IDEX CORP /DE/
Form 10-Q
July 26, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-10235
IDEX CORPORATION
(Exact Name of Registrant as Specified in its Charter)

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

Registrant's telephone number: (847) 498-7070
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging growth company ¨

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

Yes ¨ No þ

Number of shares of common stock of IDEX Corporation outstanding as of July 19, 2017: 76,425,918.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$218,361	$235,964
Receivables, less allowance for doubtful accounts of $8,218 at June 30, 2017 and $8,078 at December 31, 2016	307,755	272,813
Inventories	264,545	252,859
Other current assets	70,757	61,085
Total current assets	861,418	822,721
Property, plant and equipment — net	254,230	247,816
Goodwill	1,666,747	1,632,592
Intangible assets — net	425,432	435,504
Other noncurrent assets	16,338	16,311
Total assets	$3,224,165	$3,154,944
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$139,377	$128,933
Accrued expenses	145,824	152,852
Short-term borrowings	350	1,046
Dividends payable	28,354	26,327
Total current liabilities	313,905	309,158
Long-term borrowings	888,495	1,014,235
Deferred income taxes	171,877	166,427
Other noncurrent liabilities	122,877	121,230
Total liabilities	1,497,154	1,611,050
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: 90,175,732 shares at June 30, 2017 and 90,200,951 shares at December 31, 2016	902	902
Additional paid-in capital	707,468	697,213
Retained earnings	1,937,357	1,834,739
Treasury stock at cost: 13,530,364 shares at June 30, 2017 and 13,760,266 shares at December 31, 2016	(789,936)	(787,307)
Accumulated other comprehensive income (loss)	(128,780)	(201,653)
Total shareholders' equity	1,727,011	1,543,894

Total liabilities and shareholders' equity	$3,224,165	$3,154,944

See Notes to Condensed Consolidated Financial Statements

1

Table of Contents

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,	
	2017	2016	2017	2016
Net sales	$573,366	$549,696	$1,126,918	$1,052,268
Cost of sales	316,441	305,638	619,052	584,875
Gross profit	256,925	244,058	507,866	467,393
Selling, general and administrative expenses	131,792	130,235	262,265	250,225
Restructuring expenses	—	—	4,797	—
Operating income	125,133	113,823	240,804	217,168
Other (income) expense - net	372	(1,027)	64	(983)
Interest expense	11,304	11,205	22,856	21,694
Income before income taxes	113,457	103,645	217,884	196,457
Provision for income taxes	29,613	27,886	58,141	52,568
Net income	$83,844	$75,759	$159,743	$143,889
Basic earnings per common share	$1.10	$1.00	$2.09	$1.89
Diluted earnings per common share	$1.08	$0.99	$2.07	$1.87
Share data:				
Basic weighted average common shares outstanding	76,220	75,690	76,167	75,719
Diluted weighted average common shares outstanding	77,320	76,674	77,107	76,687

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$83,844	$75,759	$159,743	$143,889
Other comprehensive income (loss)				
Reclassification adjustments for derivatives, net of tax	1,063	1,093	2,105	2,190
Pension and other postretirement adjustments, net of tax	1,280	591	2,404	1,262
Cumulative translation adjustment	47,314	(27,043)	68,364	(10,826)
Other comprehensive income (loss)	49,657	(25,359)	72,873	(7,374)
Comprehensive income	$133,501	$50,400	$232,616	$136,515

See Notes to Condensed Consolidated Financial Statements

Table of Contents

IDEX CORPORATION AND SUBSIDIARIES
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, 2016	$ 698,115	$ 1,834,739	$ (155,544)	$ (27,852)	$ (18,257)	$ (787,307)	$ 1,543,894
Net income	—	159,743	—	—	—	—	159,743
Cumulative translation adjustment	—	—	68,364	—	—	—	68,364
Net change in retirement obligations (net of tax of $1,146)	—	—	—	2,404	—	—	2,404
Net change on derivatives designated as cash flow hedges (net of tax of $1,218)	—	—	—	—	2,105	—	2,105
Issuance of 335,902 shares of common stock from issuance of unvested shares, performance share units and exercise of stock options (net of tax of $4,998)	—	—	—	—	—	12,984	12,984
Repurchase of 106,000 shares of common stock	—	—	—	—	—	(9,799)	(9,799)
Unvested shares surrendered for tax withholding	—	—	—	—	—	(5,814)	(5,814)
Share-based compensation	10,255	—	—	—	—	—	10,255
Cash dividends declared - $0.74 per common share outstanding	—	(57,125)	—	—	—	—	(57,125)
Balance, June 30, 2017	$ 708,370	$ 1,937,357	$ (87,180)	$ (25,448)	$ (16,152)	$ (789,936)	$ 1,727,011

