DOVER Corp
Form 10-Q
July 18, 2012

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, 2012

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-4018

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

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

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

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

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

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 þ No o

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

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

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

The number of shares outstanding of the Registrant’s common stock as of July 12, 2012 was 182,806,862.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	$2,156,508	$1,994,970	$4,219,872	$3,807,048
Cost of goods and services	1,338,911	1,218,974	2,621,951	2,319,301
Gross profit	817,597	775,996	1,597,921	1,487,747
Selling and administrative expenses	494,050	448,399	974,930	901,826
Operating earnings	323,547	327,597	622,991	585,921
Interest expense, net	29,717	28,157	59,744	56,475
Other expense, net	142	1,477	2,764	2,665
Earnings before provision for income taxes and discontinued operations	293,688	297,963	560,483	526,781
Provision for income taxes	80,786	58,765	150,754	112,792
Earnings from continuing operations	212,902	239,198	409,729	413,989
Earnings from discontinued operations, net	1,199	10,571	435	30,685
Net earnings	$214,101	$249,769	$410,164	$444,674
Comprehensive earnings	$120,514	$269,404	$357,819	$535,970
Earnings per share from continuing operations:				
Basic	$1.16	$1.28	$2.23	$2.22
Diluted	$1.15	$1.26	$2.20	$2.18
Earnings per share from discontinued operations:				
Basic	$0.01	$0.06	$—	$0.16
Diluted	$0.01	$0.06	$—	$0.16
Net earnings per share:				
Basic	$1.17	$1.34	$2.23	$2.38
Diluted	$1.15	$1.32	$2.20	$2.34
Dividends paid per common share	$0.315	$0.275	$0.63	$0.55

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	June 30, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	$785,965	$1,206,755
Receivables, net of allowances of $25,902 and $24,987	1,320,245	1,190,265
Inventories, net	921,040	803,346
Prepaid and other current assets	137,975	154,859
Deferred tax assets	40,089	41,905
Total current assets	3,205,314	3,397,130
Property, plant and equipment, net	1,086,151	1,000,870
Goodwill	4,021,133	3,787,117
Intangible assets, net	1,370,810	1,207,084
Other assets and deferred charges	117,969	104,808
Assets of discontinued operations	3,028	4,441
Total assets	$9,804,405	$9,501,450
Current liabilities:		
Notes payable and current maturities of long-term debt	$3,402	$1,022
Accounts payable	620,598	543,924
Accrued compensation and employee benefits	279,934	281,611
Accrued insurance	103,400	104,172
Other accrued expenses	228,005	234,382
Federal and other taxes on income	26,370	37,870
Total current liabilities	1,261,709	1,202,981
Long-term debt	2,191,750	2,186,230
Deferred income taxes	508,082	411,163
Other liabilities	636,046	650,604
Liabilities of discontinued operations	96,554	119,917
Stockholders' equity:		
Total stockholders' equity	5,110,264	4,930,555
Total liabilities and stockholders' equity	$9,804,405	$9,501,450

See Notes to Condensed Consolidated Financial Statements

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

	Common Stock $1 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2011	$250,592	$663,289	$6,629,116	$(47,510)	$(2,564,932)	$4,930,555
Net earnings	—	—	410,164	—	—	410,164
Dividends paid	—	—	(115,714)	—	—	(115,714)
Common stock issued for acquisition	1,636	98,974	—	—	—	100,610
Common stock issued for options exercised	880	6,033	—	—	—	6,913
Tax benefit from the exercise of stock options	—	12,440	—	—	—	12,440
Stock-based compensation expense	—	16,565	—	—	—	16,565
Common stock acquired	—	—	—	—	(198,924)	(198,924)
Other comprehensive loss, net of tax	—	—	—	(52,345)	—	(52,345)
Balance at June 30, 2012	$253,108	$797,301	$6,923,566	$(99,855)	$(2,763,856)	$5,110,264

