IDEX CORP /DE/
Form 10-Q
October 24, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

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

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

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

Yes ¨ No þ

Number of shares of common stock of IDEX Corporation outstanding as of October 22, 2018: 76,709,717.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$491,767	$375,950
Receivables, less allowance for doubtful accounts of $7,298 at September 30, 2018 and $7,764 at December 31, 2017	324,895	294,166
Inventories	287,126	259,724
Other current assets	51,451	74,203
Total current assets	1,155,239	1,004,043
Property, plant and equipment - net	276,821	258,350
Goodwill	1,708,783	1,704,158
Intangible assets - net	395,497	414,746
Other noncurrent assets	18,467	18,331
Total assets	$3,554,807	$3,399,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$141,178	$147,067
Accrued expenses	185,453	184,705
Short-term borrowings	536	258
Dividends payable	33,046	28,945
Total current liabilities	360,213	360,975
Long-term borrowings	848,246	858,788
Deferred income taxes	131,149	137,638
Other noncurrent liabilities	154,625	155,685
Total liabilities	1,494,233	1,513,086
Commitments and contingencies		
Shareholders' equity		
Preferred stock:		
Authorized: 5,000,000 shares, $.01 per share par value; Issued: None	—	—
Common stock:		
Authorized: 150,000,000 shares, $.01 per share par value		
Issued: 90,113,901 shares at September 30, 2018 and 90,162,211 shares at December 31, 2017	902	902
Additional paid-in capital	732,941	716,906
Retained earnings	2,276,634	2,057,915
Treasury stock at cost: 13,262,072 shares at September 30, 2018 and 13,468,675 shares at December 31, 2017	(835,801)	(799,674)
Accumulated other comprehensive income (loss)	(114,102)	(89,507)

Total shareholders’ equity	2,060,574	1,886,542
Total liabilities and shareholders’ equity	$3,554,807	$3,399,628

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$622,888	$574,490	$1,869,572	$1,701,408
Cost of sales	342,655	316,560	1,025,320	935,612
Gross profit	280,233	257,930	844,252	765,796
Selling, general and administrative expenses	130,479	131,426	406,354	393,691
Restructuring expenses	4,621	—	8,251	4,797
Operating income	145,133	126,504	429,647	367,308
Other (income) expense - net	934	1,653	(3,565)	1,717
Interest expense	10,958	11,064	33,098	33,920
Income before income taxes	133,241	113,787	400,114	331,671
Provision for income taxes	26,889	30,019	87,678	88,160
Net income	$106,352	$83,768	$312,436	$243,511
Basic earnings per common share	$1.39	$1.09	$4.07	$3.19
Diluted earnings per common share	$1.37	$1.08	$4.02	$3.15
Share data:				
Basic weighted average common shares outstanding	76,562	76,309	76,507	76,215
Diluted weighted average common shares outstanding	77,709	77,523	77,717	77,246

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$106,352	$83,768	$312,436	$243,511
Other comprehensive income (loss):				
Reclassification adjustments for derivatives, net of tax	1,244	1,054	3,764	3,159
Pension and other postretirement adjustments, net of tax	1,270	1,468	3,979	3,872
Cumulative translation adjustment	9,164	28,796	(25,903)	97,160
Other comprehensive income (loss)	11,678	31,318	(18,160)	104,191
Comprehensive income	$118,030	$115,086	$294,276	$347,702

See Notes to Condensed Consolidated Financial Statements

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

	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			Treasury Stock	Total Shareholders' Equity
			Cumulative Translation Adjustment	Retirement Benefits Adjustment	Cumulative Unrealized Gain (Loss) on Derivatives		
Balance, December 31, 2017	$ 717,808	$ 2,057,915	$ (46,306)	$ (29,154)	$ (14,047)	$ (799,674)	$ 1,886,542
Net income	—	312,436	—	—	—	—	312,436
Adjustment for adoption of ASU 2016-16	—	(645)	—	—	—	—	(645)
Adjustment for adoption of ASU 2018-02	—	6,435	—	(3,411)	(3,024)	—	—
Cumulative translation adjustment	—	—	(25,903)	—	—	—	(25,903)
Net change in retirement obligations (net of tax of $1,417)	—	—	—	3,979	—	—	3,979
Net change on derivatives designated as cash flow hedges (net of tax of $1,105)	—	—	—	—	3,764	—	3,764
Issuance of 563,193 shares of common stock from issuance of unvested shares, performance share units and exercise of stock options (net of tax of $4,144)	—	—	—	—	—	26,793	26,793
Repurchase of 356,590 shares of common stock	—	—	—	—	—	(51,660)	(51,660)
Shares surrendered for tax withholding	—	—	—	—	—	(11,260)	(11,260)
Share-based compensation	16,035	—	—	—	—	—	16,035
Cash dividends declared — $1.29 per common share outstanding	—	(99,507)	—	—	—	—	(99,507)
Balance, September 30, 2018	$ 733,843	$ 2,276,634	$ (72,209)	$ (28,586)	$ (13,307)	$ (835,801)	$ 2,060,574

