IDEX CORP /DE/
Form 10-Q
July 25, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-10235
IDEX CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	36-3555336
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1925 West Field Court, Lake Forest, Illinois	60045
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (847) 498-7070
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

Number of shares of common stock of IDEX Corporation outstanding as of July 23, 2018: 76,680,296.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

IDEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share amounts)
(unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$458,751	$375,950
Receivables, less allowance for doubtful accounts of $7,642 at June 30, 2018 and $7,764 at December 31, 2017	329,692	294,166
Inventories	283,854	259,724
Other current assets	41,448	74,203
Total current assets	1,113,745	1,004,043
Property, plant and equipment - net	267,828	258,350
Goodwill	1,690,571	1,704,158
Intangible assets - net	393,088	414,746
Other noncurrent assets	18,226	18,331
Total assets	$3,483,458	$3,399,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$150,532	$147,067
Accrued expenses	162,962	184,705
Short-term borrowings	496	258
Dividends payable	33,040	28,945
Total current liabilities	347,030	360,975
Long-term borrowings	858,661	858,788
Deferred income taxes	127,774	137,638
Other noncurrent liabilities	160,842	155,685
Total liabilities	1,494,307	1,513,086
Commitments and contingencies		
Shareholders' equity		
Preferred stock:		
Authorized: 5,000,000 shares, $.01 per share par value; Issued: None	—	—
Common stock:		
Authorized: 150,000,000 shares, $.01 per share par value		
Issued: 90,128,776 shares at June 30, 2018 and 90,162,211 shares at December 31, 2017	902	902
Additional paid-in capital	727,858	716,906
Retained earnings	2,203,473	2,057,915
Treasury stock at cost: 13,291,252 shares at June 30, 2018 and 13,468,675 shares at December 31, 2017	(817,302)	(799,674)
Accumulated other comprehensive income (loss)	(125,780)	(89,507)
Total shareholders' equity	1,989,151	1,886,542

Total liabilities and shareholders’ equity	$3,483,458	$3,399,628

See Notes to Condensed Consolidated Financial Statements

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IDEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$634,360	$573,366	$1,246,684	$1,126,918
Cost of sales	346,993	316,441	682,665	619,052
Gross profit	287,367	256,925	564,019	507,866
Selling, general and administrative expenses	137,548	131,792	275,875	262,265
Restructuring expenses	1,988	—	3,630	4,797
Operating income	147,831	125,133	284,514	240,804
Other (income) expense - net	(50)	372	(4,499)	64
Interest expense	11,140	11,304	22,140	22,856
Income before income taxes	136,741	113,457	266,873	217,884
Provision for income taxes	29,615	29,613	60,789	58,141
Net income	$107,126	$83,844	$206,084	$159,743
Basic earnings per common share	$1.40	$1.10	$2.69	$2.09
Diluted earnings per common share	$1.38	$1.08	$2.65	$2.07
Share data:				
Basic weighted average common shares outstanding	76,539	76,220	76,479	76,167
Diluted weighted average common shares outstanding	77,704	77,320	77,722	77,107

See Notes to Condensed Consolidated Financial Statements

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IDEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$107,126	$83,844	$206,084	$159,743
Other comprehensive income (loss):				
Reclassification adjustments for derivatives, net of tax	1,259	1,063	2,520	2,105
Pension and other postretirement adjustments, net of tax	1,296	1,280	2,709	2,404
Cumulative translation adjustment	(62,645)	47,314	(35,067)	68,364
Other comprehensive income (loss)	(60,090)	49,657	(29,838)	72,873
Comprehensive income	$47,036	$133,501	$176,246	$232,616

See Notes to Condensed Consolidated Financial Statements

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IDEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands except share amounts)
(unaudited)

