

DOVER Corp  
Form 10-Q  
October 17, 2013

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 September 30, 2013

or

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

For the transition period from to

Commission File Number: 1-4018

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

Delaware  
(State or other jurisdiction of incorporation or organization)

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

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

60515  
(Zip Code)

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

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

Yes ☐ No ☐

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

Yes ☐ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if smaller reporting company)

Smaller reporting company ☐

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

The number of shares outstanding of the Registrant’s common stock as of October 10, 2013 was 170,365,768.

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## Item 1. Financial Statements

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

|                                                                        | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|------------------------------------------------------------------------|----------------------------------|-------------|---------------------------------|-------------|
|                                                                        | 2013                             | 2012        | 2013                            | 2012        |
| Revenue                                                                | \$2,252,349                      | \$2,097,605 | \$6,520,685                     | \$6,090,508 |
| Cost of goods and services                                             | 1,375,699                        | 1,287,466   | 4,011,461                       | 3,757,187   |
| Gross profit                                                           | 876,650                          | 810,139     | 2,509,224                       | 2,333,321   |
| Selling and administrative expenses                                    | 482,284                          | 451,943     | 1,472,333                       | 1,372,021   |
| Operating earnings                                                     | 394,366                          | 358,196     | 1,036,891                       | 961,300     |
| Interest expense, net                                                  | 30,237                           | 30,399      | 90,761                          | 90,145      |
| Other expense (income), net                                            | 970                              | 3,706       | (1,206)                         | ) 5,855     |
| Earnings before provision for income taxes and discontinued operations | 363,159                          | 324,091     | 947,336                         | 865,300     |
| Provision for income taxes                                             | 99,507                           | 90,761      | 192,343                         | 240,405     |
| Earnings from continuing operations                                    | 263,652                          | 233,330     | 754,993                         | 624,895     |
| Earnings from discontinued operations, net                             | 5,462                            | 7,716       | 54,173                          | 26,315      |
| Net earnings                                                           | \$269,114                        | \$241,046   | \$809,166                       | \$651,210   |
| Earnings per share from continuing operations:                         |                                  |             |                                 |             |
| Basic                                                                  | \$1.55                           | \$1.28      | \$4.40                          | \$3.41      |
| Diluted                                                                | \$1.53                           | \$1.27      | \$4.34                          | \$3.37      |
| Earnings per share from discontinued operations:                       |                                  |             |                                 |             |
| Basic                                                                  | \$0.03                           | \$0.04      | \$0.32                          | \$0.14      |
| Diluted                                                                | \$0.03                           | \$0.04      | \$0.31                          | \$0.14      |
| Net earnings per share:                                                |                                  |             |                                 |             |
| Basic                                                                  | \$1.58                           | \$1.33      | \$4.71                          | \$3.56      |
| Diluted                                                                | \$1.56                           | \$1.31      | \$4.65                          | \$3.51      |
| Dividends paid per common share                                        | \$0.375                          | \$0.35      | \$1.075                         | \$0.98      |

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<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                               | 2013                                | 2012      | 2013                               | 2012      |
| Net earnings                                                                                  | \$269,114                           | \$241,046 | \$809,166                          | \$651,210 |
| Other comprehensive earnings (loss), net of tax                                               |                                     |           |                                    |           |
| Foreign currency translation adjustments:                                                     |                                     |           |                                    |           |
| Foreign currency translation gains during period                                              | 61,800                              | 82,802    | 19,605                             | 33,919    |
| Reclassification of foreign currency translation losses to earnings upon sale of subsidiaries | —                                   | —         | 2,905                              | —         |
| Total foreign currency translation                                                            | 61,800                              | 82,802    | 22,510                             | 33,919    |
| Pension and other postretirement benefit plans:                                               |                                     |           |                                    |           |
| Actuarial gains (losses) arising during period                                                | 80,455                              | —         | 80,455                             | (3,953 )  |
| Prior service cost arising during period                                                      | (121 )                              | —         | (121 )                             | (307 )    |
| Amortization of actuarial losses included in net periodic pension cost                        | 2,737                               | 6,647     | 10,491                             | 6,647     |
| Amortization of prior service costs included in net periodic pension cost                     | 1,436                               | 3,928     | 4,286                              | 3,928     |
| Total pension and other postretirement benefit plans                                          | 84,507                              | 10,575    | 95,111                             | 6,315     |
| Changes in fair value of cash flow hedges:                                                    |                                     |           |                                    |           |
| Unrealized net gains arising during period                                                    | 106                                 | 164       | 200                                | 380       |
| Net (gains) losses reclassified into earnings                                                 | (401 )                              | 30        | (313 )                             | 59        |
| Total cash flow hedges                                                                        | (295 )                              | 194       | (113 )                             | 439       |
| Other                                                                                         | 115                                 | (290 )    | 280                                | 263       |
| Other comprehensive earnings                                                                  | 146,127                             | 93,281    | 117,788                            | 40,936    |
| Comprehensive earnings                                                                        | \$415,241                           | \$334,327 | \$926,954                          | \$692,146 |

See Notes to Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

|                                                         | September 30, 2013 | December 31, 2012 |
|---------------------------------------------------------|--------------------|-------------------|
| Current assets:                                         |                    |                   |
| Cash and cash equivalents                               | \$ 739,824         | \$ 800,076        |
| Receivables, net of allowances of \$20,552 and \$20,392 | 1,437,513          | 1,225,898         |
| Inventories, net                                        | 949,618            | 872,841           |
| Prepaid and other current assets                        | 69,857             | 79,094            |
| Deferred tax assets                                     | 66,358             | 49,935            |
| Total current assets                                    | 3,263,170          | 3,027,844         |
| Property, plant and equipment, net                      | 1,148,784          | 1,167,052         |
| Goodwill                                                | 4,158,710          | 4,114,650         |
| Intangible assets, net                                  | 1,552,751          | 1,625,420         |
| Other assets and deferred charges                       | 166,215            | 111,432           |
| Assets of discontinued operations                       | 375,500            | 397,545           |
| Total assets                                            | \$ 10,665,130      | \$ 10,443,943     |
| Current liabilities:                                    |                    |                   |
| Notes payable and current maturities of long-term debt  | \$ 672,135         | \$ 610,766        |
| Accounts payable                                        | 677,994            | 651,358           |
| Accrued compensation and employee benefits              | 302,684            | 334,634           |
| Accrued insurance                                       | 106,879            | 103,318           |
| Other accrued expenses                                  | 250,043            | 255,632           |
| Federal and other taxes on income                       | 8,802              | 30,920            |
| Total current liabilities                               | 2,018,537          | 1,986,628         |
| Long-term debt                                          | 2,190,156          | 2,189,350         |
| Deferred income taxes                                   | 519,347            | 462,244           |
| Other liabilities                                       | 519,235            | 677,533           |
| Liabilities of discontinued operations                  | 133,430            | 208,958           |
| Stockholders' equity:                                   |                    |                   |
| Total stockholders' equity                              | 5,284,425          | 4,919,230         |
| Total liabilities and stockholders' equity              | \$ 10,665,130      | \$ 10,443,943     |

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<br>Stock \$1<br>Par Value | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Earnings | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|----------------------------------------------------------------------|----------------------------------|----------------------------------|----------------------|-------------------------------------------------------------|-------------------|----------------------------------|
| Balance at December 31, 2012                                         | \$254,119                        | \$834,677                        | \$7,199,227          | \$(54,906 )                                                 | \$(3,313,887)     | \$4,919,230                      |
| Net earnings                                                         | —                                | —                                | 809,166              | —                                                           | —                 | 809,166                          |
| Dividends paid                                                       | —                                | —                                | (184,111 )           | —                                                           | —                 | (184,111 )                       |
| Common stock issued for the<br>exercise of stock options and<br>SARs | 1,098                            | (17,005 )                        | —                    | —                                                           | —                 | (15,907 )                        |
| Tax benefit from the exercise of<br>stock options and SARs           | —                                | 22,737                           | —                    | —                                                           | —                 | 22,737                           |
| Stock-based compensation<br>expense                                  | —                                | 23,384                           | —                    | —                                                           | —                 | 23,384                           |
| Common stock acquired                                                | —                                | —                                | —                    | —                                                           | (407,862 )        | (407,862 )                       |
| Other comprehensive earnings,<br>net of tax                          | —                                | —                                | —                    | 117,788                                                     | —                 | 117,788                          |
| Balance at September 30, 2013                                        | \$255,217                        | \$863,793                        | \$7,824,282          | \$62,882                                                    | \$(3,721,749)     | \$5,284,425                      |

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)

|                                                                              | Nine Months Ended September 30, |            |   |
|------------------------------------------------------------------------------|---------------------------------|------------|---|
|                                                                              | 2013                            | 2012       |   |
| Operating Activities of Continuing Operations                                |                                 |            |   |
| Net earnings                                                                 | \$809,166                       | \$651,210  |   |
| Adjustments to reconcile net earnings to cash from operating activities:     |                                 |            |   |
| Earnings from discontinued operations, net                                   | (54,173                         | ) (26,315  | ) |
| Depreciation and amortization                                                | 313,565                         | 261,160    |   |
| Stock-based compensation                                                     | 23,384                          | 23,589     |   |
| (Gain) loss on sale of assets                                                | (5,668                          | ) 714      |   |
| Cash effect of changes in assets and liabilities:                            |                                 |            |   |
| Accounts receivable                                                          | (193,586                        | ) (172,924 | ) |
| Inventories                                                                  | (71,131                         | ) (71,589  | ) |
| Prepaid expenses and other assets                                            | (4,282                          | ) (6,833   | ) |
| Accounts payable                                                             | 32,175                          | 32,087     |   |
| Accrued compensation and employee benefits                                   | (37,178                         | ) 24,315   |   |
| Accrued expenses and other liabilities                                       | (6,166                          | ) (12,747  | ) |
| Contributions to domestic employee benefit plans                             | (9,000                          | ) (13,790  | ) |
| Accrued and deferred taxes, net                                              | (79,239                         | ) 8,748    |   |
| Other, net                                                                   | 5,193                           | (7,124     | ) |
| Net cash provided by operating activities of continuing operations           | 723,060                         | 690,501    |   |
| Investing Activities of Continuing Operations                                |                                 |            |   |
| Additions to property, plant and equipment                                   | (157,475                        | ) (208,849 | ) |
| Acquisitions (net of cash and cash equivalents acquired)                     | (118,990                        | ) (354,270 | ) |
| Proceeds from the sale of property, plant and equipment                      | 13,376                          | 10,792     |   |
| Proceeds from the sale of businesses                                         | 3,756                           | —          |   |
| Increase in restricted cash                                                  | —                               | (9,911     | ) |
| Other                                                                        | (3,207                          | ) (5,000   | ) |
| Net cash used in investing activities of continuing operations               | (262,540                        | ) (567,238 | ) |
| Financing Activities of Continuing Operations                                |                                 |            |   |
| Purchase of common stock                                                     | (407,862                        | ) (393,487 | ) |
| Net proceeds from exercise of stock options and SARs, including tax benefits | 6,830                           | 37,973     |   |
| Dividends paid to stockholders                                               | (184,111                        | ) (179,133 | ) |
| Change in commercial paper and notes payable, net                            | 61,308                          | —          |   |
| Reduction of long-term debt                                                  | —                               | (599       | ) |
| Net cash used in financing activities of continuing operations               | (523,835                        | ) (535,246 | ) |
| Cash Flows from Discontinued Operations                                      |                                 |            |   |
| Net cash used in operating activities of discontinued operations             | 8,496                           | (2,203     | ) |
| Net cash used in investing activities of discontinued operations             | (4,518                          | ) (5,615   | ) |
| Net cash provided by (used in) discontinued operations                       | 3,978                           | (7,818     | ) |

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|                                                              |           |            |   |
|--------------------------------------------------------------|-----------|------------|---|
| Effect of exchange rate changes on cash and cash equivalents | (915      | ) 7,145    |   |
| Net decrease in cash and cash equivalents                    | (60,252   | ) (412,656 | ) |
| Cash and cash equivalents at beginning of period             | 800,076   | 1,206,755  |   |
| Cash and cash equivalents at end of period                   | \$739,824 | \$794,099  |   |

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission ("SEC") rules for interim periods, do not include all of the information and notes 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, 2012, which provides a more complete understanding of the Company's accounting policies, financial position, operating results, business properties, and other matters. The year-end condensed consolidated balance sheet was derived from audited financial statements. Certain amounts in the prior year have been reclassified to conform to the current year presentation.

As discussed in Note 4. Discontinued Operations, the Company is reporting certain businesses that are held for sale at September 30, 2013 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. Planned Spin Off of Certain Communication Technologies Businesses

On May 23, 2013, Dover announced that its Board of Directors had approved a plan to spin off certain businesses within its Communication Technologies segment into a standalone, publicly traded company. Upon completion of the spin off, Knowles Corporation ("Knowles") will be an independent, global technology company operating in the communication technologies space. The spin off is expected to allow Knowles to pursue a more aggressive growth strategy as a standalone company, focusing on its customers' distinct product and technology needs.

Dover anticipates that the transaction will be in the form of a distribution of 100% of the common stock of Knowles, which we expect to be tax-free to Dover and U.S. shareholders, pending receipt of a private letter ruling from the Internal Revenue Service (the "IRS"). Dover currently expects that the transaction will be completed in early 2014. One-time costs associated with the transaction are expected to be in the range of \$60,000 to \$70,000. Costs incurred to date totaled \$10,637 and \$13,959 for the three and nine months ended September 30, 2013, respectively. Completion of the planned spin off is subject to final approval by Dover's Board of Directors, as well as other conditions such as the receipt of a favorable ruling from the IRS and the effectiveness of a registration statement filed by Knowles with the Securities and Exchange Commission. The initial registration statement was filed by Knowles on September 30, 2013. The results of operations, financial condition and cash flows for the businesses to be included in the spin off are, and will continue to be, presented within Dover's consolidated financial statements as continuing operations within the Communication Technologies segment, until the spin off becomes effective, upon which the financial presentation of these businesses will be included within Dover's discontinued operations.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 3. Acquisitions

The following table details the acquisitions made during the nine months ended September 30, 2013.

