IDEX CORP /DE/
Form 10-Q
April 25, 2016
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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 March 31, 2016
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 ¨ 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).
Yes ¨ No þ
Number of shares of common stock of IDEX Corporation outstanding as of April 20, 2016: 75,900,965.

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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)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$358,445	$328,018
Receivables, less allowance for doubtful accounts of $7,984 at March 31, 2016 and $7,812 at December 31, 2015	296,834	260,000
Inventories — net	278,230	239,124
Other current assets	42,999	35,542
Total current assets	976,508	862,684
Property, plant and equipment — net	252,512	240,945
Goodwill	1,524,929	1,396,529
Intangible assets — net	370,786	287,837
Other noncurrent assets	17,563	17,448
Total assets	$3,142,298	$2,805,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$140,183	$128,911
Accrued expenses	150,766	153,672
Notes payable and current portion of long-term borrowings	1,333	1,087
Dividends payable	—	25,927
Total current liabilities	292,282	309,597
Long-term borrowings	1,094,232	839,707
Deferred income taxes	154,612	110,483
Other noncurrent liabilities	108,262	102,365
Total liabilities	1,649,388	1,362,152
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: 90,224,625 shares at March 31, 2016 and 90,151,131 shares at December 31, 2015	902	902
Additional paid-in capital	685,376	679,623
Retained earnings	1,734,810	1,666,680
Treasury stock at cost: 14,098,950 shares at March 31, 2016 and 13,616,592 shares at December 31, 2015	(799,665)	(757,416)
Accumulated other comprehensive income (loss)	(128,513)	(146,498)
Total shareholders' equity	1,492,910	1,443,291

Total liabilities and shareholders' equity	$3,142,298	$2,805,443

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 March 31,	
	2016	2015
Net sales	$502,572	$502,198
Cost of sales	279,237	276,157
Gross profit	223,335	226,041
Selling, general and administrative expenses	120,778	124,284
Operating income	102,557	101,757
Other (income) expense — net	(744)	(1,723)
Interest expense	10,489	10,597
Income before income taxes	92,812	92,883
Provision for income taxes	24,682	26,929
Net income	$68,130	$65,954
Basic earnings per common share	$0.90	$0.84
Diluted earnings per common share	$0.89	$0.84
Share data:		
Basic weighted average common shares outstanding	75,749	77,996
Diluted weighted average common shares outstanding	76,699	78,856

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2016	2015
Net income	$68,130	$65,954
Other comprehensive income (loss)		
Reclassification adjustments for derivatives, net of tax	1,097	1,130
Pension and other postretirement adjustments, net of tax	671	780
Cumulative translation adjustment	16,217	(56,637)
Other comprehensive income (loss)	17,985	(54,727)
Comprehensive income	$86,115	$11,227

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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) Cumulative Translation Adjustment	Retirement Benefits Adjustment	Cumulative Unrealized Gain (Loss) on Derivatives	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2015	$ 680,525	$ 1,666,680	$ (92,979)	$ (30,901)	$ (22,618)	$ (757,416)	$ 1,443,291
Net income	—	68,130	—	—	—	—	68,130
Cumulative translation adjustment	—	—	16,217	—	—	—	16,217
Pension and other postretirement adjustments (net of tax of $322)	—	—	—	671	—	—	671
Amortization of forward starting swaps (net of tax of $627)	—	—	—	—	1,097	—	1,097
Issuance of 361,570 shares of common stock from issuance of restricted stock, performance share units and exercise of stock options	—	—	—	—	—	8,258	8,258
Repurchase of 628,493 shares of common stock	—	—	—	—	—	(45,790)	(45,790)
Shares surrendered for tax withholding	—	—	—	—	—	(4,717)	(4,717)
Share-based compensation	5,753	—	—	—	—	—	5,753
Balance, March 31, 2016	$ 686,278	$ 1,734,810	$ (76,762)	$ (30,230)	$ (21,521)	$ (799,665)	$ 1,492,910