	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Cumulative Translation Adjustment	Retirement Benefits Adjustment	Cumulative Unrealized Gain (Loss) on Derivatives	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2017	$ 717,808	$ 2,057,915	$ (46,306)	$ (29,154)	$ (14,047)	$ (799,674)	$ 1,886,542
Net income	—	206,084	—	—	—	—	206,084
Adjustment for adoption of ASU 2016-16	—	(645)	—	—	—	—	(645)
Adjustment for adoption of ASU 2018-02	—	6,435	—	(3,411)	(3,024)	—	—
Cumulative translation adjustment	—	—	(35,067)	—	—	—	(35,067)
Net change in retirement obligations (net of tax of $962)	—	—	—	2,709	—	—	2,709
Net change on derivatives designated as cash flow hedges (net of tax of $739)	—	—	—	—	2,520	—	2,520
Issuance of 324,913 shares of common stock from issuance of unvested shares, performance share units and exercise of stock options (net of tax of $3,285)	—	—	—	—	—	13,616	13,616
Repurchase of 147,490 shares of common stock	—	—	—	—	—	(20,494)	(20,494)
Shares surrendered for tax withholding	—	—	—	—	—	(10,750)	(10,750)
Share-based compensation	10,952	—	—	—	—	—	10,952
Cash dividends declared — $0.86 per common share outstanding	—	(66,316)	—	—	—	—	(66,316)
Balance, June 30, 2018	$ 728,760	$ 2,203,473	$ (81,373)	$ (29,856)	$ (14,551)	$ (817,302)	$ 1,989,151

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2018			2017		
Cash flows from operating activities						
Net income	$	206,084		$	159,743	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	19,957			18,633		
Amortization of intangible assets	20,667			23,893		
Amortization of debt issuance expenses	664			659		
Share-based compensation expense	13,252			12,398		
Deferred income taxes	(3,021		)	2,414		
Non-cash interest expense associated with forward starting swaps	3,259			3,323		
Changes in (net of the effect from acquisitions):						
Receivables	(40,044		)	(31,110		)
Inventories	(28,011		)	(4,796		)
Other current assets	17,798			(8,446		)
Trade accounts payable	5,432			6,469		
Accrued expenses	(21,131		)	(9,799		)
Other - net	(2,480		)	(801		)
Net cash flows provided by operating activities	192,426			172,580		
Cash flows from investing activities						
Purchases of property, plant and equipment	(20,968		)	(19,539		)
Purchase of intellectual property	(4,000		)	—		
Other - net	(861		)	96		
Net cash flows used in investing activities	(25,829		)	(19,443		)

Cash flows from financing activities						
Borrowings under revolving facilities	—			33,000		
Payments under revolving credit facilities	—			(166,297		)
Dividends paid	(61,916		)	(54,572		)
Proceeds from stock option exercises	13,616			12,984		
Purchases of common stock	(19,499		)	(9,799		)
Shares surrendered for tax withholding	(10,750		)	(5,814		)
Settlement of foreign exchange contracts	6,593			4,406		
Net cash flows used in financing activities	(71,956		)	(186,092		)
Effect of exchange rate changes on cash and cash equivalents	(11,840		)	15,352		
Net increase (decrease) in cash	82,801			(17,603		)
Cash and cash equivalents at beginning of year	375,950			235,964		
Cash and cash equivalents at end of period	$	458,751		$	218,361	
Supplemental cash flow information						
Cash paid for:						
Interest	$	18,223		$	19,052	
Income taxes - net	38,190			50,709		
Significant non-cash activities:						
Capital expenditures for construction of new leased facility	11,971			—		

See Notes to Condensed Consolidated Financial Statements

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IDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
(unaudited)

1. Basis of Presentation and Significant Accounting Policies

The Condensed Consolidated Financial Statements of IDEX Corporation (“IDEX,” “we,” “our,” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) applicable to interim financial information and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. The statements are unaudited but include all adjustments, consisting only of recurring items, except as noted, that the Company considers necessary for a fair presentation of the information set forth herein. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the entire year.

The Condensed Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth in this report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Recently Adopted Accounting Standards

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires an entity to disclose its accounting policy related to releasing income tax effects from accumulated other comprehensive income (loss), whether it has elected to reclassify the stranded tax effects in accumulated other comprehensive income (loss) to retained earnings in the statement of shareholders’ equity and if it has elected to reclassify the stranded tax effects in accumulated other comprehensive income (loss) to retained earnings, what the reclassification encompasses. The Company early adopted this standard on a retrospective basis on January 1, 2018. The adoption resulted in an increase of $6.4 million to Retained earnings and a corresponding change of $6.4 million to Accumulated other comprehensive income (loss) at January 1, 2018.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in the FASB guidance for revenue recognition. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, which amends Accounting Standards Codification (“ASC”) 740, Income Taxes. This ASU requires that the income tax consequences of an intra-entity asset transfer other than inventory are recognized at the time of the transfer. An entity will continue to recognize the income tax consequences of an intercompany transfer of inventory when the inventory is sold to a third party. The Company adopted this standard on a modified retrospective basis on January 1, 2018. The adoption resulted in a decrease of $7.3 million to Other current assets, a decrease of $6.7 million to Deferred income taxes and a decrease of $0.6 million to Retained earnings at January 1, 2018.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force). This ASU addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a new five-step model for recognizing revenue from contracts with customers. Under ASU 2014-09, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures

IDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
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about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The FASB has also issued the following standards which clarify ASU 2014-09 and have the same effective date as the original standard: ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

In 2016, we established an implementation team and analyzed the impact of the standard by surveying business units and performing extensive contract reviews to identify potential differences that may result from applying the requirements of the new standard. The contract reviews generally supported the recognition of revenue at a point in time, which is consistent with the current revenue recognition model used by most of our business units. As a result, revenue recognition remains unchanged under the new standard. For our business units that currently recognize revenue under a percentage of completion model, revenue recognition also remains unchanged as the contract reviews supported the recognition of revenue over time. The Company has implemented the appropriate changes to its processes, systems and controls to comply with the new guidance. The Company adopted this standard on January 1, 2018 using the modified retrospective approach applied to contracts that were not completed as of January1, 2018. The adoption of this standard did not have an impact on our condensed consolidated financial statements, except to provide additional disclosures. The Company elected the following practical expedients: significant financing component, sales tax presentation, contract costs, shipping and handling activities and disclosures. See Note 4 for further details on revenue.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard introduces a new lessee model that will require most leases to be recorded on the balance sheet and eliminates the required use of bright line tests in current U.S. GAAP for determining lease classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Companies are permitted to adopt the standard early. Upon adoption, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

The Company has selected its lease software solution and is in the process of identifying changes to its business processes, systems and controls to support adoption of the new standard in 2019. The Company is currently evaluating the impact of adopting the new standard on its condensed consolidated financial statements. While the Company is unable to quantify the impact at this time, it expects the adoption of the new standard to result in a significant right of use asset and lease liability while expense recognition will be similar to the previously required straight-line expense treatment as the majority of its leases will remain operating in nature.

2. Acquisitions and Divestitures

All of the Company’s acquisitions of businesses have been accounted for under ASC 805, Business Combinations. Accordingly, the accounts of the acquired companies, after adjustments to reflect fair values assigned to assets and liabilities, have been included in the Company’s condensed consolidated financial statements from their respective dates of acquisition. The results of operations of the acquired companies have been included in the Company’s condensed consolidated results since the date of each acquisition.

The Company incurred acquisition-related transaction costs of $0.8 million and $0.1 million in the three months ended June 30, 2018 and 2017, respectively, and $1.5 million and $0.2 million in the six months ended June 30, 2018 and 2017, respectively. These costs were recorded in Selling, general and administrative expenses and were related to completed transactions, pending transactions and potential transactions, including transactions that ultimately were not completed.

2017 Acquisition

On December 8, 2017, the Company acquired the stock of thinXXS Microtechnology AG (“thinXXS”), a leader in the design, manufacture and sale of microfluidic components serving the point of care, veterinary and life science markets. The business was acquired to complement our existing CiDRA Precision Services business and expand on our microfluidic and nanofluidic capabilities. Headquartered in Zweibrücken, Germany, thinXXS operates in our Health & Science Technologies segment. thinXXS was acquired for cash consideration of $38.2 million and the assumption of $1.2 million of debt. The purchase price was funded with cash on hand. Goodwill and intangible assets recognized as part of the transaction were $25.1 million and $10.6 million, respectively. The goodwill is not deductible for tax purposes.

The Company made an initial allocation of the purchase price for the thinXXS acquisition as of the acquisition date based on its understanding of the fair value of the acquired assets and assumed liabilities. These nonrecurring fair value measurements are classified as Level 3 in the fair value hierarchy. As the Company continues to obtain additional information about these assets and liabilities, and continues to learn more about the newly acquired business, we will refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. The Company will make the appropriate adjustments to the purchase price allocation prior to the completion of the measurement period, as required.

2017 Divestiture

The Company periodically reviews its operations for businesses which may no longer be aligned with its strategic objectives and focuses on its core business and customers. Any resulting gain or loss recognized due to divestitures is recorded within the Condensed Consolidated Statements of Operations. The Company concluded that the divestiture that took place during the year ended December 31, 2017 did not meet the criteria for reporting discontinued operations.