## 2013 Acquisitions

| Date                                                                                        | Type  | Company / Product Line Acquired | Location (Near)      | Segment            |
|---------------------------------------------------------------------------------------------|-------|---------------------------------|----------------------|--------------------|
| May 2                                                                                       | Stock | Ebsray Pumps                    | Brookvale, Australia | Engineered Systems |
| Manufacturer of rotary pumps in vane, regenerative turbine, and internal gear technologies. |       |                                 |                      |                    |

|                                                                                   |       |                       |                    |                    |
|-----------------------------------------------------------------------------------|-------|-----------------------|--------------------|--------------------|
| May 7                                                                             | Asset | The Curotto-Can, Inc. | Sonoma, California | Engineered Systems |
| Manufacturer of automated front loaders for use in the waste collection industry. |       |                       |                    |                    |

|                                                                                                                                                                            |       |                        |                 |        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------------------|-----------------|--------|
| May 21                                                                                                                                                                     | Asset | Klaus Enterprise, Ltd. | Alberta, Canada | Energy |
| Manufacturer of valves and gas compressor components that specializes in replacing parts designed to optimize the efficiency and reliability of reciprocating compressors. |       |                        |                 |        |

|                                                                                                     |       |                     |                           |                           |
|-----------------------------------------------------------------------------------------------------|-------|---------------------|---------------------------|---------------------------|
| May 30                                                                                              | Asset | Source Technologies | Charlotte, North Carolina | Printing & Identification |
| Manufacturer of printing devices and software, specializing in thermal stationary barcode printers. |       |                     |                           |                           |

|                                                                                                                                                                                           |       |             |                     |                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------|---------------------|---------------------------|
| July 1                                                                                                                                                                                    | Asset | RSI Systems | Frederick, Maryland | Printing & Identification |
| Manufacturer of thermal ink jet applications ranging from packaging line coding and marking to high-speed product identification, authentication, and tracking systems for serialization. |       |             |                     |                           |

|                                                                                 |       |                                |                |        |
|---------------------------------------------------------------------------------|-------|--------------------------------|----------------|--------|
| September 19                                                                    | Stock | SPIRIT Global Energy Solutions | Midland, Texas | Energy |
| Manufacturer of artificial lift tools and technology for oil and gas producers. |       |                                |                |        |

The Company acquired these businesses in six separate transactions for net cash consideration of \$118,990. 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 | \$30,191  |
| Property, plant and equipment        | 8,555     |
| Goodwill                             | 48,879    |
| Intangible assets                    | 53,442    |
| Other non-current assets             | 1,082     |
| Current liabilities                  | (11,532)  |
| Non-current liabilities              | (11,627)  |
| Net assets acquired                  | \$118,990 |

The amounts assigned to goodwill and major intangible asset classifications for the 2013 acquisitions are as follows:

|                           | Amount allocated | Useful life (in years) |
|---------------------------|------------------|------------------------|
| Goodwill - Tax deductible | \$18,135         | na                     |
| Goodwill - Non deductible | 30,744           | na                     |
| Customer intangibles      | 41,555           | 11                     |

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|                   |            |    |
|-------------------|------------|----|
| Trademarks        | 2,896      | 11 |
| Patents           | 7,760      | 11 |
| Other intangibles | 1,231      | 2  |
|                   | \$ 102,321 |    |

The businesses were acquired to complement and expand upon existing operations within the Fluid Solutions and Refrigeration & Industrial platforms of the Engineered Systems segment, as well as the Energy and Printing & Identification segments. 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.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company has substantially completed the purchase price allocations for the 2013 acquisitions. However, if additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the date of acquisition), including through asset appraisals and learning more about the newly acquired businesses, the Company will refine its estimates of fair value to allocate the purchase price more accurately; however, any such revisions are not expected to be significant.

The Unaudited Condensed Consolidated Statements of Comprehensive Earnings include the results of these businesses from the dates of acquisition. The aggregate revenue of the 2013 acquisitions included in the Company's consolidated revenue totaled \$15,461 and \$23,123 for the three and nine months ended September 30, 2013, respectively.

## Pro Forma Information

The following unaudited pro forma information illustrates the effect on the Company's revenue and earnings from continuing operations for the three and nine months ended September 30, 2013 and 2012, assuming that the 2013 and 2012 acquisitions had taken place at the beginning of the prior year. As a result, the supplemental pro forma earnings for the three and nine months ended September 30, 2013 reflect adjustments to earnings from continuing operations as reported in the Unaudited Condensed Consolidated Statements of Comprehensive Earnings to exclude \$1,194 and \$1,902 for nonrecurring expense related to the fair value adjustments to acquisition-date inventory (after-tax) and \$349 and \$1,159 of acquisition-related costs (after tax) and to reflect such items in 2012. The 2013 and 2012 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 2013 and 2012 acquisitions.

|                                                        | Three Months Ended September<br>30, |             | Nine Months Ended September<br>30, |             |
|--------------------------------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                                                        | 2013                                | 2012        | 2013                               | 2012        |
| Revenue from continuing operations:                    |                                     |             |                                    |             |
| As reported                                            | \$2,252,349                         | \$2,097,605 | \$6,520,685                        | \$6,090,508 |
| Pro forma                                              | 2,257,473                           | 2,208,107   | 6,556,075                          | 6,485,833   |
| Earnings from continuing operations:                   |                                     |             |                                    |             |
| As reported                                            | \$263,652                           | \$233,330   | \$754,993                          | \$624,895   |
| Pro forma                                              | 266,169                             | 242,135     | 762,069                            | 654,576     |
| Basic earnings per share from continuing operations:   |                                     |             |                                    |             |
| As reported                                            | \$1.55                              | \$1.28      | \$4.40                             | \$3.41      |
| Pro forma                                              | 1.56                                | 1.33        | 4.44                               | 3.58        |
| Diluted earnings per share from continuing operations: |                                     |             |                                    |             |
| As reported                                            | \$1.53                              | \$1.27      | \$4.34                             | \$3.37      |
| Pro forma                                              | 1.54                                | 1.32        | 4.38                               | 3.53        |

## 4. Discontinued Operations

Management evaluates Dover's businesses periodically for their strategic fit within Dover's operations. Accordingly, in the fourth quarter of 2012, the Company announced its intention to divest certain non-core businesses within the Printing & Identification segment serving the electronic assembly and test markets, consistent with its long-term focus on strengthening its portfolio and reducing its exposure to cyclical markets. Management expects to sell these businesses in the fourth quarter of 2013 or early 2014. As a result, the Company has reclassified the operations, cash

flows, and related assets and liabilities of these businesses, DEK International and Everett Charles Technologies ("ECT"), to discontinued operations for all periods presented.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

|                                                   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                   | 2013                                | 2012      | 2013                               | 2012      |
| Revenue                                           | \$106,974                           | \$111,174 | \$309,900                          | \$338,337 |
| (Loss) gain on sale and impairments, net of tax   | —                                   | (634 )    | (18,668 )                          | 1,226     |
| Earnings from operations before taxes             | 7,531                               | 11,531    | 26,108                             | 29,693    |
| Benefit from (provision for) income taxes         | (2,069 )                            | (3,181 )  | 46,733                             | (4,604 )  |
| Earnings from operations, net of tax              | 5,462                               | 8,350     | 72,841                             | 25,089    |
| Earnings from discontinued operations, net of tax | \$5,462                             | \$7,716   | \$54,173                           | \$26,315  |

Earnings from discontinued operations of \$5,462 and \$54,173 for the three and nine months ended September 30, 2013, respectively, reflect net earnings from operations generated by those businesses discontinued in 2012, as well as various expense and accrual adjustments relating to other discontinued operations. The tax benefit for the three and nine months ended September 30, 2013 includes \$1,971 and \$54,425, respectively, of discrete tax benefits principally related to the conclusion of certain federal, state and international tax audits.

In 2013, in connection with a change in goodwill reporting units within discontinued operations resulting from the Company's expected manner of disposing of its electronic test and assembly businesses, the Company was required to allocate goodwill to these individual reporting units based upon relative current fair values. This process resulted in a benefit of \$25,520 in the discontinued operations deferred income tax provision for the nine months ended September 30, 2013 as a result of the elimination of certain deferred tax liabilities. The Company recorded a goodwill impairment charge of \$54,532 (\$44,188 after tax) for the nine months ended September 30, 2013 in connection with the anticipated sale of these businesses. This charge was a write-down of the carrying value to fair value, based on the current estimated sales price. The Company expects to complete the sale of these businesses in the fourth quarter of 2013 or early 2014.

Earnings from discontinued operations of \$7,716 and \$26,315 for the three and nine months ended September 30, 2012, respectively, primarily reflect net earnings from operations of DEK and ECT, as well as adjustments to sale proceeds for businesses sold in prior years.

Assets and liabilities of discontinued operations are summarized below:

|                                     | September 30, 2013 | December 31, 2012 |
|-------------------------------------|--------------------|-------------------|
| Assets of Discontinued Operations   |                    |                   |
| Accounts receivable                 | \$78,272           | \$63,229          |
| Inventories, net                    | 54,170             | 51,252            |
| Prepaid and other current assets    | 15,348             | 10,263            |
| Total current assets                | 147,790            | 124,744           |
| Property, plant and equipment, net  | 35,778             | 31,935            |
| Goodwill and intangible assets, net | 186,597            | 238,657           |
| Other assets and deferred charges   | 5,335              | 2,209             |
| Total assets                        | \$375,500          | \$397,545         |

Liabilities of Discontinued Operations

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|                           |           |           |
|---------------------------|-----------|-----------|
| Accounts payable          | \$28,822  | \$22,613  |
| Other current liabilities | 35,037    | 34,592    |
| Total current liabilities | 63,859    | 57,205    |
| Deferred income taxes     | 27,898    | 64,853    |
| Other liabilities         | 41,673    | 86,900    |
| Total liabilities         | \$133,430 | \$208,958 |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

At September 30, 2013 and December 31, 2012, the assets and liabilities of discontinued operations relate primarily to the two businesses reclassified to held for sale in the fourth quarter of 2012, coupled with tax-related accruals and unrecognized benefits, as well as other accruals for compensation, legal, environmental, and warranty contingencies, none of which are individually significant, relating to businesses that were sold in prior years.

## 5. Inventories, net

|                  | September 30, 2013 | December 31, 2012 |
|------------------|--------------------|-------------------|
| Raw materials    | \$426,649          | \$386,119         |
| Work in progress | 190,235            | 182,060           |
| Finished goods   | 487,192            | 453,497           |
| Subtotal         | 1,104,076          | 1,021,676         |
| Less reserves    | (154,458)          | ) (148,835)       |
| Total            | \$949,618          | \$872,841         |

## 6. Property, Plant and Equipment, net

|                                | September 30, 2013 | December 31, 2012 |
|--------------------------------|--------------------|-------------------|
| Land                           | \$65,587           | \$70,079          |
| Buildings and improvements     | 603,962            | 605,448           |
| Machinery, equipment and other | 2,337,126          | 2,231,721         |
|                                | 3,006,675          | 2,907,248         |
| Less accumulated depreciation  | (1,857,891)        | ) (1,740,196)     |
| Total                          | \$1,148,784        | \$1,167,052       |

## 7. Goodwill and Other Intangible Assets

The following table provides the changes in carrying value of goodwill by segment for the nine months ended September 30, 2013:

|                               | Communication Technologies | Energy    | Engineered Systems | Printing & Identification | Total       |
|-------------------------------|----------------------------|-----------|--------------------|---------------------------|-------------|
| Balance at December 31, 2012  | \$1,204,295                | \$760,637 | \$1,403,381        | \$746,337                 | \$4,114,650 |
| Acquisitions                  | —                          | 24,774    | 19,032             | 5,073                     | 48,879      |
| Purchase price adjustments    | —                          | (2,277)   | ) (9,146)          | ) —                       | (11,423)    |
| Foreign currency translation  | 9,026                      | (3,528)   | ) 757              | 349                       | 6,604       |
| Balance at September 30, 2013 | \$1,213,321                | \$779,606 | \$1,414,024        | \$751,759                 | \$4,158,710 |

During the nine months ended September 30, 2013, the Company recorded adjustments totaling \$11,423 to goodwill relating primarily to the finalization of the purchase price allocation to assets acquired and liabilities assumed for the 2012 acquisitions of Maag Pump Systems, Anthony International, and UPCO, Inc.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

|                                | September 30, 2013    |                          | December 31, 2012     |                          |
|--------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets:   |                       |                          |                       |                          |
| Trademarks                     | \$ 127,336            | \$ 33,055                | \$ 124,129            | \$ 25,364                |
| Patents                        | 194,469               | 116,509                  | 180,427               | 105,369                  |
| Customer Intangibles           | 1,635,546             | 577,602                  | 1,585,041             | 474,309                  |
| Unpatented Technologies        | 146,070               | 97,835                   | 146,025               | 85,373                   |
| Drawings & Manuals             | 34,362                | 10,564                   | 34,120                | 8,035                    |
| Distributor Relationships      | 72,514                | 34,498                   | 72,514                | 31,650                   |
| Other                          | 31,933                | 21,293                   | 32,221                | 20,815                   |
| Total                          | 2,242,230             | 891,356                  | 2,174,477             | 750,915                  |
| Unamortized intangible assets: |                       |                          |                       |                          |
| Trademarks                     | 201,877               |                          | 201,858               |                          |
| Total intangible assets, net   | \$ 1,552,751          |                          | \$ 1,625,420          |                          |

Amortization expense totaled \$46,894 and \$39,502 for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, amortization expense was \$138,967 and \$112,998, respectively.

## 8. Restructuring Activities

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

|                            | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|----------------------------|-------------------------------------|---------|------------------------------------|----------|
|                            | 2013                                | 2012    | 2013                               | 2012     |
| Communication Technologies | \$2,008                             | \$928   | \$14,840                           | \$2,586  |
| Energy                     | 124                                 | 55      | 1,299                              | 550      |
| Engineered Systems         | 909                                 | 3,190   | 4,288                              | 4,616    |
| Printing & Identification  | 1,541                               | (145)   | 2,996                              | 5,415    |
| Total                      | \$4,582                             | \$4,028 | \$23,423                           | \$13,167 |

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

|                                     |         |         |          |          |
|-------------------------------------|---------|---------|----------|----------|
| Cost of goods and services          | \$239   | \$1,454 | \$10,566 | \$2,440  |
| Selling and administrative expenses | 4,343   | 2,574   | 12,857   | 10,727   |
| Total                               | \$4,582 | \$4,028 | \$23,423 | \$13,167 |

The restructuring expenses of \$4,582 and \$23,423 incurred in the three and nine months ended September 30, 2013, respectively, related to restructuring programs initiated during 2013 and 2012. These programs are designed to better align the Company's operations with current market conditions through targeted facility consolidations, headcount reductions and other measures to further optimize operations. The Company expects full-year 2013 restructuring expenses of approximately \$27,500 to \$32,500 related to these programs. We expect the programs currently underway

to be substantially completed in the next twelve to eighteen months.

The \$4,582 of restructuring charges incurred during the quarter included the items as described below.

The Communication Technologies segment incurred restructuring charges of \$2,008 relating principally to a facility consolidation in its capacitor business and headcount reductions in connection with integration activities within its consumer electronics business.

The Energy segment recorded \$124 of restructuring charges relating to facility consolidations within the production sector undertaken to optimize cost structure.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Engineered Systems segment incurred net restructuring charges of \$909 in connection with certain facility consolidations and optimizations and headcount reductions undertaken to optimize its cost structure.

The Printing & Identification segment incurred restructuring charges of \$1,541 relating to exit plans at targeted facilities, which included certain adjustments and offsets to previously recorded reserves.

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

|                                   | Severance | Exit    | Total    |
|-----------------------------------|-----------|---------|----------|
| Balance at December 31, 2012      | \$5,160   | \$2,601 | \$7,761  |
| Restructuring charges             | 17,640    | 5,783   | 23,423   |
| Payments                          | (12,853)  | (5,446) | (18,299) |
| Other, including foreign currency | (76)      | 46      | (30)     |
| Balance at September 30, 2013     | \$9,871   | \$2,984 | \$12,855 |

The accrual balance at September 30, 2013 primarily reflects restructuring plans initiated during the year, as well as ongoing lease commitment obligations for facilities closed in earlier periods.