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2016			2015		
Cash flows from operating activities						
Net income	$	68,130		$	65,954	
Adjustments to reconcile net income to net cash provided by operating activities						
Depreciation and amortization	9,067			8,580		
Amortization of intangible assets	10,890			9,930		
Amortization of debt issuance costs	378			434		
Share-based compensation expense	6,442			6,882		
Deferred income taxes	2,950			1,000		
Excess tax benefit from share-based compensation	—			(3,220		)
Non-cash interest expense associated with forward starting swaps	1,724			1,772		
Changes in (net of effect from acquisitions):						
Receivables	(19,267		)	(18,039		)
Inventories	(270		)	(11,215		)
Other current assets	(6,597		)	(4,591		)
Trade accounts payable	6,451			6,857		
Accrued expenses	(6,641		)	(14,230		)
Other — net	(2,892		)	(710		)
Net cash flows provided by operating activities	70,365			49,404		
Cash flows from investing activities						
Additions of property, plant and equipment	(8,650		)	(10,077		)
Acquisition of businesses, net of cash	(221,556		)	—		

acquired		
Other — net	91	(48)
Net cash flows used in investing activities	(230,115)	(10,125)
Cash flows from financing activities		
Borrowings under revolving facilities	275,391	55,000
Payments under revolving facilities	(20,994)	(77)
Dividends paid	(24,662)	(22,151)
Proceeds from stock option exercises	8,258	9,185
Excess tax benefit from share-based compensation	—	3,220
Purchase of common stock	(46,864)	(62,132)
Shares surrendered for tax withholding	(4,717)	(3,107)
Net cash flows provided by (used in) financing activities	186,412	(20,062)
Effect of exchange rate changes on cash and cash equivalents	3,765	(33,858)
Net increase (decrease) in cash	30,427	(14,641)
Cash and cash equivalents at beginning of year	328,018	509,137
Cash and cash equivalents at end of period	$ 358,445	$ 494,496
Supplemental cash flow information		
Cash paid for:		
Interest	$ 965	$ 791
Income taxes	9,516	10,411

See Notes to Condensed Consolidated Financial Statements

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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 months ended March 31, 2016 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, 2015.

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This standard is effective for annual reporting periods beginning after December 15, 2016. The Company elected to early adopt this standard in the quarter ended March 31, 2016. The impact of the early adoption resulted in the following:

- The Company recorded a tax benefit of $2.6 million within income tax expense for the three months ended March 31, 2016 related to the excess tax benefit on stock options, restricted stock and performance share units. Prior to adoption this amount would have been recorded as a reduction of additional paid-in capital. This change could create volatility in the Company’s effective tax rate.
- The Company elected not to change our policy on accounting for forfeitures and continued to estimate the total number of awards for which the requisite service period will not be rendered.
- The Company no longer reclassifies the excess tax benefit from operating activities to financing activities in the statement of cash flows. The Company elected to apply this change in presentation prospectively and thus prior periods have not been adjusted.
- The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the quarter ended March 31, 2016. This increased our diluted weighted average common shares outstanding by 175 thousand shares.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, which 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. This standard is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which introduces a new five-step revenue recognition model. 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 Company is currently evaluating the impact of the new guidance on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2018.

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

All of the Company’s acquisitions have been accounted for under FASB 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 $1.0 million of acquisition-related transaction costs in the three months ended March 31, 2016. These costs were recorded in Selling, general and administrative expense and were related to completed transactions, pending transactions and potential transactions, including transactions that ultimately were not completed. During the three months ended March 31, 2016, the Company recorded $2.2 million of fair value inventory step-up charges in Cost of sales associated with the completed 2016 acquisition.

2016 Acquisitions

On March 16, 2016, the Company acquired the stock of Akron Brass Holding Corporation (“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 had annual revenues in its most recent fiscal year of approximately $120 million and operates in our Fire & Safety/Diversified Products segment. Akron Brass was acquired for cash consideration of $221.6 million. The purchase price was funded with borrowings under the Company’s Revolving Facility. Preliminary goodwill and intangible assets recognized as part of the transaction were $119.1 million and $92.1 million, respectively. The goodwill is not deductible for tax purposes.

