IDEX CORP /DE/
Form 10-Q
August 01, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

## Form 10-Q

## p QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

## OR

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

Commission file number 1-10235

## IDEX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

| Delaware | 36-3555336 <br> (I.R.S. Employer |
| :---: | :---: |
| (State or other jurisdiction of |  |
| incorporation or organization) | Identification No.) |
| West Field Court, Lake Forest, Illinois |  |
| ddress of principal executive offices) |  |
| Registrant $\mathbf{s}$ telephone number: (847) 498-7070 | (Zip 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.

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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 p 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 p $\quad$ Accelerated filer " $\quad$ Non-accelerated filer ${ }^{*} \quad$ Smaller reporting company * (Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

$$
\text { Yes " No } p
$$

Number of shares of common stock of IDEX Corporation outstanding as of July 26, 2012: 83,383,928.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## IDEX CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

## (in thousands except share and per share amounts)

## (unaudited)

|  | June 30, 2012 |  | December 31, 2011 |  |
| :---: | :---: | :---: | :---: | :---: |
| ASSETS |  |  |  |  |
| Current assets |  |  |  |  |
| Cash and cash equivalents | \$ | 221,110 | \$ | 230,259 |
| Receivables, less allowance for doubtful accounts of \$5,486 at June 30, 2012 and \$5,860 at |  |  |  |  |
| December 31, 2011 |  | 265,209 |  | 252,845 |
| Inventories net |  | 254,497 |  | 254,258 |
| Other current assets |  | 57,273 |  | 51,799 |
| Total current assets |  | 798,089 |  | 789,161 |
| Property, plant and equipment net |  | 215,673 |  | 213,717 |
| Goodwill |  | 1,450,969 |  | 1,431,366 |
| Intangible assets net |  | 371,475 |  | 382,222 |
| Other noncurrent assets |  | 20,596 |  | 19,641 |
| Total assets | \$ | 2,856,802 | \$ | 2,836,107 |


| LIABILITIES AND SHAREHOLDERS EQUITY |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Current liabilities |  |  |  |  |
| Trade accounts payable | \$ | 114,430 | \$ | 110,977 |
| Accrued expenses |  | 124,167 |  | 130,696 |
| Current portion of long-term debt and short-term borrowings |  | 5,616 |  | 2,444 |
| Dividends payable |  | 16,687 |  | 14,161 |
| Total current liabilities |  | 260,900 |  | 258,278 |
| Long-term borrowings |  | 753,725 |  | 806,366 |
| Deferred income taxes |  | 152,854 |  | 142,482 |
| Other noncurrent liabilities |  | 110,070 |  | 115,846 |
| Total liabilities |  | 1,277,549 |  | 1,322,972 |
| 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: 87,083,550 shares at June 30, 2012 and 85,968,630 shares at December 31, 2011 |  | 871 |  | 860 |
| Additional paid-in capital |  | 527,610 |  | 490,128 |
| Retained earnings |  | 1,215,516 |  | 1,142,412 |
|  |  | $(103,103)$ |  | $(64,796)$ |

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| Treasury stock at cost: 3, 654,044 shares at June 30, 2012 and 2,734,747 shares at December 31, 2011 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Accumulated other comprehensive loss |  | $(61,641)$ |  | $(55,469)$ |
| Total shareholders equity |  | 1,579,253 |  | 1,513,135 |
| Total liabilities and shareholders equity | \$ | 2,856,802 | \$ | 2,836,107 |

See Notes to Condensed Consolidated Financial Statements

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## IDEX CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share amounts)

## (unaudited)

|  | Three Months Ended June 30, |  | Six Months Ended June 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 494,144 | \$ 453,798 | \$ 983,561 | \$ 880,887 |
| Cost of sales | 291,031 | 268,959 | 577,559 | 517,348 |
| Gross profit | 203,113 | 184,839 | 406,002 | 363,539 |
| Selling, general and administrative expenses | 111,882 | 105,210 | 225,264 | 206,189 |
| Restructuring expenses | 2,581 |  | 7,519 |  |
| Operating income | 88,650 | 79,629 | 173,219 | 157,350 |
| Other income (expense) net | (230) | 347 | (113) | (560) |
| Interest expense | 10,536 | 6,720 | 21,198 | 13,174 |
| Income before income taxes | 77,884 | 73,256 | 151,908 | 143,616 |
| Provision for income taxes | 23,533 | 23,074 | 45,386 | 45,483 |
| Net income | \$ 54,351 | \$ 50,182 | \$ 106,522 | \$ 98,133 |
| Basic earnings per common share | \$ 0.65 | \$ 0.61 | \$ 1.28 | \$ 1.19 |
| Diluted earnings per common share | \$ 0.65 | \$ 0.60 | \$ 1.27 | \$ 1.17 |
| Share data: |  |  |  |  |
| Basic weighted average common shares outstanding | 83,180 | 82,151 | 82,987 | 81,790 |
| Diluted weighted average common shares outstanding | 84,090 | 83,778 | 83,991 | 83,507 |

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## IDEX CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)
(unaudited)

|  | Three Months Ended June 30, |  |  | Six Months Ended June 30, |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2012 | ${ }^{2011}$ (In th | $\begin{array}{r} 2012 \\ \text { sands) } \end{array}$ | 2011 |
| Net income |  | \$ 54,351 | \$ 50,182 | \$ 106,522 | \$ 98,133 |
| Other comprehensive income |  |  |  |  |  |
| Gains, losses and reclassification adjustments for derivatives, net of tax |  | 1,219 | 860 | 2,440 | 1,764 |
| Pension and other postretirement adjustments, net of tax |  | 1,965 | 792 | 3,088 | 1,577 |
| Cumulative translation adjustment |  | $(26,731)$ | 6,659 | $(11,700)$ | 31,537 |
| Comprehensive income |  | \$ 30,804 | \$ 58,493 | \$ 100,350 | \$ 133,011 |

See Notes to Condensed Consolidated Financial Statements

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## IDEX CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

## (in thousands except share amounts)

(unaudited)

|  | Accumulated Other Comprehensive Income (Loss) |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Common |  |  | Cumulative <br> Translation <br> Adjustment | Retirement <br> Benefits Adjustments |  | Cumulative |  |  |  |  |  |
|  | Stock and <br> Additional Paid-In Capital |  | Retained Earnings |  |  |  |  | realized oss on ivatives |  | Treasury <br> Stock |  | Total areholders Equity |
| Balance, December 31, 2011 | \$ | 490,988 | \$ 1,142,412 | \$ 24,194 | \$ | $(38,486)$ | \$ | $(41,177)$ |  | \$ $(64,796)$ | \$ | 1,513,135 |
| Net income |  |  | 106,522 |  |  |  |  |  |  |  |  | 106,522 |
| Cumulative translation adjustment |  |  |  | $(11,700)$ |  |  |  |  |  |  |  | $(11,700)$ |
| Pension and other postretirement adjustments, net of tax |  |  |  |  |  | 3,088 |  |  |  |  |  | 3,088 |
| Amortization of forward starting swaps, net of tax |  |  |  |  |  |  |  | 2,440 |  |  |  | 2,440 |
| Issuance of $1,142,685$ shares of common stock from issuance of unvested shares, exercise of stock options and deferred compensation plans, net of tax benefit |  | 30,346 |  |  |  |  |  |  |  |  |  | 30,346 |
| Repurchase of 865,151 shares of common stock |  |  |  |  |  |  |  |  |  | $(36,042)$ |  | $(36,042)$ |
| Unvested shares surrendered for tax withholding |  |  |  |  |  |  |  |  |  | $(2,265)$ |  | $(2,265)$ |
| Share-based compensation |  | 7,147 |  |  |  |  |  |  |  |  |  | 7,147 |
| Cash dividends declared $\$ .40$ per common share |  |  | $(33,418)$ |  |  |  |  |  |  |  |  | $(33,418)$ |
| Balance, June 30, 2012 | \$ | 528,481 | \$ 1,215,516 | \$ 12,494 | \$ | $(35,398)$ | \$ | $(38,737)$ |  | (103,103) | \$ | 1,579,253 |

See Notes to Condensed Consolidated Financial Statements

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## IDEX CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## (in thousands)

(unaudited)


| Cash and cash equivalents at beginning of year | 230,259 |  | 235,136 |  |
| :---: | :---: | :---: | :---: | :---: |
| Cash and cash equivalents at end of period | \$ | 221,110 | \$ | 202,961 |
| Supplemental cash flow information |  |  |  |  |
| Cash paid for: |  |  |  |  |
| Interest | \$ | 20,658 | \$ | 12,821 |
| Income taxes |  | 31,521 |  | 35,307 |
| Significant non-cash activities: |  |  |  |  |
| Contingent consideration for acquisition |  |  |  | 2,707 |
| Debt acquired with acquisition of business |  | 4,680 |  | 1,400 |

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 1. Basis of Presentation and Significant Accounting Policies

The Condensed Consolidated Financial Statements of IDEX Corporation ( IDEX or the Company ) have been prepared in accordance with 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 six months ended June 30, 2012 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 should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

## Adoption of New Accounting Standards

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-04 which was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. Generally Accepted Accounting Principles (GAAP ) and International Financial Reporting Standards ( IFRS ). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The Company adopted this guidance on January 1, 2012, and its adoption did not impact the consolidated financial position, results of operations or cash flows of the Company.

In June 2011, FASB issued ASU 2011-05 Presentation of Comprehensive Income ( ASU 2011-05 ). ASU 2011-05 allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While ASU 2011-05 changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. In December 2011, FASB issued ASU 2011-12 Comprehensive Income (Topic 220); Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 ( ASU 2011-12). ASU 2011-12 deferred certain aspects of ASU 2011-05. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 and the deferrals in ASU 2011-12 did not impact the consolidated financial position, results of operations or cash flows of the Company.

## 2. Restructuring

During the second half of 2011 and into 2012, the Company recorded restructuring costs as a part of 2011 restructuring initiatives that support the implementation of key strategic efforts designed to facilitate long-term sustainable growth through cost reduction actions, primarily consisting of employee reductions and facility rationalization. The costs incurred related to these initiatives are included in Restructuring expenses in the Consolidated Statements of Operations while the restructuring accruals are included in Accrued expenses in the Consolidated Balance Sheets.

During the three and six months ended June 30, 2012, the Company recorded $\$ 2.6$ million and $\$ 7.5$ million, respectively, of pre-tax restructuring expenses related to its 2011 restructuring initiative for employee severance related to employee reductions across various functional areas, the termination of a defined benefit pension plan as well as facility rationalization. The 2011 restructuring initiative included severance benefits for 292 employees in 2011 and 114 employees for the first six months of 2012.

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (unaudited)

Pre-tax restructuring expenses, by segment, for the three months ended June 30, 2012, were as follows:

|  | Severance <br> Costs | Exit Costs <br> (In thousands) | Total |  |
| :--- | ---: | ---: | ---: | ---: |
| Fluid \& Metering Technologies | $\$ 309$ | $\$$ | 10 | $\$$ |
| Health \& Science Technologies | 757 | 395 | 1,152 |  |
| Fire \& Safety/Diversified Products | 280 | 748 | 1,028 |  |
| Corporate/Other | 82 |  | 82 |  |
| Total restructuring costs | $\$ 1,428$ | $\$ 1,153$ | $\$ 2,581$ |  |

Pre-tax restructuring expenses, by segment, for the six months ended June 30, 2012, were as follows:

|  | Severance <br> Costs | Exit Costs <br> $($ In thousands) | Total |
| :--- | ---: | ---: | ---: |
| Fluid \& Metering Technologies | $\$ 2,968$ | $\$$ | 10 |$\$ 2,978$

Restructuring accruals of $\$ 2.8$ million and $\$ 5.9$ million at June 30, 2012 and December 31, 2011, respectively, are reflected in Accrued expenses in the Consolidated Balance Sheets as follows:

| (In thousands) | \$ |
| :--- | ---: |
| Balance at January 1, 2012 | 5,875 |
| Restructuring expenses | 7,519 |
| Payments/utilization | $(10,640)$ |
|  | $\$ 2,754$ |

## 3. Acquisitions

All of the Company s acquisitions 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 consolidated financial statements from their respective dates of acquisition.