## 9. Borrowings

Borrowings consist of the following:

|                                                | September 30, 2013 | December 31, 2012 |
|------------------------------------------------|--------------------|-------------------|
| Short-term                                     |                    |                   |
| Current portion of long-term debt              | \$3,235            | \$3,266           |
| Commercial paper                               | 668,900            | 607,500           |
|                                                | \$672,135          | \$610,766         |
| Long-term                                      |                    |                   |
| 4.875% 10-year notes due October 15, 2015      | \$299,589          | \$299,441         |
| 5.45% 10-year notes due March 15, 2018         | 348,515            | 348,268           |
| 4.30% 10-year notes due March 1, 2021          | 449,806            | 449,787           |
| 6.60% 30-year notes due March 15, 2038         | 247,837            | 247,771           |
| 5.375% 30-year notes due March 1, 2041         | 345,631            | 345,511           |
| 6.65% 30-year debentures due June 1, 2028      | 199,474            | 199,448           |
| 5.375% 30-year debentures due October 15, 2035 | 296,486            | 296,367           |
| Other                                          | 6,053              | 6,023             |
| Total long-term debt                           | 2,193,391          | 2,192,616         |
| Less current installments                      | (3,235)            | (3,266)           |
|                                                | \$2,190,156        | \$2,189,350       |

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. Under the credit facility, the Company is required to maintain an interest coverage ratio of EBITDA to consolidated net interest expense of not less than 3.0 to 1. The Company was in compliance with this covenant and its other

long-term debt covenants at September 30, 2013, and it expects to remain in compliance with all of its debt covenants.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Interest expense and interest income for the three and nine months ended September 30, 2013 and 2012 were as follows:

|                       | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|-----------------------|----------------------------------|----------|---------------------------------|----------|
|                       | 2013                             | 2012     | 2013                            | 2012     |
| Interest expense      | \$31,004                         | \$31,099 | \$92,917                        | \$94,210 |
| Interest income       | (767)                            | (700)    | (2,156)                         | (4,065)  |
| Interest expense, net | \$30,237                         | \$30,399 | \$90,761                        | \$90,145 |

## Letters of Credit

As of September 30, 2013, the Company had approximately \$121,102 outstanding in letters of credit and guarantees with financial institutions, which expire at various dates in the last quarter of 2013 through 2018. These letters of credit are primarily maintained as security for insurance, warranty, and other performance obligations.

## 10. Financial Instruments

## Derivatives

The Company is exposed to market risk for changes in foreign currency exchange rates due to the global nature of its operations and certain commodity risks. In order to manage 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 September 30, 2013 and December 31, 2012, the Company had contracts with U.S. dollar equivalent notional amounts of \$46,733 and \$9,090, respectively, to exchange foreign currencies, principally the U.S. dollar, Canadian 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.

In addition, the Company had outstanding contracts at September 30, 2013 with a total notional amount of \$88,321 that are not designated as hedging instruments. These instruments are used to reduce the Company's exposure for operating receivables and payables that are denominated in non-functional currencies.

The 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 September 30, 2013 and December 31, 2012 reflected losses of \$22,750 and \$22,681, 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 September 30, 2013 and December 31, 2012 and the balance sheet lines in which they are recorded:

|                                             | Fair Value Asset (Liability) |                   |                        |
|---------------------------------------------|------------------------------|-------------------|------------------------|
|                                             | September 30, 2013           | December 31, 2012 | Balance Sheet Caption  |
| Foreign currency forward / collar contracts | \$323                        | \$85              | Prepaid / Other assets |
| Foreign currency forward / collar contracts | (208)                        | (799)             | Other accrued expenses |

|                                            |         |           |                     |
|--------------------------------------------|---------|-----------|---------------------|
| Net investment hedge - cross currency swap | (22,750 | ) (22,681 | ) 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 the Company's derivative instruments that are subject to credit risk contingent features were not significant.

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 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.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

|                                   | September 30, 2013 |         |         | December 31, 2012 |         |         |
|-----------------------------------|--------------------|---------|---------|-------------------|---------|---------|
|                                   | Level 1            | Level 2 | Level 3 | Level 1           | Level 2 | Level 3 |
| Assets:                           |                    |         |         |                   |         |         |
| Foreign currency cash flow hedges | \$—                | \$323   | \$—     | \$—               | \$85    | \$—     |
| Liabilities:                      |                    |         |         |                   |         |         |
| Foreign currency cash flow hedges | —                  | 208     | —       | —                 | 799     | —       |
| Net investment hedge derivative   | —                  | 22,750  | —       | —                 | 22,681  | —       |

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 September 30, 2013 and December 31, 2012 was \$2,458,592 and \$2,680,674, respectively, compared to the carrying value of \$2,193,391 and \$2,192,616, 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 September 30, 2013 and December 31, 2012 due to the short-term nature of these instruments.

## 11. Income Taxes

The effective tax rate for continuing operations for the three months ended September 30, 2013 was 27.4% as compared to 28.0% for the comparable prior year period. The current quarter rate was impacted by \$4,878 of favorable net discrete items, principally related to a favorable court interpretation of tax law, as well as certain cross-border tax consequences. The prior year quarter effective tax rate was impacted by other favorable net discrete items totaling \$4,513. Excluding the discrete items, the effective tax rates were 28.7% and 29.4% for the three months

ended September 30, 2013 and 2012, respectively.

The effective tax rate for continuing operations for the nine months ended September 30, 2013 was 20.3% as compared to 27.8% for the prior year period. The current year rate was impacted by \$70,880 of favorable net discrete items, principally related to the conclusion of certain U.S. federal, state and international tax audits, a favorable court interpretation of tax law, certain cross-border tax consequences and the effect of the American Tax Relief Act of 2012 signed into law on January 2, 2013. The prior year effective tax rate was not significantly impacted by other favorable net discrete items totaling \$2,531. Excluding the discrete items, the effective tax rates were 27.8% and 28.1% for the nine months ended September 30, 2013 and 2012, respectively. The current year pre-discrete rate was favorably impacted by reinstatement of the U.S. Research and Experimentation tax credit.

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

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months that uncertain tax positions may be resolved and statutes of limitations will expire, which could result in a decrease in the gross amount of unrecognized tax benefits of approximately zero to \$49 million, of which a portion will be reported as discontinued operations.

## 12. Equity Incentive Program

The Company typically grants stock settled appreciation rights ("SARs") and performance shares annually at its regularly scheduled first quarter Compensation Committee meeting. In the first quarters of 2013 and 2012, the Company issued SARs covering 1,613,884 and 1,719,943 shares, respectively, and 47,032 and 50,416 performance shares, respectively.

The fair value of each SARs grant was estimated on the date of grant using the Black-Scholes option pricing model. The performance share awards are market condition awards and have been assessed at fair value on the date of grant using a Monte Carlo simulation model. The following assumptions were used in determining the fair value of the SARs and performance shares awarded during the respective periods:

|                             | SARs    |         | Performance Shares |         |   |  |
|-----------------------------|---------|---------|--------------------|---------|---|--|
|                             | 2013    | 2012    | 2013               | 2012    |   |  |
| Risk-free interest rate     | 1.39    | % 1.05  | % 0.40             | % 0.37  | % |  |
| Dividend yield              | 2.06    | % 2.03  | % 2.06             | % 2.03  | % |  |
| Expected life (years)       | 7.1     | 5.7     | 2.9                | 2.9     |   |  |
| Volatility                  | 33.78   | % 36.41 | % 30.36            | % 34.10 | % |  |
| Grant price                 | \$71.86 | \$65.38 | n/a                | n/a     |   |  |
| Fair value at date of grant | \$20.62 | \$18.51 | \$80.47            | \$71.98 |   |  |

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

|                                                    | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|----------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                    | 2013                                | 2012     | 2013                               | 2012     |
| Pre-tax compensation expense                       | \$7,081                             | \$7,483  | \$23,384                           | \$23,589 |
| Tax benefit                                        | (2,493)                             | ) (2,643 | ) (8,241                           | ) (8,330 |
| Total stock-based compensation expense, net of tax | \$4,588                             | \$4,840  | \$15,143                           | \$15,259 |

On May 3, 2012, the shareholders approved the Dover Corporation 2012 Equity and Cash Incentive Plan (the "2012 Plan"), to replace the 2005 Equity and Cash Incentive Plan, which otherwise would terminate according to its terms on January 31, 2015, and the 1996 Non-Employee Directors Stock Compensation Plan, which would otherwise terminate according to its terms on December 31, 2012. Officers and other key employees, as well as non-employee directors, are eligible to participate in the 2012 Plan, which has a ten year term and will terminate on May 3, 2022. The 2012 Plan provides for stock options and SARs grants, restricted stock awards, restricted stock unit awards, performance share awards, cash performance awards, directors' shares and deferred stock units. Under the 2012 Plan, a total of 17,000,000 shares of common stock are reserved for issuance, subject to adjustments resulting from stock dividends, stock splits, recapitalizations, reorganizations and other similar changes.

## 13. 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. At September 30, 2013 and December 31, 2012, the Company has reserves totaling \$30,166 and \$28,875, respectively, for environmental and other matters that are probable and estimable, with the 2013 increase primarily attributed to environmental contingencies assumed in recent acquisitions.

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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. At September 30, 2013 and December 31, 2012, the Company has reserves totaling \$754 and \$1,158, respectively, for legal matters that are probable and estimable and not otherwise covered by insurance. While it is not possible at this time to predict the outcome of these legal actions, in the opinion of management, based on the aforementioned reviews, the Company is not currently involved in any legal proceedings which, individually or in the aggregate, could have a material effect on its financial position, results of operations, or cash flows.

## Warranty Accruals

Estimated warranty program claims are provided for at the time of sale. Amounts provided for are based on historical costs and adjusted new claims. The changes in the carrying amount of product warranties through September 30, 2013 and 2012 are as follows:

|                                                                    | 2013     | 2012     |
|--------------------------------------------------------------------|----------|----------|
| Beginning Balance, January 1                                       | \$43,759 | \$37,739 |
| Provision for warranties                                           | 40,105   | 34,943   |
| Settlements made                                                   | (37,327) | (34,523) |
| Other adjustments, including acquisitions and currency translation | (1,194)  | 3,313    |
| Ending balance, September 30                                       | \$45,343 | \$41,472 |

## 14. Employee Benefit Plans

## Retirement Plans

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

In July 2013, the Company announced that, after December 31, 2013, the U.S. qualified and non-qualified defined benefit plans will be closed to new employees. All pension-eligible employees as of December 31, 2013 will continue to earn a pension benefit through December 31, 2023 as long as they remain employed by an operating company participating in the plan. The Company also announced that effective, January 1, 2024, the plan would be frozen to any future benefit accruals.

As a result of the effective 10-year freeze of these defined benefit plans, pension assets and liabilities were re-measured as of the interim effective date of the change, assuming a discount rate of 4.8%. The Company's discount rate assumption is determined by developing a yield curve based on high-quality corporate bonds with maturities matching the plans' expected benefit payment streams. Accordingly, as of July 31, 2013, this re-measurement resulted in a decrease in current quarter pension expense of \$7,348, of which \$4,411 reflects a one-time curtailment gain in the Company's non-qualified benefit plan. Due to the recent amendments to the defined benefit plan, the Company is currently reevaluating contribution amounts for full year 2013.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

## Qualified Defined Benefits

|                                | Three Months Ended September 30, |          |                |          | Nine Months Ended September 30, |           |                |          |
|--------------------------------|----------------------------------|----------|----------------|----------|---------------------------------|-----------|----------------|----------|
|                                | U.S. Plan                        |          | Non-U.S. Plans |          | U.S. Plan                       |           | Non-U.S. Plans |          |
|                                | 2013                             | 2012     | 2013           | 2012     | 2013                            | 2012      | 2013           | 2012     |
| Service Cost                   | \$4,088                          | \$3,602  | \$1,471        | \$1,079  | \$13,290                        | \$10,804  | \$4,387        | \$3,147  |
| Interest Cost                  | 6,247                            | 6,284    | 2,264          | 2,231    | 18,491                          | 18,852    | 6,748          | 6,428    |
| Expected return on plan assets | (10,106 )                        | (9,744 ) | (2,395 )       | (2,022 ) | (30,011 )                       | (29,234 ) | (7,138 )       | (5,810 ) |
| Amortization:                  |                                  |          |                |          |                                 |           |                |          |
| Prior service cost             | 256                              | 260      | 28             | 30       | 769                             | 786       | 85             | 89       |
| Recognized actuarial loss      | 3,771                            | 3,378    | 373            | 130      | 14,741                          | 10,136    | 1,112          | 371      |
| Transition obligation          | —                                | —        | (3 )           | (13 )    | —                               | —         | (10 )          | (36 )    |
| Settlement loss                | —                                | —        | 353            | —        | —                               | —         | 353            | —        |
| Other                          | —                                | —        | 39             | 56       | —                               | —         | 118            | 158      |
| Net periodic expense           | \$4,256                          | \$3,780  | \$2,130        | \$1,491  | \$17,280                        | \$11,344  | \$5,655        | \$4,347  |

## Non-Qualified Supplemental Benefits

|                                 | Three Months Ended September 30, |         | Nine Months Ended September 30, |          |
|---------------------------------|----------------------------------|---------|---------------------------------|----------|
|                                 | 2013                             | 2012    | 2013                            | 2012     |
| Service Cost                    | \$1,246                          | \$1,326 | \$4,604                         | \$3,978  |
| Interest Cost                   | 1,633                            | 1,979   | 5,180                           | 5,937    |
| Amortization:                   |                                  |         |                                 |          |
| Prior service cost              | 2,045                            | 1,857   | 6,040                           | 5,569    |
| Recognized actuarial loss       | (32 )                            | 33      | 52                              | 103      |
| Settlement and curtailment gain | (4,411 )                         | —       | (4,411 )                        | —        |
| Net periodic expense            | \$481                            | \$5,195 | \$11,465                        | \$15,587 |

## Post-Retirement Plans

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

|                                  | Three Months Ended September 30, |        | Nine Months Ended September 30, |            |
|----------------------------------|----------------------------------|--------|---------------------------------|------------|
|                                  | 2013                             | 2012   | 2013                            | 2012       |
| Service Cost                     | \$59                             | \$62   | \$176                           | \$186      |
| Interest Cost                    | 130                              | 149    | 392                             | 445        |
| Amortization:                    |                                  |        |                                 |            |
| Prior service cost               | (104 )                           | (104 ) | (312 )                          | (312 )     |
| Recognized actuarial loss (gain) | 34                               | (5 )   | 102                             | (15 )      |
| Settlement gains                 | —                                | —      | —                               | (1,493 )   |
| Net periodic expense             | \$119                            | \$102  | \$358                           | \$(1,189 ) |

The Company purchased life insurance contracts to settle a portion of the post-retirement obligations relating to employees of two businesses that were sold in 2011, resulting in a settlement gain of \$1,493, which are included within the results of discontinued operations for the nine months ended September 30, 2012.