On October 31, 2017, the Company completed the sale of its Faure Herman subsidiary for $21.8 million in cash, which resulted in a pre-tax gain on the sale of $9.3 million that was recognized in the fourth quarter of 2017. There was no income tax expense associated with this transaction. The results of Faure Herman were reported within the Fluid & Metering Technologies segment through the date of sale.

3. Business Segments

The Company has three reportable business segments: Fluid & Metering Technologies (“FMT”), Health & Science Technologies (“HST”) and Fire & Safety/Diversified Products (“FSDP”).

The Fluid & Metering Technologies segment designs, produces and distributes positive displacement pumps, flow meters, injectors, and other fluid-handling pump modules and systems and provides flow monitoring and other services for the food, chemical, general industrial, water and wastewater, agriculture and energy industries.

The Health & Science Technologies segment designs, produces and distributes a wide range of precision fluidics, rotary lobe pumps, centrifugal and positive displacement pumps, roll compaction and drying systems used in beverage, food processing, pharmaceutical and cosmetics, pneumatic components and sealing solutions, including very high precision, low-flow rate pumping solutions required in analytical instrumentation, clinical diagnostics and drug discovery, high performance molded and extruded sealing components, biocompatible medical devices and implantables, air compressors used in medical, dental and industrial applications, optical components and coatings for applications in the fields of scientific research, defense, biotechnology, aerospace, telecommunications and electronics manufacturing, laboratory and commercial equipment used in the production of micro and nano scale materials, precision photonic solutions used in life sciences, research and defense markets and precision gear and peristaltic pump technologies that meet exacting original equipment manufacturer specifications.

The Fire & Safety/Diversified Products segment designs, produces and distributes firefighting pumps, valves and controls, rescue tools, lifting bags and other components and systems for the fire and rescue industry, engineered stainless steel banding and clamping devices used in a variety of industrial and commercial applications and precision equipment for dispensing, metering and mixing colorants and paints used in a variety of retail and commercial businesses around the world.

Information on the Company’s business segments is presented below based on the nature of products and services offered. The Company evaluates performance based on several factors, of which sales, operating income and operating margin are the primary financial measures. Intersegment sales are accounted for at fair value as if the sales were to third parties.

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IDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales				
Fluid & Metering Technologies				
External customers	$242,755	$221,123	$475,016	$437,778
Intersegment sales	45	59	117	174
Total segment sales	242,800	221,182	475,133	437,952
Health & Science Technologies				
External customers	227,367	204,297	448,334	403,872
Intersegment sales	36	112	144	216
Total segment sales	227,403	204,409	448,478	404,088
Fire & Safety/Diversified Products				
External customers	164,238	147,946	323,334	285,268
Intersegment sales	62	37	139	162
Total segment sales	164,300	147,983	323,473	285,430
Intersegment elimination	(143)	(208)	(400)	(552)
Total net sales	$634,360	$573,366	$1,246,684	$1,126,918
Operating income				
Fluid & Metering Technologies	$71,228	$60,029	$137,394	$117,842
Health & Science Technologies	52,569	46,294	104,375	88,532
Fire & Safety/Diversified Products	45,882	37,197	85,436	69,823
Corporate office	(21,848)	(18,387)	(42,691)	(35,393)
Total operating income	147,831	125,133	284,514	240,804
Interest expense	11,140	11,304	22,140	22,856
Other (income) expense - net	(50)	372	(4,499)	64
Income before income taxes	$136,741	$113,457	$266,873	$217,884

	June 30, 2018	December 31, 2017
Assets		
Fluid & Metering Technologies	$1,125,901	$ 1,101,580
Health & Science Technologies	1,311,052	1,323,373
Fire & Safety/Diversified Products	765,217	744,515
Corporate office	281,288	230,160
Total assets	$3,483,458	$ 3,399,628

4. Revenue

IDEX is an applied solutions company specializing in the manufacture of fluid and metering technologies, health and science technologies and fire, safety and other diversified products built to customers' specifications. The Company's products include industrial pumps, compressors, flow meters, injectors, valves and related controls for use in a wide variety of process applications; precision fluidics solutions, including pumps, valves, degassing equipment, corrective tubing, fittings and complex manifolds, optical filters and specialty medical equipment and devices for use in life science applications; precision-engineered equipment for dispensing, metering and mixing paints; and engineered products for industrial and commercial markets, including fire and

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IDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
(unaudited)

rescue, transportation equipment, oil and gas, electronics and communications. The Company's revenue is accounted for under ASC 606, Revenue from Contracts with Customers, which we adopted on January 1, 2018 using the modified retrospective method.