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net income	$ 312,436	$ 243,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,725	28,425
Amortization of intangible assets	29,505	35,381
Amortization of debt issuance expenses	998	989
Share-based compensation expense	19,814	18,143
Deferred income taxes	(1,480)	1,888
Non-cash interest expense associated with forward starting swaps	4,869	5,004
Changes in (net of the effect from acquisitions):		
Receivables	(34,057)	(28,407)
Inventories	(27,903)	(4,869)
Other current assets	7,635	(15,113)
Trade accounts payable	(4,420)	3,681
Accrued expenses	33	9,912
Other - net	(11,402)	(1,965)
Net cash flows provided by operating activities	325,753	296,580
Cash flows from investing activities		
Purchases of property, plant and equipment	(39,856)	(28,054)
Purchase of intellectual property	(4,000)	—
Acquisition of businesses, net of cash acquired	(20,205)	—

Proceeds from disposal of fixed assets	211			5,159	
Other - net	(1,180	)		(337	)
Net cash flows used in investing activities	(65,030	)		(23,232	)
Cash flows from financing activities					
Borrowings under revolving credit facilities	—			33,000	
Payments under revolving credit facilities	(11,128	)		(181,692	)
Dividends paid	(94,913	)		(82,869	)
Proceeds from stock option exercises	26,793			18,980	
Purchases of common stock	(50,654	)		(22,650	)
Shares surrendered for tax withholding	(11,260	)		(5,903	)
Settlement of foreign exchange contracts	6,593			4,406	
Net cash flows used in financing activities	(134,569	)		(236,728	)
Effect of exchange rate changes on cash and cash equivalents	(10,337	)		30,707	
Net increase (decrease) in cash	115,817			67,327	
Cash and cash equivalents at beginning of year	375,950			235,964	
Cash and cash equivalents at end of period	$ 491,767			$ 303,291	
Supplemental cash flow information					
Cash paid for:					
Interest	$ 18,547			$ 19,406	
Income taxes - net	73,138			78,629	
Significant non-cash activities:					
Capital expenditures for construction of new leased facility	11,616			—	
Contingent consideration for acquisition	3,375			—	

See Notes to Condensed Consolidated Financial Statements

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

1. Basis of Presentation and Significant Accounting Policies

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

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

Recently Adopted Accounting Standards

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

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in the FASB guidance for revenue recognition. The Company adopted this standard on January 1, 2018 and accounted for the purchase of the intellectual property assets from Phantom Controls utilizing this guidance. See Note 7 for further information.

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

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

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

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

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

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard introduces a new lessee model that will require most leases to be recorded on the balance sheet and eliminates the required use of bright line tests in current U.S. GAAP for determining lease classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Companies are permitted to adopt the standard early. Upon adoption, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The FASB has also issued the following standards which clarify ASU 2016-02 and have the same effective date as the original standard: ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842): Targeted Improvements.

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

2. Acquisitions and Divestitures

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

The Company did not incur any acquisition-related transaction costs in the three months ended September 30, 2018. The Company did incur $0.5 million in the three months ended September 30, 2017 and $1.5 million and $0.7 million in the nine months ended September 30, 2018 and 2017, respectively. These costs were recorded in Selling, general and administrative expenses and were related to completed transactions, pending transactions and potential transactions, including transactions that ultimately were not completed.