The total amount amortized out of accumulated other comprehensive income into net periodic benefit expense for the three and nine months ended September 30, 2013 totaled \$6,368 and \$22,579, respectively.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 15. Other Comprehensive Earnings

The amounts recognized in other comprehensive earnings were as follows:

|                                                | Three Months Ended<br>September 30, 2013 |             |            | Three Months Ended<br>September 30, 2012 |            |            |
|------------------------------------------------|------------------------------------------|-------------|------------|------------------------------------------|------------|------------|
|                                                | Pre-tax                                  | Tax         | Net of tax | Pre-tax                                  | Tax        | Net of tax |
| Foreign currency translation adjustments       | \$60,802                                 | \$998       | \$61,800   | \$82,694                                 | \$108      | \$82,802   |
| Pension and other postretirement benefit plans | 129,959                                  | (45,452 )   | 84,507     | 16,268                                   | (5,693 )   | 10,575     |
| Changes in fair value of cash flow hedges      | (453 )                                   | 158         | (295 )     | 298                                      | (104 )     | 194        |
| Other                                          | 132                                      | (17 )       | 115        | (261 )                                   | (29 )      | (290 )     |
| Total other comprehensive earnings (loss)      | \$190,440                                | \$(44,313 ) | \$146,127  | \$98,999                                 | \$(5,718 ) | \$93,281   |

  

|                                                | Nine Months Ended<br>September 30, 2013 |             |            | Nine Months Ended<br>September 30, 2012 |            |            |
|------------------------------------------------|-----------------------------------------|-------------|------------|-----------------------------------------|------------|------------|
|                                                | Pre-tax                                 | Tax         | Net of tax | Pre-tax                                 | Tax        | Net of tax |
| Foreign currency translation adjustments       | \$22,510                                | \$—         | \$22,510   | \$34,181                                | \$(262 )   | \$33,919   |
| Pension and other postretirement benefit plans | 146,170                                 | (51,059 )   | 95,111     | 9,952                                   | (3,637 )   | 6,315      |
| Changes in fair value of cash flow hedges      | (174 )                                  | 61          | (113 )     | 675                                     | (236 )     | 439        |
| Other                                          | 319                                     | (39 )       | 280        | 318                                     | (55 )      | 263        |
| Total other comprehensive earnings (loss)      | \$168,825                               | \$(51,037 ) | \$117,788  | \$45,126                                | \$(4,190 ) | \$40,936   |

Total comprehensive earnings were as follows:

|                              | Three Months Ended September<br>30,<br>2013 |           | Nine Months Ended September<br>30,<br>2012 |           |
|------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                              | 2013                                        | 2012      | 2013                                       | 2012      |
| Net earnings                 | \$269,114                                   | \$241,046 | \$809,166                                  | \$651,210 |
| Other comprehensive earnings | 146,127                                     | 93,281    | 117,788                                    | 40,936    |
| Comprehensive earnings       | \$415,241                                   | \$334,327 | \$926,954                                  | \$692,146 |

Amounts reclassified from accumulated other comprehensive earnings (loss) to earnings (loss) during the three and nine months ended September 30, 2013 and 2012 were as follows:

|                                               | Three Months Ended<br>September 30,<br>2013 |          | Nine Months Ended September<br>30,<br>2012 |          |
|-----------------------------------------------|---------------------------------------------|----------|--------------------------------------------|----------|
|                                               | 2013                                        | 2012     | 2013                                       | 2012     |
| Pension & postretirement benefit plans: (1)   |                                             |          |                                            |          |
| Amortization of actuarial losses              | \$4,143                                     | \$10,225 | \$15,997                                   | \$10,225 |
| Amortization of prior service costs           | 2,225                                       | 6,043    | 6,582                                      | 6,043    |
| Total before tax                              | 6,368                                       | 16,268   | 22,579                                     | 16,268   |
| Tax provision                                 | (2,195 )                                    | (5,693 ) | (7,802 )                                   | (5,693 ) |
| Net of tax                                    | \$4,173                                     | \$10,575 | \$14,777                                   | \$10,575 |
| Cash flow hedges:                             |                                             |          |                                            |          |
| Net (gains) losses reclassified into earnings | \$(617 )                                    | \$47     | \$(481 )                                   | \$91     |
| Tax benefit                                   | 216                                         | (17 )    | 168                                        | (32 )    |

|            |         |         |         |         |
|------------|---------|---------|---------|---------|
| Net of tax | \$ (401 | ) \$ 30 | \$ (313 | ) \$ 59 |
|------------|---------|---------|---------|---------|

In the third quarter of 2012, the Company began to reclassify the amortization of actuarial gains and losses and (1) prior service costs from deferred compensation to accumulated other comprehensive income on a quarterly basis. Prior to that date, these amounts were reclassified on an annual basis.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## 16. Segment Information

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

|                            | Three Months Ended September |             | Nine Months Ended September |             |
|----------------------------|------------------------------|-------------|-----------------------------|-------------|
|                            | 30,                          |             | 30,                         |             |
|                            | 2013                         | 2012        | 2013                        | 2012        |
| REVENUE:                   |                              |             |                             |             |
| Communication Technologies | \$413,608                    | \$396,470   | \$1,187,875                 | \$1,115,734 |
| Energy                     | 577,350                      | 562,263     | 1,712,019                   | 1,632,619   |
| Engineered Systems         | 1,004,955                    | 892,121     | 2,876,783                   | 2,600,368   |
| Printing & Identification  | 256,571                      | 246,945     | 745,094                     | 742,390     |
| Intra-segment eliminations | (135)                        | (194)       | (1,086)                     | (603)       |
| Total consolidated revenue | \$2,252,349                  | \$2,097,605 | \$6,520,685                 | \$6,090,508 |

## EARNINGS FROM CONTINUING OPERATIONS:

## Segment earnings:

|                                                                                                   |           |           |           |           |
|---------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|
| Communication Technologies                                                                        | \$76,076  | \$63,706  | \$172,073 | \$160,584 |
| Energy                                                                                            | 145,494   | 139,038   | 417,965   | 405,089   |
| Engineered Systems                                                                                | 172,223   | 144,245   | 454,841   | 400,145   |
| Printing & Identification                                                                         | 42,881    | 39,502    | 108,600   | 94,509    |
| Total segments                                                                                    | 436,674   | 386,491   | 1,153,479 | 1,060,327 |
| Corporate expense / other (1)                                                                     | 43,278    | 32,001    | 115,382   | 104,882   |
| Net interest expense                                                                              | 30,237    | 30,399    | 90,761    | 90,145    |
| Earnings from continuing operations before provision for income taxes and discontinued operations | 363,159   | 324,091   | 947,336   | 865,300   |
| Provision for taxes                                                                               | 99,507    | 90,761    | 192,343   | 240,405   |
| Earnings from continuing operations                                                               | \$263,652 | \$233,330 | \$754,993 | \$624,895 |

Certain expenses are maintained at the corporate level and not allocated to the segments. These expenses include executive and functional compensation costs, non-service pension costs, non-operating insurance expenses, and (1) various administrative expenses relating to the corporate headquarters. Corporate expenses also include one-time transaction costs associated with the Knowles spin off of \$10,637 and \$13,959 for the three and nine months ended September 30, 2013, respectively, as well as a one-time pension curtailment gain of \$4,411.

## 17. Recent Accounting Standards

#### Recently Adopted Accounting Standard

In February 2013, the FASB issued ASU 2013-02 which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. The Company's adoption of this standard did not have a significant impact on its consolidated financial statements.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## Recently Issued Accounting Pronouncements

In March 2013, the FASB issued ASU 2013-05, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for Dover for fiscal years beginning after December 15, 2013; however, early adoption is permitted. The Company does not expect adoption of this ASU to significantly impact its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test of an indefinite-lived intangible asset. Per the terms of this ASU, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is more likely than not that the indefinite-lived intangible asset is impaired. The revised standard is effective for Dover for its annual and interim impairment tests performed for fiscal years beginning after December 15, 2012; however, early adoption is permitted. The Company does not expect adoption of this ASU to significantly impact its consolidated financial statements.

## 18. Share Repurchases

Share repurchases during the three and nine months ended September 30, 2013 were as follows:

|                                                           | Three Months<br>Ended<br>September 30,<br>2013 | Nine Months<br>Ended<br>September 30,<br>2013 |
|-----------------------------------------------------------|------------------------------------------------|-----------------------------------------------|
| Shares repurchased in the open market                     | 649,840                                        | 5,455,235                                     |
| Shares repurchased from holders of employee stock options | —                                              | 5,951                                         |
| Total shares repurchased                                  | 649,840                                        | 5,461,186                                     |
| Average price paid per share                              | \$87.33                                        | \$74.68                                       |

In May 2012, the Board of Directors renewed its standing authorization of the Company's share repurchase program, on terms consistent with its prior five-year authorization which expired at that time. This renewal authorizes the repurchase of up to 10,000,000 shares of the Company's common stock during the five-year period ending May 2017. The Company made no repurchases under this new authorization during the nine months ended September 30, 2013. As of September 30, 2013, the approximate number of shares still available for repurchase under the May 2012 share repurchase authorization was 3,908,289.

In November 2012, the Board of Directors approved a \$1 billion share repurchase program authorizing repurchases of the Company's common shares over the following 12 to 18 months. The Company repurchased 5,455,235 shares under this new program during 2013. As of September 30, 2013, the approximate dollar amount still available for repurchase under this share repurchase program was \$342,565.

Treasury shares increased to 84,862,771 at September 30, 2013 from a balance of 79,401,585 at December 31, 2012.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## 19. Earnings per Share

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

|                                            | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|--------------------------------------------|----------------------------------|-------------|---------------------------------|-------------|
|                                            | 2013                             | 2012        | 2013                            | 2012        |
| Earnings from continuing operations        | \$263,652                        | \$233,330   | \$754,993                       | \$624,895   |
| Earnings from discontinued operations, net | 5,462                            | 7,716       | 54,173                          | 26,315      |
| Net earnings                               | \$269,114                        | \$241,046   | \$809,166                       | \$651,210   |
| Basic earnings per common share:           |                                  |             |                                 |             |
| Earnings from continuing operations        | \$1.55                           | \$1.28      | \$4.40                          | \$3.41      |
| Earnings from discontinued operations, net | \$0.03                           | \$0.04      | \$0.32                          | \$0.14      |
| Net earnings                               | \$1.58                           | \$1.33      | \$4.71                          | \$3.56      |
| Weighted average shares outstanding        | 170,544,000                      | 181,763,000 | 171,690,000                     | 183,000,000 |
| Diluted earnings per common share:         |                                  |             |                                 |             |
| Earnings from continuing operations        | \$1.53                           | \$1.27      | \$4.34                          | \$3.37      |
| Earnings from discontinued operations, net | \$0.03                           | \$0.04      | \$0.31                          | \$0.14      |
| Net earnings                               | \$1.56                           | \$1.31      | \$4.65                          | \$3.51      |
| Weighted average shares outstanding        | 172,734,000                      | 183,932,000 | 173,870,000                     | 185,489,000 |

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

|                                                                                                          | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|----------------------------------------------------------------------------------------------------------|----------------------------------|-------------|---------------------------------|-------------|
|                                                                                                          | 2013                             | 2012        | 2013                            | 2012        |
| Weighted average shares outstanding - Basic                                                              | 170,544,000                      | 181,763,000 | 171,690,000                     | 183,000,000 |
| Dilutive effect of assumed exercise of employee stock options and SARs and vesting of performance shares | 2,190,000                        | 2,169,000   | 2,180,000                       | 2,489,000   |
| Weighted average shares outstanding - Diluted                                                            | 172,734,000                      | 183,932,000 | 173,870,000                     | 185,489,000 |

Diluted per share amounts are computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and SARs, and vesting of performance shares and restricted shares, as determined using the treasury stock method. For the three and nine months ended September 30, 2012, the weighted average number of anti-dilutive potential common shares excluded from the calculation above totaled 3,128,000 and 2,899,000, respectively. There were no anti-dilutive potential common shares excluded from the calculation above for the three and nine months ended September 30, 2013.

## 20. Subsequent Events

The Company assessed events occurring subsequent to September 30, 2013 for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustments to the consolidated

financial statements.

In October 2013, the Company acquired two businesses, UK-based Fibrelite and Sweden-based Kungsors Plast AB (KPS), in separate transactions for net cash consideration of approximately \$50 million. These businesses were acquired to complement and expand upon existing operations within the Energy segment, particularly for OPW, an operating company that specializes in fluid handling solutions. These acquisitions and the related goodwill identified will be reflected in the Company's consolidated financial statements for the year ended December 31, 2013.

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

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

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), we refer to measures used by management to evaluate performance, including a number of financial measures that are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP). These include organic revenue, organic revenue growth, free cash flow and adjusted working capital. Organic revenue and organic growth refer to revenue and revenue growth excluding the impacts of foreign exchange, acquisitions and divestitures. Free cash flow is operating cash flow less capital spending, while adjusted working capital refers to accounts receivable, plus inventory, less accounts payable. We believe these measures provide investors with important information that is useful in understanding our business results and trends. Reconciliations within this MD&A provide more details on the use and derivation of these measures.

### OVERVIEW AND OUTLOOK

Dover Corporation is a diversified global manufacturer focusing on innovative equipment and components, specialty systems, and support services provided through its four major operating segments: Communication Technologies, Energy, Engineered Systems, and Printing & Identification. The Company's entrepreneurial business model encourages, promotes, and fosters deep customer engagement, which has led to Dover's well-established and valued reputation for providing superior customer service and industry-leading product innovation. Unless the context indicates otherwise, references herein to "Dover," "the Company," and words such as "we," "us," and "our" include Dover Corporation and its subsidiaries.

Our Communication Technologies segment is engaged in the design and manufacture of innovative products and components in the consumer electronics, medical technology, aerospace/defense, and telecommunication/other markets. Our Energy segment provides highly-engineered solutions for the safe and efficient extraction and handling of oil and gas in the drilling, production, and downstream markets. Our Engineered Systems segment is comprised of two platforms, Fluid Solutions and Refrigeration & Industrial, which are industry leaders in the fluids systems, refrigeration and food equipment, and certain other industrial markets. Our Printing & Identification segment provides integrated printing, coding, and dispensing solutions for the consumer goods, food, pharmaceutical, and industrial markets.

On May 23, 2013, Dover announced its plan to spin-off certain of its communication technologies businesses into a stand-alone, publicly-traded company known as Knowles. Upon completion of the spin-off, Knowles will be independent, global technology company operating in the communication technologies industry. Knowles will have significant product breadth in acoustic components, including MicroElectroMechanical Systems ("MEMs") microphones, speakers, receivers and transducers, as well as a market-leading position in communication infrastructure components. Knowles will be based in Itasca, Illinois.

Dover anticipates that the transaction will be in the form of a distribution of 100% of the common stock of Knowles, which we expect to be tax-free to Dover and U.S. shareholders, pending receipt of a private letter ruling from the Internal Revenue Service (the "IRS"). Dover currently expects that the transaction will be completed in early 2014. One-time costs associated with the transaction are expected to be in the range of \$60.0 to \$70.0 million, of which \$14.0 million has been incurred through September 30, 2013. Completion of the planned spin off is subject to final approval by Dover's Board of Directors, as well as other conditions such as the receipt of a favorable ruling from the

IRS and the effectiveness of a registration statement filed by Knowles with the Securities and Exchange Commission. The initial registration statement was filed by Knowles on September 30, 2013. The results of operations, financial condition and cash flows for the businesses to be included in the spin off are, and will continue to be, presented within Dover's consolidated financial statements as continuing operations within the Communication Technologies segment, until the spin off becomes effective, upon which the financial presentation of these businesses will be included within Dover's discontinued operations. Following the spin off of Knowles, Dover intends to continue to execute its long-term strategy and commitment to support organic growth and value-added strategic acquisitions by focusing on its key industrial growth spaces, namely, energy, refrigeration & food equipment, fluids, and printing & identification.