See Notes to Condensed Consolidated Financial Statements

4

Table of Contents

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

	Six Months Ended June 30, 2017			2016		
Cash flows from operating activities						
Net income	$	159,743		$	143,889	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	18,633			18,986		
Amortization of intangible assets	23,893			23,146		
Amortization of debt issuance costs	659			758		
Share-based compensation expense	12,398			11,603		
Deferred income taxes	2,414			3,669		
Non-cash interest expense associated with forward starting swaps	3,323			3,443		
Changes in (net of effect from acquisitions):						
Receivables	(31,110		)	(22,625		)
Inventories	(4,796		)	11,386		
Other current assets	(8,446		)	(17,233		)
Trade accounts payable	6,469			(3,367		)
Accrued expenses	(9,799		)	(12,675		)
Other - net	(801		)	(2,137		)
Net cash flows provided by operating activities	172,580			158,843		
Cash flows from investing activities						
Additions of property, plant and equipment	(19,539		)	(17,052		)
Acquisition of businesses, net of cash acquired	—			(221,556		)
Other - net	96			27		
	(19,443		)	(238,581		)

Net cash flows used in investing activities		
Cash flows from financing activities		
Borrowings under revolving facilities	33,000	280,391
Proceeds from 3.20% Senior Notes	—	100,000
Proceeds from 3.37% Senior Notes	—	100,000
Payments under revolving facilities	(166,297)	(266,203)
Debt issuance costs	—	(92)
Dividends paid	(54,572)	(51,430)
Proceeds from stock option exercises	12,984	16,934
Purchase of common stock	(9,799)	(55,971)
Unvested shares surrendered for tax withholding	(5,814)	(4,830)
Settlement of foreign exchange contracts	4,406	—
Net cash flows (used in) provided by financing activities	(186,092)	118,799
Effect of exchange rate changes on cash and cash equivalents	15,352	(5,591)
Net (decrease) increase in cash	(17,603)	33,470
Cash and cash equivalents at beginning of year	235,964	328,018
Cash and cash equivalents at end of period	$ 218,361	$ 361,488
Supplemental cash flow information		
Cash paid for:		
Interest	$ 19,052	$ 17,019
Income taxes - net	50,709	49,142

See Notes to Condensed Consolidated Financial Statements

5

Table of Contents

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

1. Basis of Presentation and Significant Accounting Policies

The Condensed Consolidated Financial Statements of IDEX Corporation ("IDEX," "we," "our," or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to interim financial information and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. The statements are unaudited but include all adjustments, consisting only of recurring items, except as noted, that the Company considers necessary for a fair presentation of the information set forth herein. The results of operations for the three and six months ended June 30, 2017 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, 2016.

Recently Adopted Accounting Standards

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which amends the requirements related to the income statement presentation of the components of net periodic benefit cost for a company's sponsored defined benefit pension and other postretirement plans. Under this ASU, companies are required to disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented. This ASU also requires companies to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. In addition, only the service cost component of periodic net benefit cost is eligible for capitalization. The Company elected to early adopt this standard in the quarter ended March 31, 2017 as presenting the service cost within income from operations is more indicative of our current pension cost. The Company adopted this standard retrospectively and thus $0.8 million and $1.6 million were reclassified from Selling, general and administrative expenses to Other (income) expense - net for the three and six months ended June 30, 2016, respectively, to conform to current period presentation. The Company elected to apply the practical expedient that permits the use of previously disclosed service cost and other costs from the prior year's pension and other postretirement benefit plan footnote in the comparative periods as appropriate estimates when retrospectively changing the presentation of these costs in the income statement. The Company included the required disclosures and the changes resulting from the adoption of this standard in Note 16.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. Under this ASU, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to the excess, limited to the total amount of goodwill allocated to the reporting unit. This ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. In addition, companies will be required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. The Company early adopted this standard on January 1, 2017. The adoption of this standard did not have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. Under this guidance, entities utilizing the FIFO or average cost method should measure inventory at the lower of cost or net realizable value, where net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted this guidance on January 1, 2017. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