The Company made an initial allocation of the purchase price for the Akron Brass acquisition as of the acquisition date based on its understanding of the fair value of the acquired assets and assumed liabilities. As the Company obtains additional information about these assets and liabilities, including tangible and intangible asset appraisals, and learns more about the newly acquired businesses, 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 appropriate adjustments to the purchase price allocations prior to the completion of the measurement period, as required.

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

	Total
Current assets, net of cash acquired	$51,887
Property, plant and equipment	10,332
Goodwill	119,131
Intangible assets	92,100
Total assets acquired	273,450
Current liabilities	(6,531)
Deferred income taxes	(39,114)
Other noncurrent liabilities	(6,249)
Net assets acquired	$221,556

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

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Of the $92.1 million of acquired intangible assets, $32.8 million was assigned to the Akron Brass trade name and is not subject to amortization. The acquired intangible assets and weighted average amortization periods are as follows:

	Total	Weighted Average Life
Trade names	$2,900	15
Customer relationships	43,500	14
Unpatented technology	12,900	9
Amortized intangible assets	$59,300	
Indefinite lived - Akron Brass trade name	32,800	
Total acquired intangible assets	$92,100	

2015 Acquisitions

On May 29, 2015, the Company acquired the stock of Novotema, SpA (“Novotema”), a leader in the design, manufacture and sale of specialty sealing solutions for use in the building products, gas control, transportation, industrial and water markets. The business was acquired to complement and create synergies with our existing sealing group. Located in Villongo, Italy, Novotema operates in our Health & Science Technologies segment. Novotema was acquired for cash consideration of $61.1 million (€56 million). The entire purchase price was funded with cash on hand. Goodwill and intangible assets recognized as part of this transaction were $34.3 million and $20.0 million, respectively. The $34.3 million of goodwill is not deductible for tax purposes.

On June 10, 2015, the Company acquired the stock of Alfa Valvole, S.r.l (“Alfa”), a leader in the design, manufacture and sale of specialty valve products for use in the chemical, petro-chemical, energy and sanitary markets. The business was acquired to expand our valve capabilities. Located in Casorezzo, Italy, Alfa operates in our Fluid & Metering Technologies segment. Alfa was acquired for cash consideration of $112.6 million (€99.8 million). The entire purchase price was funded with cash on hand. Goodwill and intangible assets recognized as part of this transaction were $71.2 million and $32.1 million, respectively. The $71.2 million of goodwill is not deductible for tax purposes.

On July 1, 2015, the Company acquired the membership interests of CiDRA Precision Services, LLC (“CPS”), a leader in the design, manufacture and sale of microfluidic components serving the life science, health and industrial markets. The business was acquired to provide a critical building block to our emerging microfluidic and nanofludics capabilities. Located in Wallingford, Connecticut, CPS operates within our Health & Sciences Technologies segment. CPS was acquired for an aggregate purchase price of $24.2 million, consisting of $19.5 million in cash and contingent consideration valued at $4.7 million as of the opening balance sheet date. The contingent consideration is based on the achievement of financial objectives during the 12-month period following the close. Based on potential outcomes, the undiscounted amount of all the future payments that the Company could be required to make under the contingent consideration arrangement is between $0 and $5.5 million. During the first quarter of 2016, the Company re-evaluated the amount that could potentially be owed under the contingent consideration arrangement and reduced the liability to $1.0 million based on known information and a revised forecast. The difference between the amount recorded as of the opening balance sheet date and March 31, 2016 was recognized as a benefit within Selling, general and administrative expenses during the three months ended March 31, 2016. The entire purchase price was funded with cash on hand. Goodwill and intangible assets recognized as part of this transaction were $9.7 million and $12.3 million, respectively. The $9.7 million of goodwill is deductible for tax purposes.

On December 1, 2015 the Company acquired the assets of a complementary product line within our Fluid & Metering Technologies segment. The purchase price and goodwill associated with this transaction was $1.9 million and $0.7 million, respectively.