The following table shows the percentage of total revenue and segment earnings generated by each of our four segments for the three months ended September 30, 2013 and 2012:

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|                            | Revenue                      |        | Segment Earnings             |        |   |  |
|----------------------------|------------------------------|--------|------------------------------|--------|---|--|
|                            | Three Months Ended September |        | Three Months Ended September |        |   |  |
|                            | 30,                          |        | 30,                          |        |   |  |
|                            | 2013                         | 2012   | 2013                         | 2012   |   |  |
| Communication Technologies | 18.4                         | % 18.9 | % 17.4                       | % 16.5 | % |  |
| Energy                     | 25.6                         | % 26.8 | % 33.3                       | % 36.0 | % |  |
| Engineered Systems         | 44.6                         | % 42.5 | % 39.5                       | % 37.3 | % |  |
| Printing & Identification  | 11.4                         | % 11.8 | % 9.8                        | % 10.2 | % |  |

We generated strong results during the third quarter of 2013, with revenue of \$2.3 billion, a \$154.7 million or 7.4% increase over the comparable prior year quarter. Earnings from continuing operations increased to \$263.7 million, a \$30.3 million or 13.0% increase over the prior year quarter, and included \$4.9 million of favorable net discrete tax items and a one-time pension curtailment gain of \$4.4 million, offset by \$10.6 million of one-time transaction costs related to the anticipated spin off of Knowles.

The quarter's revenue growth spanned across all segments, with all segments achieving modest organic revenue growth, resulting in overall organic growth of approximately 3%. Communication Technologies' 4% organic growth was principally driven by new product releases in the consumer electronics market. In addition, increased demand in the refrigeration and food equipment and fluids markets within Engineered Systems, growth in downstream and drilling end markets within our Energy segment and fast moving consumer goods ("FMCG") within Printing & Identification all contributed to organic growth of approximately 3% for each of these segments. Acquisition-related growth of 4% primarily resulted from recent acquisitions by our Engineered Systems segment. The impact of foreign currency translation for the quarter was slightly favorable by 0.4%.

From a geographic perspective for the quarter, our North American markets moderated, especially in Engineered Systems where a large food equipment order from the previous quarter did not repeat. Our European markets improved and showed solid growth after several quarters of contraction.

Bookings increased approximately 9% over the prior year quarter to \$2.2 billion, representing broad-based growth, with strong growth of 13% in Energy and approximately 11% in Engineered Systems. Bookings increased nearly 5% in Printing & Identification, and 3% in Communication Technologies. Overall, the book-to-bill was in line with seasonal trends at approximately 0.96 and slightly improved from the prior year period. Backlog increased approximately 2% to \$1.5 billion.

In summary, while our overall third quarter performance was strong, organic revenue growth was below our previous expectations. As a result, we are revising our organic revenue growth expectations to the low-end of our prior range, and now expect full year organic revenue growth of approximately 3%. Our expectation for acquisition growth remains unchanged at 4%, resulting in total full-year revenue growth of approximately 7%. Based on this revised revenue guidance, we are narrowing our full year EPS guidance to the range of \$5.57 to \$5.64. This range includes incurred spin-off costs, discrete tax benefits, and one-time gains. Dover's expected 2013 diluted earnings per share does not include any prospective costs related to its proposed spin off of Knowles. If global or domestic economic conditions accelerate or deteriorate, our operating results for 2013 could be materially different than currently projected.

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## RESULTS OF OPERATIONS

As discussed in Note 4. Discontinued Operations in the unaudited Condensed Consolidated Financial Statements, we reclassified certain businesses in the Printing & Identification segment to discontinued operations based on our decision to divest these businesses. The results of operations of these businesses have been removed from the results of continuing operations and are presented within results of discontinued operations for all periods presented.

| (dollars in thousands, except per share figures)               | Three Months Ended September 30, |             |          | Nine Months Ended September 30, |             |          |  |  |
|----------------------------------------------------------------|----------------------------------|-------------|----------|---------------------------------|-------------|----------|--|--|
|                                                                | 2013                             | 2012        | % Change | 2013                            | 2012        | % Change |  |  |
| Revenue                                                        | \$2,252,349                      | \$2,097,605 | 7.4 %    | \$6,520,685                     | \$6,090,508 | 7.1 %    |  |  |
| Cost of goods and services                                     | 1,375,699                        | 1,287,466   | 6.9 %    | 4,011,461                       | 3,757,187   | 6.8 %    |  |  |
| Gross profit                                                   | 876,650                          | 810,139     | 8.2 %    | 2,509,224                       | 2,333,321   | 7.5 %    |  |  |
| Gross profit margin                                            | 38.9 %                           | 38.6 %      | 0.3      | 38.5 %                          | 38.3 %      | 0.2      |  |  |
| Selling and administrative expenses                            | 482,284                          | 451,943     | 6.7 %    | 1,472,333                       | 1,372,021   | 7.3 %    |  |  |
| Selling and administrative as a percent of revenue             | 21.4 %                           | 21.5 %      | (0.1 )   | 22.6 %                          | 22.5 %      | 0.1      |  |  |
| Interest expense, net                                          | 30,237                           | 30,399      | (0.5 )%  | 90,761                          | 90,145      | 0.7 %    |  |  |
| Other expense (income), net                                    | 970                              | 3,706       | nm       | (1,206 )                        | 5,855       | nm       |  |  |
| Provision for income taxes                                     | 99,507                           | 90,761      | 9.6 %    | 192,343                         | 240,405     | (20.0 )% |  |  |
| Effective tax rate                                             | 27.4 %                           | 28.0 %      | (0.6 )   | 20.3 %                          | 27.8 %      | (7.5 )   |  |  |
| Earnings from continuing operations                            | 263,652                          | 233,330     | 13.0 %   | 754,993                         | 624,895     | 20.8 %   |  |  |
| Earnings from discontinued operations, net                     | 5,462                            | 7,716       | nm       | 54,173                          | 26,315      | nm       |  |  |
| Earnings from continuing operations per common share - diluted | \$1.53                           | \$1.27      | 20.5 %   | \$4.34                          | \$3.37      | 28.8 %   |  |  |

## Revenue

We generated strong results during the third quarter of 2013, with revenue of \$2.3 billion, a 7.4% increase over the comparable prior year quarter. The quarter's revenue growth resulted from organic growth of approximately 3% and an increase of approximately 4% from acquisitions, as well as a slight favorable foreign exchange impact. Organic revenue growth was driven by new product launches in the consumer electronics market within our Communication Technologies segment, increased demand in the refrigeration & food equipment and fluids markets within Engineered Systems and growth in the downstream and drilling businesses within our Energy segment. The revenue increase was partially offset by pricing concessions on older model products corresponding to typical product life cycle maturities and continued market share losses for two key handset original equipment manufacturer ("OEM") customers within our Communication Technologies segment, the production markets within our Energy segment and reduced volumes in certain industrial end markets served by our Engineered Systems segment.

Revenue for the nine months ended September 30, 2013 increased \$430.2 million, or 7.1%, from the comparable 2012 period reflecting organic revenue growth of approximately 2% and acquisition-related growth of approximately 5%, principally driven by the same factors as in the third quarter. The impact of foreign currency translation for the period was negligible.

#### Gross Profit

Gross profit for the third quarter of 2013 increased \$66.5 million, or 8.2%, compared to the prior year primarily reflecting increased sales volumes, as well as pricing and productivity initiatives. Gross profit margin as a percentage of revenue increased 30 basis points as a result of operating leverage, certain productivity initiatives and the benefits of prior restructuring. Partially offsetting the increase in margin was the impact of business mix, particularly in our Energy segment, as demand for winch products softened as compared to the prior year quarter.

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For the nine months ended September 30, 2013, gross profit increased \$175.9 million, or 7.5%, compared to the prior year. Gross profit margin as a percentage of revenue increased slightly, attributed to the same factors that impacted the third quarter of 2013, as well as higher restructuring costs as compared to the prior year period, most notably within our Communication Technologies segment.

### Selling and Administrative Expenses

Selling and administrative expenses increased \$30.3 million compared to the prior year quarter, attributed mainly to increases to support higher volumes and growth initiatives for our high-demand markets and one-time spin transaction costs of \$10.6 million related to the spin of Knowles, partially offset by a one-time pension curtailment gain of \$4.4 million. See Note 14. Employee Benefit Plans in the Unaudited Condensed Consolidated Financial Statements for additional information related to this one-time pension gain.

Selling and administrative expenses for the nine months ended September 30, 2013 increased \$100.3 million as compared to the prior year, primarily due to increases to support higher volumes and growth initiatives for our high-demand markets, one-time spin transaction costs of \$14.0 million related to the spin of Knowles and higher amortization expense resulting from recent acquisitions, partially offset by a \$6.8 million gain associated with the sale of land in Switzerland in the first quarter of 2013 and a one-time pension curtailment gain of \$4.4 million.

### Non-Operating Items

For the three months ended September 30, 2013, other expense (income) netted to expense of approximately \$1.0 million. This amount included \$4.0 million in net foreign exchange losses resulting from the remeasurement and settlement of foreign currency denominated balances, partially offset by \$2.1 million of income related to insurance settlements for property damage recorded within our Engineered Systems segment.

For the nine months ended September 30, 2013, other expense (income) netted to income of \$1.2 million, including net foreign exchange losses of \$4.6 million, which were more than offset by other income items that included \$3.4 million related to insurance settlements.

### Income Taxes

The effective tax rate for continuing operations for the three months ended September 30, 2013 was 27.4% as compared to 28.0% for the comparable prior year period. The current quarter rate was impacted by \$4.9 million of favorable net discrete items, principally related to a favorable court interpretation of tax law, as well as certain cross-border tax consequences. The prior year quarter effective tax rate was impacted by other favorable net discrete items totaling \$4.5 million. Excluding the discrete items, the effective tax rates were 28.7% and 29.4% for the three months ended September 30, 2013 and 2012, respectively.

The effective tax rate for continuing operations for the nine months ended September 30, 2013 was 20.3% as compared to 27.8% for the prior year period. The current year rate was impacted by \$70.9 million of favorable net discrete items, principally related to the conclusion of certain U.S. federal, state and international tax audits, a favorable court interpretation of tax law, certain cross-border tax consequences and the effect of the American Tax Relief Act of 2012 signed into law on January 2, 2013. The prior year effective tax rate was not significantly impacted by other favorable net discrete items totaling \$2.5 million. Excluding the discrete items, the effective tax rates were 27.8% and 28.1% for the nine months ended September 30, 2013 and 2012, respectively. The current year pre-discrete rate was favorably impacted by reinstatement of the U.S. Research and Experimentation tax credit.

Dover and its subsidiaries file tax returns in the U.S., including various state and local returns, and in other foreign jurisdictions. We believe adequate provision has been made for all income tax uncertainties. The Company is routinely audited by taxing authorities in its filing jurisdictions, and a number of these audits are currently underway. We believe within the next twelve months that uncertain tax positions may be resolved and statutes of limitations will expire, which could result in a decrease in the gross amount of unrecognized tax benefits of approximately zero to \$49 million, of which a portion will be reported as discontinued operations.

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### Earnings from Continuing Operations

For the three months ended September 30, 2013, earnings from continuing operations increased 13.0% to \$263.7 million, or \$1.53 diluted earnings per share, compared to \$233.3 million, or \$1.27 diluted earnings per share. Earnings from continuing operations for the nine months ended September 30, 2013 increased 20.8% to \$755.0 million, or \$4.34 diluted earnings per share, compared to \$624.9 million, or \$3.37 diluted earnings per share for the nine months ended September 30, 2012. The increase in earnings from continuing operations in the current year is primarily the result of higher revenues and benefits from productivity initiatives and operating leverage, offset in part by higher acquisition-related expenses and increased restructuring charges. The increase in diluted earnings per share reflects the increase in earnings, as well as the impact of lower weighted average shares outstanding for the current year relative to the prior year.

### Discontinued Operations

Management evaluates Dover's businesses periodically for their strategic fit within Dover's operations. Accordingly, in the fourth quarter of 2012, we announced our intent to divest Everett Charles Technologies ("ECT") and DEK International, two non-core businesses serving the electronic assembly and test markets. The results of operations and cash flows of these businesses are reflected within discontinued operations for both periods presented herein, as well various expense and accrual adjustments relating to other discontinued operations.

Earnings from discontinued operations, net, for the three and nine months ended September 30, 2013 were \$5.5 million and \$54.2 million, or diluted earnings per share of \$0.03 and \$0.31, respectively, and reflect net earnings from operations generated by those businesses discontinued in 2012, as well as various expense and accrual adjustments relating to other discontinued operations. The tax benefit for the three and nine months ended September 30, 2013 includes \$2.0 million and \$54.4 million, respectively, of discrete tax benefits principally related to the conclusion of certain federal, state and international tax audits. The current year to date results were offset by an after-tax goodwill impairment charge of \$44.2 million recorded in the second quarter of 2013 in connection with the anticipated sale of our electronic test and assembly businesses. This charge was a write-down of the carrying value of these business to fair value, based on the current estimated sales price. The current year to date results were also impacted by a tax benefit of \$25.5 million in the discontinued operations deferred income tax provision, which was recorded in the second quarter. The Company expects to complete the sale of these businesses in the fourth quarter of 2013 or early 2014. See Note 4. Discontinued Operations in the Unaudited Condensed Consolidated Financial Statements.

Earnings from discontinued operations, net, for the three and nine months ended September 30, 2012 were \$7.7 million and \$26.3 million, or diluted earnings per share of \$0.04 and \$0.14, respectively, and primarily reflect net earnings from operations of DEK and ECT.

### Restructuring Activities

The restructuring expenses of \$4.6 million and \$23.4 million incurred in the three and nine months ended September 30, 2013, respectively, related to restructuring programs initiated during 2013 and 2012. These programs are designed to better align the Company's operations with current market conditions through targeted facility consolidations, headcount reductions and other measures to further optimize operations. The Company expects full-year 2013 restructuring expenses of approximately \$27.5 to \$32.5 million related to these programs and other initiatives initiated in the fourth quarter of 2013. We expect the programs currently underway to be substantially completed in the next twelve to eighteen months.

The \$4.6 million of restructuring charges incurred during the quarter included the items as described below.

The Communication Technologies segment incurred restructuring charges of \$2.0 million relating principally to a facility consolidation in its capacitor business and headcount reductions in connection with integration activities within its consumer electronics business.

The Energy segment recorded \$0.1 million of restructuring charges relating to facility consolidations within the production sector undertaken to optimize cost structure.

The Engineered Systems segment incurred net restructuring charges of \$0.9 million in connection with certain facility consolidations and optimizations and headcount reductions undertaken to optimize its cost structure.

The Printing & Identification segment incurred restructuring charges of approximately \$1.6 million relating to exit plans at targeted facilities, which included certain adjustments and offsets to previously recorded reserves.

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Restructuring charges for the three and nine months ended September 30, 2012 of \$4.0 and \$13.2 million, respectively, resulted from a few targeted facility consolidations and headcount reductions intended to better align the Company's operations with market conditions. See Note 8. Restructuring Activities in our Condensed Consolidated Financial Statements for additional information related to our restructuring programs.