Revenue is recognized when control of the promised products or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for transferring those products or providing those services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of the consideration is probable. We determine the appropriate revenue recognition for our contracts with customers by analyzing the type, terms and conditions of each contract or arrangement with a customer.

Disaggregation of Revenue

We have a comprehensive offering of products, including technologies, built to customers' specifications that are sold in niche markets throughout the world. We disaggregate our revenue from contracts with customers by reporting unit and geographical region for each of our segments as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. Geographical region is based on the location of the customer. The following tables present our revenue disaggregated by reporting unit and geographical region.

Revenue by reporting unit for the three and six months ended June 30, 2018 was as follows:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Energy	$40,779	$79,538
Valves	28,830	54,859
Water	65,171	124,011
Pumps	82,735	163,401
Agriculture	25,285	53,324
Intersegment elimination	(45)	(117)
Fluid & Metering Technologies	242,755	475,016
Scientific Fluidics & Optics	104,106	203,613
Sealing Solutions	51,634	105,336
Gast	30,903	59,415
Micropump	9,800	19,098
Material Processing Technologies	30,960	61,016
Intersegment elimination	(36)	(144)
Health & Science Technologies	227,367	448,334
Fire & Safety	99,940	196,152
Band-It	26,981	54,455
Dispensing	37,379	72,866
Intersegment elimination	(62)	(139)
Fire & Safety/Diversified Products	164,238	323,334
Total net sales	$634,360	$1,246,684

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IDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
(unaudited)

Revenue by geographical region for the three and six months ended June 30, 2018 was as follows:

	Three Months Ended June 30, 2018			
	FMT	HST	FSDP	IDEX
U.S.	$139,347	$97,544	$75,747	$312,638
Europe	40,097	74,023	43,702	157,822
Asia	34,899	48,240	30,065	113,204
Rest of world [1]	28,457	7,596	14,786	50,839
Intersegment elimination	(45)	(36)	(62)	(143)
Total net sales	$242,755	$227,367	$164,238	$634,360

	Six Months Ended June 30, 2018			
	FMT	HST	FSDP	IDEX
U.S.	$272,500	$191,352	$148,244	$612,096
Europe	83,696	147,802	90,821	322,319
Asia	61,297	92,788	54,298	208,383
Rest of world [1]	57,640	16,536	30,110	104,286
Intersegment elimination	(117)	(144)	(139)	(400)
Total net sales	$475,016	$448,334	$323,334	$1,246,684

[1] Rest of world includes: North America (excluding U.S.), South America, Middle East, Australia and Africa.

Contract Balances

The timing of revenue recognition, billings and cash collections results in customer receivables, advance payments and billings in excess of revenue recognized. Customer receivables include amounts billed and currently due from customers as well as unbilled amounts (contract assets) and are included in Receivables on our Condensed Consolidated Balance Sheets. Amounts are billed in accordance with contractual terms or as work progresses in accordance with contractual terms. Unbilled amounts arise when the timing of billing differs from the timing of revenue recognized, such as when contract provisions require specific milestones to be met before a customer can be billed. Unbilled amounts primarily relate to performance obligations satisfied over time when the cost-to-cost method is utilized and the revenue recognized exceeds the amount billed to the customer as there is not yet a right to payment in accordance with contractual terms. Unbilled amounts are recorded as a contract asset when the revenue associated with the contract is recognized prior to billing and derecognized when billed in accordance with the terms of the contract. Customer receivables are recorded at face amounts less an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses as a result of customers' inability to make required payments. Management evaluates the aging of the customer receivable balances, the financial condition of its customers, historical trends and the time outstanding of specific balances to estimate the amount of customer receivables that may not be collected in the future and records the appropriate provision.