2015 Divestiture

The Company periodically reviews its operations for businesses which may no longer be aligned with its strategic objectives and focus on core business and customers. On July 31, 2015, the Company completed the sale of its Ismatec product line to Cole-Palmer Instruments Company for $27.7 million in cash, resulting in a pre-tax gain on the sale of $18.1 million. The Company recorded $4.8 million of income tax expense associated with this transaction during the three months ended September 30, 2015. The results of Ismatec were reported within the Health & Science Technologies segment through the date of sale.

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IDEX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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, 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, 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, semiconductor, 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, 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.

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IDEX CORPORATION AND SUBSIDIARIES
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(unaudited)

	Three Months Ended March 31,	
	2016	2015
Net sales		
Fluid & Metering Technologies		
External customers	$211,709	$217,932
Intersegment sales	134	316
Total group sales	211,843	218,248
Health & Science Technologies		
External customers	186,251	177,750
Intersegment sales	92	1,370
Total group sales	186,343	179,120
Fire & Safety/Diversified Products		
External customers	104,612	106,516
Intersegment sales	6	106
Total group sales	104,618	106,622
Intersegment elimination	(232)	(1,792)
Total net sales	$502,572	$502,198
Operating income		
Fluid & Metering Technologies	$51,401	$55,898
Health & Science Technologies	40,699	37,457
Fire & Safety/Diversified Products	25,404	27,162
Corporate office and other	(14,947)	(18,760)
Total operating income	102,557	101,757
Interest expense	10,489	10,597
Other (income) expense - net	(744)	(1,723)
Income before income taxes	$92,812	$92,883

	March 31, 2016	December 31, 2015
Assets		
Fluid & Metering Technologies	$1,139,577	$ 1,125,266
Health & Science Technologies	1,123,683	1,108,302
Fire & Safety/Diversified Products	742,918	448,867
Corporate office	136,120	123,008
Total assets	$3,142,298	$ 2,805,443

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, performance share units, 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

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

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 March 31,	
	2016	2015
Basic weighted average common shares outstanding	75,749	77,996
Dilutive effect of stock options, restricted stock, performance share units and DCUs	950	860
Diluted weighted average common shares outstanding	76,699	78,856

Options to purchase approximately 1.4 million and 0.9 million shares of common stock for the three months ended March 31, 2016 and 2015, 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 March 31, 2016 and December 31, 2015 were:

	March 31, 2016	December 31, 2015
Raw materials and component parts	$163,207	$ 141,671
Work in process	36,008	32,387
Finished goods	79,015	65,066
Total	$278,230	$ 239,124

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

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2016, by reportable business segment, were as follows:

	Fluid & Metering Technologies	Health & Science Technologies	Fire & Safety/ Diversified Products	Total
Balance at December 31, 2015	$ 584,770	$ 590,605	$ 221,154	$1,396,529
Foreign currency translation and other	4,990	877	3,402	9,269
Acquisitions	—	—	119,131	119,131
Balance at March 31, 2016	$ 589,760	$ 591,482	$ 343,687	$1,524,929

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 did not consider there to be any triggering events that would require an interim impairment assessment, therefore none of the goodwill or other acquired intangible assets with indefinite lives were tested for impairment during the three months ended March 31, 2016. Based on the results of our annual impairment test at October 31, 2015, all reporting units had a fair value that was more than 70% greater than the carrying value, except for our IDEX Optics and Photonics (“IOP”) and Valves reporting units. Our IOP reporting unit had a fair value that was approximately 20% in excess of carrying value and our Valves reporting unit had a fair value near its carrying value as a result of the formation of this reporting unit in conjunction with our Alfa acquisition in June 2015.

