assets, net	
19,136	1,134,256
Other assets	
4,350	243,936

**and
deferred
charges**

Total assets	8,657,911	\$	8,365,771
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Liabilities and Stockholders' Equity

**Current
liabilities:**

Notes payable and current maturities of long-term debt	346,255	\$	220,318
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Accounts payable	952,162		969,531
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Accrued compensation and employee benefits	176,726		212,666
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Accrued insurance	99,215		97,600
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Other accrued expenses	337,417		313,452
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Federal and other income taxes	14,566		13,854
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Liabilities held for sale	20,581		—
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Total current liabilities	1,016,922		1,827,421
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Long-term debt	2,940,967		2,943,660
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Deferred income taxes	340,428		339,325
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Non-current income	64,304		54,304
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tax
payable

Other
liabilities 432,395

Stockholders'
equity:

Total
stockholders' equity 2,768,666

**Total
liabilities**

and stockholders'
equity 8,657,911 \$ 8,365,771

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

	Common stock \$1 par value	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive (loss) earnings	Total stockholders' equity
Balance at December 31, 2018	\$ 257,822	\$ 886,016	\$ (5,947,562)	\$ 7,815,486	\$ (243,096)	\$ 2,768,666
Net earnings	—	—	—	105,705	—	105,705
Dividends paid (\$0.48 per share)	—	—	—	(69,809)	—	(69,809)
Common stock issued for the exercise of share-based awards	392	(20,000)	—	—	—	(19,608)
Stock-based compensation expense	—	8,182	—	—	—	8,182
Other comprehensive earnings, net of tax	—	—	—	—	52,150	52,150
Other, net	—	(7,833)	—	—	—	(7,833)
Balance at March 31, 2019	\$ 258,214	\$ 866,365	\$ (5,947,562)	\$ 7,851,382	\$ (190,946)	\$ 2,837,453

	Common stock \$1 par value	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive (loss) earnings	Total stockholders' equity
Balance at December 31, 2017	\$ 256,992	\$ 942,485	\$ (5,077,039)	\$ 8,455,501	\$ (194,759)	\$ 4,383,180
Adoption of ASU 2018-02	—	—	—	12,856	(12,856)	—
Cumulative catch-up adjustment related to Adoption of Topic 606	—	—	—	175	—	175
Net earnings	—	—	—	131,435	—	131,435

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Dividends paid (\$0.47 per share)	—	—	—	(72,691)	—	(72,691)
Common stock issued for the exercise of share-based awards	290	(15,229)	—	—	—	(14,939)
Stock-based compensation expense	—	7,314	—	—	—	7,314
Common stock acquired	—	—	(44,977)	—	—	(44,977)
Other comprehensive earnings, net of tax	—	—	—	—	56,099	56,099
Other, net	—	26	—	—	—	26
Balance at March 31, 2018	\$ 257,282	\$ 934,596	\$ (5,122,016)	\$ 8,527,276	\$ (151,516)	\$ 4,445,622

See Notes to Condensed Consolidated Financial Statements

Table of Contents**DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2019	2018
Operating Activities:		
Net earnings	\$ 105,705	\$ 131,435
Adjustments to reconcile net earnings to cash from operating activities:		
Earnings from discontinued operations, net	—	(22,025)
Loss on assets held for sale	46,946	—
Depreciation and amortization	67,738	68,625
Stock-based compensation expense	8,182	6,745
Other, net	2,363	(5,440)
Cash effect of changes in assets and liabilities:		
Accounts receivable, net	(42,252)	22,781
Inventories	(73,041)	(63,554)
Prepaid expenses and other assets	(14,921)	(14,778)
Accounts payable	(22,638)	(6,690)
Accrued compensation and employee benefits	(55,559)	(69,554)
	(16,107)	(36,029)