## 2012 Acquisitions

On April 11, 2012, the Company acquired the assets of Precision Photonics Corporation ( PPC ). PPC specializes in optical components and coatings for applications in the fields of scientific research, aerospace, telecommunications and electronics manufacturing. Located in Boulder, Colorado, PPC has annual revenues of approximately $\$ 7.0$ million. PPC operates within the Health \& Science Technologies segment as a part of the IDEX Optics and Photonics ( IOP ) platform. The Company acquired PPC for an aggregate purchase price of $\$ 20.6$ million in cash. The $\$ 20.6$ million cash payment was funded from operations. Goodwill and intangible assets recognized as part of this transaction were $\$ 15.0$ million and $\$ 5.1$ million, respectively. The $\$ 15.0$ million of goodwill is not deductible for tax purposes.

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

On April 30, 2012, the Company acquired ERC. ERC is a leader in the manufacture of gas liquid separations and detection solutions for the life science, analytical instrumentation and clinical chemistry markets. ERC s pioneering products include in-line membrane vacuum degassing solutions, refractive index detectors and ozone generation systems. ERC soriginal equipment degassing solutions are considered the standard for many of the world s leading instrument producers. Located in Kawaguchi, Japan, ERC has annual revenues of approximately $\$ 27.0$ million ( $¥ 2.14$ billion) and operates as part of the IH\&S platform within the Health \& Science Technologies segment. The Company acquired ERC for an aggregate purchase price of $\$ 18.3$ million ( $¥ 1.47$ billion), consisting of $\$ 13.6$ million in cash and assumption of approximately $\$ 4.7$ million of debt. The cash payment was financed with borrowings under the company s Revolving Facility. Goodwill and intangible assets recognized as part of this transaction were $\$ 10.8$ million and $\$ 5.6$ million, respectively. The $\$ 10.8$ million of goodwill is not deductible for tax purposes.

The purchase price for PPC and ERC has been allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of the acquisition. The Company is in the process of obtaining or finalizing appraisals of tangible and intangible assets and it is continuing to evaluate the initial purchase price allocations, as of the acquisition date, which will be adjusted as additional information relative to the fair values of the assets and liabilities of the businesses become known. Accordingly, management has used its best estimate in the initial purchase price allocation as of the date of these financial statements.

The allocation of the acquisition costs to the assets acquired and liabilities assumed, based on their estimated fair values, is as follows:

|  |  | ERC | PPC | Total |
| :---: | :---: | :---: | :---: | :---: |
| Accounts receivable |  | \$ 5,766 | \$ 877 | \$ 6,643 |
| Inventory |  | 4,217 | 932 | 5,149 |
| Other current assets, net of cash acquired |  | 417 | 328 | 745 |
| Property, plant and equipment |  | 2,738 | 1,985 | 4,723 |
| Goodwill |  | 10,837 | 15,012 | 25,849 |
| Intangible assets |  | 5,642 | 5,094 | 10,736 |
| Other assets |  | 67 | 13 | 80 |
| Total assets acquired |  | 29,684 | 24,241 | 53,925 |
| Total liabilities assumed |  | $(16,073)$ | $(3,651)$ | $(19,724)$ |
| Net assets acquired |  | \$ 13,611 | \$ 20,590 | \$ 34,201 |

Acquired intangible assets consist of trade names, customer relationships and unpatented technology. The goodwill recorded for the acquisitions reflects the strategic fit and revenue and earnings growth potential of these businesses.

The acquired intangible assets and weighted average amortization periods are as follows:

|  |  |
| :--- | ---: |
|  | Weighted <br> Average |
| Lrade names | Total |

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company incurred $\$ 1.8$ million of acquisition-related transaction costs in the first six months of 2012. These costs were recorded in selling, general and administrative expense and were related to completed transactions, pending transactions and potential transactions, including certain transactions that ultimately were not completed.

## 2011 Acquisitions

On January 31, 2011, the Company acquired the membership interests of AT Films. AT Films specializes in optical components and coatings for applications in the fields of scientific research, defense, aerospace, telecommunications and electronics manufacturing. AT Films core competence is the design and manufacture of filters, splitters, reflectors and mirrors with the precise physical properties required to support their customers most challenging and cutting-edge optical applications. Headquartered in Boulder, Colorado, AT Films has annual revenues of approximately $\$ 9.0$ million. AT Films operates within the Health \& Science Technologies segment as a part of the IOP platform. The Company acquired AT Films for an aggregate purchase price of $\$ 34.5$ million, consisting of $\$ 31.8$ million in cash and contingent consideration valued at approximately $\$ 2.7$ million as of the opening balance sheet date. In February 2012, the Company paid $\$ 1.5$ million on the contingent consideration arrangement. The maximum remaining liability is $\$ 1.5$ million, which is reflected in Accrued expenses and is expected to be paid in the first quarter of 2013. Goodwill and intangible assets recognized as part of this transaction were $\$ 18.2$ million and $\$ 11.4$ million, respectively. The $\$ 18.2$ million of goodwill is deductible for tax purposes.

On March 11, 2011, the Company completed the acquisition of Microfluidics. Microfluidics is a global leader in the design and manufacture of laboratory and commercial equipment used in the production of micro and nano scale materials for the pharmaceutical and chemical markets. Microfluidics is the exclusive producer of the Microfluidizer ${ }^{\circledR}$ family of high shear fluid processors for uniform particle size reduction, robust cell disruption and nanoparticle creation. Microfluidics operates within the Health \& Science Technologies segment as a part of the Material Process Technology ( MPT ) platform. The Company acquired Microfluidics for an aggregate purchase price of $\$ 18.5$ million in cash. Headquartered in Newton, Massachusetts, Microfluidics has annual revenues of approximately $\$ 16.0$ million. Goodwill and intangible assets recognized as part of this transaction were $\$ 5.9$ million and $\$ 9.7$ million, respectively. The $\$ 5.9$ million of goodwill is not deductible for tax purposes.

On June 10, 2011, the Company completed the acquisition of CVI Melles Griot ( MG ). CVI MG is a global leader in the design and manufacture of precision photonic solutions used in the life sciences, research, semiconductor, security and defense markets. CVI MG s innovative products are focused on the generation, control and productive use of light for a variety of key science and industrial applications. Products include specialty lasers and light sources, electro-optical components, specialty shutters, opto-mechanical assemblies and components. In addition, CVI MG produces critical components for life science research, electronics manufacturing, military and other industrial applications including lenses, mirrors, filters and polarizers. These components are utilized in a number of important applications such as spectroscopy, cytometry (cell counting), guidance systems for target designation, remote sensing, menology and optical lithography. CVI MG operates within the Health and Science Technologies segment as part of the IOP platform. The Company acquired CVI MG for an aggregate purchase price of $\$ 394.7$ million, consisting of $\$ 393.3$ million in cash and the assumption of approximately $\$ 1.4$ million of debt. Approximately $\$ 365.0$ million of the cash payment was financed with borrowings under the Company s Revolving Facility. Headquartered in Albuquerque, New Mexico, with manufacturing sites located on three continents, CVI MG had annual revenues of approximately $\$ 178.0$ million in 2011. Goodwill and intangible assets recognized as part of this transaction were $\$ 208.5$ million and $\$ 115.8$ million, respectively. Approximately $\$ 117.7$ million of goodwill is deductible for tax purposes.

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# IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) 

(unaudited)

The purchase price for PPC, ERC, CVI MG, AT Films and Microfluidics has been allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of the acquisition.

## 4. Business Segments

The Company has three reportable business segments: Fluid \& Metering Technologies, Health \& Science Technologies and Fire \& Safety/Diversified Products.

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 water and wastewater 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, 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 produces firefighting pumps and controls, rescue tools, lifting bags and other components and systems for the fire and rescue industry, and engineered stainless steel banding and clamping devices used in a variety of industrial and commercial applications, precision equipment for dispensing, metering and mixing colorants and paints used in a variety of retail and commercial businesses around the world.

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (unaudited)

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 operating income is the primary financial measure. Intersegment sales are accounted for at fair value as if the sales were to third parties. Certain prior year amounts have been revised to include the Dispensing Equipment segment as part of the Fire \& Safety/Diversified Products segment and to reflect the movement of our Trebor business unit from the Health \& Science Technologies segment to the Fluid \& Metering Technologies segment.

|  | Three Months Ended June 30, |  | Six Months <br> Ended June 30, |  |
| :---: | :---: | :---: | :---: | :---: |
| Net sales: |  |  |  |  |
| Fluid \& Metering Technologies: |  |  |  |  |
| External customers | \$ 210,365 | \$ 208,800 | \$ 422,831 | \$ 408,334 |
| Intersegment sales | 350 | 96 | 602 | 236 |
| Total group sales | 210,715 | 208,896 | 423,433 | 408,570 |
| Health \& Science Technologies: |  |  |  |  |
| External customers | 168,742 | 140,074 | 341,963 | 268,987 |
| Intersegment sales | 1,821 | 400 | 2,386 | 721 |
| Total group sales | 170,563 | 140,474 | 344,349 | 269,708 |
| Fire \& Safety/Diversified Products: |  |  |  |  |
| External customers | 115,037 | 104,924 | 218,767 | 203,566 |
| Intersegment sales | 887 | 268 | 1,207 | 513 |
| Total group sales | 115,924 | 105,192 | 219,974 | 204,079 |
| Intersegment elimination | $(3,058)$ | (764) | $(4,195)$ | $(1,470)$ |
| Total net sales | \$ 494,144 | \$ 453,798 | \$ 983,561 | \$ 880,887 |
| Operating income and income before income taxes: |  |  |  |  |
| Fluid \& Metering Technologies | \$ 46,302 | \$ 41,486 | \$ 90,828 | \$ 83,338 |
| Health \& Science Technologies | 27,136 | 26,867 | 57,406 | 56,366 |
| Fire \& Safety/Diversified Products | 26,098 | 26,865 | 49,786 | 48,007 |
| Corporate office and other | $(10,886)$ | $(15,589)$ | $(24,801)$ | $(30,361)$ |
| Total operating income | 88,650 | 79,629 | 173,219 | 157,350 |
| Interest expense | 10,536 | 6,720 | 21,198 | 13,174 |
| Other income (expense)-net | (230) | 347 | (113) | (560) |

Income before income taxes
\$ 77,884 \$ 73,256 \$ 151,908
\$ 143,616
June 30, December 31,

2012 2011
(In thousands)
Assets:

| Fluid \& Metering Technologies | $\$ 1,036,447$ | $\$ 1,072,023$ |
| :--- | ---: | ---: |
| Health \& Science Technologies | $1,221,118$ |  |
| Fire \& Safety/Diversified Products | 447,717 |  |
| Corporate office and other ${ }^{(1)}$ | 151,520 |  |
|  |  | $4,178,653$ |
| Total assets | $\$ 2,856,802$ | 143,031 |

(1) Includes intersegment eliminations.

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# IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) 

(unaudited)

## 5. Earnings Per Common Share

Earnings per common share ( EPS ) are 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, unvested shares, and shares issuable in connection with certain deferred compensation agreements ( DCUs ).

ASC 260 Earnings Per Share , provides 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 unvested shares are participating securities. Accordingly, earnings per common share are computed using the two-class method prescribed by ASC 260. Net income attributable to common shareholders was reduced by $\$ 0.2$ million and $\$ 0.4$ million for the three months ended June 30, 2012 and 2011, respectively. Net income attributable to common shareholders was reduced by $\$ 0.4$ million and $\$ 0.8$ million for the six months ended June 30 , 2012 and 2011, respectively.