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IDEX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data and where otherwise indicated)
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The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset at March 31, 2016 and December 31, 2015:

	At March 31, 2016				At December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Patents	$10,255	$(6,403)	$3,852	11	$10,202	$(6,175)	$4,027
Trade names	114,090	(40,664)	73,426	16	110,658	(38,696)	71,962
Customer relationships	302,795	(151,765)	151,030	11	257,071	(144,134)	112,937
Non-compete agreements	—	—	—	3	794	(775)	19
Unpatented technology	92,102	(45,332)	46,770	10	78,562	(42,745)	35,817
Other	6,549	(5,741)	808	10	6,554	(5,579)	975
Total amortized intangible assets	525,791	(249,905)	275,886		463,841	(238,104)	225,737
Indefinite lived intangible assets:							
Banjo trade name	62,100	—	62,100		62,100	—	62,100
Akron Brass trade name	32,800	—	32,800		—	—	—
Total intangible assets	$620,691	$(249,905)	$370,786		$525,941	$(238,104)	$287,837

The Banjo trade name is an indefinite lived intangible asset which is tested for impairment on an annual basis in accordance with ASC 350 or more frequently if events or changes in circumstances indicate that the asset might be impaired. In the first three months of 2016, there were no triggering events or changes that would have required a review. Based on the results of our annual impairment test at October 31, 2015, the fair value of the Banjo trade name was greater than 20% in excess of carrying value.

The Akron Brass trade name is an indefinite lived intangible asset that was generated as a result of the Akron Brass acquisition in March 2016.

Amortization of intangible assets was $10.9 million and $9.9 million for the three months ended March 31, 2016 and 2015, respectively. Based on intangible asset balances as of March 31, 2016, amortization expense is expected to approximate $34.5 million for the remaining nine months of 2016, $37.4 million in 2017, $27.2 million in 2018, $24.4 million in 2019 and $23.5 million in 2020.

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7. Accrued Expenses

The components of accrued expenses as of March 31, 2016 and December 31, 2015 were:

	March 31, 2016	December 31, 2015
Payroll and related items	$ 59,969	$ 67,209
Management incentive compensation	5,399	12,599
Income taxes payable	14,732	3,836
Insurance	8,835	9,505
Warranty	6,843	7,936
Deferred revenue	11,660	9,885
Restructuring	3,424	6,636
Liability for uncertain tax positions	5,146	3,498
Accrued interest	8,712	1,230
Contingent consideration for acquisition	1,000	4,705
Other	25,046	26,633
Total accrued expenses	$ 150,766	$ 153,672

8. Other Noncurrent Liabilities

The components of other noncurrent liabilities as of March 31, 2016 and December 31, 2015 were:

	March 31, 2016	December 31, 2015
Pension and retiree medical obligations	$ 83,128	$ 76,190
Liability for uncertain tax positions	2,623	4,252
Deferred revenue	3,258	3,763
Other	19,253	18,160
Total other noncurrent liabilities	$ 108,262	$ 102,365

9. Borrowings

Borrowings at March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
Revolving Facility	$450,000	$ 195,000
4.5% Senior Notes, due December 2020	300,000	300,000
4.2% Senior Notes, due December 2021	350,000	350,000
Other borrowings	1,889	2,436
Total borrowings	1,101,889	847,436
Less current portion	1,333	1,087
Less deferred debt issuance costs	4,945	5,203
Less unaccreted debt discount	1,379	1,439

Total long-term borrowings	$1,094,232	$ 839,707

On June 23, 2015, the Company entered into a credit agreement (the “Credit Agreement”) along with certain of its subsidiaries, as borrowers (the “Borrowers”), Bank of America, N.A., as administrative agent, swing line lender and an issuer of letters of credit, with other agents party thereto. The Credit Agreement replaces the Company's existing five-year, $700 million credit agreement, dated as of June 27, 2011, which was due to expire on June 27, 2016.

The Credit Agreement consists of a revolving credit facility (the "Revolving Facility") in an aggregate principal amount of $700 million with a final maturity date of June 23, 2020. The maturity date may be extended under certain conditions for an additional one-year term. Up to $75 million of the Revolving Facility is available for the issuance of letters of credit. Additionally, up to $50 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 acquisitions, 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 pursuant to such increases may not exceed $350 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.

Borrowings under the Credit Agreement 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, long-term debt rating and can range from .005% to 1.50%. Based on the Company's credit rating at March 31, 2016, the applicable margin was 1.10%, resulting in an interest rate of 1.56% at March 31, 2016. 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.