Accrued expenses and other liabilities		
Accrued and deferred taxes, net	18,108	4,019
Net cash provided by operating activities	24,524	15,535
Investing Activities:		
Additions to property, plant and equipment	(37,122)	(44,678)
Acquisitions, net of cash acquired	(175,083)	(68,385)
Proceeds from sale of property, plant and equipment	170	2,160
Proceeds from sale of businesses	2,245	2,069
Other	(7,900)	(13,763)
Net cash used in investing activities	(217,690)	(122,597)
Financing Activities:		
Repurchase of common stock	—	(44,977)
Change in commercial paper and notes payable	125,893	195,066
Dividends paid to stockholders	(69,809)	(72,691)
Payments to settle employee tax obligations on exercise of share-based awards	(19,608)	(14,943)
	—	(350,000)

Repayment of long-term debt		
Other	(409)	(1,558)
Net cash provided by (used in) financing activities	36,067	(289,103)
Cash Flows from Discontinued Operations		
Net cash provided by operating activities of discontinued operations	—	19,963
Net cash used in investing activities of discontinued operations	—	(13,426)
Net cash provided by discontinued operations	—	6,537
Effect of exchange rate changes on cash and cash equivalents	3,892	2,886
Net decrease in cash and cash equivalents	(153,207)	(386,742)
Cash and cash equivalents at beginning of period	396,221	753,964
Cash and cash equivalents at end of period	\$ 243,014	\$ 367,222

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim periods and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. These unaudited interim Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes for Dover Corporation ("Dover" or the "Company") for the year ended December 31, 2018, included in the Company's Annual Report on Form 10-K filed with the SEC on February 15, 2019. The year end Condensed Consolidated Balance Sheet was derived from audited financial statements. Certain amounts in the prior periods have been reclassified to conform to the current year presentation.

On May 9, 2018, the Company completed a pro-rata distribution of the common stock of Apergy Corporation ("Apergy") to the Company's shareholders of record as of the close of business on April 30, 2018. Apergy holds entities conducting upstream energy businesses previously included in the Energy segment. As discussed in Note 5 - Discontinued and Disposed Operations, the Apergy businesses met the criteria to be reported as discontinued operations because the spin-off is a strategic shift in business that has a major effect on the Company's operations and financial results. Therefore, the Company is reporting the historical results of Apergy, including the results of operations, cash flows, and related assets and liabilities, as discontinued operations for all periods presented herein. Subsequent to the spin-off of Apergy, effective the second quarter of 2018, the Company no longer has the Energy segment and is aligned into three reportable segments. See Note 18 —Segment Information for additional information regarding the updated segments, including segment results for the three months ended March 31, 2019 and 2018. Unless otherwise noted, the accompanying Notes to the Consolidated Financial Statements have all been revised to reflect the effect of the separation of Apergy and all prior year balances have been revised accordingly to reflect continuing operations only.

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair statement of results for these interim periods. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

2. Spin-off of Apergy Corporation

On May 9, 2018, Dover completed the distribution of Apergy to its shareholders. The transaction was completed through the pro rata distribution of 100% of the common stock of Apergy to Dover's shareholders of record as of the close of business on April 30, 2018. Each Dover shareholder received one share of Apergy common stock for every two shares of Dover common stock held as of the record date.

Table of Contents**DOVER CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

The following is a summary of the assets and liabilities transferred to Apergy as part of the separation on May 9, 2018:

Assets:

Cash and cash equivalents	\$	10,357
Current assets		462,620
Non-current assets		1,438,760
	\$	1,911,737

Liabilities:

Current liabilities	\$	185,354
Non-current liabilities		119,568
	\$	304,922

Net assets distributed to Apergy Corporation

Less: Cash received from Apergy Corporation		700,000
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Net distribution to Apergy Corporation	\$	906,815
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In connection with the spin-off from the company, Apergy issued and sold \$300.0 million in aggregate principal amount of its 6.375% senior notes due May 2026 in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended, and incurred \$415.0 million in borrowings under its new senior secured term loan facility to fund a one-time cash payment of \$700.0 million to Dover. Dover received net cash of \$689.6 million upon separation, which reflects \$10.4 million of cash held by Apergy on the distribution date and retained by it in connection with its separation from Dover. Dover utilized the proceeds from Apergy as the primary source of funding for \$1 billion of share repurchases started in December 2017 and completed in December 2018.