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IDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
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2018 Acquisition

On July 23, 2018, the Company acquired Finger Lakes Instrumentation ("FLI"), a technology leader in the design, development and production of low-noise cooled CCD and high speed, high-sensitivity Scientific CMOS cameras for the astronomy and life science markets. Headquartered in Lima, NY, FLI operates in our Health & Sciences Technologies segment. FLI was acquired for an aggregate purchase price of $23.6 million, consisting of $20.2 million in cash and contingent consideration valued at $3.4 million as of the opening balance sheet date. The contingent consideration is based on the achievement of financial objectives during the 24-month period following the close of the transaction. The entire purchase price was funded with cash on hand. Goodwill and intangible assets recognized as part of this transaction were $11.9 million and $8.1 million, respectively. The goodwill is deductible for tax purposes.

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

2017 Acquisition

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

The Company made an initial allocation of the purchase price for the thinXXS acquisition as of the acquisition date based on its understanding of the fair value of the acquired assets and assumed liabilities. These nonrecurring fair value measurements are classified as Level 3 in the fair value hierarchy. The Company is continuing to evaluate the valuation of certain income tax liabilities associated with the thinXXS acquisition and is in the process of finalizing the purchase price allocation. The Company will make appropriate adjustments to the purchase price allocation prior to the completion of the measurement period, as required. Only items identified as of the acquisition date will be considered for subsequent adjustment.

2017 Divestiture

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

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

3. Business Segments

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales				
Fluid & Metering Technologies				
External customers	$239,119	$220,897	$714,135	$658,675
Intersegment sales	94	56	211	230
Total segment sales	239,213	220,953	714,346	658,905
Health & Science Technologies				
External customers	222,351	207,018	670,685	610,890
Intersegment sales	75	109	219	325
Total segment sales	222,426	207,127	670,904	611,215
Fire & Safety/Diversified Products				
External customers	161,418	146,575	484,752	431,843
Intersegment sales	414	24	553	186
Total segment sales	161,832	146,599	485,305	432,029
Intersegment elimination	(583)	(189)	(983)	(741)
Total net sales	$622,888	$574,490	$1,869,572	$1,701,408
Operating income				
Fluid & Metering Technologies	$69,755	$61,988	$207,149	$179,830
Health & Science Technologies	49,144	46,073	153,519	134,605
Fire & Safety/Diversified Products	44,726	36,199	130,162	106,022
Corporate office	(18,492)	(17,756)	(61,183)	(53,149)
Total operating income	145,133	126,504	429,647	367,308

Interest expense	10,958	11,064	33,098	33,920
Other (income) expense - net	934	1,653	(3,565)	1,717
Income before income taxes	$133,241	$113,787	$400,114	$331,671

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

	September 30, 2018	December 31, 2017
Assets		
Fluid & Metering Technologies	$ 1,141,116	$ 1,101,580
Health & Science Technologies	1,352,886	1,323,373
Fire & Safety/Diversified Products	769,615	744,515
Corporate office	291,190	230,160
Total assets	$ 3,554,807	$ 3,399,628

4. Revenue

IDEX is an applied solutions company specializing in the manufacture of fluid and metering technologies, health and science technologies and fire, safety and other diversified products built to customers' specifications. The Company's products include industrial pumps, compressors, flow meters, injectors, valves and related controls for use in a wide variety of process applications; precision fluidics solutions, including pumps, valves, degassing equipment, corrective tubing, fittings and complex manifolds, optical filters and specialty medical equipment and devices for use in life science applications; precision-engineered equipment for dispensing, metering and mixing paints; and engineered products for industrial and commercial markets, including fire and rescue, transportation equipment, oil and gas, electronics and communications. The Company's revenue is accounted for under ASC 606, Revenue from Contracts with Customers, which we adopted on January 1, 2018 using the modified retrospective method.