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## SEGMENT RESULTS OF OPERATIONS

## Communication Technologies

Our Communication Technologies segment is engaged in the design and manufacture of innovative products and components which serve the following key markets: Consumer Electronics, Medical Technology, Aerospace/Defense, and Telecom/Other. We have condensed our end market analysis into the four above-mentioned markets, reduced from the analysis of five end markets in our prior year reporting. Therefore, all prior year revenue information has been recast to be consistent with the current end-market designations.

| (dollars in thousands)        | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |                   |    |
|-------------------------------|----------------------------------|-----------|----------|---------------------------------|-------------|-------------------|----|
|                               | 2013                             | 2012      | % Change | 2013                            | 2012        | % Change          |    |
| Revenue:                      |                                  |           |          |                                 |             |                   |    |
| Consumer Electronics          | \$207,898                        | \$195,902 | 6.1      | % \$577,016                     | \$512,449   | 12.6              | %  |
| Aerospace/Defense             | 103,334                          | 103,464   | (0.1)    | )% 308,886                      | 310,400     | (0.5)             | )% |
| Medical Technology            | 62,058                           | 59,036    | 5.1      | % 184,982                       | 178,595     | 3.6               | %  |
| Telecom/Other                 | 40,318                           | 38,068    | 5.9      | % 116,991                       | 114,290     | 2.4               | %  |
| Total                         | \$413,608                        | \$396,470 | 4.3      | % \$1,187,875                   | \$1,115,734 | 6.5               | %  |
| Segment earnings              | \$76,076                         | \$63,706  | 19.4     | % \$172,073                     | \$160,584   | 7.2               | %  |
| Operating margin              | 18.4                             | % 16.1    | %        | 14.5                            | % 14.4      | %                 |    |
| Segment EBITDA                | \$114,327                        | \$96,703  | 18.2     | % \$283,544                     | \$257,922   | 9.9               | %  |
| Segment EBITDA margin         | 27.6                             | % 24.4    | %        | 23.9                            | % 23.1      | %                 |    |
| Other measures:               |                                  |           |          |                                 |             |                   |    |
| Depreciation and amortization | \$38,251                         | \$32,997  | 15.9     | % \$111,471                     | \$97,338    | 14.5              | %  |
| Bookings                      | 423,662                          | 411,005   | 3.1      | % 1,225,077                     | 1,145,354   | 7.0               | %  |
| Backlog                       |                                  |           |          | 492,583                         | 491,041     | 0.3               | %  |
| Components of revenue growth: |                                  |           |          | Q3 2013 vs. Q3 2012             |             | YTD 2013 vs. 2012 |    |
| Organic growth                |                                  |           |          | 3.8                             | %           | 6.3               | %  |
| Acquisitions                  |                                  |           |          | —                               | %           | —                 | %  |
| Foreign currency translation  |                                  |           |          | 0.5                             | %           | 0.2               | %  |
|                               |                                  |           |          | 4.3                             | %           | 6.5               | %  |

## Third Quarter 2013 Compared to the Third Quarter 2012

Revenue generated by our Communication Technologies segment in the third quarter of 2013 increased by \$17.1 million, or 4.3%, compared to the same period of 2012. Revenue increased across all of our end markets as compared to the prior year quarter, with the exception of the aerospace/defense market, which remained relatively flat. Revenue was favorably impacted by 0.5% from foreign currency translation.

- Our revenue in the consumer electronics market (representing 50.3% of 2013 third quarter segment revenue) increased \$12.0 million, or 6.1%, due to strong demand for components, especially microphones, driven by a significant new product release by a major OEM customer serving the smart phone market. The increase in revenue over the prior year quarter was partially offset by market share losses for two key handset OEM

customers serving the smart phone market, as well as the delays related to product launch timing and specification changes. Overall, we expect continued year-over-year revenue growth through the remainder of the year for our acoustic products serving the consumer electronics market, though reduced from our prior expectations.

Revenue derived from our aerospace/defense market (25.0% of 2013 third quarter segment revenue) decreased by \$0.1 million mainly due to weakness in the domestic defense market resulting from governmental funding uncertainties, offset in part by the continued increase in build rates of commercial aircraft driving demand in the aerospace market.

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Our medical technology revenue (15.0% of 2013 third quarter segment revenue) increased by \$3.0 million, or 5.1%, due to solid demand for medical coupling and connector products and marginally stronger hearing health activity. Demand from key hearing health customers was slow through much of the third quarter but accelerated towards the end of the quarter.

Revenue derived from our telecom/other market in the third quarter of 2013 (9.7% of 2013 third quarter segment revenue) increased by \$2.3 million, or 5.9%, due to higher demand from telecom customers serving the anticipated build-out of wireless infrastructure in China, coupled with improved demand for coupling and connector products serving the industrial markets.

Communication Technologies earnings for the quarter increased \$12.4 million, or 19.4%, compared to the same period of 2012, with an increase in operating margin of 230 basis points. The earnings and margin increases were driven by strong conversion on higher MEMs volumes, savings from productivity programs and recent restructuring actions, which more than offset higher restructuring charges (\$1.1 million), higher depreciation and amortization expense (\$5.3 million) relating to recent capital investments to support the growth in the handset market and pricing concessions on older model products.

Bookings for the quarter ended September 30, 2013 increased \$12.7 million, or 3.1%, compared to the same period of 2012, reflecting strength in our consumer electronics market and improved demand for products serving the telecommunication infrastructure market, which more than offset reduced demand in our defense and hearing health markets. Backlog remained consistent with the prior year period.

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Revenue generated by our Communication Technologies segment for the nine months ended September 30, 2013 increased by \$72.1 million, or 6.5%, compared to the 2012 period, with the revenue growth dominated by increased MEMs microphone volumes resulting from new OEM product introductions and overall smartphone market growth. Year over year revenue growth was partially offset by market share losses by two key OEM customers, affecting our speaker and receiver volumes. Revenue was favorably impacted by 0.2% year over year from the impact of foreign currency translation.

Earnings for the nine months ended September 30, 2013 increased \$11.5 million, or 7.2%, compared to the same period in 2012 driven by increased MEMs volumes and benefits from productivity initiatives and lower launch costs, as well as recent restructuring actions. However, operating margin remained relatively unchanged, reflecting the impacts of higher restructuring costs (\$12.3 million) and higher depreciation and amortization expense (\$14.1 million). Excluding restructuring charges, operating margin increased by 110 basis points.

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## Energy

Our Energy segment serves the oil, gas and power generation industries, with products that promote the efficient and cost-effective drilling, extraction, storage and movement of oil and gas products, or constitute critical components for power generation equipment. The Energy segment operates through the following business lines: Drilling, which comprises products supporting the cost-effective drilling of oil and gas wells; Production, which comprises products and components facilitating the extraction and movement of fuel from the ground; and Downstream, which comprises systems and products that support the efficient, safe, and environmentally-sensitive handling of fuel, hazardous liquids, and dry-bulk commodities.

|                               | Three Months Ended September 30, |           |                     |    | Nine Months Ended September 30, |             |                   |    |
|-------------------------------|----------------------------------|-----------|---------------------|----|---------------------------------|-------------|-------------------|----|
| (dollars in thousands)        | 2013                             | 2012      | % Change            |    | 2013                            | 2012        | % Change          |    |
| Revenue:                      |                                  |           |                     |    |                                 |             |                   |    |
| Drilling                      | \$109,008                        | \$97,001  | 12.4                | %  | \$321,528                       | \$316,914   | 1.5               | %  |
| Production                    | 307,114                          | 314,372   | (2.3                | )% | 924,965                         | 882,057     | 4.9               | %  |
| Downstream                    | 161,228                          | 150,890   | 6.9                 | %  | 465,526                         | 433,648     | 7.4               | %  |
| Total                         | \$577,350                        | \$562,263 | 2.7                 | %  | \$1,712,019                     | \$1,632,619 | 4.9               | %  |
| Segment earnings              | \$145,494                        | \$139,038 | 4.6                 | %  | \$417,965                       | \$405,089   | 3.2               | %  |
| Operating margin              | 25.2                             | % 24.7    | %                   |    | 24.4                            | % 24.8      | %                 |    |
| Segment EBITDA                | 172,043                          | 163,677   | 5.1                 | %  | \$497,411                       | \$474,445   | 4.8               | %  |
| Segment EBITDA margin         | 29.8                             | % 29.1    | %                   |    | 29.1                            | % 29.1      | %                 |    |
| Other measures:               |                                  |           |                     |    |                                 |             |                   |    |
| Depreciation and amortization | \$26,549                         | \$24,639  | 7.8                 | %  | \$79,446                        | \$69,356    | 14.5              | %  |
| Bookings                      | 595,421                          | 526,824   | 13.0                | %  | 1,741,673                       | 1,642,951   | 6.0               | %  |
| Backlog                       |                                  |           |                     |    | 274,243                         | 248,233     | 10.5              | %  |
| Components of revenue growth: |                                  |           | Q3 2013 vs. Q3 2012 |    |                                 |             | YTD 2013 vs. 2012 |    |
| Organic growth                |                                  |           | 2.5                 | %  |                                 |             | 2.4               | %  |
| Acquisitions                  |                                  |           | 1.1                 | %  |                                 |             | 3.0               | %  |
| Foreign currency translation  |                                  |           | (0.9                | )% |                                 |             | (0.5              | )% |
|                               |                                  |           | 2.7                 | %  |                                 |             | 4.9               | %  |

## Third Quarter 2013 Compared to the Third Quarter 2012

Energy segment revenue for the quarter increased \$15.1 million, a 2.7% increase over the prior year quarter due to organic growth of 2.5%, as well as acquisition-related growth of 1.1%, mostly offset by the negative impact of foreign currency translation. Acquisition-related growth was driven by the Upco, Inc., Klaus Enterprise, Ltd., and SPIRIT acquisitions that occurred in the fourth quarter of 2012, the second quarter of 2013 and the third quarter of 2013, respectively.

Production revenue (representing 53.2% of 2013 third quarter segment revenue) decreased 2.3%. The decline resulted from softer demand for winch products (a \$13.9 million decrease), especially in the military markets, timing of shipments and softer U.S. activity. The decrease in revenue quarter over quarter was partially offset by increased

demand for artificial lift products.

Downstream revenue (representing 27.9% of 2013 third quarter segment revenue) increased 6.9% due to stronger demand for fuel delivery systems and loading equipment for the transportation and chemical/industrial markets.

Drilling revenue (representing 18.9% of 2013 third quarter segment revenue) increased 12.4% compared to the prior year quarter due to market share gains and expansion in international growth, especially within China.

Energy earnings increased \$6.5 million, or 4.6%, over prior year due to solid conversion on revenue gains and lower acquisitions-related amortization.

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Bookings for the third quarter increased 13.0% from prior year quarter due to a large international order for artificial lift products partially offset by lower demand for winch products in the Production sector, higher demand for fuel delivery systems and loading equipment in Downstream and increased orders for Polycrystalline Diamond Compacts ("PDCs") in the Drilling sector. Sequentially, bookings increased 13.0% from the second quarter of 2013 due to higher demand for artificial lift products in the Production sector, partially offset by decreased Drilling orders. Book-to-bill ratio for the quarter was 1.03.

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Revenue generated by our Energy segment for the nine months ended September 30, 2013 increased by \$79.4 million, or 4.9%. Strong international growth in the Production sector, stronger demand for loading equipment, fuel delivery systems and bearing products in the Downstream sector, and higher revenue due to market share growth in the Drilling sector contributed to the year over year increase. The year over year increase was partially offset by lower demand for winch products in the Production sector. The aforementioned acquisitions made in 2012 and 2013 generated revenue growth of 3.0%. Foreign currency translation had a minimal negative impact for the period.

Earnings for the nine months ended September 30, 2013 increased \$12.9 million, or 3.2%, due to higher volume and lower acquisition-related amortization, partially offset by unfavorable product mix. Margins decreased 40 basis points due to unfavorable product mix, partially offset by leverage on higher volume.

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## Engineered Systems

Our Engineered Systems segment is comprised of two platforms, Fluid Solutions and Refrigeration & Industrial. The Fluid Solutions platform designs and manufactures pumps, compressors, and chemical proportioning and dispensing products. The Refrigeration & Industrial platform manufactures products and systems which serve two key end-markets: Refrigeration & Food Equipment and Other Industrial.

| (dollars in thousands)         | Three Months Ended September 30, |           |          | Nine Months Ended September 30, |             |          |                      |   |
|--------------------------------|----------------------------------|-----------|----------|---------------------------------|-------------|----------|----------------------|---|
|                                | 2013                             | 2012      | % Change | 2013                            | 2012        | % Change |                      |   |
| Revenue:                       |                                  |           |          |                                 |             |          |                      |   |
| Refrigeration & Industrial     |                                  |           |          |                                 |             |          |                      |   |
| Refrigeration & Food Equipment | \$459,003                        | \$362,562 | 26.6     | % \$1,281,082                   | \$1,060,856 | 20.8     | %                    |   |
| Other Industrial               | 319,333                          | 311,554   | 2.5      | % 938,944                       | 929,974     | 1.0      | %                    |   |
|                                | 778,336                          | 674,116   | 15.5     | % 2,220,026                     | 1,990,830   | 11.5     | %                    |   |
| Fluid Solutions Platform       | 227,104                          | 218,324   | 4.0      | % 657,977                       | 610,662     | 7.7      | %                    |   |
| Eliminations                   | (485 )                           | (319 )    |          | (1,220 )                        | (1,124 )    |          |                      |   |
|                                | \$1,004,955                      | \$892,121 | 12.6     | % \$2,876,783                   | \$2,600,368 | 10.6     | %                    |   |
| Segment earnings               | \$172,223                        | \$144,245 | 19.4     | % \$454,841                     | \$400,145   | 13.7     | %                    |   |
| Operating margin               | 17.1                             | % 16.2    | %        | 15.8                            | % 15.4      | %        |                      |   |
| Segment EBITDA                 | 205,184                          | 167,305   | 22.6     | % \$551,635                     | \$466,700   | 18.2     | %                    |   |
| Segment EBITDA margin          | 20.4                             | % 18.8    | %        | 19.2                            | % 17.9      | %        |                      |   |
| Other measures:                |                                  |           |          |                                 |             |          |                      |   |
| Depreciation and amortization  | \$32,961                         | \$23,060  | 42.9     | % \$96,794                      | \$66,555    | 45.4     | %                    |   |
| Bookings                       |                                  |           |          |                                 |             |          |                      |   |
| Refrigeration & Industrial     | \$662,464                        | \$600,065 | 10.4     | % \$2,202,394                   | \$1,978,199 | 11.3     | %                    |   |
| Fluid Solutions                | 222,402                          | 197,767   | 12.5     | % 659,525                       | 586,617     | 12.4     | %                    |   |
| Eliminations                   | (372 )                           | (258 )    |          | (1,177 )                        | (1,042 )    |          |                      |   |
|                                | \$884,494                        | \$797,574 | 10.9     | % \$2,860,742                   | \$2,563,774 | 11.6     | %                    |   |
| Backlog                        |                                  |           |          |                                 |             |          |                      |   |
| Refrigeration & Industrial     |                                  |           |          | \$482,069                       | \$515,285   | (6.4     | )%                   |   |
| Fluid Solutions                |                                  |           |          | 182,557                         | 156,191     | 16.9     | %                    |   |
| Eliminations                   |                                  |           |          | (113 )                          | (94 )       |          |                      |   |
|                                |                                  |           |          | \$664,513                       | \$671,382   | (1.0     | )%                   |   |
| Components of revenue growth:  |                                  |           |          | Q3 2013<br>vs. Q3<br>2012       |             |          | YTD 2013<br>vs. 2012 |   |
| Organic growth                 |                                  |           |          | 2.8                             | %           |          | 0.9                  | % |
| Acquisitions                   |                                  |           |          | 8.8                             | %           |          | 9.3                  | % |
| Foreign currency translation   |                                  |           |          | 1.0                             | %           |          | 0.4                  | % |
|                                |                                  |           |          | 12.6                            | %           |          | 10.6                 | % |



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Third Quarter 2013 Compared to the Third Quarter 2012

Engineered System revenue for the third quarter of 2013 increased \$112.8 million, or 12.6%, driven by an 8.8% increase from recent acquisitions, organic growth of 2.8%, and a 1.0% favorable impact from foreign currency translation.