Basic weighted average shares reconciles to diluted weighted average shares as follows:

|  | Three Months Ended June 30, |  | Six Months Ended June 30, |  |
| :---: | :---: | :---: | :---: | :---: |
| Basic weighted average common shares outstanding | 83,180 | 82,151 | 82,987 | 81,790 |
| Dilutive effect of stock options, unvested shares, and DCUs | 910 | 1,627 | 1,004 | 1,717 |
| Diluted weighted average common shares outstanding | 84,090 | 83,778 | 83,991 | 83,507 |

Options to purchase approximately 1.3 million and 0.7 million shares of common stock for both the three and six months ended June 30,2012 and 2011, respectively, were not included in the computation of diluted EPS because the exercise price was greater than the average market price of the Company s common stock and, therefore, the effect of their inclusion would be antidilutive.

## 6. Inventories

The components of inventories as of June 30, 2012 and December 31, 2011 were:

|  | June 30, <br> 2012 | December 31, <br> (In thousands) |  |
| :--- | :---: | :---: | :---: |
|  | $\$ 158,381$ | $\$$ | 155,577 |
| Raw materials and component parts | 35,985 | 40,506 |  |
| Work-in-process | 60,131 | 58,175 |  |
| Finished goods | $\$ 254,497$ | $\$$ | 254,258 |

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

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (unaudited)

## 7. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2012, by reportable business segment, were as follows:

|  |  <br> Metering <br> Technologies |  |  <br> Science <br> Technologies |  |  <br> Safety/ <br> Diversified <br> Products | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at December 31, $2011{ }^{(1)}$ | \$ | 541,640 | \$ | 648,906 | \$ 240,820 | \$ 1,431,366 |
| Acquisition adjustments |  |  |  | 1,424 |  | 1,424 |
| Foreign currency translation |  | $(3,527)$ |  | 120 | $(4,263)$ | $(7,670)$ |
| Acquisition |  |  |  | 25,849 |  | 25,849 |
| Balance at June 30, 2012 | \$ | 538,113 | \$ | 676,299 | \$ 236,557 | \$ 1,450,969 |

(1) Revised to reflect the movement of the Dispensing Equipment segment to the Fire \& Safety/Diversified Products segment and the transfer of $\$ 20.6$ million of goodwill related to the movement of our Trebor business unit within the Health \& Science Technologies segment to the Fluid \& Metering Technologies segment.
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. Annually on October 31, goodwill and other acquired intangible assets with indefinite lives are tested for impairment. The Company concluded that the fair value of each of the reporting units was in excess of the carrying value as of October 31, 2011. However, as of June 30, 2012 if market conditions deteriorate, the Water reporting unit, the Optics and Photonics reporting unit and the CVI and Melles Griot trade names, could potentially be at risk for an impairment charge. As of June 30, 2012, the total goodwill balance of the Water and the Optics and Photonics reporting units was $\$ 217.9$ million and $\$ 279.4$ million, respectively.

The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset at June 30, 2012 and December 31, 2011:

|  | At June 30, 2012 |  |  |  |  |  |  | At December 31, 2011 |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
|  | Gross <br> Carrying <br> Amount | Weighted <br> Accumulated <br> Amortization <br> (In thousands) | Net |  | Gross <br> Average <br> Life | Carrying <br> Amount | Accumulated <br> Amortization | Net |

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| Other | 6,612 | $(3,288)$ | 3,324 | 10 | 6,793 | $(3,156)$ | 3,637 |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Total amortized intangible assets | 395,964 | $(133,597)$ | 262,367 |  | 387,740 | $(114,626)$ | 273,114 |
| Unamortized intangible assets: | 62,100 |  | 62,100 | 62,100 |  | 62,100 |  |
| Banjo trade name | 47,008 |  | 47,008 | 47,008 |  | 47,008 |  |
| CVI and Melles Griot trade names | $\$ 505,072$ | $\$(133,597)$ | $\$ 371,475$ | $\$ 496,848$ | $\$(114,626)$ | $\$ 382,222$ |  |

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## IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (unaudited)

The unamortized trade names are indefinite lived intangible assets which are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired.

## 8. Accrued Expenses

The components of accrued expenses as of June 30, 2012 and December 31, 2011 were:

|  | $\begin{gathered} \text { June 30, } \\ 2012 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2011 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
|  | (In thousands) |  |  |  |
| Payroll and related items | \$ | 48,900 | \$ | 51,728 |
| Management incentive compensation |  | 8,306 |  | 17,402 |
| Income taxes payable |  | 19,659 |  | 8,456 |
| Deferred income taxes |  | 169 |  | 167 |
| Insurance |  | 5,393 |  | 6,495 |
| Warranty |  | 4,361 |  | 4,417 |
| Deferred revenue |  | 4,914 |  | 7,954 |
| Restructuring |  | 2,754 |  | 5,875 |
| Liability for uncertain tax positions |  | 1,792 |  | 1,061 |
| Accrued interest |  | 1,328 |  | 1,424 |
| Contingent consideration for acquisition |  | 1,500 |  | 1,500 |
| Other |  | 25,091 |  | 24,217 |
| Total accrued expenses |  | 124,167 | \$ | 130,696 |

## 9. Other Noncurrent Liabilities

The components of noncurrent liabilities as of June 30, 2012 and December 31, 2011 were:


## 10. Borrowings

Borrowings at June 30, 2012 and December 31, 2011 consisted of the following:

|  | $\begin{aligned} & \text { June 30, } \\ & 2012 \end{aligned}$ |  | mber 31, <br> 2011 |
| :---: | :---: | :---: | :---: |
|  | (In thousands) |  |  |
| Revolving Facility | \$ | \$ | 50,798 |
| 4.2\% Senior Notes, due December 2021 | 349,161 |  | 349,125 |
| 4.5\% Senior Notes, due December 2020 | 298,621 |  | 298,555 |
| 2.58\% Senior Euro Notes, due June 2015 | 100,918 |  | 104,655 |
| Other borrowings | 10,641 |  | 5,677 |
| Total borrowings | 759,341 |  | 808,810 |
| Less current portion | 5,616 |  | 2,444 |
| Total long-term borrowings | \$ 753,725 | \$ | 806,366 |

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (unaudited)

On June 27, 2011, the Company entered into a credit agreement (the Credit Agreement ) along with certain of its subsidiaries, as borrowers (the Borrowers ), with Bank of America, N.A., as administrative agent, swing line lender and an issuer of letters of credit, and other lenders party thereto which provided for a new revolving credit facility (the Revolving Facility ). The Revolving Facility replaced the Company s previous $\$ 600.0$ million credit facility, which expired in December 2011.

The Revolving Facility is in an aggregate principal amount of $\$ 700.0$ million with a maturity date of June 27, 2016. The maturity date may be extended under certain conditions for an additional one-year term prior to the second anniversary of the initial closing date of June 27, 2011. Up to $\$ 75.0$ million of the Revolving Facility is available for the issuance of letters of credit. Additionally, up to $\$ 25.0$ million of the Revolving Facility is available to the Company for swing line loans, available on a same-day basis.

Proceeds of the Revolving Facility are available for use by the Borrowers for working capital and other general corporate purposes, including refinancing existing debt of the Company and its subsidiaries. The Company may request increases in the lending commitments under the Credit Agreement, but the aggregate lending commitments may not exceed $\$ 950.0$ million. The Company has the right, subject to certain conditions set forth in the Credit Agreement, to designate certain foreign subsidiaries of the Company as borrowers under the Credit Agreement. In connection with any such designation, the Company is required to guarantee the obligations of any such subsidiaries under the Credit Agreement. Under the Credit Agreement, Fluid Management Europe B.V., ( FME ) and IDEX UK Ltd. ( IDEX UK ) were approved by the lenders as designated borrowers. At June 30, 2012, FME and IDEX UK had no borrowings under the Revolving Facility.

Borrowings under the Revolving Facility bear interest, at either an alternate base rate or an adjusted LIBOR rate plus, an applicable margin. Such applicable margin is based on the Company s senior, unsecured, long-term debt rating and can range from .. $875 \%$ to $1.70 \%$. Based on the Company s credit rating at June 30, 2012, the applicable margin was $1.05 \%$. Interest is payable (a) in the case of base rate loans, quarterly, and (b) in the case of LIBOR rate loans, on the maturity date of the borrowing, or quarterly from the effective date for borrowings exceeding three months. An annual Revolving Facility fee, also based on the Company s credit rating, is currently 20 basis points and is payable quarterly.

The Credit Agreement contains affirmative and negative covenants that the Company believes are usual and customary for senior unsecured credit agreements, including a financial covenant requiring the maintenance of a 3.25 to 1.0 or lower leverage ratio, which is the ratio of the Company s consolidated total debt to its consolidated EBITDA, each as defined in the Credit Agreement.

The Credit Agreement also contains customary events of default (subject to grace periods, as appropriate) including among others: nonpayment of principal, interest or fees; breach of the representations or warranties in any material respect; breach of the financial, affirmative or negative covenants; payment default on, or acceleration of, other material indebtedness; bankruptcy or insolvency; material judgments entered against the Company or any of its subsidiaries; certain specified events under the Employee Retirement Income Security Act of 1974, as amended; certain changes in control of the Company; and the invalidity or unenforceability of the Credit Agreement or other documents associated with the Credit Agreement.

At June 30, 2012, there were no outstanding borrowings under the Revolving Facility and $\$ 7.0$ million of outstanding letters of credit. The net available borrowing capacity under the Revolving Facility at June 30, 2012, was approximately $\$ 693.0$ million.

On June 9, 2010, the Company completed a private placement of 81.0 million ( $\$ 96.8$ million) aggregate principal amount of $2.58 \%$ Series 2010 Senior Euro Notes due June 9, 2015 ( $2.58 \%$ Senior Euro Notes ) pursuant to a Master Note Purchase Agreement, dated June 9, 2010 (the Purchase Agreement ). The Purchase

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Agreement provides for the issuance of additional series of notes in the future, provided that the aggregate principal amount outstanding under the agreement at any time does not exceed $\$ 750.0$ million. The $2.58 \%$ Senior Euro Notes bear interest at a rate of $2.58 \%$ per annum, which is payable semi-annually in arrears on each June $9^{\text {th }}$ and December $9^{\text {th }}$ and will mature on June 9, 2015. The $2.58 \%$ Senior Euro Notes are unsecured obligations of the Company and rank pari passu in right of payment with all of the Company sother senior debt. The Company may at any time prepay all or any portion of the $2.58 \%$ Senior Euro Notes; provided that any such portion is greater than $5 \%$ of the aggregate principal amount of Notes then outstanding under the Purchase Agreement. In the event of a prepayment, the Company would be required to pay an amount equal to par plus accrued interest plus a make-whole premium. The Purchase Agreement contains certain covenants that restrict the Company s ability to, among other things, transfer or sell assets, create liens and engage in certain mergers or consolidations. In addition, the Company must comply with a leverage ratio and interest coverage ratio as set forth in the Purchase Agreement. The Purchase Agreement provides for customary events of default. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding $2.58 \%$ Senior Euro Notes will become due and payable immediately without further action or notice. In the case of payment events of defaults, any holder of the $2.58 \%$ Senior Euro Notes affected thereby may declare all the $2.58 \%$ Senior Euro Notes held by it due and payable immediately. In the case of any other event of default, a majority of the holders of the $2.58 \%$ Senior Euro Notes may declare all the $2.58 \%$ Senior Euro Notes to be due and payable immediately.