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

Disaggregation of Revenue

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

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IDEX CORPORATION
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(Amounts in thousands except share data and where otherwise indicated)
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Revenue by reporting unit for the three and nine months ended September 30, 2018 was as follows:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Energy	$42,403	$121,941
Valves	30,972	85,831
Water	63,989	188,000
Pumps	81,605	245,006
Agriculture	20,244	73,568
Intersegment elimination	(94)	(211)
Fluid & Metering Technologies	239,119	714,135
Scientific Fluidics & Optics	106,917	310,530
Sealing Solutions	48,787	154,123
Gast	33,574	92,989
Micropump	8,801	27,899
Material Processing Technologies	24,347	85,363
Intersegment elimination	(75)	(219)
Health & Science Technologies	222,351	670,685
Fire & Safety	102,589	298,741
Band-It	25,437	79,892
Dispensing	33,806	106,672
Intersegment elimination	(414)	(553)
Fire & Safety/Diversified Products	161,418	484,752
Total net sales	$622,888	$1,869,572

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

	Three Months Ended September 30, 2018			
	FMT	HST	FSDP	IDEX
U.S.	$131,403	$99,474	$78,902	$309,779
Europe	46,895	66,762	36,824	150,481
Asia	28,358	46,634	30,265	105,257
Rest of world [1]	32,557	9,556	15,841	57,954
Intersegment elimination	(94)	(75)	(414)	(583)
Total net sales	$239,119	$222,351	$161,418	$622,888
	Nine Months Ended September 30, 2018			
	FMT	HST	FSDP	IDEX
U.S.	$403,903	$290,826	$227,146	$921,875
Europe	130,591	214,564	127,645	472,800
Asia	89,655	139,422	84,563	313,640
Rest of world [1]	90,197	26,092	45,951	162,240
Intersegment elimination	(211)	(219)	(553)	(983)

Total net sales	$714,135	$670,685	$484,752	$1,869,572

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

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Contract Balances

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

The composition of Customer receivables was as follows:

	September 30, 2018	January 1, 2018
Billed receivables	$312,406	$285,800
Unbilled receivables	14,435	11,996
Total customer receivables	$326,841	$297,796

Advance payments and billings in excess of revenue recognized are included in Deferred revenue which is classified as current or noncurrent based on the timing of when we expect to recognize the revenue. The current portion is included in Accrued expenses and the noncurrent portion is included in Other noncurrent liabilities on our Condensed Consolidated Balance Sheets. Advance payments and billings in excess of revenue recognized represent contract liabilities and are recorded when customers remit contractual cash payments in advance of us satisfying performance obligations under contractual arrangements, including those with performance obligations satisfied over time. Billings in excess of revenue recognized primarily relate to performance obligations satisfied over time when the cost-to-cost method is utilized and revenue cannot yet be recognized as the Company has not completed the corresponding performance obligation. We generally receive advance payments from customers related to maintenance services which we recognize ratably over the service term. Contract liabilities are derecognized when revenue is recognized and the performance obligation is satisfied.

The composition of Deferred revenue was as follows:

	September 30, 2018	January 1, 2018
Deferred revenue - current	$ 10,271	$11,031

Deferred revenue - noncurrent	3,271	3,297
Total deferred revenue	$ 13,542	$ 14,328

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct product or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For our contracts that require complex design, manufacturing and installation activities that are not separately identifiable from other promises in the contract and, therefore, not distinct, the entire contract is accounted for as a single performance obligation. For our contracts that include distinct products or services that are substantially the same and have the same pattern of transfer to the customer over time, they are recognized as a series of distinct products or services. Certain of our contracts have multiple performance obligations for which we allocate the transaction price to each performance obligation using an estimate of the standalone selling price of each distinct product or service in the contract. For product sales, each product sold to a customer

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generally represents a distinct performance obligation. In such cases, the observable standalone sales are used to determine the standalone selling price. In certain cases, we may be required to estimate standalone selling price using the expected cost plus margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct product or service.

Our performance obligations are satisfied at a point in time or over time as work progresses. Performance obligations are supported by contracts with customers that provide a framework for the nature of the distinct products or services or bundle of products and services. We define service revenue as revenue from activities that are not associated with the design, development or manufacture of a product or the delivery of a software license.

Revenue from products and services transferred to customers at a point in time approximated 95% in both the three and nine months ended September 30, 2018. Revenue recognized at a point in time relates to the majority of our product sales. Revenue on these contracts is recognized when obligations under the terms of the contract with our customer are satisfied. Generally, this occurs with the transfer of control of the asset, which is in line with shipping terms.