Revenue from our Refrigeration and Industrial platform, which serves our refrigeration and food equipment, waste and recycling, and other industrial end-markets, increased \$104.2 million, or 15.5%.

Revenue from refrigeration and food equipment (representing 45.6% of 2013 third quarter segment revenue) increased 26.6% over the comparable prior year quarter. Recent acquisitions, increased demand for refrigeration equipment and increased demand for beverage can-making equipment drove the revenue increase as compared to the prior year quarter.

Performance by our businesses serving the waste and recycling and other industrial markets (representing 31.8% of 2013 third quarter segment revenue) increased 2.5% over the comparable prior year quarter, driven by the impact of a recent acquisition, higher demand for waste equipment for large regional haulers, and increased demand in markets serving vehicle service businesses, partially offset by lower demand for equipment serving the mining, utilities, military, and industrial automation machinery sectors.

Revenue for our Fluid Solutions platform (representing 22.6% of 2013 third quarter segment revenue) increased 4.0% reflecting the favorable impact of a recent acquisition and increased shipments on a specific project in the pump market.

Engineered Systems earnings increased \$28.0 million, or 19.4%, due to higher volume, favorable net material cost and productivity improvements, partially offset by increased acquisition-related costs. Engineered Systems incurred non-recurring charges during the third quarter of 2013 that resulted in a net unfavorable impact to earnings of \$0.5 million. These charges included gains on insurance settlements related to property damage totaling \$2.1 million for the quarter, which were more than offset by other miscellaneous non-recurring items, none of which were individually significant.

Bookings for the third quarter of 2013 increased 10.9%. Backlog at September 30, 2013 decreased 1.0% as compared to prior year period, due to higher pump equipment, refrigeration equipment and other industrial equipment orders.

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Engineered Systems revenue for the nine months ended September 30, 2013 increased \$276.4 million or 10.6%, driven by a 9.3% growth from recent acquisitions, 0.9% organic revenue growth and a favorable impact of 0.4% from foreign currency translation. The revenue trends for the nine month period were relatively consistent in each of our end markets to those outlined for the quarter, with the exception of the unfavorable impact of reduced shipments to a key retail customer on a specific project in the refrigeration market.

Earnings for the nine months ended September 30, 2013 increased \$54.7 million, or 13.7%, compared to the 2012 period, as a result of increased volume, favorable net material cost and productivity improvements. Operating margin increased 40 basis points compared to prior year period, as favorable net material cost, favorable pricing and productivity savings more than offset acquisition-related costs.



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## Printing &amp; Identification

Our Printing & Identification segment is a worldwide supplier of precision marking and coding, dispensing, printing, soldering, coating, inspection and testing equipment and related consumables and services. The segment serves two broad global end- markets: FMCG and Industrial.

|                               | Three Months Ended September 30, |           |                     |    | Nine Months Ended September 30, |           |                   |    |
|-------------------------------|----------------------------------|-----------|---------------------|----|---------------------------------|-----------|-------------------|----|
| (dollars in thousands)        | 2013                             | 2012      | % Change            |    | 2013                            | 2012      | % Change          |    |
| Revenue:                      |                                  |           |                     |    |                                 |           |                   |    |
| Fast Moving Consumer Goods    | \$152,423                        | \$145,639 | 4.7                 | %  | \$446,919                       | \$436,284 | 2.4               | %  |
| Industrial                    | 104,148                          | 101,306   | 2.8                 | %  | 298,175                         | 306,106   | (2.6)             | )% |
| Total                         | \$256,571                        | \$246,945 | 3.9                 | %  | \$745,094                       | \$742,390 | 0.4               | %  |
| Segment earnings              | \$42,881                         | \$39,502  | 8.6                 | %  | \$108,600                       | \$94,509  | 14.9              | %  |
| Operating margin              | 16.7                             | % 16.0    | %                   |    | 14.6                            | % 12.7    | %                 |    |
| Segment EBITDA                | 50,582                           | 48,279    | 4.8                 | %  | \$131,537                       | \$120,113 | 9.5               | %  |
| Segment EBITDA margin         | 19.7                             | % 19.6    | %                   |    | 17.7                            | % 16.2    | %                 |    |
| Other measures:               |                                  |           |                     |    |                                 |           |                   |    |
| Depreciation and amortization | \$7,701                          | \$8,777   | (12.3               | )% | \$22,937                        | \$25,604  | (10.4             | )% |
| Bookings                      | 256,211                          | 244,611   | 4.7                 | %  | 752,710                         | 746,117   | 0.9               | %  |
| Backlog                       |                                  |           | —                   |    | 105,699                         | 98,356    | 7.5               | %  |
| Components of revenue growth: |                                  |           | Q3 2013 vs. Q3 2012 |    |                                 |           | YTD 2013 vs. 2012 |    |
| Organic growth                |                                  |           | 2.9                 | %  |                                 |           | 0.4               | %  |
| Acquisitions                  |                                  |           | 0.4                 | %  |                                 |           | 0.1               | %  |
| Foreign currency translation  |                                  |           | 0.6                 | %  |                                 |           | (0.1              | )% |
|                               |                                  |           | 3.9                 | %  |                                 |           | 0.4               | %  |

## Third Quarter 2013 Compared to the Third Quarter 2012

Printing & Identification segment revenue increased \$9.6 million, or 3.9%, compared to the third quarter of 2012 primarily attributable to organic growth of 2.9%, as well as favorable foreign currency translation impact and accretive contribution from acquisitions.

FMCG revenue (representing 59.4% of 2013 third quarter segment revenue) grew \$6.8 million, or 4.7% quarter over quarter. Revenue growth was favorably impacted by market improvements in Europe and developing markets. Industrial revenue (40.6% of 2013 third quarter segment revenue) increased \$2.8 million, or 2.8%, compared with the prior year quarter due to strength in our industrial market and coding and industrial dispensing businesses, which more than offset the continued softness in the bar code printing business.

Printing & Identification segment earnings increased \$3.4 million, or 8.6%, for the three months ended September 30, 2013 as compared to the prior year period, resulting in an operating margin increase of 70 basis points. The earnings increase is primarily attributable to ongoing productivity improvements and modestly improving volume.

Third quarter 2013 bookings increased 4.7% from the prior year comparable quarter, and backlog increased 7.5%, driven by our FMCG end markets. Book to bill for the third quarter of 2013 was 1.0.

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Printing & Identification segment revenue increased \$2.7 million, or 0.4%, compared to the nine months ended September 30, 2012 attributable primarily to organic revenue growth in the FMCG end market, partially offset by lower industrial end market revenue in the first half of 2013. Organic growth in the FMCG end market contributed 2.4% to the year over year revenue increase,

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which was offset by a contraction in our industrial end markets of 2.6%. Acquisition-related year over year growth, as well as foreign currency translation impact, did not have a significant impact on the year over year results. Printing & Identification segment earnings increased \$14.1 million, or 14.9%, for the nine months ended September 30, 2013 compared to the comparable prior year period, resulting in an operating margin increase of 190 basis points. The increase in year to date earnings continues to be driven by higher FMCG volumes, ongoing productivity improvements and restructuring benefits, which more than offset the softness in the industrial end market.

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## FINANCIAL CONDITION

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Significant factors affecting liquidity are: cash flows generated from operating activities, capital expenditures, acquisitions, dispositions, dividends, repurchase of outstanding shares, adequacy of available commercial paper and bank lines of credit, and the ability to attract long-term capital with satisfactory terms. We generate substantial cash from the operations of our businesses and remain in a strong financial position, with sufficient liquidity available for reinvestment in existing businesses and strategic acquisitions, while managing our capital structure on a short and long-term basis.

## Cash Flow Summary

The following table is derived from our unaudited Condensed Consolidated Statement of Cash Flows:

| Cash Flows from Continuing Operations (in thousands) | Nine Months Ended September 30, |              |
|------------------------------------------------------|---------------------------------|--------------|
|                                                      | 2013                            | 2012         |
| Net Cash Flows Provided By (Used In):                |                                 |              |
| Operating activities                                 | \$723,060                       | \$690,501    |
| Investing activities                                 | (262,540)                       | ) (567,238 ) |
| Financing activities                                 | (523,835)                       | ) (535,246 ) |

## Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2013 increased approximately \$32.6 million compared to the comparable period in 2012, driven by several factors, primarily attributable to an increase in net earnings before depreciation and amortization of \$210.4 million, partially offset by lower accruals related to long-term and annual incentive compensation payouts.

## Adjusted Working Capital

Adjusted working capital (a non-GAAP measure calculated as accounts receivable, plus inventory, less accounts payable) increased from December 31, 2012 by \$261.8 million, or 18.1%, to \$1.7 billion, which reflected an increase in receivables and inventories of \$211.6 million and \$76.8 million, respectively, generally due to a higher sales volume, partially offset by an increase in accounts payable of \$26.6 million. Excluding acquisitions and the effects of foreign exchange translation, adjusted working capital increased by \$239.0 million, or 16.5%.

## Investing Activities

Cash used in investing activities generally results from cash outflows for capital expenditures and acquisitions, partially offset by proceeds from sales of businesses and property, plant and equipment. For the nine months ended September 30, 2013, we used cash in investing activities of \$262.5 million as compared to \$567.2 million for the same period of 2012, driven mainly by the following factors:

• **Acquisitions.** During 2013, we deployed \$119.0 million to acquire several businesses across our segments. In the prior year, we used \$399.3 million to acquire three businesses, including \$282 million for Maag Pump Systems, a European acquisition for our fluid solutions platform within our Engineered Systems segment. Cash paid for acquisitions of \$354.3 million in 2012 is net of \$45 million received as final payment for settlement of purchase price adjustments for post-acquisition contingencies relating to the 2011 Sound Solutions acquisition. We also had restricted cash of \$10.8 million in the prior year period as cash collateral to secure Maag's outstanding bank

guarantees at the date of acquisition.

Capital spending. Our capital expenditures decreased \$51.4 million for the first nine months of 2013 as compared to the same period in the prior year. The prior year reflected capacity expansions within our high-growth businesses to support initiatives in the handset market, as well as the energy and fluid solutions end markets. We expect full-year 2013 capital expenditures to approximate 3.0% of revenue.

We anticipate that capital expenditures and any acquisitions we make through the remainder of 2013 will be funded from available cash and internally generated funds and, if necessary, through the issuance of commercial paper, use of established lines of credit or public debt or equity markets.

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## Financing Activities

Our cash flow from financing activities generally relates to a use of cash for purchase of our common stock and payment of dividends, offset by net borrowing activity and proceeds from exercise of stock options. For the nine months ended September 30, 2013 and 2012, we used cash totaling \$523.8 million and \$535.2 million, respectively, for financing activities, with the activity primarily attributable to the following:

**Treasury purchases.** In November 2012, Dover's Board of Directors approved an additional \$1.0 billion stock repurchase program to drive additional shareholder value. We used \$407.9 million to repurchase common stock in the 2013 period, \$14.4 million more than was used in the comparable period of 2012. As of September 30, 2013, the dollar amount still available for repurchase under the November 2012 share repurchase program was \$342.6 million.

**Notes payable and long-term debt.** During the nine months ended 2013, we issued commercial paper approximating \$1,137.0 million, of which approximately \$1,076.0 million was paid during the period, resulting in net activity of approximately \$61.0 million. The Company generally uses commercial paper borrowings for general corporate purposes, as well as the funding of acquisitions and the repurchase of its common stock. The long-term debt account has remained relatively stable in the current and prior periods.

**Proceeds from the exercise of stock options.** We received \$31.1 million less in proceeds from employee exercises of stock options in the 2013 period as compared to 2012.

**Dividend payments.** We paid \$5.0 million more in dividends to common shareholders in current year period as compared to the prior year period.

## Liquidity and Capital Resources

## Free Cash Flow

In addition to measuring our cash flow generation and usage based upon the operating, investing and financing classifications included in the unaudited Condensed Consolidated Statement of Cash Flows, we also measure free cash flow (a non-GAAP measure). We believe that free cash flow is an important measure of operating performance because it provides management and investors a measurement of cash generated from operations that is available to fund acquisitions, pay dividends, repay debt and repurchase our common stock.

The following table reconciles our free cash flow to cash flow provided by operating activities:

|                                            | Nine Months Ended September 30, |           |
|--------------------------------------------|---------------------------------|-----------|
|                                            | 2013                            | 2012      |
| Free Cash Flow (dollars in thousands)      |                                 |           |
| Cash flow provided by operating activities | \$723,060                       | \$690,501 |
| Less: Capital expenditures                 | (157,475)                       | (208,849) |
| Free cash flow                             | \$565,585                       | \$481,652 |
| Free cash flow as a percentage of revenue  | 8.7                             | % 7.9     |

For the nine months ended September 30, 2013, we generated free cash flow of \$565.6 million, representing 8.7% of revenue and 74.9% of net earnings from continuing operations, while continuing to make investments necessary to support our growth. Free cash flow generated during the period reflects typical seasonality. The free cash flow generated in the first nine months of 2013 is \$83.9 million higher than the amount generated in the comparable 2012

period, mainly due to a decline in capital spending and an increase in cash flow provided by operating activities as compared to the prior year period as discussed above. In addition, during the current year period, we paid \$8.0 million in one-time spin off transactions costs. Excluding these one-time costs, free cash flow as a percentage of revenue for the nine months ended is 8.8%. We expect to generate free cash flow for the year of approximately 10% of revenues, consistent with our historical performance.

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## Net Debt to Net Capitalization

We utilize the net debt to net capitalization calculation (a non-GAAP measure) to assess our overall financial leverage and capacity and believe the calculation is useful to investors for the same reason. The following table provides a reconciliation of net debt to net capitalization to the most directly comparable GAAP measures:

| Net Debt to Net Capitalization Ratio (dollars in thousands) | September 30, 2013 | December 31, 2012 |
|-------------------------------------------------------------|--------------------|-------------------|
| Current maturities of long-term debt                        | \$3,235            | \$3,266           |
| Commercial paper                                            | 668,900            | 607,500           |
| Long-term debt                                              | 2,190,156          | 2,189,350         |
| Total debt                                                  | 2,862,291          | 2,800,116         |
| Less: Cash and cash equivalents                             | (739,824)          | (800,076)         |
| Net debt                                                    | 2,122,467          | 2,000,040         |
| Add: Stockholders' equity                                   | 5,284,425          | 4,919,230         |
| Net capitalization                                          | \$7,406,892        | \$6,919,270       |
| Net debt to net capitalization                              | 28.7               | % 28.9 %          |

Our net debt to net capitalization ratio remained relatively consistent period over period, at 28.7% at September 30, 2013 and 28.9% at December 31, 2012. An increase in our debt due to the issuance of commercial paper in 2013 and a decrease in cash generated from operations drove the net debt increase, while equity levels driven by net earnings substantially increased.

We use commercial paper borrowings for general corporate purposes, including the funding of acquisitions and the repurchasing of our common stock. We currently maintain an unsecured revolving credit facility with a syndicate of banks which permits borrowings up to \$1 billion and expires on November 10, 2016. This facility is used primarily as liquidity back-up for our commercial paper program. We have not borrowed any funds under this facility nor do we anticipate doing so. If we were to draw down a loan, at our election, the loan would bear interest at a Eurodollar or Sterling rate based on LIBOR, plus an applicable margin ranging from 0.565% to 1.225% (subject to adjustment based on the rating accorded our senior unsecured debt by S&P and Moody's) or at a base rate pursuant to a formula defined in the facility. Under this facility, we are required to maintain an interest coverage ratio of EBITDA to consolidated net interest expense of not less than 3.0 to 1. We were in compliance with this covenant and our other long-term debt covenants at September 30, 2013 and had a coverage ratio of 14.9 to 1. We are not aware of any potential impairment to our liquidity and expect to remain in compliance with all of our debt covenants.