Included within the net assets distributed to Apergy is approximately \$33 million of accumulated other comprehensive earnings attributable to Apergy, relating primarily to foreign currency translation gains, offset by unrecognized losses on pension obligations.

The historical results of Apergy, including the results of operations, cash flows, and related assets and liabilities have been reclassified to discontinued operations for all periods presented herein. See Note 5 — Held for Sale, Disposed and Discontinued Operations. Pursuant to the separation of Apergy from Dover, and the related separation and distribution agreements, any liabilities due from Dover to Apergy are not significant.

3. Revenue

Effective January 1, 2018, the Company adopted Accounting Standard Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("Topic 606" or "ASC 606"), using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018.

Under Topic 606, a contract with a customer is an agreement which both parties have approved, that creates enforceable rights and obligations, has commercial substance and where payment terms are identified and collectability is probable. Once the Company has entered a contract, it is evaluated to identify performance obligations. For each performance obligation, revenue is recognized as control of promised goods or services transfers to the customer in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The amount of revenue recognized takes into account variable consideration, such as discounts and volume rebates.

Over 95% of the Company's performance obligations are recognized at a point in time that relate to the manufacture and sale of a broad range of products and components. Revenue is recognized when control transfers to the customer upon shipment or completion of installation, testing, certification, or other substantive acceptance provisions required under the contract. Less than 5% of the Company's revenue is recognized over time and relates to the sale of engineered to order equipment or services that have no alternative use and in which the contract specifies the Company has a right to payment for its costs, plus a reasonable margin.

Table of Contents**DOVER CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Revenue from contracts with customers is disaggregated by end markets, segments and geographic location, as it best depicts the nature and amount of the Company's revenue.

The following table presents revenue disaggregated by end market and segment:

	Three Months Ended March 31,	
	2019	2018
Printing & Identification	\$ 282,086	\$ 282,522
Industrials	405,105	389,104
Total Engineered Systems segment	687,191	671,626
Fueling & Transport	373,050	319,304
Pumps	177,439	162,309
Process Solutions	152,735	146,485
Total Fluids segment	703,224	628,098
Refrigeration	277,598	278,655
Food Equipment	57,045	59,580
Total Refrigeration & Food Equipment segment	334,643	338,235
Intra-segment eliminations	(301)	(288)
Total Consolidated Revenue	\$ 1,724,757	\$ 1,637,671

The following table presents revenue disaggregated by geography based on the location of the Company's customer:

	Three Months Ended March 31,	
	2019	2018
United States	\$ 919,892	\$ 853,002
Europe	402,645	387,178
Asia	196,350	194,603
Other	138,118	133,144

Americas

Other	67,752	69,744
Total	\$ 1,724,757	\$ 1,637,671

At March 31, 2019, we estimated that \$83.0 million in revenue is expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period. We expect to recognize approximately 65% of our unsatisfied (or partially unsatisfied) performance obligations as revenue through 2020, with the remaining balance to be recognized in 2021 and thereafter.

The following table provides information about contract assets and contract liabilities from contracts with customers:

	March 31, 2019	December 31, 2018	At Adoption
Contract assets	\$ 11,443	\$ 9,330	\$ 11,932
Contract liabilities - current	39,733	36,461	48,268
Contract liabilities - non-current	9,731	9,382	9,916

The revenue recognized during the three months ended March 31, 2019 and 2018 that was included in the contract liabilities at the beginning of the period amounted to \$15,414 and \$13,781, respectively.

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

4. Acquisitions***2019 Acquisitions***

On January 25, 2019, the Company acquired the assets of Belanger, Inc. ("Belanger"), a leading full-line car wash equipment manufacturer for \$175,083, net of cash acquired. The Belanger acquisition strengthens Dover's position in the vehicle wash business within the Fueling & Transport end market of the Fluids segment. The following presents the preliminary allocation of acquisition cost to the assets acquired and liabilities assumed, based on their estimated fair values:

	Belanger	
Current assets, net of cash acquired	\$	9,392
Property, plant and equipment		597
Goodwill		97,817
Intangible assets		77,000
Other assets and deferred charges		20
Current liabilities	(9,743)	
Net assets acquired	\$	175,083

The amounts assigned to goodwill and major intangible asset classifications are as follows:

	Amount allocated	Useful life (in years)
Goodwill - Tax deductible	97,817	na
Customer intangibles	54,500	9
Patents	16,000	9
Trademarks	6,500	15
	\$ 174,817	

The goodwill recorded as a result of this acquisition reflects the benefits expected to be derived from product line expansions and operational synergies.