The composition of Customer receivables was as follows:

	June 30, 2018	January 1, 2018
Billed receivables	$317,482	$285,800
Unbilled receivables	14,386	11,996
Total customer receivables	$331,868	$297,796

Advance payments and billings in excess of revenue recognized are included in Deferred revenue which is classified as current or noncurrent based on the timing of when we expect to recognize the revenue. The current portion is included in Accrued expenses and the noncurrent portion is included in Other noncurrent liabilities on our Condensed Consolidated Balance Sheets. Advance payments and billings in excess of revenue recognized represent contract liabilities and are recorded when customers remit

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contractual cash payments in advance of us satisfying performance obligations under contractual arrangements, including those with performance obligations satisfied over time. Billings in excess of revenue recognized primarily relate to performance obligations satisfied over time when the cost-to-cost method is utilized and revenue cannot yet be recognized as the Company has not completed the corresponding performance obligation. We generally receive advance payments from customers related to maintenance services which we recognize ratably over the service term. Contract liabilities are derecognized when revenue is recognized and the performance obligation is satisfied.
The composition of Deferred revenue was as follows:

	June 30, 2018	January 1, 2018
Deferred revenue - current	$10,899	$11,031
Deferred revenue - noncurrent	3,269	3,297
Total deferred revenue	$14,168	$14,328

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct product or service to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For our contracts that require complex design, manufacturing and installation activities that are not separately identifiable from other promises in the contract and, therefore, not distinct, the entire contract is accounted for as a single performance obligation. For our contracts that include distinct products or services that are substantially the same and have the same pattern of transfer to the customer over time, they are recognized as a series of distinct products or services. Certain of our contracts have multiple performance obligations for which we allocate the transaction price to each performance obligation using an estimate of the standalone selling price of each distinct product or service in the contract. For product sales, each product sold to a customer generally represents a distinct performance obligation. In such cases, the observable standalone sales are used to determine the standalone selling price. In certain cases, we may be required to estimate standalone selling price using the expected cost plus margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct product or service.
Our performance obligations are satisfied at a point in time or over time as work progresses. Performance obligations are supported by contracts with customers that provide a framework for the nature of the distinct products or services or bundle of products and services. We define service revenue as revenue from activities that are not associated with the design, development or manufacture of a product or the delivery of a software license.
Revenue from products and services transferred to customers at a point in time approximated 95% in both the three and six months ended June 30, 2018. Revenue recognized at a point in time relates to the majority of our product sales. Revenue on these contracts is recognized when obligations under the terms of the contract with our customer are satisfied. Generally, this occurs with the transfer of control of the asset, which is in line with shipping terms.
Revenue from products and services transferred to customers over time approximated 5% in both the three and six months ended June 30, 2018. Revenue earned by certain business units within the Water, Energy, Material Processing Technologies (“MPT”) and Dispensing reporting units is recognized over time because control transfers continuously to our customers. When accounting for over-time contracts, we use an input measure to determine the extent of progress towards completion of the performance obligation. For certain business units within the Water, Energy and MPT reporting units, revenue is recognized over time as work is performed based on the relationship between actual costs incurred to date for each contract and the total estimated costs for such contract at completion of the performance obligation (i.e. the cost-to-cost method). We believe this measure of progress best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Incurred cost represents work performed, which

corresponds with the transfer of control to the customer. Contract costs include labor, material and overhead. Contract estimates are based on various assumptions to project the outcome of future events. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. For certain business units within the Energy and Dispensing reporting units, revenue is recognized ratably over the contract term.

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As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our estimates regularly. Due to uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will be revised. Such revisions to costs and income are recognized in the period in which the revisions are determined as a cumulative catch-up adjustment. The impact of the adjustment on profit recorded to date on a contract is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize provisions for estimated losses on uncompleted contracts in the period in which such losses are determined.
The Company records allowances for discounts, product returns and customer incentives at the time of sale as a reduction of revenue as such allowances can be reliably estimated based on historical experience and known trends. The Company also offers product warranties (primarily assurance-type) and accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, warranty costs incurred and any other related information known to the Company.

5. Earnings Per Common Share
Earnings per common share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock (basic) plus common stock equivalents outstanding (diluted) during the period. Common stock equivalents consist of stock options, which have been included in the calculation of weighted average shares outstanding using the treasury stock method, restricted stock and performance share units.
ASC 260, Earnings Per Share, concludes that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. If awards are considered participating securities, the Company is required to apply the two-class method of computing basic and diluted earnings per share. The Company has determined that its outstanding shares of restricted stock are participating securities. Accordingly, EPS was computed using the two-class method prescribed by ASC 260.
Basic weighted average shares outstanding reconciles to diluted weighted average shares outstanding as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic weighted average common shares outstanding	76,539	76,220	76,479	76,167
Dilutive effect of stock options, restricted stock and performance share units	1,165	1,100	1,243	940
Diluted weighted average common shares outstanding	77,704	77,320	77,722	77,107

Options to purchase approximately 0.3 million and 0.4 million shares of common stock for the three months ended June 30, 2018 and 2017, respectively, and 0.3 million and 0.5 million shares of common stock for the six months ended June 30, 2018 and 2017, respectively, were not included in the computation of diluted EPS because the effect of their inclusion would have been antidilutive.