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 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 FASB guidance for revenue recognition. This guidance is effective for interim and annual periods for the

IDEX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
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Company on January 1, 2018, with early adoption permitted. The Company does not believe the guidance will have a material impact on its consolidated financial statements.

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 and a modified retrospective application is required. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a new five-step model for recognizing revenue from contracts with customers. Under ASU 2014-09, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption. 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 reviewing contracts to identify potential differences that may result from applying the requirements of the new standard. We have substantially completed our contract reviews. These 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, we expect revenue recognition to remain substantially unchanged under the new standard. For our business units that currently recognize revenue under a percentage of completion model, we also expect revenue recognition to remain substantially unchanged as the contract reviews supported the recognition of revenue over time. Although we are still finalizing our assessment of the potential impacts of the new standard, we currently believe that the most significant potential change will relate to contracts for the development, manufacture and sale of customized products. Due to the complexity of certain contracts for these types of products, the actual revenue recognition treatment required under the standard will be dependent on contract-specific terms. The implementation team has reported these findings and the progress of the project to the Audit Committee. The Company is still evaluating the impact of the new guidance on its consolidated financial statements but expects to adopt the standard in 2018 using the modified retrospective method.

2. Acquisitions and Divestitures

All of the Company's acquisitions have been accounted for under Accounting Standards Codification ("ASC") 805, Business Combinations. Accordingly, the accounts of the acquired companies, after adjustments to reflect fair values assigned to assets and liabilities, have been included in the Company's consolidated financial statements from their respective dates of acquisition.

The Company incurred $0.1 million and $1.4 million of acquisition-related transaction costs in the three months ended June 30, 2017 and 2016, respectively, and $0.2 million and $2.4 million in the six months ended June 30, 2017 and 2016, 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. During the three and six months ended June 30, 2016, the Company recorded $3.6 million and $5.8 million, respectively, of fair value inventory step-up charges in Cost of sales associated with the completed 2016 acquisition of Akron Brass Holding Corporation ("Akron Brass").

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

2016 Acquisitions

On March 16, 2016, the Company acquired the stock of Akron Brass, a producer of a large array of engineered life–safety products for the safety and emergency response markets, which includes apparatus valves, monitors, nozzles, specialty lighting, electronic vehicle–control systems and firefighting hand tools. The business was acquired to complement and create synergies with our existing Hale, Class 1, and Godiva businesses. Headquartered in Wooster, Ohio, Akron Brass operates in our Fire & Safety/Diversified Products segment. Akron Brass was acquired for cash consideration of $221.4 million. The purchase price was funded with borrowings under the Company's revolving facilities. The final goodwill and intangible assets recognized as part of the transaction were $124.6 million and $90.4 million, respectively. The goodwill is not deductible for tax purposes.

On July 1, 2016, the Company acquired the stock of AWG Fittings GmbH ("AWG Fittings"), a producer of engineered products for the safety and emergency response markets, including valves, monitors and nozzles. The business was acquired to complement and create synergies with our existing Hale, Class 1, Godiva and Akron Brass businesses. Headquartered in Ballendorf, Germany, AWG Fittings operates in our Fire & Safety/Diversified Products segment. AWG Fittings was acquired for cash consideration of $47.5 million (€42.8 million). The purchase price was funded with cash on hand. The final goodwill and intangible assets recognized as part of the transaction were $22.0 million and $10.3 million, respectively. The goodwill is not deductible for tax purposes.