2018 Acquisitions

During the three months ended March 31, 2018, the Company acquired two businesses in separate transactions for total consideration of \$68,385, net of cash acquired. These businesses were acquired to complement and expand upon existing operations within the Fluids and Refrigeration & Food Equipment segments. The goodwill recorded as a result of these acquisitions reflects the benefits expected to be derived from product line expansions and operational synergies. The goodwill is non-deductible for U.S. federal income tax purposes for these acquisitions.

On January 2, 2018, the Company acquired 100% of the voting stock of Ettlenger Group ("Ettlenger"), within the Fluids segment for \$53,046, net of cash acquired. In connection with this acquisition, the Company recorded goodwill of \$36,505 and intangible assets of \$20,084, primarily related to customer intangibles. The intangible assets are being amortized over 8 to 15 years.

On January 12, 2018, the Company acquired 100% of the voting stock of Rosario Handel B.V. ("Rosario"), within the Refrigeration & Food Equipment segment for total consideration of \$15,339, net of cash acquired. In connection with this acquisition, the Company recorded goodwill of \$10,402 and a customer intangible asset of \$4,149. The customer intangible asset is being amortized over 10 years.

Pro Forma Information

The following unaudited pro forma information illustrates the impact of 2019 and 2018 acquisitions on the Company's revenue and earnings from operations for the three months ended March 31, 2019 and 2018, respectively.

Table of Contents**DOVER CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

The unaudited pro forma information assumes that the 2019 and 2018 acquisitions had taken place at the beginning of the prior year, 2018 and 2017, respectively. Unaudited pro forma earnings are adjusted to reflect the comparable impact of additional depreciation and amortization expense, net of tax, resulting from the fair value measurement of intangible and tangible assets relating to the year of acquisition.

The unaudited pro forma effects for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31,	
	2019	2018
Revenue:		
As reported	\$ 1,724,757	\$ 1,637,671
Pro forma	1,728,525	1,651,530
Earnings from continuing operations:		
As reported	\$ 105,705	\$ 109,410
Pro forma	107,204	111,953
Basic earnings per share from continuing operations:		
As reported	\$ 0.73	\$ 0.71
Pro forma	0.74	0.72
Diluted earnings per share from continuing operations:		
As reported	\$ 0.72	\$ 0.70
Pro forma	0.73	0.71

5. Held for Sale, 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.

Assets and Liabilities Held for Sale

On _____, the Company entered into a definitive agreement to sell Finder Pompe S.r.l ("Finder"), a wholly owned subsidiary, to Gruppo Aturia S.p.A ("Aturia") for a total consideration of approximately \$23,629 net of estimated selling costs. As of March 31, 2019, Finder met the criteria to be classified as held for sale. The Company classified Finder's assets and liabilities separately on the consolidated balance sheet as of March 31, 2019.

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

The following table presents the assets and liabilities associated with the Finder business classified as held for sale as of March 31, 2019.

March 31, 2019**Assets Held
for Sale**

Accounts receivable, net	\$	12,698
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Inventories		3,693
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Prepaid and other current assets		1,050
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Total current assets		17,441
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Property, plant and equipment, net		13,596
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Goodwill and intangible assets, net		34,524
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Other assets and deferred charges		256
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Impairment on assets held for sale	(21,607)	
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Total assets	\$	44,210
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**Liabilities
Held for
Sale**

Accounts payable	\$	7,859
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Other current liabilities		5,088
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Total current liabilities		12,947
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Deferred income taxes		7,011
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623

Other
liabilities

Total
liabilities \$ 20,581

Based on the total consideration from the sale, net of selling costs, the Company recorded a loss on the assets held for sale of \$46,946

and of an impairment on assets held for sale of \$21,607 and

The Finder business is included in the results of the Fluids segment. The sale does not represent a strategic shift that will have a major effect on operations and financial results and, therefore,

Disposed Operations

There were no dispositions during the three months ended March 31, 2019 and 2018.