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

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Activities of Continuing Operations		
Net earnings	$410,164	$444,674
Adjustments to reconcile net earnings to cash from operating activities:		
Gain from discontinued operations, net	(435)	(30,685)
Depreciation and amortization	176,672	136,056
Stock-based compensation	16,106	14,007
Loss (gain) on sale of assets	103	(908)
Cash effect of changes in current assets and liabilities (excluding effects of acquisitions, dispositions and foreign exchange):		
Accounts receivable	(102,229)	(169,227)
Inventories	(66,085)	(87,186)
Prepaid expenses and other assets	(16,701)	(4,416)
Accounts payable	53,261	91,329
Accrued expenses	(56,911)	(68,797)
Accrued and deferred taxes, net	14,021	(1,673)
Other, net	(15,719)	(411)
Net cash provided by operating activities of continuing operations	412,247	322,763
Investing Activities of Continuing Operations		
Proceeds from sale of short-term investments	—	124,410
Proceeds from the sale of property, plant and equipment	6,133	4,976
Additions to property, plant and equipment	(145,787)	(123,717)
Proceeds from the sale of businesses	—	4,816
Settlement of net investment hedge	—	(18,211)
Increase in restricted cash	(20,548)	—
Acquisitions, including adjustment for prior year acquisition purchase price (net of cash and cash equivalents acquired)	(354,270)	(424,624)
Net cash used in investing activities of continuing operations	(514,472)	(432,350)
Financing Activities of Continuing Operations		
Change in notes payable, net	—	31,145
Reduction of long-term debt	(130)	(400,458)
Proceeds from long-term debt, net of discount and issuance costs	—	788,971
Purchase of common stock	(198,924)	(98,382)
Proceeds from exercise of stock options and SARs, including tax benefits	19,353	34,118
Dividends to stockholders	(115,714)	(102,605)
Net cash (used in) provided by financing activities of continuing operations	(295,415)	252,789
Cash Flows from Discontinued Operations		
Net cash (used in) provided by operating activities of discontinued operations	(21,515)	14,492
Net cash used in investing activities of discontinued operations	—	(2,669)

Net cash (used in) provided by discontinued operations	(21,515)	11,823
Effect of exchange rate changes on cash and cash equivalents	(1,635)	56,166
Net (decrease) increase in cash and cash equivalents	(420,790)	211,191
Cash and cash equivalents at beginning of period	1,206,755	1,189,079
Cash and cash equivalents at end of period	$785,965	$1,400,270

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)(in thousands, except share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission ("SEC") rules for interim periods, do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Dover Corporation ("Dover" or the "Company") Annual Report on Form 10-K for the year ended December 31, 2011, which provides a more complete understanding of the Company's accounting policies, financial position, operating results, business properties and other matters. The year-end condensed consolidated balance sheet was derived from audited financial statements. As discussed in Note 9, the Company is reporting certain businesses that were sold during the third and fourth quarters of 2011 as discontinued operations. Therefore, the Company has classified the results of operations of these businesses as discontinued operations for all periods presented. It is the opinion of management that these financial statements reflect all adjustments necessary for a fair statement of the interim results. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

2. Acquisitions

The following table details the acquisitions made during the six months ended June 30, 2012.

2012 Acquisitions

Date	Type	Company / Product Line Acquired	Location (Near)	Segment
Jan 1	Asset	Quattroflow Fluid Systems	Kamp-Lintfort, Germany	Engineered Systems
Manufacturer of positive displacement pumps primarily serving the pharmaceutical and biotech industries.				
Mar 14	Stock	Maag Pump Systems	Grossostheim, Germany	Engineered Systems
Manufacturer of gear pump technology, pelletizing systems and engineered integrated solutions for the polymer, plastic, chemical and petrochemical industries.				
Apr 25	Stock	Production Control Services (PCS)	Fredrick, Colorado	Energy
Manufacturer of products in artificial lift and production optimization, including plunger lift, gas lift, nitrogen generation, and well site automation.				

The Company acquired these businesses in three separate transactions for net cash consideration of $399,270. Additionally, the acquisition of PCS was funded in part with common stock valued at $100,610 at the date of acquisition, so aggregate consideration for 2012 year-to-date acquisitions totaled $499,880. As a result of these acquisitions, the Company recorded approximately $195,192 of customer-related intangible assets (weighted average lives of 11 years), $15,940 of trademarks (weighted average lives of 11 years), and $37,666 of other intangibles (weighted average lives of 7 years). These acquisitions resulted in the recognition of goodwill totaling $263,405, of which $6,399 is expected to be deductible for tax purposes. In connection with the acquisition of Maag Pump Systems, the Company also provided restricted-use cash collateral to secure Maag's outstanding bank guarantees at the date of acquisition. At June 30, 2012, the outstanding amount of collateral totaled $15,848, which will decline as the guarantees expire or they are migrated to the Company's credit facility.