On August 31, 2016, the Company acquired the stock of SFC Koenig AG ("SFC Koenig"), a producer of highly engineered expanders and check valves for critical applications across the transportation, hydraulic, aviation and medical markets. Headquartered in Dietikon, Switzerland, SFC Koenig operates in our Health & Science Technologies segment. SFC Koenig was acquired for cash consideration of $241.1 million (€215.9 million). The purchase price was funded with cash on hand and borrowings under the Company's revolving facilities. Goodwill and intangible assets recognized as part of the transaction were $139.5 million and $117.0 million, respectively. The goodwill is not deductible for tax purposes. The Company is continuing to evaluate the valuation of certain income tax liabilities associated with the SFC Koenig acquisition and is in the process of finalizing the purchase price allocation. The Company will make appropriate adjustments to the purchase price allocations prior to the completion of the measurement period, as required. Only items identified as of the acquisition date will be considered for subsequent adjustment.

2016 Divestitures

The Company periodically reviews its operations for businesses which may no longer be aligned with its strategic objectives to focus on core business and customers. Any resulting gain or loss recognized due to divestitures is recorded within Loss (gain) on sale of businesses - net.

On July 29, 2016, the Company completed the sale of its Hydra-Stop product line for $15.0 million in cash, resulting in a pre-tax gain on the sale of $5.8 million. In addition, the Company can earn up to $2 million based on the achievement of financial objectives for net sales in 2016 and 2017. The Company earned $1.0 million for the achievement of 2016 net sales objectives, which represents the maximum earn out for 2016. The Company can earn an additional $1.0 million based on 2017 net sales. The results of Hydra-Stop were reported within the Fluid & Metering Technologies segment and generated $7.5 million of revenues in 2016 through the date of sale.

On September 9, 2016, the Company completed the sale of its Melles Griot KK ("CVI Japan") subsidiary for $17.5 million in cash, resulting in a pre-tax loss on the sale of $7.9 million. The results of CVI Japan were reported within the Health & Science Technologies segment and generated $13.1 million of revenues in 2016 through the date of sale.

On October 10, 2016, the Company completed the sale of its IETG and 40Seven subsidiaries for $2.7 million in cash, resulting in a pre-tax loss on the sale of $4.2 million. The results of IETG and 40Seven were reported within the Fluid

& Metering Technologies segment and generated $8.3 million of revenues in 2016 through the date of sale.

On December 30, 2016, the Company completed the sale of its Korea Electro-Optics Co., Ltd. (“CVI Korea”) subsidiary for $3.8 million in cash, resulting in a pre-tax loss on the sale of $16.0 million. The results of CVI Korea were reported within the Health & Science Technologies segment and generated $11.7 million of revenues in 2016 through the date of sale.

Table of Contents

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

3. 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, valves, 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 & wastewater, agriculture and energy industries. The Health & Science Technologies segment designs, produces and distributes a wide range of precision fluidics, rotary lobe pumps, centrifugal and positive displacement pumps, roll compaction and drying systems used in beverage, food processing, pharmaceutical and cosmetics, pneumatic components and sealing solutions, including very high precision, low-flow rate pumping solutions required in analytical instrumentation, clinical diagnostics and drug discovery, high performance molded and extruded sealing components, biocompatible medical devices and implantables, air compressors used in medical, dental and industrial applications, optical components and coatings for applications in the fields of scientific research, defense, biotechnology, aerospace, telecommunications and electronics manufacturing, laboratory and commercial equipment used in the production of micro and nano scale materials, precision photonic solutions used in life sciences, research and defense markets, and precision gear and peristaltic pump technologies that meet exacting original equipment manufacturer specifications. The Fire & Safety/Diversified Products segment produces firefighting pumps and controls, apparatus valves, monitors, nozzles, 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 operating income is the primary financial measure. Intersegment sales are accounted for as if the sales were to third parties.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016 [1]	2017	2016 [1]
Net sales				
Fluid & Metering Technologies				
External customers	$221,123	$221,635	$437,778	$433,344
Intersegment sales	59	175	174	309
Total group sales	221,182	221,810	437,952	433,653
Health & Science Technologies				
External customers	204,297	186,453	403,872	372,704
Intersegment sales	112	115	216	207
Total group sales	204,409	186,568	404,088	372,911
Fire & Safety/Diversified Products				
External customers	147,946	141,608	285,268	246,220
Intersegment sales	37	3	162	9
Total group sales	147,983	141,611	285,430	246,229
Intersegment elimination	(208)	(293)	(552)	(525)
Total net sales	$573,366	$549,696	$1,126,918	$1,052,268
Operating income				
Fluid & Metering Technologies	$60,029	$54,172	$117,842	$105,875
Health & Science Technologies	46,294	41,108	88,532	81,790
Fire & Safety/Diversified Products	37,197	34,420	69,823	60,074
Corporate office expense and other [2]	(18,387)	(15,877)	(35,393)	(30,571)
Total operating income	125,133	113,823	240,804	217,168
Interest expense	11,304	11,205	22,856	21,694
Other (income) expense - net	372	(1,027)	64	(983)
Income before income taxes	$113,457	$103,645	$217,884	$196,457