The Credit Agreement requires payment to the lenders of a facility fee based upon (a) the amount of the lenders' commitments under the credit facility from time to time and (b) the applicable corporate credit ratings of the Company. Voluntary prepayments of any loans and voluntary reductions of the unutilized portion of the commitments under the credit facility are permissible without penalty, subject to break funding payments and minimum notice and minimum reduction amount requirements.

The negative covenants include, among other things, limitations (each of which is subject to customary exceptions for financings of this type) on our ability to grant liens; enter into transactions resulting in fundamental changes (such as mergers or sales of all or substantially all of the assets of the Company); restrict subsidiary dividends or other subsidiary distributions; enter into transactions with the Company's affiliates; and incur certain additional subsidiary debt.

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 March 31, 2016, $450.0 million was outstanding under the Revolving Facility, with $7.6 million of outstanding letters of credit, resulting in net available borrowing capacity under the Revolving Facility at March 31, 2016 of approximately $242.4 million.

Other borrowings of $1.9 million at March 31, 2016 consisted primarily of debt at international locations maintained for working capital purposes. Interest is payable on the outstanding debt balances at rates ranging from 0.6% to 2.8% per annum.

There are two key financial covenants that the Company is required to maintain in connection with the Revolving Facility, which requires a minimum interest coverage ratio of 3.0 to 1 and a maximum leverage ratio of 3.50 to 1. At March 31, 2016, 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; however, both are subject to cross-default provisions.

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10. Derivative Instruments

The Company enters into cash flow hedges from time to time 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. See Note 13 for the amount of loss reclassified into income for interest rate contracts for the three months ended March 31, 2016 and 2015. 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. As of March 31, 2016, the Company did not have any interest rate contracts outstanding.

In 2010 and 2011, the Company entered into two separate forward starting interest rate contracts in anticipation of the issuance of the 4.2% Senior Notes and the 4.5% Senior Notes. The Company cash settled these two interest rate contracts in 2010 and 2011 for a total of $68.9 million, which is being amortized into interest expense over the 10 year term of the debt instruments. Approximately $6.8 million of the pre-tax amount included in accumulated other comprehensive income (loss) in shareholders' equity at March 31, 2016 will be recognized to net income over the next 12 months as the underlying hedged transactions are realized.

11. 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.
- 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 at fair value on a recurring basis in the balance sheets at March 31, 2016 and December 31, 2015:

	Basis of Fair Value Measurements			
	Balance at March 31, 2016	Level 1	Level 2	Level 3

Money market investment	$31,161	$31,161	$ —	$ —
Available for sale securities	5,047	5,047	—	—
Contingent consideration	(1,000)	—	—	(1,000)

	Basis of Fair Value Measurements			
	Balance at December 31, 2015	Level 1	Level 2	Level 3
Money market investment	$21,931	$21,931	$ —	$ —
Available for sale securities	4,794	4,794	—	—
Contingent consideration	(4,705)	—	—	(4,705)

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There were no transfers of assets or liabilities between Level 1 and Level 2 during the quarter ended March 31, 2016 or the year ended December 31, 2015.

In determining the fair value of the contingent consideration potentially due on the acquisition of CPS, the Company used probability weighted estimates of EBITDA during the earn-out period. The $4.7 million represents management's best estimate of the liability as of the opening balance sheet date and December 31, 2015, based on a range of outcomes of CPS's 12 month operating results, from July 1, 2015 to June 30, 2016. During the first quarter of 2016, the Company re-evaluated the amount that could potentially be owed under the contingent consideration arrangement and reduced the liability to $1.0 million based on known information and a revised forecast. The difference between the amount recorded as of the opening balance sheet date and March 31, 2016 was recognized as a benefit within Selling, general and administrative expenses during the three months ended March 31, 2016. At March 31, 2016, the $1.0 million of contingent consideration is included in Accrued expenses in the Consolidated Balance Sheet.

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 March 31, 2016, the fair value of the outstanding indebtedness under our Revolving Facility, 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 $1,122.4 million compared to the carrying value of $1,098.6 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.