These businesses manufacture products in the energy and fluid solutions markets, two key growth areas for the Company. The businesses were acquired to complement and expand upon existing operations within the Energy segment and the Fluid Solutions platform of the Engineered Systems segment. The goodwill identified by these acquisitions reflects the benefits expected to be derived from product line expansion and operational synergies. Upon consummation of the acquisitions, each of these entities is now wholly-owned by Dover.

DOVER CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)(in thousands, except share data)

The following presents the allocation of acquisition cost to the assets acquired and liabilities assumed, based on their estimated fair values:

Current assets, net of cash acquired	$100,689
Property, plant and equipment	52,392
Goodwill	263,405
Intangible assets	248,798
Other non-current assets	5,904
Total liabilities	(171,308)
Net assets acquired	$499,880

The Company is in the process of finalizing appraisals of tangible and intangible assets and continuing to evaluate the initial purchase price allocations for the Maag and PCS acquisitions. Accordingly, management has used its best estimates in the preliminary purchase price allocations as of the date of these financial statements. As additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the date of acquisition), including through asset appraisals and learning more about the newly acquired businesses, the Company expects to refine its estimates of fair value to allocate the purchase price more accurately; however, any such revisions are not expected to be significant.

The Unaudited Condensed Consolidated Statements of Comprehensive Earnings include the results of these businesses from the dates of acquisition. The aggregate revenue of the 2012 acquisitions included in the Company's consolidated revenue totaled $63,492 and $74,884 for the three and six months ended June 30, 2012, respectively.

In April 2012, the Company received approximately $45,000 as final payment for settlement of purchase price adjustments for post-acquisition contingencies relating to the 2011 Sound Solutions acquisition. This amount is reported within cash paid for acquisitions in the Condensed Consolidated Statement of Cash Flow for the six months ended June 30, 2012 and had no impact to the Company's earnings for the three and six months ended June 30, 2012.

Pro Forma Information

The following unaudited pro forma information illustrates the effect on the Company's revenue and net earnings for the three and six months ended June 30, 2012 and 2011, assuming that the 2012 acquisitions had taken place at the beginning of 2011. As a result, the supplemental pro forma net earnings reflect adjustments to the net earnings as reported in the Unaudited Condensed Consolidated Statements of Comprehensive Earnings for the three and six months ended June 30, 2012 to exclude $1,460 and $3,285, respectively, of acquisition-related costs (after-tax) and $5,826 and $6,642, respectively, of nonrecurring expense related to the fair value adjustments to acquisition-date inventory (after-tax). The supplemental pro forma earnings for the comparable 2011 periods were adjusted to include these charges as if they were incurred at the beginning of 2011. The 2012 and 2011 supplemental pro forma earnings are also adjusted to reflect the comparable impact of additional depreciation and amortization expense (net of tax) resulting from the fair value measurement of tangible and intangible assets relating to 2012 and 2011 acquisitions.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue from continuing operations:				
As reported	$2,156,508	$1,994,970	$4,219,872	$3,807,048
Pro forma	2,162,905	2,151,189	4,286,092	4,119,193
Earnings from continuing operations:				
As reported	$212,902	$239,198	$409,729	$413,989

Pro forma	220,623	239,168	424,693	406,865
Basic earnings per share from continuing operations:				
As reported	$1.16	$1.28	$2.23	$2.22
Pro forma	1.20	1.28	2.31	2.18
Diluted earnings per share from continuing operations:				
As reported	$1.15	$1.26	$2.20	$2.18
Pro forma	1.19	1.26	2.28	2.14

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These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisitions occurred on the dates indicated or that may result in the future.