Revenue from products and services transferred to customers over time approximated 5% in both the three and nine months ended September 30, 2018. Revenue earned by certain business units within the Water, Energy, Material Processing Technologies (“MPT”) and Dispensing reporting units is recognized over time because control transfers continuously to our customers. When accounting for over-time contracts, we use an input measure to determine the extent of progress towards completion of the performance obligation. For certain business units within the Water, Energy and MPT reporting units, revenue is recognized over time as work is performed based on the relationship between actual costs incurred to date for each contract and the total estimated costs for such contract at completion of the performance obligation (i.e. the cost-to-cost method). We believe this measure of progress best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Incurred cost represents work performed, which corresponds with the transfer of control to the customer. Contract costs include labor, material and overhead. Contract estimates are based on various assumptions to project the outcome of future events. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. For certain business units within the Energy and Dispensing reporting units, revenue is recognized ratably over the contract term.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our estimates regularly. Due to uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will be revised. Such revisions to costs and income are recognized in the period in which the revisions are determined as a cumulative catch-up adjustment. The impact of the adjustment on profit recorded to date on a contract is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize provisions for estimated losses on uncompleted contracts in the period in which such losses are determined.

The Company records allowances for discounts, product returns and customer incentives at the time of sale as a reduction of revenue as such allowances can be reliably estimated based on historical experience and known trends.

The Company also offers product warranties (primarily assurance-type) and accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, warranty costs incurred and any other related information known to the Company.

5. Earnings Per Common Share

Earnings per common share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock (basic) plus common stock equivalents outstanding (diluted) during the period. Common stock equivalents consist of stock options, which have been included in the calculation of weighted average shares outstanding using the treasury stock method, restricted stock and performance share units.

ASC 260, Earnings Per Share, concludes that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. If awards are considered participating securities, the Company is required to apply the two-class method of computing basic and diluted earnings per share. The Company has determined that its outstanding shares of restricted stock are participating securities. Accordingly, EPS was computed using the two-class method prescribed by ASC 260.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic weighted average common shares outstanding	76,562	76,309	76,507	76,215
Dilutive effect of stock options, restricted stock and performance share units	1,147	1,214	1,210	1,031
Diluted weighted average common shares outstanding	77,709	77,523	77,717	77,246

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

6. Inventories

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

	September 30, 2018	December 31, 2017
Raw materials and component parts	$ 185,764	$ 169,676
Work in process	37,094	33,668
Finished goods	64,268	56,380
Total inventories	$ 287,126	$ 259,724

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

7. Goodwill and Intangible Assets

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

	FMT	HST	FSDP	IDEX
Balance at December 31, 2017	$586,064	$740,032	$378,062	$1,704,158
Foreign currency translation	(2,423)	(2,765)	(3,259)	(8,447)
Acquisitions	—	11,920	—	11,920
Acquisition adjustments	—	1,152	—	1,152
Balance at September 30, 2018	$583,641	$750,339	$374,803	$1,708,783

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

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

	At September 30, 2018				At December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Patents	$9,640	$(7,789)	$1,851	12	$9,633	$(7,143)	$2,490
Trade names	116,895	(55,799)	61,096	16	117,206	(50,604)	66,602
Customer relationships	258,789	(81,485)	177,304	14	317,316	(124,566)	192,750
Unpatented technology	98,151	(34,015)	64,136	12	91,166	(29,428)	61,738
Other	700	(490)	210	10	839	(573)	266
Total amortized intangible assets	484,175	(179,578)	304,597		536,160	(212,314)	323,846
Indefinite-lived intangible assets:							
Banjo trade name	62,100	—	62,100		62,100	—	62,100
Akron Brass trade name	28,800	—	28,800		28,800	—	28,800
Total intangible assets	$575,075	$(179,578)	$395,497		$627,060	$(212,314)	$414,746

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

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

Amortization of intangible assets was $8.8 million and $29.5 million for the three and nine months ended September 30, 2018, respectively. Amortization of intangible assets was $11.5 million and $35.4 million for the three and nine months ended September 30, 2017, respectively. Based on the intangible asset balances as of September 30, 2018, amortization expense is expected to approximate $9.0 million for the remaining three months of 2018, $36.4 million in 2019, $35.2 million in 2020, $34.3 million in 2021 and $32.6 million in 2022.

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8. Accrued Expenses

The components of accrued expenses as of September 30, 2018 and December 31, 2017 were:

	September 30, 2018	December 31, 2017
Payroll and related items	$ 73,121	$