On December 6, 2010, the Company completed a public offering of $\$ 300.0$ million $4.5 \%$ senior notes due December 15, 2020 ( $4.5 \%$ Senior Notes ). The net proceeds from the offering of $\$ 295.7$ million, after deducting the $\$ 1.6$ million issuance discount, the $\$ 1.9$ million underwriting commission and $\$ 0.8$ million offering expenses, were used to repay $\$ 250.0$ million of outstanding bank indebtedness, with the balance used for general corporate purposes. The $4.5 \%$ Senior Notes bear interest at a rate of $4.5 \%$ per annum, which is payable semi-annually in arrears on each June $15^{\text {th }}$ and December $15^{\text {th. }}$. The Company may redeem all or a portion of the $4.5 \%$ Senior Notes at any time prior to maturity at the redemption prices set forth in the Note Indenture governing the $4.5 \%$ Senior Notes. The Company may issue additional debt from time to time pursuant to the Indenture. The Indenture and $4.5 \%$ Senior Notes contain covenants that limit the Company s ability to, among other things, incur certain liens securing indebtedness, engage in certain sale-leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Company sassets. The terms of the $4.5 \%$ Senior Notes also require the Company to make an offer to repurchase the $4.5 \%$ Senior Notes upon a change of control triggering event (as defined in the Indenture) at a price equal to $101 \%$ of their principal amount plus accrued and unpaid interest, if any.

On December 9, 2011, the Company completed a public offering of $\$ 350.0$ million $4.2 \%$ senior notes due December 15,2021 ( $4.2 \%$ Senior Notes ). The net proceeds from the offering of $\$ 346.2$ million, after deducting the $\$ 0.9$ million issuance discount, the $\$ 2.3$ million underwriting commission and $\$ 0.6$ million offering expenses, were used to repay $\$ 306.0$ million of outstanding bank indebtedness, with the balance used for general corporate purposes. The $4.2 \%$ Senior Notes bear interest at a rate of $4.2 \%$ per annum, which is payable semi-annually in arrears on each June $15^{\text {th }}$ and December $15^{\text {th }}$. The Company may redeem all or a portion of the $4.2 \%$ Senior Notes at any time prior to maturity at the redemption prices set forth in the Note Indenture governing the $4.2 \%$ Senior Notes. The Company may issue additional debt from time to time pursuant to the Indenture. The Indenture and $4.2 \%$ Senior Notes contain covenants that limit the Company s ability to, among other things, incur certain liens securing indebtedness, engage in certain sale-leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Company s assets. The terms of the $4.2 \%$ Senior Notes also require the Company to make an offer to repurchase the $4.2 \%$ Senior Notes upon a change of control triggering event (as defined in the Indenture) at a price equal to $101 \%$ of their principal amount plus accrued and unpaid interest, if any.

Other borrowings of $\$ 10.6$ million at June 30, 2012 were comprised of capital leases, debt at international locations maintained for working capital purposes and international debt as a result of acquisitions. Interest is payable on the outstanding debt balances at the international locations at rates ranging from $0.4 \%$ to $3.7 \%$ per annum.

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# IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) 

(unaudited)

There are two key financial covenants that the Company is required to maintain in connection with the Revolving Facility and $2.58 \%$ Senior Euro Notes. The most restrictive financial covenants under these debt instruments require a minimum interest coverage ratio of 3.0 to 1 and a maximum leverage ratio of 3.25 to 1 . At June 30, 2012, the Company was in compliance with both of these financial covenants. There are no financial covenants relating to the $4.5 \%$ Senior Notes or $4.2 \%$ Senior Notes.

## 11. Derivative Instruments

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. The type of cash flow hedges the Company enters into includes foreign currency contracts and interest rate exchange agreements that effectively convert a portion of floating-rate debt to fixed-rate debt and are designed to reduce the impact of interest rate changes on future interest expense.

The effective portion of gains or losses on interest rate exchange agreements is reported in accumulated other comprehensive income (loss) in shareholders equity and reclassified into net income in the same period or periods in which the hedged transaction affects net income. The remaining gain or loss in excess of the cumulative change in the present value of future cash flows or the hedged item, if any, is recognized into net income during the period of change.

Fair values relating to derivative financial instruments reflect the estimated amounts that the Company would receive or pay to sell or buy the contracts based on quoted market prices of comparable contracts at each balance sheet date.

On April 15, 2010, the Company entered into a forward starting interest rate contract with a notional amount of $\$ 300.0$ million with a settlement date in December 2010. This contract was entered into in anticipation of the issuance of the $4.5 \%$ Senior Notes and was designed to lock in the market interest rate as of April 15, 2010. In December 2010, the Company settled and paid this interest rate contract for $\$ 31.0$ million. The $\$ 31.0$ million is being amortized into interest expense over the 10 year term of the $4.5 \%$ Senior Notes, which results in an effective interest rate of $5.8 \%$.

On July 12, 2011, the Company entered into a forward starting interest rate contract with a notional amount of $\$ 350.0$ million and a settlement date of September 30, 2011. This contract was entered into in anticipation of the issuance of the $4.2 \%$ Senior Notes and was designed to lock in the market interest rate as of July 12, 2011. On September 29, 2011, the Company settled this interest rate contract for $\$ 34.7$ million with a payment made on October 3, 2011. Simultaneously, the Company entered into a separate interest rate contract with a notional amount of $\$ 350.0$ million and a settlement date of February 28, 2012. The contract was entered into in anticipation of the expected issuance of the $4.2 \%$ Senior Notes and was designed to maintain the market rate as of July 12, 2011. In December 2011, the Company settled and paid the September interest rate contract for $\$ 4.0$ million, resulting in a total settlement of $\$ 38.7$ million. Of the $\$ 38.7$ million, $\$ 0.8$ was recognized as other expense in 2011 and the balance of $\$ 37.9$ million is being amortized into interest expense over the 10 year term of the $4.2 \%$ Senior Notes, which results in an effective interest rate of $5.3 \%$.

As of June 30, 2012, the Company did not have any interest rate contracts outstanding.

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# IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) 

## (unaudited)

The following table summarizes the gain (loss) recognized and the amounts and location of income (expense) and gain (loss) reclassified into income for interest rate contracts and foreign currency contracts for June 30, 2012 and 2011:

|  | Gain  <br> Recognized in (Expense) <br> Other and Gain <br> Comprehensive Reclassified into <br> Income Income <br> Three Months Ended June 30,  |  |  |  |  | Income Statement Caption |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Interest rate agreements | \$ | \$ | 956 | \$ $(1,920)$ | \$ $(1,518)$ | Interest expense |
| Foreign exchange contracts |  |  |  |  | 107 | Sales |

Gain (Loss)
Recognized in
Other
(Expense) and Gain
Comprehensive Reclassified into
Income Income

|  | Six Months Ended June 30, |  |  |  |  | Income <br> Statement <br> Caption |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Interest rate agreements | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ | (In thousands) |  |
| Foreign exchange contracts | $\$$ | $\$ 1,911$ | $\$(3,845)$ | $\$(3,078)$ | Interest expense |  |
| Sales |  |  |  |  |  |  |

Approximately $\$ 7.6$ million of the pre-tax amount included in accumulated other comprehensive income (loss) in shareholders equity at June 30, 2012 will be recognized to net income over the next 12 months as the underlying hedged transactions are realized.

## 12. Fair Value Measurements

ASC 820 Fair Value Measurements and Disclosures defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

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Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.
The following table summarizes the basis used to measure the Company s financial assets and (liabilities) at fair value on a recurring basis in the balance sheet at June 30, 2012 and December 31, 2011:

|  |  | Basis of Fair Value Measurements |  |  |
| :--- | :---: | :---: | :---: | :---: |
|  | Balance at <br> June 30, |  |  |  |
|  | $\mathbf{2 0 1 2}$ | Level 1 | Level 2 | (In thousands) |

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# IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) 

(unaudited)

$\left.\begin{array}{lcccc} & & \text { Basis of Fair Value Measurements } \\ \text { Balance at } \\ \text { December 31, } \\ \text { 2011 }\end{array} \quad \begin{array}{ccc}\text { Level 1 } \\ \text { (In thousands) }\end{array}\right)$

There were no transfers of assets or liabilities between Level 1 and Level 2 during the first six months of 2012 or 2011.
In determining the fair value of the Company s contingent consideration upon acquisition of AT Films, the Company used a probability weighted estimate adjusted for the time value of money. In February 2012, the Company paid $\$ 1.5$ million on the contingent consideration arrangement. The maximum remaining liability is $\$ 1.5$ million, which is reflected in Accrued expenses and is expected to be paid in the first quarter of 2013.

The carrying value of our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates their fair values because of the short term nature of these instruments. At June 30, 2012, the fair value of our Revolving Facility, 2.58\% Senior Euro Notes, 4.5\% Senior Notes and $4.2 \%$ Senior Notes, based on quoted market prices and current market rates for debt with similar credit risk and maturity, was approximately $\$ 782.6$ million compared to the carrying value of $\$ 748.7$ million. This fair value measurement is classified as Level 2 within the fair value hierarchy since it is determined based upon significant inputs observable in the market, including interest rates on recent financing transactions to entities with a credit rating similar to ours.

## 13. Common and Preferred Stock

On December 6, 2011, the Company announced that its Board of Directors increased the authorized level for repurchases of its common stock by approximately $\$ 50.0$ million. The increased authorization is in addition to the approximately $\$ 75.0$ million that remains available from the prior authorization approved by the Board of Directors on April 21, 2008, resulting in a total authorized repurchase amount of $\$ 125.0$ million. During the six months ended June 30, 2012, the Company has purchased a total of 0.9 million shares at a cost of approximately $\$ 36.0$ million.

At June 30, 2012 and December 31, 2011, the Company had 150 million shares of authorized common stock, with a par value of $\$ .01$ per share, and 5 million shares of authorized preferred stock, with a par value of $\$ .01$ per share. No preferred stock was issued at June 30, 2012 and December 31, 2011.

## 14. Share-Based Compensation

During the six months ended for both June 30, 2012 and 2011, the Company granted approximately 0.7 million stock options and 0.2 million unvested shares, respectively.

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## IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (unaudited)

Weighted average option fair values and assumptions for the periods specified are disclosed in the following table:

|  | Three Months Ended |  |
| :--- | :---: | :---: |
|  | June 30, |  |
|  | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| Weighted average fair value of option grants | $\$ 11.23$ | $\$ 12.89$ |
| Dividend yield | $1.83 \%$ | $1.35 \%$ |
| Volatility | $31.91 \%$ | $31.96 \%$ |
| Risk-free forward interest rate | $0.19 \%-3.99 \%$ | $0.26 \%-5.62 \%$ |
| Expected life (in years) | 5.92 | 5.89 |


|  | Six Months Ended |  |
| :--- | :---: | :---: |
| June 30, |  |  |
|  | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| Weighted average fair value of option grants | $\$ 11.44$ | $\$ 12.31$ |
| Dividend yield | $1.58 \%$ | $1.45 \%$ |
| Volatility | $32.01 \%$ | $32.73 \%$ |
| Risk-free forward interest rate | $0.17 \%-3.98 \%$ | $0.28 \%-5.62 \%$ |
| Expected life (in years) | 5.98 | 6.13 |

The assumptions are as follows:

The Company estimated volatility using its historical share price performance over the contractual term of the option.

The Company uses historical data to estimate the expected life of the option. The expected life assumption for the three and six months ended June 30, 2012 and 2011 is an output of the Binomial lattice option-pricing model, which incorporates vesting provisions, rate of voluntary exercise and rate of post-vesting termination over the contractual life of the option to define expected employee behavior.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods within the contractual life of the option. For the three and six months ended June 30, 2012 and 2011, we present the range of risk-free one-year forward rates, derived from the U.S. treasury yield curve, utilized in the Binomial lattice option-pricing model.