3. Inventories, net

	June 30, 2012	December 31, 2011
Raw materials	$411,529	$372,627
Work in progress	201,317	177,016
Finished goods	361,093	309,048
Subtotal	973,939	858,691
Less LIFO reserve	(52,899)	(55,345)
Total	$921,040	$803,346

4. Property, Plant and Equipment, net

	June 30, 2012	December 31, 2011
Land	$63,033	$54,113
Buildings and improvements	613,150	586,538
Machinery, equipment and other	2,168,423	2,033,926
	2,844,606	2,674,577
Less accumulated depreciation	(1,758,455)	(1,673,707)
Total	$1,086,151	$1,000,870

5. Goodwill and Other Intangible Assets

The following table provides the changes in carrying value of goodwill by segment for the six months ended June 30, 2012:

	Communication Technologies	Energy	Engineered Systems	Printing & Identification	Total
Goodwill	$1,204,582	$622,335	$1,005,981	$1,024,780	$3,857,678
Accumulated impairment loss	—	—	(70,561)	—	(70,561)
Balance at January 1, 2012	1,204,582	622,335	935,420	1,024,780	3,787,117
Acquisitions	—	108,856	154,549	—	263,405
Purchase price adjustments	(6,998)	—	—	—	(6,998)
Foreign currency translation	(12,010)	(228)	(6,988)	(3,165)	(22,391)
Balance at June 30, 2012	$1,185,574	$730,963	$1,082,981	$1,021,615	$4,021,133

During the six months ended June 30, 2012, the Company recorded adjustments totaling $6,998 to goodwill relating primarily to finalization of the purchase price allocation to assets acquired and liabilities assumed for the 2011 Sound Solutions acquisition.

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(unaudited)(in thousands, except share data)

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

	June 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets:				
Trademarks	$90,352	$23,166	$66,428	$20,518
Patents	155,163	104,169	145,864	99,990
Customer Intangibles	1,342,060	433,611	1,171,608	380,196
Unpatented Technologies	144,509	104,267	142,405	98,193
Drawings & Manuals	32,802	6,286	8,165	5,153
Distributor Relationships	73,142	30,380	73,162	28,500
Other	46,649	21,678	28,677	20,251
Total	1,884,677	723,557	1,636,309	652,801
Unamortized Intangible Assets:				
Trademarks	209,690		223,576	
Total Intangible Assets	$2,094,367	$723,557	$1,859,885	$652,801

Amortization expense totaled $39,938 and $27,229 for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, amortization expense was $75,342 and $54,725.

6. Borrowings

Borrowings consist of the following:

	June 30, 2012	December 31, 2011
4.875% 10-year notes due October 15, 2015	$299,342	$299,244
5.45% 10-year notes due March 15, 2018	348,103	347,938
4.30% 10-year notes due March 1, 2021	449,774	449,761
6.60% 30-year notes due March 15, 2038	247,727	247,683
5.375% 30-year notes due March 1, 2041	345,432	345,352
6.65% 30-year debentures due June 1, 2028	199,431	199,414
5.375% 30-year debentures due October 15, 2035	296,287	296,208
Other	9,056	1,652
Total long-term debt	2,195,152	2,187,252
Less current installments	(3,402)	(1,022)
	$2,191,750	$2,186,230

The Company maintains a $1 billion unsecured revolving credit facility which expires on November 10, 2016. The Company primarily uses this facility as liquidity back-up for its commercial paper program and has not drawn down any loans under the $1 billion facility and does not anticipate doing so. The Company generally uses commercial paper borrowings for general corporate purposes, funding of acquisitions and the repurchases of its common stock.

Interest expense and interest income for the three and six months ended June 30, 2012 and 2011 were as follows:

	Three Months Ended June 30,	Six Months Ended June 30,

	2012	2011	2012	2011
Interest expense	$31,478	$31,080	$63,123	$62,116
Interest income	(1,761)	(2,923)	(3,379)	(5,641)
Interest expense, net	$29,717	$28,157	$59,744	$56,475

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(unaudited)(in thousands, except share data)

7. Financial Instruments

Derivatives

The Company is exposed to market risk for changes in foreign currency exchange rates due to the global nature of its operations. In order to manage this risk the Company has hedged portions of its forecasted sales and purchases, which occur within the next twelve months and are denominated in non-functional currencies, with currency forward or collar contracts designated as cash flow hedges. At June 30, 2012 and December 31, 2011, the Company had contracts with U.S. dollar equivalent notional amounts of $53,875 and $83,541, respectively, to exchange foreign currencies, principally the U.S. dollar, euro, pound sterling, Japanese yen, Chinese yuan and Malaysian ringgit. The Company believes it is probable that all forecasted cash flow transactions will occur.