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6. Inventories

The components of inventories as of June 30, 2018 and December 31, 2017 were:

	June 30, 2018	December 31, 2017
Raw materials and component parts	$178,476	$ 169,676
Work in process	40,836	33,668
Finished goods	64,542	56,380
Total inventories	$283,854	$ 259,724

Inventories are stated at the lower of cost or net realizable value. Cost, which includes material, labor and factory overhead, is determined on a FIFO basis.

7. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2018, by reportable business segment, were as follows:

	FMT	HST	FSDP	IDEX
Balance at December 31, 2017	$586,064	$740,032	$378,062	$1,704,158
Foreign currency translation	(3,677)	(6,509)	(4,553)	(14,739)
Acquisition adjustments	—	1,152	—	1,152
Balance at June 30, 2018	$582,387	$734,675	$373,509	$1,690,571

ASC 350, Goodwill and Other Intangible Assets, requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. In the first six months of 2018, there were no events or circumstances that would have required an interim impairment test. Annually, on October 31, goodwill and other acquired intangible assets with indefinite lives are tested for impairment. Based on the results of our annual impairment test at October 31, 2017, all reporting units had fair values in excess of their carrying values.

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The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset at June 30, 2018 and December 31, 2017:

	At June 30, 2018				At December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Patents	$9,676	$(7,582)	$2,094	11	$9,633	$(7,143)	$2,490
Trade names	115,991	(54,206)	61,785	16	117,206	(50,604)	66,602
Customer relationships	252,861	(76,002)	176,859	14	317,316	(124,566)	192,750
Unpatented technology	92,808	(31,585)	61,223	12	91,166	(29,428)	61,738
Other	700	(473)	227	10	839	(573)	266
Total amortized intangible assets	472,036	(169,848)	302,188		536,160	(212,314)	323,846
Indefinite-lived intangible assets:							
Banjo trade name	62,100	—	62,100		62,100	—	62,100
Akron Brass trade name	28,800	—	28,800		28,800	—	28,800
Total intangible assets	$562,936	$(169,848)	$393,088		$627,060	$(212,314)	$414,746

On June 22, 2018, the Company acquired the intellectual property assets of Phantom Controls (“Phantom”) for cash consideration of $4.0 million. The operational capabilities and innovative pump operation of Phantom’s technology complements our existing water-flow expertise of Hale, Akron Brass and Class 1 to improve fire ground safety and reduce operational complexity during mission critical response. This acquisition of intellectual property assets did not meet the definition of a business under ASU 2017-01 and thus the Company recorded the entire purchase price to the Unpatented technology class of intangible assets on the Condensed Consolidated Balance Sheets.

The Banjo trade name and the Akron Brass trade name are indefinite-lived intangible assets which are tested for impairment on an annual basis in accordance with ASC 350 or more frequently if events or changes in circumstances indicate that the assets might be impaired. In the first six months of 2018, there were no events or circumstances that would have required an interim impairment test. The Company uses the relief-from-royalty method, a form of the income approach, to determine the fair value of these trade names. The relief-from-royalty method is dependent on a number of significant management assumptions, including estimates of revenues, royalty rates and discount rates.

Amortization of intangible assets was $9.8 million and $20.7 million for the three and six months ended June 30, 2018, respectively. Amortization of intangible assets was $12.1 million and $23.9 million for the three and six months ended June 30, 2017, respectively. Based on the intangible asset balances as of June 30, 2018, amortization expense is expected to approximate $17.6 million for the remaining six months of 2018, $34.8 million in 2019, $34.3 million in 2020, $33.0 million in 2021 and $31.4 million in 2022.

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8. Accrued Expenses
The components of accrued expenses as of June 30, 2018 and December 31, 2017 were:

	June 30, 2018	December 31, 2017
Payroll and related items	$67,741	$ 75,869
Management incentive compensation	12,764	24,320
Income taxes payable	26,780	28,033
Insurance	9,675	9,424
Warranty	5,887	6,281
Deferred revenue	10,899	11,031
Restructuring	3,702	4,180
Liability for uncertain tax positions	1,484	1,745
Accrued interest	1,754	1,759