The expected dividend yield is based on the Company s current dividend yield as the best estimate of projected dividend yield for periods within the contractual life of the option.
The Company s policy is to recognize compensation cost on a straight-line basis over the requisite service period for the entire award. Additionally, the Company s general policy is to issue authorized and unissued shares of common stock to satisfy stock option exercises or grants of unvested shares.

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## IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (unaudited)

Total compensation cost for the stock options is as follows:

|  | Three Months <br> Ended <br> June 30, |  | Six Months <br> Ended <br> June 30, |  |
| :---: | :---: | :---: | :---: | :---: |
| Cost of goods sold | \$ 189 | \$ 208 | \$ 482 | \$ 443 |
| Selling, general and administrative expenses | 1,462 | 1,930 | 3,428 | 3,983 |
| Total expense before income taxes | 1,651 | 2,138 | 3,910 | 4,426 |
| Income tax benefit | (492) | (716) | $(1,200)$ | $(1,452)$ |
| Total expense after income taxes | \$ 1,159 | \$ 1,422 | \$ 2,710 | \$ 2,974 |

Total compensation cost for the unvested shares is as follows:

|  | Three Months <br> Ended <br> June 30, |  | Six Months <br> Ended <br> June 30, |  |
| :---: | :---: | :---: | :---: | :---: |
| Cost of goods sold | \$ 197 | \$ 150 | \$ 603 | \$ 298 |
| Selling, general and administrative expenses | 1,667 | 2,945 | 3,663 | 5,358 |
| Total expense before income taxes | 1,864 | 3,095 | 4,266 | 5,656 |
| Income tax benefit | (477) | (582) | $(1,140)$ | $(1,086)$ |
| Total expense after income taxes | \$ 1,387 | \$ 2,513 | \$ 3,126 | \$ 4,570 |

Classification of stock compensation cost within the Consolidated Statements of Operations is consistent with classification of cash compensation for the same employees and $\$ 0.3$ million of compensation cost was capitalized as part of inventory as of June 30, 2012, while $\$ 0.2$ million was capitalized as of December 31, 2011.

As of June 30, 2012, there was $\$ 11.3$ million of total unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 1.5 years, and $\$ 12.1$ million of total unrecognized compensation cost related to unvested shares that is expected to be recognized over a weighted-average period of 1.2 years.

## 15. Retirement Benefits

The Company sponsors several qualified and nonqualified defined benefit and defined contribution pension plans and other postretirement plans for its employees. The following tables provide the components of net periodic benefit cost for its major defined benefit plans and its other
postretirement plans.

## Pension Benefits

Three Months Ended June 30,
2012

|  | U.S. |  |  | $\begin{array}{r} \text { n-U.S. } \\ \text { (In } \end{array}$ | ${ }^{\text {Us) }} \text { U.S. }$ | Non-U.S. |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Service cost | \$ | 547 | \$ | 336 | \$ 460 | \$ | 211 |
| Interest cost |  | 1,083 |  | 548 | 1,132 |  | 595 |
| Expected return on plan assets |  | $(1,186)$ |  | (260) | $(1,198)$ |  | (282) |
| Net amortization |  | 1,836 |  | 84 | 1,081 |  | 113 |
| Net periodic benefit cost | \$ | 2,280 | \$ | 708 | \$ 1,475 | \$ | 637 |

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## IDEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)



|  | Other Postretirement Benefits |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Three Months Ended June 30, 2012 <br> 2011 |  |  | Six Months Ended June 30, |  |  |
|  | (In thousands) |  |  |  |  |  |
| Service cost | \$ 191 |  | 173 | \$ 381 | \$ | 346 |
| Interest cost | 228 |  | 260 | 457 |  | 519 |
| Net amortization | (37) |  | (39) | (74) |  | (78) |
| Net periodic benefit cost | \$ 382 | \$ | 394 | \$ 764 | \$ | 787 |

The Company previously disclosed in its financial statements for the year ended December 31, 2011, that it expected to contribute approximately $\$ 9.4$ million to its pension plans and $\$ 0.9$ million to its other postretirement benefit plans in 2012. As of June 30, 2012, $\$ 5.3$ million of contributions have been made to the pension plans and $\$ 0.3$ million have been made to its other postretirement benefit plans. The Company presently anticipates contributing up to an additional $\$ 4.7$ million in 2012 to fund its pension plans and other postretirement benefit plans.

## 16. Legal Proceedings

The Company is party to various legal proceedings arising in the ordinary course of business, none of which are expected to have a material adverse effect on its business, financial condition, results of operations or cash flows.

## 17. Income Taxes

The Company s provision for income taxes is based upon estimated annual tax rates for the year applied to federal, state and foreign income. The provision for income taxes increased to $\$ 23.5$ million in the second quarter of 2012 from $\$ 23.1$ million in the second quarter of 2011. The effective tax rate decreased to $30.2 \%$ for the second quarter of 2012 compared to $31.5 \%$ in the second quarter of 2011 due to the mix of global pre-tax income among jurisdictions, a decrease in the amount of disallowed executive compensation expense, and as a result of recent acquisitions.

The provision for income taxes decreased to $\$ 45.4$ million in the first six months of 2012 from $\$ 45.5$ million in the same period of 2011. The effective tax rate decreased to $29.9 \%$ for the first six months of 2012 compared to $31.7 \%$ in the same period of 2011 due to the mix of global pre-tax income among jurisdictions, a decrease in the amount of disallowed executive compensation expense, and as a result of recent acquisitions.

# IDEX CORPORATION AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) 

(unaudited)

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Due to the potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible that the Company s gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to $\$ 1.8$ million.

## 18. Subsequent Events

On July 20, 2012, the Company acquired Matcon Group Limited ( Matcon ) for cash consideration of approximately $\$ 37.5$ million (£24.0 million) paid upon close and the potential to pay additional consideration contingent upon 2012 and 2013 financial results. Matcon is a global leader in material processing solutions for high value powders used in the manufacture of pharmaceuticals, food, plastics, and fine chemicals. Matcon s innovative products include the original cone valve powder discharge system and filling, mixing and packaging systems, all of which support their customers automation and process requirements. Matcon sproducts are critical to their customers need to maintain clean, reliable and repeatable formulations of prepackaged foods and pharmaceuticals while helping them achieve lean and agile manufacturing. Located in Evesham, Worcestershire, England, Matcon has annual revenues of approximately $\$ 34.4$ million ( $£ 22.0$ million) and will operate within the Health \& Science Technologies segment in the MPT platform.

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

## Cautionary Statement Under the Private Securities Litigation Reform Act

The Overview and Outlook and the Liquidity and Capital Resources sections of this management s discussion and analysis of financial condition and results of operations contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. These statements relate to, among other things, operating results and are indicated by words or phrases such as expects, should, will, and similar words or phrases. These statements are subject to inherent uncertainties and risks that could cause actual results to differ materially from those statements. The risks and uncertainties include, but are not limited to, IDEX Corporation s ( IDEX or the Company ) ability to integrate and operate acquired businesses on a profitable basis and other risks and uncertainties identified under the heading Risk Factors in item 1A of the Company s Annual Report on Form 10-K for the year ended December 31, 2011 and information contained in subsequent periodic reports filed by IDEX with the Securities and Exchange Commission. Investors are cautioned not to rely unduly on forward-looking statements when evaluating the information presented here.

## Overview and Outlook

IDEX is an applied solutions company specializing in fluid and metering technologies, health and science technologies, and fire, safety and other diversified products built to its customers specifications. IDEX s products are sold in niche markets to a wide range of industries throughout the world. Accordingly, its businesses are affected by levels of industrial activity and economic conditions in the U.S. and in other countries where IDEX does business and by the relationship of the U.S. dollar to other currencies. Levels of capacity utilization and capital spending in certain industries and overall industrial activity are among the factors that influence the demand for IDEX s products.

The Company has three reportable business segments: Fluid \& Metering Technologies, Health \& Science Technologies and Fire \& Safety/Diversified Products. Within these three reportable segments, the Company maintains six strategic platforms, where we will primarily invest organically and through acquisitions, and seven groups, where we will primarily focus on organic growth to drive these high value diversified businesses. The Fluid \& Metering Technologies segment is comprised of the Energy, Water and Waste Water, and Chemical, Food and Process ( CFP ) platforms as well as the Agricultural group. The Health \& Science Technologies segment is comprised of the Optics \& Photonics, Scientific Fluidics, and MPT platforms as well as the Containment and Industrial groups. The Fire \& Safety/Diversified Products segment is comprised of the Dispensing, Rescue, Band-It, and Fire Suppression groups.

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, agricultural 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, 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.

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

Some of our key financial highlights for the six months ended June 30, 2012 are as follows:

Sales of $\$ 983.6$ million rose $12 \%$; organic sales excluding acquisitions and foreign currency translation were up $6 \%$.

Operating income of \$173.2 million increased $10 \%$ compared to 2011.

Net income increased $9 \%$ to $\$ 106.5$ million.

Diluted EPS of \$1.27 increased 10 cents compared to 2011.
Our projected third quarter 2012 EPS is in the range of $\$ 0.62$ to $\$ 0.64$. Given the second quarter results and the challenging economic environment, we have revised our full year 2012 outlook downward we now expect full year 2012 diluted EPS of $\$ 2.65$ to $\$ 2.70$, excluding any future restructuring related charges and the impact from the recently announced Matcon acquisition. Full year diluted EPS exceeding the top end of our range would be predicated on continued strong U.S. and emerging markets and a stabilization in Europe.

## Results of Operations

The following is a discussion and analysis of our results of operations for the three and six month periods ended June 30, 2012 and 2011. Segment operating income excludes unallocated corporate operating expenses. Certain prior year amounts have been revised to include the Dispensing Equipment segment as part of the Fire \& Safety/Diversified Products segment and to reflect the movement of our Trebor business unit from the Health \& Science Technologies segment to the Fluid \& Metering Technologies segment.

In this report, references to organic sales, a non-GAAP measure, refers to sales from continuing operations calculated according to generally accepted accounting principles in the United States but excludes (1) sales from acquired businesses during the first twelve months of ownership and (2) the impact of foreign currency translation. The portion of sales attributable to foreign currency translation is calculated as the difference between (a) the period-to-period change in organic sales and (b) the period-to-period change in organic sales after applying prior period foreign exchange rates to the current year period. Management believes that reporting organic sales provides useful information to investors by helping identify underlying growth trends in our business and facilitating easier comparisons of our revenue performance with prior and future periods and to our peers. The Company excludes the effect of foreign currency translation from organic sales because foreign currency translation is not under management scontrol, is subject to volatility and can obscure underlying business trends. The Company excludes the effect of acquisitions because the nature, size, and number of acquisitions can vary dramatically from period to period and between the Company and its peers and can also obscure underlying business trends and make comparisons of long-term performance difficult.

Management s primary measurements of segment performance are sales, operating income, and operating margin. In addition, due to the highly acquisitive nature of the Company, the determination of operating income includes amortization of acquired intangible assets and, as a result, management reviews depreciation and amortization as a percentage of sales. These measures are monitored by management and significant changes in operating results versus current trends in end markets and variances from forecasts are analyzed with segment management.

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## Consolidated Results in the Three Months Ended June 30, 2012 Compared with the Same Period of 2011

|  | Three Months Ended June 30, |  |
| :---: | :---: | :---: |
| (in thousands) | 2012 | 2011 |
| Net sales | \$ 494,144 | \$ 453,798 |
| Operating income | 88,650 | 79,629 |
| Operating margin | 17.9\% | 17.5\% |
| Depreciation and amortization | \$ 19,203 | \$ 16,954 |
| Depreciation and amortization as a percentage of net sales | 3.9\% | 3.7\% |

Sales in the three months ended June 30, 2012 were $\$ 494.1$ million, a $9 \%$ increase from the comparable period last year. This increase reflects a $6 \%$ increase in organic sales, $6 \%$ from acquisitions (CVI MG June 2011 and ERC April 2012) and $3 \%$ unfavorable foreign currency translation. International sales represented approximately $51 \%$ of total sales in the current period compared with $53 \%$ in the same period in 2011.