Discontinued Operations

There were no discontinued operations as of and for the three months ending March 31, 2019.

In 2018, the Apergy businesses, as discussed in Note 2, met the criteria to be reported as discontinued operations because the spin-off was a strategic shift in business that has a major effect on the Company's operations and financial results. Therefore, the results of discontinued operations for the three months ended March 31, 2018 include the historical results of Apergy prior to its distribution on May 9, 2018. The three months ended March 31, 2018 included costs incurred by Dover to complete the spin-off of Apergy amounting to \$11,746, reflected in selling, general and administrative expenses in discontinued operations. See Note 2 — Spin-off of Apergy Corporation for further information.

Table of Contents**DOVER CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

	Three Months Ended March 31, 2018
Revenue	\$ 284,041
Cost of goods and services	177,928
Gross profit	106,113
Selling, general and administrative expenses	79,123
Operating earnings	26,990
Other expense, net	484
Earnings from discontinued operations before taxes	26,506
Provision for income taxes	4,481
Earnings from discontinued operations, net of tax	\$ 22,025

On May 9, 2018, all assets and liabilities of Apergy were spun-off. Therefore, as of March 31, 2019 and December 31, 2018 there were no assets and liabilities classified as discontinued operations.

6. Inventories

	March 31, 2019	December 31, 2018
Raw materials	\$ 474,204	\$ 439,616
Work in progress	177,544	154,878
Finished goods	288,986	265,722
Subtotal	940,734	860,216
Less reserves	(112,436)	(111,420)
Total	\$ 828,298	\$ 748,796

7. Property, Plant and Equipment, net

	March 31, 2019	December 31, 2018
Land	\$ 49,834	\$ 53,623
Buildings and improvements	518,238	529,982
Machinery, equipment and other	1,589,863	1,555,345
Property, plant and equipment, gross	2,157,935	2,138,950
Accumulated depreciation	(1,360,253)	(1,332,453)
Property, plant and equipment, net	\$ 797,682	\$ 806,497

Depreciation expense totaled \$32,188 and \$32,164 for the three months ended March 31, 2019 and 2018, respectively.

8. Leases

The Company adopted ASC Topic 842 - Leases as of January 1, 2019, using the transition method per ASU No. 2018-11 issued on July 2018 wherein entities were allowed to initially apply the new leases standard at adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Accordingly, all periods prior to January 1, 2019 were presented in accordance with the previous ASC Topic 840, Leases, and no retrospective adjustments were made to the comparative periods presented. Adoption of ASC 842 resulted in an increase to total assets and liabilities due to the recording of operating lease right-of-use assets ("ROU") and operating lease liabilities of approximately \$163 million, as of January 1, 2019. Finance leases were not impacted by the adoption of ASC 842, as finance lease liabilities and the corresponding ROU assets were already recorded in the balance sheet under the previous guidance, ASC 840. The adoption did not materially impact the Company's Consolidated Statements of Earnings or Cash Flows.

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DOVER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company has operating and finance leases for corporate offices, manufacturing plants, research and development facilities, shared services facilities, vehicle fleets and certain office and manufacturing equipment. Leases with an initial term of 12 months or less are not recorded in the balance sheet. The Company has elected the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component, thus causing all fixed payments to be capitalized. The Company also elected the package of practical expedients permitted within the new standard, which among other things, allows the Company to carry forward historical lease classification. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage, are not included in the ROU assets or liabilities. These are expensed as incurred and recorded as variable lease expense.

The Company determines if an arrangement is a lease at inception of a contract. Operating lease ROU assets are included in other assets and deferred charges and operating lease liabilities are included in other accrued expenses and other liabilities in the Consolidated Balance Sheet. Finance lease ROU assets are included in property and equipment, and the related lease liabilities are included in other accrued expenses and other liabilities in the Consolidated Balance Sheet.