The Company also has an outstanding floating-to-floating cross currency swap agreement for a total notional amount of $50,000 in exchange for CHF 65,100, which expires on October 15, 2015. This transaction continues to hedge a portion of the Company’s net investment in CHF-denominated operations. The agreement qualifies as a net investment hedge and the effective portion of the change in fair value is reported within the cumulative translation adjustment section of other comprehensive income. The fair values at June 30, 2012 and December 31, 2011 reflected losses of $20,599 and $21,656, respectively, due to the strengthening of the Swiss franc relative to the U.S. dollar over the term of the arrangement.

The following table sets forth the fair values of derivative instruments held by the Company as of June 30, 2012 and December 31, 2011 and the balance sheet lines in which they are recorded:

	Fair Value Asset (Liability)		
	June 30, 2012	December 31, 2011	Balance Sheet Caption
Foreign currency forward / collar contracts	$203	$394	Prepaid / Other assets
Foreign currency forward / collar contracts	(485)	(1,284)	Other accrued expenses
Net investment hedge - cross currency swap	(20,599)	(21,656)	Other liabilities

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

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

Fair Value Measurements

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

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

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

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

(unaudited)(in thousands, except share data)

The following table presents the Company’s assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011:

	June 30, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Foreign currency cash flow hedges	$—	$203	$—	$—	$394	$—
Liabilities:						
Foreign currency cash flow hedges	—	485	—	—	1,284	—
Net investment hedge derivative	—	20,599	—	—	21,656	—

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

The estimated fair value of long-term debt at June 30, 2012 and December 31, 2011 was $2,689,647 and $2,679,793, respectively, compared to the carrying value of $2,195,152 and $2,187,252, respectively. The estimated fair value of long-term debt is based on quoted market prices for similar instruments and is, therefore, classified as Level 2 within the valuation hierarchy.

The carrying values of cash and cash equivalents, trade receivables, accounts payable, and notes payable are reasonable estimates of their fair values as of June 30, 2012 and December 31, 2011 due to the short-term nature of these instruments.

8. Income Taxes

For the three and six months ended June 30, 2012, the effective tax rates for continuing operations before consideration of discrete items were relatively flat as compared with the prior year periods. The pre-discrete tax rate was 27.4% and 27.1% for the respective three and six months ended June 30, 2012, and 27.2% for each of the comparable three and six month periods of 2011. Net discrete items of $(372) for the second quarter and $1,060 year to date did not significantly impact the 2012 effective tax rates. Discrete items totaling $22,338 in the second quarter of last year and $30,354 in the first half of last year reduced 2011 effective tax rates to 19.7% and 21.4%, respectively, for the comparable three and six month reporting periods. The unfavorable impact of increased U.S. earnings mix in the 2012 periods was more than offset by the favorable impact of lower effective tax rates in foreign jurisdictions neutralizing rates on a comparative year over year, pre-discrete basis. The Company believes uncertain tax positions could be settled within the next twelve months, for which an estimate cannot currently be made due to the uncertainties associated with the resolution of these matters.

9. Discontinued Operations

Management evaluates Dover’s businesses periodically for their strategic fit within Dover’s operations. Accordingly, the Company decided to sell certain businesses within its Engineered Systems segment. Paladin Brands and Crenlo LLC, two businesses that serve construction related end markets, were sold during the third quarter of 2011 and Heil Trailer International, a manufacturer of specialty transportation trailers and equipment, was sold during the fourth quarter of 2011.

In connection with these disposals, for all periods presented, the Company has reclassified the results of these businesses into discontinued operations in the Unaudited Condensed Consolidated Statements of Comprehensive

Earnings.

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(unaudited)(in thousands, except share data)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	$—	$164,162	$—	$313,383
Gain on sale, net of taxes	$1,860	$—	$1,860	$—
Earnings (loss) from operations before taxes	$(326)	$13,766	$(1,112)	$26,304
(Provision) benefit for income taxes	(335)	(3,195)	(313)	4,381
Earnings from discontinued operations, net of tax	$1,199	$10,571	$435	$30,685

The gain on sale, net of taxes for both the three and six months ended June 30, 2012 reflects adjustments to sale proceeds of businesses sold in prior years. The earnings from operations before taxes for both the three and six months ended June 30, 2011 reflects the net earnings generated by the three businesses sold in 2011, coupled with other expense and accrual adjustments.