For the second quarter of 2012, Fluid \& Metering Technologies contributed $43 \%$ of sales and $47 \%$ of operating income; Health \& Science Technologies accounted for $34 \%$ of sales and $27 \%$ of operating income; and Fire \& Safety/Diversified Products represented $23 \%$ of sales and $26 \%$ of operating income.

Gross profit of $\$ 203.1$ million in the second quarter of 2012 increased $\$ 18.3$ million, or $10 \%$, from 2011. Gross profit as a percent of sales, or gross margins, was $41.1 \%$ in the second quarter of 2012 and $40.7 \%$ in 2011. The increase in gross margin primarily reflects volume leverage and an acquisition fair value inventory charge for CVI MG recorded in 2011.

Selling, general and administrative ( SG\&A ) expenses increased to $\$ 111.9$ million in the second quarter of 2012 from $\$ 105.2$ million in 2011. The $\$ 6.7$ million increase reflects approximately $\$ 7.7$ million for incremental costs from new acquisitions and $\$ 1.8$ million in volume related expenses, partially offset by a $\$ 2.8$ million gain recorded in 2011 from the sale of a facility in Italy. As a percentage of sales, SG\&A expenses were $22.6 \%$ for 2012 and $23.2 \%$ for 2011.

During the three months ended June 30, 2012, the Company recorded pre-tax restructuring expenses totaling $\$ 2.6$ million. These restructuring expenses were mainly attributable to employee severance related to employee reductions across various functional areas, the termination of a defined benefit pension plan and facility rationalization resulting from the Company s cost savings initiatives.

Operating income of $\$ 88.7$ million in the second quarter of 2012 was up from the $\$ 79.6$ million recorded in 2011, primarily reflecting an increase in volume and improved productivity. Operating income as a percent of sales, or operating margin, of $17.9 \%$ in the second quarter of 2012 was up from $17.5 \%$ in 2011 primarily due to volume leverage and productivity, partially offset by increased expenses from restructuring-related charges and the dilutive impact from acquisitions.

Other expense, net was $\$ 0.2$ million in the second quarter of 2012 compared with a $\$ 0.3$ million gain recorded in 2011, primarily due to higher losses on foreign currency.

Interest expense increased to $\$ 10.5$ million in 2012 from $\$ 6.7$ million in 2011. The increase was principally due to higher debt levels issued in conjunction with the CVI MG acquisition and higher interest rates associated with fixed rate debt.

The provision for income taxes is based upon estimated annual tax rates for the year applied to federal, state and foreign income. The provision for income taxes increased to $\$ 23.5$ million in the second quarter of 2012 compared to $\$ 23.1$ million in the second quarter of 2011 . The effective tax rate decreased to $30.2 \%$ for the second quarter of 2012 compared to $31.5 \%$ in the second quarter of 2011 . The decrease was due to the mix of global pre-tax income among jurisdictions, a decrease in the amount of disallowed executive compensation expense, and as a result of recent acquisitions.

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Net income for the current quarter of $\$ 54.4$ million increased from the $\$ 50.2$ million earned in 2011. Diluted earnings per share in the second quarter of 2012 of $\$ 0.65$ increased $\$ 0.05$, or $8 \%$, compared with 2011.

## Fluid \& Metering Technologies Segment

|  | $\begin{array}{c}\text { Three Months } \\ \text { Ended }\end{array}$ |  |
| :--- | :---: | :---: |
| (in thousands) | June 30, |  |, $\left.\begin{array}{ccc}\mathbf{2 0 1 1}\end{array}\right]$

Sales of $\$ 210.7$ million increased $\$ 1.8$ million, or $1 \%$, in the second quarter of 2012 compared with 2011. This reflects $3 \%$ organic growth and $2 \%$ unfavorable foreign currency translation. The increase in organic sales was largely attributed to growth across our Energy platform; CFP platform; and our Agricultural group. In the second quarter of 2012, organic sales increased approximately $6 \%$ domestically and were flat internationally. Organic sales to customers outside the U.S. were approximately $47 \%$ of total segment sales during the second quarter of 2012, compared with $46 \%$ in 2011.

Sales within our Energy platform increased compared to the second quarter of 2011, due to strong demand for systems used in upstream and downstream oil and gas applications in North America, Middle East, Africa, Asia and Russia, partially offset by weakness in Europe. Domestic sales growth within Energy was driven by the transportation end markets and strength in our distribution channel. Sales within our CFP platform increased compared to the second quarter of 2011 on strong general industrial and chemical demand in both our OEM and distributor channels in North America to support new capacity build-out and the after-market. Sales within our Agriculture group increased due to strong brand based seasonal demand. Offsetting the sales increases above was a decrease in sales within our Water and Waste Water platform, as the platform experienced ongoing municipal water end market softness internationally.

Operating income and operating margin of $\$ 46.3$ million and $22.0 \%$, respectively, were higher than the $\$ 41.5$ million and $19.9 \%$ recorded in the second quarter of 2011, primarily due to productivity and benefits from prior period restructuring activities.

## Health \& Science Technologies Segment

|  | Three Months <br> Ended <br> June 30, |  |  |  |
| :--- | :---: | :---: | :---: | :---: |
| (in thousands) | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |  |  |
| Net sales | $\$ 170,563$ | $\$ 140,474$ |  |  |
| Operating income | 27,136 | 26,867 |  |  |
| Operating margin | $15.9 \%$ | $19.1 \%$ |  |  |
| Depreciation and amortization | 9,559 | $\$$ |  |  |
| Depreciation and amortization as a percentage of net sales | 5.990 | $4.3 \%$ |  |  |

Sales of $\$ 170.6$ million increased $\$ 30.1$ million, or $21 \%$, in the second quarter of 2012 compared with 2011 . This reflects $3 \%$ organic growth, $19 \%$ growth from acquisitions (CVI MG and ERC) and $1 \%$ unfavorable foreign currency translation. In the second quarter of 2012, organic sales increased $3 \%$ both domestically and internationally. Organic sales to customers outside the U.S. were approximately $51 \%$ of total segment sales in the second quarter of 2012, compared with $47 \%$ in 2011.

Sales within our MPT platform increased compared to the second quarter of 2011 due to strength in the Asian food and pharmaceutical markets. Sales within our Scientific Fluidics platform increased compared to the second quarter of 2011 due to growth in Asia within the Life Sciences end market, partially offset by market

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softness on inconsistent OEM demand in North America. Sales within our Containment group increased slightly compared to the second quarter of 2011 due to strong oil \& gas distributor sales. Sales within our Optics and Photonics platform increased compared to the second quarter of 2011 primarily as a result of our CVI MG acquisition. However, 2012 sales within our Optics and Photonics platform are less than anticipated due to weak demand in the defense, biotech and electronics markets. Sales within our Industrial group increased compared to the second quarter of 2011 due to higher distributor sales, partially offset by slower sales in the automotive end markets and in Europe.

Operating income of $\$ 27.1$ million in the second quarter of 2012 was up slightly from the $\$ 26.9$ million recorded in 2011, primarily due to acquisitions and productivity from prior period restructuring actions, partially offset by $\$ 1.1$ million of current period restructuring charges. Operating margin of $15.9 \%$ in the second quarter of 2012 was down from $19.1 \%$ in 2011, due to the dilutive impact from acquisitions and $\$ 1.1$ million of current period restructuring charges.

## Fire \& Safety/Diversified Products Segment

|  | Three Months <br> Ended <br> June 30, |  |
| :--- | :---: | :---: |
| (in thousands) | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| Net sales | $\$ 115,924$ | $\$ 105,192$ |
| Operating income | 26,098 | 26,865 |
| Operating margin | $22.5 \%$ | $25.5 \%$ |
| Depreciation and amortization | 1,824 | $\$$ |
| Depreciation and amortization as a percentage of net sales | $1.6 \%$ | 2,375 |

Sales of $\$ 115.9$ million increased $\$ 10.7$ million, or $10 \%$, in the second quarter of 2012 compared with the second quarter of 2011. This reflects $15 \%$ organic growth and $5 \%$ unfavorable foreign currency translation. In the second quarter of 2012, organic sales increased $33 \%$ domestically and $5 \%$ internationally. Organic sales to customers outside the U.S. were approximately $59 \%$ of total segment sales in the second quarter of 2012, compared with $64 \%$ in 2011.

Sales within our Dispensing group increased as a result of a large replenishment project in the North American market which began shipping in the second quarter, partially offset by weakness in European markets. The sales increase within our Band-It group was driven by strength outside the core market, particularly in oil and gas applications. Sales within our Fire Suppression group increased as a result of growing sales of adjacent products in North American fire markets. Sales within our Rescue group increased as a result of robust demand for our rescue tools within emerging markets.

Operating income and operating margin of $\$ 26.1$ million and $22.5 \%$, respectively, were lower than the $\$ 26.9$ million and $25.5 \%$ recorded in the second quarter of 2011 , primarily due to a $\$ 2.8$ million gain on the sale of a facility in 2011 and $\$ 1.0$ million of restructuring charges within our Fire Suppression group, partially offset by improved productivity and the benefit of prior period restructuring activities.

Consolidated Results in the Six Months Ended June 30, 2012 Compared with the Same Period of 2011

|  | Six Months <br> Ended |  |
| :--- | :---: | :---: |
| (in thousands) | June 30, |  |
| Net sales | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| Operating income | $\$ 983,561$ | $\$ 880,887$ |
| Operating margin | 173,219 | 157,350 |
| Depreciation and amortization | $\$ 17.6 \%$ | $17.9 \%$ |
| Depreciation and amortization as a percentage of net sales | 38,393 | $\$ 32,576$ |

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Sales in the six months ended June 30, 2012 were $\$ 983.6$ million, a $12 \%$ increase from the comparable period last year. This increase reflects a $6 \%$ increase in organic sales, $8 \%$ from acquisitions (AT Films January 2011, Microfluidics March 2011, CVI MG June 2011 and ERC April 2012) and $2 \%$ unfavorable foreign currency translation. International sales represented approximately $51 \%$ of total sales in the current period compared with $52 \%$ in the same period in 2011.

For the first six months of 2012, Fluid \& Metering Technologies contributed $43 \%$ of sales and $46 \%$ of operating income; Health \& Science Technologies accounted for $35 \%$ of sales and $29 \%$ of operating income; and Fire \& Safety/Diversified Products represented $22 \%$ of sales and $25 \%$ of operating income.

Gross profit of $\$ 406.0$ million in the first six months of 2012 increased $\$ 42.5$ million, or $12 \%$, from 2011. Gross margins were $41.3 \%$ in the first six months of both 2012 and 2011.

SG\&A expenses increased to $\$ 225.3$ million in the first six months of 2012 from $\$ 206.2$ million in 2011. The $\$ 19.1$ million increase reflects approximately $\$ 20.4$ million for incremental costs from new acquisitions and $\$ 1.5$ million in volume related expenses, partially offset by a $\$ 2.8$ million gain recorded in 2011 from the sale of a facility in Italy. As a percentage of sales, SG\&A expenses were $22.9 \%$ for 2012 and $23.4 \%$ for 2011.

During the six months ended June 30, 2012, the Company recorded pre-tax restructuring expenses totaling $\$ 7.5$ million. These restructuring expenses were mainly attributable to employee severance related to employee reductions across various functional areas, the termination of a defined benefit pension plan and facility rationalization resulting from the Company s cost savings initiatives.