ROU assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the net present value of fixed lease payments over the lease term. The Company's lease term include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. ROU assets also include any advance lease payments made and exclude lease incentives. As most of the Company's operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

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

The components of lease costs were as follows:

**Three Months
Ended March
31, 2019**Operating
Lease
Costs:

Fixed	\$	12,244
Variable		2,047
Short-term		4,865
Total*	\$	19,156

* Finance lease
cost and
sublease income
were immaterial.

Supplemental cash flow information were as follows:

**Three Months
Ended March
31, 2019**Cash paid for
amounts
included in the
measurement
of lease
liabilities:

Operating cash flows from operating leases	\$	12,414
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Operating cash flows from finance leases	108
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Financing cash flows from finance leases	409
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Total	\$	12,931
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Right-of-use
assets obtained
in exchange for
new lease
obligations:

Operating leases	10,708
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Finance leases	37	
Total	\$	10,745

Supplemental balance sheet information related to leases were as follows:

March 31, 2019

**Operating
Leases:**

Right of use
assets:

Other assets and deferred charges	\$	154,562
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Lease
liabilities:

Other accrued expenses	\$	43,247
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Other liabilities	118,783	
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Total operating lease liabilities	\$	162,030
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**Finance
Leases:**

Right of use
assets:

Property, plant and equipment, net ⁽¹⁾	\$	11,856
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Lease
liabilities:

Other accrued expenses	\$	1,526
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Other liabilities	8,350	
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Total financing lease liabilities	\$	9,876
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⁽¹⁾ Finance lease assets are recorded net of accumulated depreciation of \$909.

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

The aggregate future lease payments for operating and finance leases as of March 31, 2019 were as follows:

	Operating		Finance
2019 (excluding the three months ending March 31, 2019)	\$ 37,090		\$ 1,425
2020	39,237		1,881
2021	29,666		1,793
2022	21,329		1,608
2023	13,544		1,204
Thereafter	42,182		4,040
Total lease payments	183,048		11,951
Less: Interest	(21,018)		(2,075)
Present value of lease liabilities	\$ 162,030		\$ 9,876

The aggregate future lease payments for operating and capital leases as of December 31, 2018 are as follows:

	Operating		Capital
2019	\$ 49,009		\$ 1,802
2020	38,620		1,748
2021	29,396		1,687
2022	21,767		1,392
2023	13,994		952
Thereafter	42,087		3,802
Total	\$ 194,873		\$ 11,383

Average lease terms and discount rates were as follows:

	March 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	5.8
Finance leases	6.4

Weighted-average discount rate	
Operating leases	3.3%
Finance leases	4.4%

9. Goodwill and Other Intangible Assets

The changes in the carrying value of goodwill by reportable operating segments were as follows:

	Engineered Systems	Fluids	Refrigeration & Food Equipment	Total
Balance at December 31, 2018	\$ 1,623,660	\$ 1,507,602	\$ 546,066	\$ 3,677,328
Acquisitions	—	97,817	—	97,817
Held for sale	—	(4,739)	—	(4,739)
Foreign currency translation	(1,460)	8,386	(55)	6,871
Balance at March 31, 2019	\$ 1,622,200	\$ 1,609,066	\$ 546,011	\$ 3,777,277

During the three months ended March 31, 2019, the Company recorded additions of \$97,817 to goodwill as a result of the acquisition discussed in Note 4 — Acquisitions. As noted in Note 5 — Held for Sale, Disposed and Discontinued Operations, the Company classified Finder's assets and liabilities as held for sale as of March 31, 2019. As a result, the Fluids segment goodwill balance was reduced by \$4,739.

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

The Company's definite-lived and indefinite-lived intangible assets by major asset class were as follows:

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Customer intangibles	\$ 1,404,109	\$ 648,177	\$ 755,932	\$ 1,395,742	\$ 645,305	\$ 750,437
Trademarks	17,996	74,597	143,399	214,774	72,305	142,469
Patents	160,240	129,692	30,548	144,302	128,254	16,048
Unpatented technologies	155,481	89,379	66,102	155,380	85,560	69,820
Distributor relationships						