We also have a current shelf registration statement filed with the SEC with remaining capacity of \$1 billion that allows for the issuance of additional debt securities that may be utilized in one or more offerings on terms to be determined at the time of the offering. Net proceeds of any offering would be used for general corporate purposes, including repayment of existing indebtedness, capital expenditures and acquisitions.

At September 30, 2013, our cash and cash equivalents totaled \$739.8 million, of which \$687.7 million was held outside the United States. Cash and equivalents are invested in highly liquid investment-grade money market instruments and bank deposits with maturities of three months or less. We regularly invest cash in excess of near-term requirements in money market instruments or short-term investments, which consist of investment grade time deposits with original maturity dates at the time of purchase of no greater than three months.

In February 2013, we made a one-time, lump sum distribution of approximately \$190 million from Luxembourg to the U.S. as a tax-free return of U.S. tax basis. If our cash held outside of the U.S. were to be repatriated, under current law, it would be subject to U.S. federal income taxes, less applicable foreign tax credits. However, our intent is to

permanently reinvest these funds outside of the U.S. The cash that our foreign subsidiaries hold for indefinite reinvestment is generally used to finance foreign operations and investments, including acquisitions. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be repatriated, and the amount of foreign tax credits that would be available to reduce or eliminate the resulting U.S. income tax liability. Management believes that it has sufficient liquidity to satisfy its cash needs, including its cash needs in the United States.

At September 30, 2013, we have an outstanding floating-to-floating cross currency swap agreement for a total notional amount of \$50.0 million in exchange for CHF 65.1 million, which matures on October 15, 2015. This transaction continues to hedge a portion of our 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

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income. The fair value at September 30, 2013 reflected a loss of \$22.8 million due to the strengthening of the Swiss franc relative to the U.S. dollar over the term of this arrangement.

### Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and related public financial information are based on the application of generally accepted accounting principles in the United States of America (“GAAP”). GAAP requires the use of estimates, assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our public disclosures, including information regarding contingencies, risk and our financial condition. We believe our use of estimates and underlying accounting assumptions conform to GAAP and are consistently applied. We review valuations based on estimates for reasonableness on a consistent basis.

### Recent Accounting Standards

See Part 1, Notes to Unaudited Condensed Consolidated Financial Statements, Note 17. Recent Accounting Standards. The adoption of recent accounting standards as included in Note 17. Recent Accounting Standards in the unaudited Condensed Consolidated Financial Statements has not had and is not expected to have a significant impact on our revenue, earnings or liquidity.

### Special Notes Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, especially “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains “forward-looking” statements within the meaning of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such statements relate to, among other things, income, earnings, cash flows, changes in operations, operating improvements, industries in which Dover businesses operate and the U.S. and global economies. Statements in this Form 10-Q that are not historical are hereby identified as “forward-looking statements” and may be indicated by words or phrases such as “anticipates,” “supports,” “indicates,” “suggests,” “will,” “plans,” “projects,” “expects,” “believes,” “should,” “could,” “forecast,” “management is of the opinion,” or the use of the future tense and similar words or phrases. Forward-looking statements are subject to inherent risks and uncertainties that could cause actual results to differ materially from current expectations including, but not limited to, the state of the worldwide economy and sovereign credit, especially in Europe; political events that could impact the worldwide economy; the impact of natural disasters and their effect on global supply chains and energy markets; current economic conditions and uncertainties in the credit and capital markets; instability in countries where Dover conducts business; the ability of Dover’s businesses to expand into new geographic markets and to anticipate and meet customer demands for new products and product enhancements; increased competition and pricing pressures in the markets served by Dover’s businesses; the impact of the proposed spin off of Knowles and our ability to consummate the spin off on the anticipated time line or terms; the terms and timing of the sale of any business in discontinued operations; the impact of loss of a single-source manufacturing facility; changes in customer demand or loss of a significant customer; the relative mix of products and services which impacts margins and operating efficiencies; short-term capacity constraints; increases in the cost of raw materials; domestic and foreign governmental and public policy changes including environmental regulations, conflict minerals disclosure requirements, and tax policies (including domestic and international export subsidy programs, R&E credits and other similar programs); protection and validity of patent and other intellectual property rights; the ability to identify and successfully consummate value-adding acquisition opportunities; the Company’s ability to achieve expected savings from integration, synergy and other cost-control initiatives; unforeseen developments in contingencies such as litigation; international economic conditions including interest rate and currency exchange rate fluctuations; possible future terrorist threats and their effect on the worldwide economy; and a

downgrade in Dover's credit ratings. Readers are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The Company may, from time to time, post financial or other information on its Internet website, [www.dovercorporation.com](http://www.dovercorporation.com). The Internet address is for informational purposes only and is not intended for use as a hyperlink. The Company is not incorporating any material on its website into this report.

#### Non-GAAP Disclosures

In an effort to provide investors with additional information regarding our results as determined by generally accepted accounting principles (GAAP), we also disclose non-GAAP information which we believe provides useful information to investors. Free cash flow, net debt, total debt, net capitalization, the net debt to net capitalization ratio, adjusted working capital, earnings adjusted for

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non-recurring items, effective tax rate adjusted for discrete and other items, revenue excluding the impact of changes in foreign currency exchange rates and organic revenue growth are not financial measures under GAAP and should not be considered as a substitute for cash flows from operating activities, debt or equity, earnings, revenue or working capital as determined in accordance with GAAP, and they may not be comparable to similarly titled measures reported by other companies. We believe the (1) net debt to net capitalization ratio and (2) free cash flow are important measures of operating performance and liquidity. Net debt to net capitalization is helpful in evaluating our capital structure and the amount of leverage we employ. Free cash flow provides both management and investors a measurement of cash generated from operations that is available to fund acquisitions, pay dividends, repay debt and repurchase our common stock. Reconciliations of free cash flow, total debt and net debt can be found above in this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe that reporting our effective tax rate adjusted for discrete and other items is useful to management and investors as it facilitates comparisons of our ongoing tax rate to prior and future periods and our peers. We believe that reporting adjusted working capital (also sometimes called "working capital"), which is calculated as accounts receivable, plus inventory, less accounts payable, provides a meaningful measure of our operational results by showing the changes caused solely by revenue. We believe that reporting adjusted working capital and revenues at constant currency, which excludes the positive or negative impact of fluctuations in foreign currency exchange rates, provides a meaningful measure of our operational changes, given the global nature of our businesses. We believe that reporting organic or core revenue growth, which excludes the impact of foreign currency exchange rates and the impact of acquisitions, provides a useful comparison of our revenue performance and trends between periods.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no significant change in our exposure to market risk during the nine months ended September 30, 2013. For a discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

### Item 4. Controls and Procedures

At the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013.

During the third quarter of 2013, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. In making its assessment of changes in internal control over financial reporting as of September 30, 2013, management has excluded all companies acquired in purchase business combinations during the twelve months ended September 30, 2013. The Company is currently assessing the control environments of these acquisitions. These companies are wholly-owned by the Company and their total revenue for the nine months ended September 30, 2013 represents approximately 4.5% of the Company's consolidated revenue for the same period. Their excluded assets represent approximately 2.3% of the Company's consolidated assets at September 30, 2013.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

See Part I, Notes to unaudited Condensed Consolidated Financial Statements, Note 13. Commitments and Contingent Liabilities.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("Form 10-K"), except for the following risk factors that have been added to the disclosure contained in our Form 10-K. The risk factors below should be read in conjunction with the risk factors and other information disclosed in our Form 10-K.

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The proposed spin off of certain of our communication technologies businesses may not be completed on the currently contemplated timeline or terms, or at all, and may not achieve the intended benefits.

The proposed spin off is a complex transaction that is subject to, amongst other things, final approval by our Board of Directors and tax rulings and regulatory approvals, including the effectiveness of a registration statement filed by Knowles with the Securities and Exchange Commission. Delays in obtaining the various approvals and rulings could delay or prevent the proposed spin off.

We have and will continue to incur significant expenses in connection with the proposed transaction which may exceed our current expectations. In addition, execution of the proposed spin off will require significant time and attention from our management, which could distract management from the operation of our business and the execution of our other strategic initiatives.

We cannot predict with certainty when the benefits expected from the proposed transaction will occur or the extent to which they will be achieved, if at all. If the proposed spin off is consummated, our operational and financial profile will change and we will face new risks, including the possibility of reduced financial resources and less diversification of our revenue sources which could adversely impact our future results. In addition, the changes in our operational and financial profile may not meet some of our shareholders' investment strategies, which could cause investors to sell their shares and otherwise decrease demand for our common stock. Excess selling could cause the relative market price of our common stock to decrease and be subject to greater volatility following the consummation of the proposed spin off.

If the spin off, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, shareholders could be subject to significant tax liabilities.

A condition to the spin off is the receipt by us of a private letter ruling from the Internal Revenue Service ("IRS") to the effect that, among other things, the distribution of shares to our shareholders, together with certain related transactions, will qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code, and that the private letter ruling shall not be revoked or modified in any material respect. Although our Board of Directors may waive the condition of receiving the private letter ruling, we do not currently intend to complete the spin off if we have not obtained the ruling substantially to the effect that the distribution, together with certain related transactions, will qualify for tax-free treatment. In addition, we expect to receive an opinion from outside tax counsel that, among other things, the distribution will satisfy certain conditions that the private letter ruling does not address but are relevant to determining whether the distribution will qualify for tax-free treatment. The private letter ruling and tax opinion will rely on certain facts, assumptions, representations and undertakings, including those regarding the past and future conduct of certain of our businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not satisfied, we and our shareholders may not be able to rely on the ruling or the opinion of tax counsel and could be subject to significant tax liabilities. Notwithstanding the private letter ruling and opinion of tax counsel, the IRS could determine on audit that the distribution is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion that are not covered by the private letter ruling or for other reasons.

If the distribution is determined to be taxable for U.S. federal income tax purposes, we and our shareholders that are subject to U.S. federal income tax could incur significant U.S. federal income tax liabilities. For example, if the distribution fails to qualify for tax-free treatment, the transactions would, for U.S. federal income tax purposes, be treated as if the Knowles common stock was sold in a taxable sale for its fair market value, and our shareholders who are subject to U.S. federal income tax would be treated as receiving a taxable distribution in an amount equal to the fair market value of the Knowles common stock received in the distribution.



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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The table below presents shares of Dover stock which we acquired during the quarter.

| Period                      | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs (2) |                       |
|-----------------------------|--------------------------------------|------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|-----------------------|
|                             |                                      |                              |                                                                                  | May 2012 Program                                                                                                 | November 2012 Program |
| July 1 to July 31           | —                                    | \$—                          | —                                                                                | 3,908,289                                                                                                        | \$399,301             |
| August 1 to August 31       | 573,213                              | 87.25                        | 573,213                                                                          | 3,908,289                                                                                                        | 349,301               |
| September 1 to September 30 | 76,627                               | 87.92                        | 76,627                                                                           | 3,908,289                                                                                                        | 342,565               |
| For the Third Quarter       | 649,840                              | \$87.33                      | 649,840                                                                          | 3,908,289                                                                                                        | \$342,565             |

In May 2012, the Board of Directors renewed its standing authorization of the Company's share repurchase program, on terms consistent with its prior five-year authorization which expired at that time. This renewal authorizes the repurchase of up to 10,000,000 shares of the Company's common stock during the five-year period (1) ending May 2017. We did not make any repurchases under this program during the third quarter. Additionally, in November 2012, the Board of Directors approved a \$1 billion share repurchase program authorizing repurchases of Dover's common shares over the following 12 to 18 months. All 649,840 shares repurchased during the third quarter were acquired under the November 2012 program.

As of September 30, 2013, the number of shares still available for repurchase under the May 2012 share repurchase (2) authorization was 3,908,289. The approximate dollar amount still available for repurchase under the November 2012 share repurchase authorization was \$342,565.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

(a) Amendments to Pension Plan, Pension Replacement Plan, and Deferred Compensation Plan

In July 2013, the Company's Benefits Committee approved and the Company communicated to employees that, effective January 1, 2014, it would close to new participants the Company's Pension Plan, a tax-qualified defined benefit plan covering a significant portion of its U.S. salaried and hourly employees, and the Company's Pension Replacement Plan, a non-qualified defined benefit plan covering certain executives of the Company. Employees who

become participants in such plans prior to January 1, 2014, would continue to participate in such plans and earn additional pension benefits, but no new participants would be admitted. The Company also announced its intention to cease benefit accruals in the Company's Pension Plan and the Pension Replacement Plan effective December 31, 2023. After December 31, 2023, participants' benefits under such plans would be frozen.

On October 15, 2013, the Company's Benefits Committee adopted formal amendments to the Company's Pension Plan and the Pension Replacement Plan to adopt the closure to new participants effective January 1, 2014. The Benefits Committee also amended the plans on October 15, 2013 to state the intention of the Company to freeze benefits under such plans effective December 31, 2023.

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On October 15, 2013, the Benefits Committee also amended, effective January 1, 2014, the Company's Deferred Compensation Plan, a non-qualified deferred compensation plan covering certain executives of the Company and its subsidiaries. The Committee amended the plan for two major reasons. The first is to allow participants to defer compensation under the plan only to the extent it is in excess of the compensation limit under the Company's tax-qualified Section 401(k) Retirement Savings Plan, which is presently \$255,000. The second is to provide participants who are not eligible to participate in the Pension Replacement Plan with the same level of matching and other employer contributions that they would have received under the Retirement Savings Plan if the \$255,000 compensation limit under the Retirement Savings Plan did not apply. As amended, the plan operates similar to an "excess" deferred compensation plan in that it provides for employer contributions on salary and bonus in excess of the \$255,000 compensation limit permitted under the tax-qualified Retirement Savings Plan.

Under the amended Deferred Compensation Plan, an eligible participant's account will be credited with matching employer contributions on salary and bonus deferred under the plan each year on or after January 1, 2014 at the same rate as under the Company's Retirement Savings Plan, plus additional employer contributions at the same rate that the participant's business unit makes "automatic" contributions and "profit sharing contributions" under the Company's Retirement Savings Plan each year.

Future benefits to participants, including NEOs, are not estimable as they depend on participants' future compensation and deferral decisions.

(b)None.

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Item 6. Exhibits

- 10.1 First Amendment and Second Amendment to the Dover Corporation Deferred Compensation Plan (As Amended and Restated as of January 1, 2009)\*
- 10.2 First Amendment to the Dover Corporation Pension Replacement Plan (As Amended and Restated as of January 1, 2010)\*
- 31.1 Certificate pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, signed and dated by Brad M. Cerepak.
- 31.2 Certificate pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, signed and dated by Robert A. Livingston.
- 32 Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed and dated by Robert A. Livingston and Brad M. Cerepak.
- 101 The following materials from Dover Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Earnings, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statement of Shareholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements.

\* Executive compensation plan or arrangement

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form

10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

DOVER CORPORATION

Date: October 17, 2013

/s/ Brad M. Cerepak  
Brad M. Cerepak,  
Senior Vice President & Chief Financial Officer  
(Principal Financial Officer)

Date: October 17, 2013

/s/ Raymond T. McKay Jr.  
Raymond T. McKay, Jr.,  
Vice President, Controller  
(Principal Accounting Officer)

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EXHIBIT INDEX

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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