Operating income of $\$ 173.2$ million in the first six months of 2012 was up from the $\$ 157.4$ million recorded in 2011, primarily reflecting an increase in volume and improved productivity. Operating margin of $17.6 \%$ in the first six months of 2012 was down from $17.9 \%$ in 2011 primarily due to increased expenses from restructuring-related charges and the dilutive impact from acquisitions, partially offset by volume leverage and productivity.

Other expense, net of $\$ 0.1$ million in 2012 was lower than the $\$ 0.6$ million recorded in 2011, primarily due to an increase in interest income.
Interest expense increased to $\$ 21.2$ million in 2012 from $\$ 13.2$ million in 2011. The increase was principally due to higher debt levels, issued in conjunction with the CVI MG acquisition, and higher interest rates associated with fixed rate debt.

The provision for income taxes is based upon estimated annual tax rates for the year applied to federal, state and foreign income. The provision for income taxes decreased slightly to $\$ 45.4$ million for the first six months of 2012 compared to $\$ 45.5$ in the same period in 2011. The effective tax rate decreased to $29.9 \%$ for the first six months of 2012 compared to $31.7 \%$ in the same period of 2011 due to the mix of global pre-tax income among jurisdictions, a decrease in the amount of disallowed executive compensation expense, and as a result of recent acquisitions.

Net income for the current period of $\$ 106.5$ million increased from the $\$ 98.1$ million earned in 2011. Diluted earnings per share in the first six months of 2012 of $\$ 1.27$ increased $\$ 0.10$, or $9 \%$, compared with 2011.

## Fluid \& Metering Technologies Segment

|  | Six Months <br> Ended <br> June 30, |  |
| :--- | :---: | :---: |
| (in thousands) | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| Net sales | $\$ 423,433$ | $\$ 408,570$ |
| Operating income | 90,828 | 83,338 |
| Operating margin | $21.5 \%$ | $20.4 \%$ |
| Depreciation and amortization | $\mathbf{1 4 , 9 4 8}$ | $\$$ |
| Depreciation and amortization as a percentage of net sales | $3.5 \%$ | 4.238 |

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Sales of $\$ 423.4$ million increased $\$ 14.9$ million, or $4 \%$, in the first six months of 2012 compared with 2011 . This reflects $6 \%$ organic growth and $2 \%$ unfavorable foreign currency translation. The increase in organic sales was largely attributed to growth across our Energy platform, CFP platform, and our Agricultural group. In the first six months of 2012, organic sales increased approximately $7 \%$ domestically and $4 \%$ internationally. Organic sales to customers outside the U.S. were approximately $47 \%$ of total segment sales during the first six months of 2012, compared with $45 \%$ in 2011.

Sales within our Energy platform increased compared to the first six months of 2011, due to strong demand for systems used in upstream and downstream oil and gas applications both domestically and internationally. Additionally, large Energy project sales to emerging markets drove international sales growth, partially offset by weakness in the European downstream markets due to general economic conditions. Domestic sales growth within Energy was driven by the transportation end markets and strength in our distribution channel. Sales within our CFP platform increased compared to the first six months of 2011 on strong general industrial and chemical demand in both our OEM and distributor channels in North America and Asia. In addition, CFP sales growth accelerated in emerging markets. Sales within our Agriculture group increased due to robust demand in North America. Offsetting the sales increases above was a decrease in sales within our Water and Waste Water platform, as the platform continues to experience ongoing municipal water end market softness due to municipal funding headwinds.

Operating income and operating margin of $\$ 90.8$ million and $21.5 \%$, respectively, were higher than the $\$ 83.3$ million and $20.4 \%$ recorded in the first six months of 2011, primarily due to volume leverage, productivity and benefits from prior period restructuring activities, partially offset by $\$ 3.0$ million of current period restructuring charges.

## Health \& Science Technologies Segment

|  | Six Months <br> Ended <br> June 30, |  |
| :--- | :---: | :---: |
| (in thousands) | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |
| Net sales | $\$ 344,349$ | $\$ 269,708$ |
| Operating income | 57,406 | 56,366 |
| Operating margin | $16.7 \%$ | $20.9 \%$ |
| Depreciation and amortization | $\$ 19,020$ | $\$$ |
| Depreciation and amortization as a percentage of net sales | $5.5 \%$ | 40,974 |

Sales of $\$ 344.3$ million increased $\$ 74.6$ million, or $28 \%$, in the first six months of 2012 compared with 2011 . This reflects $3 \%$ organic growth, $26 \%$ growth from acquisitions (AT Films, Microfluidics, CVI MG and ERC) and $1 \%$ unfavorable foreign currency translation. In the first six months of 2012, organic sales increased $1 \%$ domestically and $4 \%$ internationally. Organic sales to customers outside the U.S. were approximately $52 \%$ of total segment sales in the first six months of 2012, compared with $48 \%$ in 2011.

Sales within our MPT platform increased compared to the first six months of 2011 due a full six months of sales from Microfluidics, acquired in March 2011, strength in Asian food and pharmaceutical markets, and large project orders received in the second half of 2011, which shipped during the first six months of 2012. Sales within our Scientific Fluidics platform decreased compared to the first six months of 2011 due to slowed instrumentation end markets driven by National Institutes of Health (NIH) funding concerns, inventory reduction programs by our customers and inconsistent OEM demand in North America, partially offset by modest growth in the Life Sciences end market, particularly in Asia. Sales within our Containment group increased compared to the first six months of 2011 due to strong distributor sales and an upturn in the diesel and gas engine markets. Sales within our Optics and Photonics platform increased compared to the first six months of 2011 primarily as a result of our CVI MG acquisition. However, 2012 sales within our Optics and Photonics platform are less than anticipated due to weak demand in the defense, biotech and electronics end markets. Sales at our Industrial group decreased compared to the first six months of 2011 due to lower sales to distributors and slower sales into automotive end markets.

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Operating income of $\$ 57.4$ million in the first six months of 2012 was up from the $\$ 56.4$ million recorded in 2011, primarily due to acquisitions and productivity from prior period restructuring actions, partially offset by $\$ 2.6$ million of current period restructuring charges. Operating margin of $16.7 \%$ in the first six months of 2012 was down from $20.9 \%$ in 2011 , due to the dilutive impact from acquisitions and $\$ 2.6$ million of current period restructuring charges.

## Fire \& Safety/Diversified Products Segment

|  | Six Months <br> Ended |  |
| :--- | :---: | :---: |
| (in thousands) |  | June <br> 30, |
| Net sales | $\$ 219,974$ | $\$ 204,079$ |
| Operating income | 49,786 | 48,007 |
| Operating margin | $\$ 22.6 \%$ | $23.5 \%$ |
| Depreciation and amortization | 3,603 | $\$$ |
| Depreciation and amortization as a percentage of net sales | $1.6 \%$ | 2.717 |

Sales of $\$ 220.0$ million increased $\$ 15.9$ million, or $8 \%$, in the first six months of 2012 compared with the first six months of 2011. This reflects $11 \%$ organic growth and $3 \%$ unfavorable foreign currency translation. In the first six months of 2012, organic sales increased $27 \%$ domestically and $2 \%$ internationally. Organic sales to customers outside the U.S. were approximately $59 \%$ of total segment sales in the first six months of 2012, compared with $64 \%$ in 2011.

Sales within our Dispensing group increased on strength in our core North American markets and a large replenishment project, which began shipping in the second quarter of 2012. The sales increase within our Band-It group was driven by general North American industrial market improvement and strength in the oil and gas applications market. Sales within our Fire Suppression group increased as a result of geographic expansions into Eastern Europe and Asian markets and through the penetration into product adjacencies. Sales within our Rescue group increased as a result of robust demand for our rescue tools within emerging markets.

Operating income of $\$ 49.8$ million was higher than the $\$ 48.0$ million recorded in the first six months of 2011, primarily due to volume leverage and productivity, partially offset by a $\$ 2.8$ million gain on the sale of a facility in 2011 . Operating margin of $22.6 \%$ in the first six months of 2012 was down from $23.5 \%$ in 2011, due to $\$ 1.6$ million of restructuring charges and a $\$ 2.8$ million gain on the sale of a facility in 2011.

## Liquidity and Capital Resources

At June 30, 2012, working capital was $\$ 537.2$ million and the current ratio was 3.1 to 1 . Cash flows from operating activities for the first six months of 2012 increased $\$ 58.6$ million, or $73 \%$, to $\$ 139.5$ million compared to the first six months of 2011 mainly due to higher earnings and improved working capital.

Cash flows provided by operating activities were more than adequate to fund capital expenditures of $\$ 18.7$ million and $\$ 18.6$ million in the first six months of 2012 and 2011, respectively. Capital expenditures were generally for machinery and equipment that improved productivity and tooling to support the Company s global sourcing initiatives, although a portion was for business system technology and replacement of equipment and facilities. Management believes that the Company has sufficient capacity in its plants and equipment to meet expected needs for future growth.

The Company maintains the Revolving Facility, which is a $\$ 700.0$ million unsecured, multi-currency bank credit facility expiring on June 27, 2016. At June 30, 2012, there were no outstanding borrowings under the Revolving Facility and outstanding letters of credit totaled approximately $\$ 7.0$ million. The net available borrowing capacity under the Revolving Facility at June 30, 2012, was approximately $\$ 693.0$ million. Borrowings under the Revolving Facility bear interest, at either an alternate base rate or an adjusted LIBOR rate plus, in each case, an applicable margin. Such applicable margin is based on the Company s senior, unsecured,

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long-term debt rating and can range from $.875 \%$ to $1.70 \%$. Based on the Company s credit rating at June 30, 2012, the applicable margin was $1.05 \%$. Interest is payable (a) in the case of base rate loans, quarterly, and (b) in the case of LIBOR rate loans, on the maturity date of the borrowing, or quarterly from the effective date for borrowings exceeding three months. An annual Revolving Facility fee, also based on the Company s credit rating, is currently 20 basis points and is payable quarterly.

On June 9, 2010, the Company completed a private placement of 81.0 million ( $\$ 96.8$ million) aggregate principal amount of $2.58 \%$ Series 2010 Senior Euro Notes due June 9, 2015 ( $2.58 \%$ Senior Euro Notes ) pursuant to a Master Note Purchase Agreement, dated June 9, 2010 (the
Purchase Agreement ). The Purchase Agreement provides for the issuance of additional series of notes in the future, provided that the aggregate principal amount outstanding under the agreement at any time does not exceed $\$ 750.0$ million. The $2.58 \%$ Senior Euro Notes bear interest at a rate of $2.58 \%$ per annum, which is payable semi-annually in arrears on each June $9^{\text {th }}$ and December $9^{\text {th }}$ and will mature on June 9, 2015. The $2.58 \%$ Senior Euro Notes are unsecured obligations of the Company and rank pari passu in right of payment with all of the Company s other senior debt. The Company may at any time prepay all or any portion of the $2.58 \%$ Senior Euro Notes; provided that any such portion is greater than $5 \%$ of the aggregate principal amount of Notes then outstanding under the Purchase Agreement. In the event of a prepayment, the Company would be required to pay an amount equal to par plus accrued interest plus a make-whole premium. The Purchase Agreement contains certain covenants that restrict the Company s ability to, among other things, transfer or sell assets, create liens and engage in certain mergers or consolidations. In addition, the Company must comply with a leverage ratio and interest coverage ratio as set forth in the Purchase Agreement. The Purchase Agreement provides for customary events of default. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding $2.58 \%$ Senior Euro Notes will become due and payable immediately without further action or notice. In the case of payment events of defaults, any holder of the $2.58 \%$ Senior Euro Notes affected thereby may declare all the $2.58 \%$ Senior Euro Notes held by it due and payable immediately. In the case of any other event of default, a majority of the holders of the $2.58 \%$ Senior Euro Notes may declare all the $2.58 \%$ Senior Euro Notes to be due and payable immediately.