12. Restructuring

During the fourth quarter of 2015, the Company recorded restructuring costs as part of the 2015 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. The costs incurred related to these initiatives were included in Restructuring expenses in the Consolidated Statements of Operations while the related accruals were included in Accrued expenses in the Consolidated Balance Sheets. Severance costs primarily consisted of severance benefits through payroll continuation, COBRA subsidies, outplacement services, conditional separation costs and employer tax liabilities.

Restructuring accruals of $3.4 million and $6.6 million at March 31, 2016 and December 31, 2015, respectively, are recorded in Accrued expenses in the Consolidated Balance Sheets. Severance benefits are expected to be paid in the next twelve months using cash from operations. The changes in the restructuring accrual for the three months ended March 31, 2016 are as follows:

	Restructuring
Balance at January 1, 2016	$ 6,636
Payments, utilization and other	(3,212)
Balance at March 31, 2016	$ 3,424

13. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) are as follows:

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax

Cumulative translation adjustment	$16,217	$—	$16,217	$(56,637)	$—	$(56,637)
Pension and other postretirement adjustments	993	(322)	671	1,175	(395)	780
Reclassification adjustments for derivatives	1,724	(627)	1,097	1,772	(642)	1,130
Total other comprehensive income (loss)	$18,934	$(949)	$17,985	$(53,690)	$(1,037)	$(54,727)

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The following table summarizes the amounts reclassified from accumulated other comprehensive income to net income during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
	2016	2015	Income Statement Caption
Pension and other postretirement plans			
Amortization of service cost	$993	$1,175	Selling, general and administrative expense
Total before tax	993	1,175	
Provision for income taxes	(322)	(395)	
Total net of tax	$671	$780	
Derivatives			
Reclassification adjustments	$1,724	$1,772	Interest expense
Total before tax	1,724	1,772	
Provision for income taxes	(627)	(642)	
Total net of tax	$1,097	$1,130	

14. Common and Preferred Stock

On December 1, 2015, the Company’s Board of Directors approved a $300.0 million increase in the authorized level for repurchases of common stock. Repurchases will be funded with future cash flow generation or borrowings available under the Revolving Facility. During the three months ended March 31, 2016, the Company purchased a total of 628 thousand shares at a cost of $45.8 million, of which $1.2 million was settled in April 2016. During the three months ended March 31, 2015, the Company purchased 830 thousand shares at a cost of $62.1 million, of which $2.7 million was settled in April 2015. As of March 31, 2016, the amount of share repurchase authorization remaining is $589.2 million.

At March 31, 2016 and December 31, 2015, 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 outstanding at March 31, 2016 or December 31, 2015.

15. Share-Based Compensation

Stock Options

Weighted average option fair values and assumptions for the periods specified are disclosed below. The fair value of each option grant was estimated on the date of the grant using the Binomial lattice option pricing model.

	Three Months Ended March 31,	
	2016	2015
Weighted average fair value of option grants	$18.40	$20.40
Dividend yield	1.70%	1.42%

Volatility	29.71%	29.94%
Risk-free forward interest rate	0.53% - 2.50%	0.23% - 2.75%
Expected life (in years)	5.91	5.90

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Total compensation cost for stock options is as follows:

	Three Months Ended March 31,	
	2016	2015
Cost of goods sold	$119	$226
Selling, general and administrative expenses	2,295	2,197
Total expense before income taxes	2,414	2,423
Income tax benefit	(760)	(767)
Total expense after income taxes	$1,654	$1,656

A summary of the Company’s stock option activity as of March 31, 2016, and changes during the three months ended March 31, 2016, is presented in the following table:

Stock Options	Shares	Weighted Average Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2016	2,266,433	$ 54.05	6.58	$51,918,028
Granted	546,185	74.75		
Exercised	(210,413)	39.24		
Forfeited	(31,010)	70.17		
Outstanding at March 31, 2016	2,571,195	$ 59.46	7.24	$60,206,101
Vested and expected to vest as of March 31, 2016	2,392,411	$ 58.33	7.09	$58,731,553
Exercisable at March 31, 2016	1,373,554	$ 47.40	5.69	$48,736,086