[1] Certain amounts in the prior year income statement have been reclassified to conform to the current presentation due to the early adoption of ASU 2017-07.
[2] Corporate office expense for the three and six months ended June 30, 2016 includes benefits of $1.0 million and $4.7 million, respectively, from the reversal of the contingent consideration related to a 2015 acquisition.

	June 30, 2017	December 31, 2016
Assets		
Fluid & Metering Technologies	$1,092,811	$ 1,065,670
Health & Science Technologies	1,274,359	1,266,036
Fire & Safety/Diversified Products	727,423	705,735
Corporate office	129,572	117,503
Total assets	$3,224,165	$ 3,154,944

Table of Contents

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

4. 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, restricted stock, and performance share units.

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 shares of restricted stock are participating securities. Accordingly, earnings per common share are computed using the more dilutive of the treasury stock method and the two-class method prescribed by ASC 260.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic weighted average common shares outstanding	76,220	75,690	76,167	75,719
Dilutive effect of stock options, restricted stock, and performance share units	1,100	984	940	968
Diluted weighted average common shares outstanding	77,320	76,674	77,107	76,687

Options to purchase approximately 0.4 million and 1.0 million shares of common stock for the three months ended June 30, 2017 and 2016, respectively, and 0.5 million and 1.3 million shares of common stock for the six months ended June 30, 2017 and 2016, respectively, were not included in the computation of diluted EPS because the effect of their inclusion would be antidilutive.

5. Inventories

The components of inventories as of June 30, 2017 and December 31, 2016 were:

	June 30, 2017	December 31, 2016
Raw materials and component parts	$166,293	$ 154,278
Work in process	37,910	34,832
Finished goods	60,342	63,749
Total	$264,545	$ 252,859

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.

Table of Contents

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

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2017, by reportable business segment, were as follows:

	Fluid & Metering Technologies	Health & Science Technologies	Fire & Safety/ Diversified Products	Total
Balance at December 31, 2016	$ 573,437	$ 699,299	$ 359,856	$ 1,632,592
Foreign currency translation	10,339	16,392	11,672	38,403
Acquisition adjustments	—	(4,248)	—	(4,248)
Balance at June 30, 2017	$ 583,776	$ 711,443	$ 371,528	$ 1,666,747

ASC 350, Goodwill and Other Intangible Assets, requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of the reporting unit below its carrying value. In the first six months of 2017, 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, 2016, all reporting units had fair values in excess of their carrying values.

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets at June 30, 2017 and December 31, 2016:

	At June 30, 2017				At December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Patents	$ 9,637	$ (6,783)	$ 2,854	11	$ 9,856	$ (6,635)	$ 3,221
Trade names	116,483	(47,197)	69,286	16	113,428	(42,653)	70,775
Customer relationships	327,328	(125,540)	201,788	13	369,087	(161,065)	208,022
Unpatented technology	87,586	(27,293)	60,293	13	106,747	(44,516)	62,231
Other	834	(523)	311	10	6,527	(6,172)	355
Total amortized intangible assets	541,868	(207,336)	334,532		605,645	(261,041)	344,604
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	$ 632,768	$ (207,336)	$ 425,432				