On December 6, 2010, the Company completed a public offering of $\$ 300.0$ million $4.5 \%$ senior notes due December 15, 2020 ( $4.5 \%$ Senior Notes ). The net proceeds from the offering of $\$ 295.7$ million, after deducting the $\$ 1.6$ million issuance discount, the $\$ 1.9$ million underwriting commission and $\$ 0.8$ million offering expenses, were used to repay $\$ 250.0$ million of outstanding bank indebtedness, with the balance used for general corporate purposes. The $4.5 \%$ Senior Notes bear interest at a rate of $4.5 \%$ per annum, which is payable semi-annually in arrears on each June $15^{\text {th }}$ and December $15^{\text {th }}$. The Company may redeem all or a portion of the $4.5 \%$ Senior Notes at any time prior to maturity at the redemption prices set forth in the Note Indenture governing the $4.5 \%$ Senior Notes. The Company may issue additional debt from time to time pursuant to the Indenture. The Indenture and $4.5 \%$ Senior Notes contain covenants that limit the Company s ability to, among other things, incur certain liens securing indebtedness, engage in certain sale-leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Company s assets. The terms of the $4.5 \%$ Senior Notes also require the Company to make an offer to repurchase the $4.5 \%$ Senior Notes upon a change of control triggering event (as defined in the Indenture) at a price equal to $101 \%$ of their principal amount plus accrued and unpaid interest, if any.

On December 9, 2011, the Company completed a public offering of $\$ 350.0$ million $4.2 \%$ senior notes due December 15, 2021 ( $4.2 \%$ Senior Notes ). The net proceeds from the offering of $\$ 346.2$ million, after deducting the $\$ 0.9$ million issuance discount, the $\$ 2.3$ million underwriting commission and $\$ 0.6$ million offering expenses, were used to repay $\$ 306.0$ million of outstanding bank indebtedness, with the balance used for general corporate purposes. The $4.2 \%$ Senior Notes bear interest at a rate of $4.2 \%$ per annum, which is payable semi-annually in arrears on each June $15^{\text {th }}$ and December $15^{\text {th }}$. The Company may redeem all or a portion of the $4.2 \%$ Senior Notes at any time prior to maturity at the redemption prices set forth in the Note Indenture governing the $4.2 \%$ Senior Notes. The Company may issue additional debt from time to time pursuant to the Indenture. The Indenture and $4.2 \%$ Senior Notes contain covenants that limit the Company s ability to, among other things, incur certain liens securing indebtedness, engage in certain sale-leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Company s assets.

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The terms of the $4.2 \%$ Senior Notes also require the Company to make an offer to repurchase the $4.2 \%$ Senior Notes upon a change of control triggering event (as defined in the Indenture) at a price equal to $101 \%$ of their principal amount plus accrued and unpaid interest, if any.

On April 15, 2010, the Company entered into a forward starting interest rate contract with a notional amount of $\$ 300.0$ million with a settlement date in December 2010. This contract was entered into in anticipation of the issuance of the $4.5 \%$ Senior Notes and was designed to lock in the market interest rate as of April 15, 2010. In December 2010, the Company settled and paid this interest rate contract for $\$ 31.0$ million. The $\$ 31.0$ million is being amortized into interest expense over the 10 year term of the $4.5 \%$ Senior Notes, which results in an effective interest rate of $5.8 \%$.

On July 12, 2011, the Company entered into a forward starting interest rate contract with a notional amount of $\$ 350.0$ million and a settlement date of September 30, 2011. This contract was entered into in anticipation of the issuance of the $4.2 \%$ Senior Notes and was designed to lock in the market interest rate as of July 12, 2011. On September 29, 2011, the Company settled this interest rate contract for $\$ 34.7$ million with a payment made on October 3, 2011. Simultaneously, the Company entered into a separate interest rate contract with a notional amount of $\$ 350.0$ million and a settlement date of February 28, 2012. The contract was entered into in anticipation of the expected issuance of the $4.2 \%$ Senior Notes and was designed to maintain the market rate as of July 12, 2011. In December 2011, the Company settled and paid the September interest rate contract for $\$ 4.0$ million, resulting in a total settlement of $\$ 38.7$ million. Of the $\$ 38.7$ million, $\$ 0.8$ was recognized as other expense in 2011 and the balance of $\$ 37.9$ million is being amortized into interest expense over the 10 year term of the $4.2 \%$ Senior Notes, which results in an effective interest rate of $5.3 \%$.

There are two key financial covenants that the Company is required to maintain in connection with the Revolving Facility and $2.58 \%$ Senior Euro Notes. The most restrictive financial covenants under these debt instruments require a minimum interest coverage ratio of 3.0 to 1 and a maximum leverage ratio of 3.25 to 1 . At June 30,2012 , the Company was in compliance with both of these financial covenants, as the Company s interest coverage ratio was 11.0 to 1 and the leverage ratio was 1.9 to 1 . There are no financial covenants relating to the $4.5 \%$ Senior Notes or $4.2 \%$ Senior Notes.

On December 6, 2011, the Company announced that its Board of Directors increased the authorized level for repurchases of its common stock by approximately $\$ 50.0$ million. The increased authorization is in addition to the approximately $\$ 75.0$ million that remains available from the prior authorization approved by the Board of Directors on April 21, 2008, resulting in a total authorized repurchase amount of $\$ 125.0$ million. During the six months ended June 30, 2012, 0.9 million shares were purchased at a cost of $\$ 36.0$ million.

The Company believes current cash and cash that will be generated from operations will be sufficient to meet its operating cash requirements, planned capital expenditures, interest on all borrowings, pension and postretirement funding requirements, authorized share repurchases and annual dividend payments to holders of the Company s stock for the remainder of 2012 and 2013. Additionally, in the event that suitable businesses are available for acquisition upon acceptable terms, the Company may obtain all or a portion of the financing for these acquisitions through the incurrence of additional borrowings. As of June 30, 2012, there were no outstanding borrowings under the Revolving Facility.

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. Annually on October 31, goodwill and other acquired intangible assets with indefinite lives are tested for impairment. The Company concluded that the fair value of each of the reporting units was in excess of the carrying value as of October 31, 2011. However, as of June 30, 2012 if market conditions deteriorate, the Water reporting unit, the Optics and Photonics reporting unit and the CVI and Melles Griot trade names, could potentially be at risk for an impairment charge. As of June 30, 2012, the total goodwill balance of the Water and the Optics and Photonics reporting units was $\$ 217.9$ million and $\$ 279.4$ million, respectively.

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

The Company is subject to market risk associated with changes in foreign currency exchange rates and interest rates. The Company may, from time to time, enter into foreign currency forward contracts and interest rate swaps on its debt when it believes there is a financial advantage in doing so. A treasury risk management policy, adopted by the Board of Directors, describes the procedures and controls over derivative financial and commodity instruments, including foreign currency forward contracts and interest rate swaps. Under the policy, the Company does not use derivative financial or commodity instruments for trading purposes, and the use of these instruments is subject to strict approvals by senior officers. Typically, the use of derivative instruments is limited to foreign currency forward contracts and interest rate swaps on the Company s outstanding long-term debt.

The Company s foreign currency exchange rate risk is limited principally to the Euro, British Pound, Canadian Dollar and Chinese Renminbi. The Company manages its foreign exchange risk principally through invoicing customers in the same currency as the source of products. The effect of transaction gains and losses is reported within other income (expense)-net on the Consolidated Statements of Operations.

## Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) promulgated under the Securities Exchange Act, 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 the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded as of June 30, 2012, that the Company s disclosure controls and procedures were effective.

There has been no change in the Company s internal controls over financial reporting during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings.

The Company and seven of its subsidiaries are presently named as defendants in a number of lawsuits claiming various asbestos-related personal injuries, allegedly as a result of exposure to products manufactured with components that contained asbestos. Such components were acquired from third party suppliers, and were not manufactured by any of the subsidiaries. To date, the majority of the Company s settlements and legal costs, except for costs of coordination, administration, insurance investigation and a portion of defense costs, have been covered in full by insurance, subject to applicable deductibles. However, the Company cannot predict whether and to what extent insurance will be available to continue to cover such settlements and legal costs, or how insurers may respond to claims that are tendered to them. Claims have been filed in jurisdictions throughout the United States. Most of the claims resolved to date have been dismissed without payment. The balance have been settled for various insignificant amounts. Only one case has been tried, resulting in a verdict for the Company s business unit. No provision has been made in the financial statements of the Company, other than for insurance deductibles in the ordinary course, and the Company does not currently believe the asbestos-related claims will have a material adverse effect on the Company s business, financial position, results of operations or cash flow.

The Company is also party to various other legal proceedings arising in the ordinary course of business, none of which is expected to have a material adverse effect on its business, financial condition, results of operations or cash flow.

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

The following table provides information about Company purchases of its common stock during the quarter ended June 30, 2012:
$\left.\begin{array}{lllll} & & \begin{array}{c}\text { Total Number of } \\ \text { Shares }\end{array} \\ \text { Purchased as } \\ \text { Part of } \\ \text { Publicly }\end{array} \quad \begin{array}{c}\text { Maximum Dollar } \\ \text { Value that } \\ \text { May Yet }\end{array}\right\}$
(1) On December 6, 2011, the Company announced that its Board of Directors had increased the authorized level for repurchases of its common stock by approximately $\$ 50.0$ million. The increased authorization is in addition to the approximately $\$ 75.0$ million that remains available from the prior authorization approved by the Board of Directors on April 21, 2008, resulting in a total authorized repurchase amount of $\$ 125.0$ million.
Item 6. Exhibits.

The exhibits listed in the accompanying Exhibit Index are filed or furnished as part of this report.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IDEX Corporation
By: /s/ Heath A. Mitts
Heath A. Mitts
Vice President and Chief Financial Officer
(Principal Financial Officer)
By: /s/ Michael J. Yates
Michael J. Yates
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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## EXHIBIT INDEX

## Exhibit

| Number | Description |
| :---: | :---: |
| 3.1 | Restated Certificate of Incorporation of IDEX Corporation (incorporated by reference to Exhibit No. 3.1 to the Registration Statement on Form S-1 of IDEX, et al., Registration No. 33-21205, as filed on April 21, 1988) |
| 3.1(a) | Amendment to Restated Certificate of Incorporation of IDEX Corporation (incorporated by reference to Exhibit No. 3.1(a) to the Quarterly Report of IDEX on Form 10-Q for the quarter ended March 31, 1996, Commission File No. 1-10235) |
| 3.1(b) | Amendment to Restated Certificate of Incorporation of IDEX Corporation (incorporated by reference to Exhibit No. 3.1(b) to the Current Report of IDEX on Form 8-K dated March 24, 2005, Commission File No. 1-10235) |
| 3.2 | Amended and Restated By-Laws of IDEX Corporation (incorporated by reference to Exhibit No. 3.1 to the Current Report of IDEX Corporation on form 8-K filed November 14, 2011, Commission File No. 1-10235) |
| 3.2(a) | Amended and Restated Article III, Section 13 of the Amended and Restated By-Laws of IDEX Corporation (incorporated by reference to Exhibit No. 3.2(a) to Post-Effective Amendment No. 3 to the Registration Statement on Form S-1 of IDEX, et al., Registration No. 33-21205, as filed on February 12, 1990) |
| *31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes Oxley Act of 2002 |
| *31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes Oxley Act of 2002 |
| *32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 |
| *32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 |
| * 101 | The following financial information from IDEX Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30 , 2012, formatted in XBRL includes: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Earnings, (iii) the Condensed Consolidated Statements of Comprehensive Income, (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. |

* Filed herewith


[^0]:    See Notes to Condensed Consolidated Financial Statements