Restricted Stock

Restricted stock awards generally cliff vest after three years for employees and non-employee directors. Unvested restricted stock carries dividend and voting rights and the sale of the shares is restricted prior to the date of vesting. A summary of the Company’s restricted stock activity as of March 31, 2016, and changes during the three months ended March 31, 2016, is as presented as follows:

Restricted Stock	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2016	272,755	$ 65.90
Granted	57,670	74.73
Vested	(98,102)	50.83
Forfeited	(5,510)	71.30
Unvested at March 31, 2016	226,813	$ 74.53

Dividends are paid on restricted stock awards and their fair value is equal to the market price of the Company’s stock at the date of the grant.

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Total compensation cost for restricted shares is as follows:

	Three Months Ended March 31,	
	2016	2015
Cost of goods sold	$128	$142
Selling, general and administrative expenses	1,530	2,257
Total expense before income taxes	1,658	2,399
Income tax benefit	(513)	(690)
Total expense after income taxes	$1,145	$1,709

Cash-Settled Restricted Stock
The Company also maintains a cash-settled share based compensation plan for certain employees. Cash-settled restricted stock awards generally cliff vest after three years. A summary of the Company's unvested cash-settled restricted stock activity as of March 31, 2016, and changes during the three months ended March 31, 2016, is presented in the following table:

Cash-Settled Restricted Stock	Shares	Weighted-Average Fair Value
Unvested at January 1, 2016	110,860	$ 76.61
Granted	39,100	82.88
Vested	(33,920)	71.81
Forfeited	(4,250)	82.88
Unvested at March 31, 2016	111,790	$ 82.88

Dividend equivalents are paid on certain cash-settled restricted stock awards. Total compensation cost for cash-settled restricted stock is as follows:

	Three Months Ended March 31,	
	2016	2015
Cost of goods sold	$189	$278
Selling, general and administrative expenses	500	440
Total expense before income taxes	689	718
Income tax benefit	(98)	(116)
Total expense after income taxes	$591	$602

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Performance Share Units
Weighted average performance share unit fair values and assumptions for the period specified are disclosed below. The performance share units are market condition awards and have been assessed at fair value on the date of grant using a Monte Carlo simulation model.

	Three Months Ended March 31,	
	2016	2015
Weighted average fair value of performance share units	$111.42	$95.07
Dividend yield	—%	—%
Volatility	17.99%	19.14%
Risk-free forward interest rate	0.89%	1.01%
Expected life (in years)	2.86	2.86

A summary of the Company’s performance share unit activity as of March 31, 2016, and changes during the three months ended March 31, 2016, is presented in the following table:

Performance Share Units	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2016	146,275	$ 94.80
Granted	85,130	111.42
Vested	—	—
Forfeited	(1,065)	94.74
Unvested at March 31, 2016	230,340	$ 100.95

Performance share units that vested on December 31, 2015 resulted in 87,600 shares issued in February 2016.
Total compensation cost for performance share units is as follows:

	Three Months Ended March 31,	
	2016	2015
Cost of goods sold	$—	$—
Selling, general and administrative expenses	1,681	1,342
Total expense before income taxes	1,681	1,342
Income tax benefit	(535)	(430)
Total expense after income taxes	$1,146	$912

The Company’s policy is to recognize compensation cost on a straight-line basis, assuming forfeitures, over the requisite service period for the entire award. Classification of stock compensation cost within the Consolidated Statements of Operations is consistent with classification of cash compensation for the same employees.
As of March 31, 2016, there was $16.0 million of total unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 1.6 years, $12.3 million of total unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted-average period of

1.2 years, and $11.5 million of total unrecognized compensation cost related to performance share units that is expected to be recognized over a weighted-average period of 1.2 years.

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16. 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 March 31,			
	2016		2015	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	$294	$ 299	$375	$ 381
Interest cost	747	350	938	435
Expected return on plan assets	(1,175			