Assets and liabilities of discontinued operations are summarized below:

	June 30, 2012	December 31, 2011
Assets of Discontinued Operations		
Current assets	$2,731	$2,832
Non-current assets	297	1,609
	$3,028	$4,441
Liabilities of Discontinued Operations		
Current liabilities	$8,467	$31,592
Non-current liabilities	88,087	88,325
	$96,554	$119,917

At June 30, 2012 and December 31, 2011, the assets and liabilities of discontinued operations consist primarily of tax-related accruals and unrecognized benefits, as well as other accruals for compensation, legal, environmental and warranty contingencies, none of which are individually significant.

10. Restructuring Activities

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Communication Technologies	$649	$891	$1,658	$1,151
Energy	495	1,387	495	1,797
Engineered Systems	1,301	530	1,426	1,392
Printing & Identification	5,619	(774)	5,988	(827)
Total	$8,064	$2,034	$9,567	$3,513

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

Cost of goods and services	$813	$1,156	$1,229	$1,242
Selling and administrative expenses	7,251	878	8,338	2,271
Total	$8,064	$2,034	$9,567	$3,513

The restructuring expenses incurred in the three and six months ended June 30, 2012 relate primarily to programs initiated in

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2012, principally a few targeted facility consolidations and headcount reductions intended to better align the Company's operations with the current market dynamics. These programs are expected to be concluded in 2012, with additional expense of approximately $4,000 to be recognized over the remainder of 2012.

Restructuring expenses incurred in the three and six months ended June 30, 2011 also included targeted facility consolidations at certain businesses. These programs were substantially complete by the end of 2011 and the related expenses were not significant.

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

	Severance	Exit	Total
At December 31, 2011	$2,463	$3,129	$5,592
Restructuring charges	8,548	1,019	9,567
Payments	(4,362)	(2,020)	(6,382)
Other, including foreign currency	(20)	(27)	(47)
At June 30, 2012	$6,629	$2,101	$8,730

The accrual balance at December 31, 2011 primarily reflects ongoing lease commitment obligations for facilities closed in earlier periods.

11. Commitments and Contingent Liabilities

Litigation

A few of the Company's subsidiaries are involved in legal proceedings relating to the cleanup of waste disposal sites identified under federal and state statutes which provide for the allocation of such costs among "potentially responsible parties." In each instance, the extent of the Company's liability appears to be very small in relation to the total projected expenditures and the number of other "potentially responsible parties" involved and is anticipated to be immaterial to the Company. In addition, a few of the Company's subsidiaries are involved in ongoing remedial activities at certain current and former plant sites, in cooperation with regulatory agencies, and appropriate reserves have been established.

The Company and certain of its subsidiaries are also parties to a number of other legal proceedings incidental to their businesses. These proceedings primarily involve claims by private parties alleging injury arising out of use of the Company's products, exposure to hazardous substances, patent infringement, employment matters and commercial disputes. Management and legal counsel, at least quarterly, review the probable outcome of such proceedings, the costs and expenses reasonably expected to be incurred and currently accrued to-date, and the availability and extent of insurance coverage. While it is not possible at this time to predict the outcome of these legal actions, in the opinion of management, based on these reviews, it is unlikely that the disposition of the lawsuits and the other matters mentioned above will have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Letters of Credit

As of June 30, 2012, the Company had approximately $69,860 outstanding in letters of credit and guarantees with financial institutions, which expire at various dates in 2012 through 2016. These letters of credit are primarily maintained as security for insurance, warranty and other performance obligations.

Warranty Accruals

Estimated warranty program claims are provided for at the time of sale. Amounts provided for are based on historical costs and adjusted new claims. The changes in the carrying amount of product warranties through June 30, 2012 and 2011 are as follows:

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	2012	2011
Beginning Balance, January 1	$42,524	$40,032
Provision for warranties	17,458	18,488
Settlements made	(17,528)	(17,830)
Other adjustments, including acquisitions and currency translation	2,348	730
Ending Balance, June 30	$44,802	$41,420

12. Employee Benefit Plans

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

Retirement Plans

Qualified Defined Benefits

	Three Months Ended June 30,				Six Months Ended June 30,			
	U.S. Plan		Non-U.S. Plans		U.S. Plan		Non-U.S. Plans	
	2012	2011	2012	2011	2012	2011	2012	2011
Service Cost	$3,601	$3,542	$1,031	$758	$7,202	$7,084	$2,068	$1,493
Interest Cost	6,284	6,809	2,100	2,182	12,568	13,618	4,197	