IDEX CORP /DE/
Form 10-Q
August 07, 2008

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

OR

o **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.)*
630 Dundee Road, Northbrook, Illinois	**60062**
(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 o

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 o Non-accelerated filer o Smaller reporting company o
(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 o No þ

Number of shares of common stock of IDEX Corporation outstanding as of July 31, 2008: 82,557,377 (net of treasury shares).

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

IDEX CORPORATION

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

	June 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 118,538	$ 102,757
Restricted cash		140,005
Receivables, less allowance for doubtful accounts of $5,833 at June 30, 2008 and $5,746 at December 31, 2007	240,028	193,326
Inventories	197,702	177,435
Other current assets	26,640	23,615
Total current assets	582,908	637,138
Property, plant and equipment net	178,318	172,999
Goodwill	1,094,789	977,019
Intangible assets net	236,974	191,766
Other noncurrent assets	12,075	10,672
Total assets	$ 2,105,064	$ 1,989,594
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Trade accounts payable	$ 101,817	$ 84,209
Accrued expenses	106,425	99,125
Short-term borrowings	13,599	5,830
Dividends payable	9,771	9,789
Total current liabilities	231,612	198,953
Long-term borrowings	397,060	448,901
Deferred income taxes	152,192	124,472
Other noncurrent liabilities	50,063	54,545
Total liabilities	830,927	826,871
Commitment 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: 82,700,110 shares at June 30, 2008 and 81,736,244 shares at December 31, 2007		827		817
Additional paid-in capital		363,378		346,450
Retained earnings		821,359		753,519
Treasury stock at cost: 171,213 shares at June 30, 2008 and 156,986 shares at December 31, 2007		(4,875)		(4,443)
Accumulated other comprehensive income		93,448		66,380
Total shareholders equity		1,274,137		1,162,723
Total liabilities and shareholders equity	$	2,105,064	$	1,989,594

See Notes to Condensed Consolidated Financial Statements.

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IDEX CORPORATION AND SUBSIDIARIES

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net sales	$ 397,310	$ 344,482	$ 768,972	$ 677,750
Cost of sales	234,102	196,948	450,597	390,552
Gross profit	163,208	147,534	318,375	287,198
Selling, general and administrative expenses	89,400	78,669	176,468	156,781
Operating income	73,808	68,865	141,907	130,417
Other income net	987	521	1,162	1,094
Interest expense	4,092	6,058	9,758	12,437
Income from continuing operations before income taxes	70,703	63,328	133,311	119,074
Provision for income taxes	24,649	21,493	45,878	40,408
Income from continuing operations	46,054	41,835	87,433	78,666
Loss from discontinued operations, net of tax		(205)		(369)
Net income	$ 46,054	$ 41,630	$ 87,433	$ 78,297
Basic earnings per common share:				
Continuing operations	$ .57	$ .52	$ 1.08	$ .98
Discontinued operations				(.01)
Net income	$ .57	$ .52	$ 1.08	$ .97
Diluted earnings per common share:				
Continuing operations	$ .56	$ .51	$ 1.06	$ .96
Discontinued operations				
Net income	$ .56	$ .51	$ 1.06	$ 96
Share data:				
Basic weighted average common shares outstanding	81,322	80,595	81,194	80,429
Diluted weighted average common shares outstanding	82,746	82,046	82,511	81,855

See Notes to Condensed Consolidated Financial Statements.

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IDEX CORPORATION AND SUBSIDIARIES

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

	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income: Cumulative Translation Adjustment	Accumulated Other Comprehensive Income: Net Actuarial Losses and Prior Service Costs on Pensions and Other Post-Retirement Benefit Plans	Accumulated Other Comprehensive Income: Cumulative Unrealized Gains on Derivatives Designated as Cash Flow Hedges	Treasury Stock	Total Shareholders Equity
Balance, December 31, 2007	$ 347,267	$ 753,519	$ 86,755	$ (20,375)	$	$ (4,443)	$ 1,162,723
Net income		87,433					87,433
Other comprehensive income, net of tax:							
Cumulative translation adjustment			23,063				23,063
Amortization of retirement obligations				849			849
Unrealized gain on derivatives designated as cash flow hedges					3,156		3,156
Other comprehensive income							27,068
Comprehensive income							114,501
Issuance of 400,738 shares of common stock from exercise of stock options	8,727						8,727

and deferred compensation plans, net of tax benefit							
Share-based compensation	8,211						8,211
Unvested shares surrendered for tax withholding						(432)	(432)
Cash dividends declared $.24 per common share		(19,593)					(19,593)
Balance, June 30, 2008	$ 364,205	$ 821,359	$ 109,818	$ (19,526)	$ 3,156	$ (4,875)	$ 1,274,137

See Notes to Condensed Consolidated Financial Statements.

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IDEX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities of continuing operations		
Net income	$ 87,433	$ 78,297
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations		369
Depreciation and amortization	16,435	14,079
Amortization of intangible assets	7,778	4,400
Amortization of debt issuance expenses	155	230
Stock-based compensation expense	8,211	6,721
Deferred income taxes	3,112	2,812
Excess tax benefit from stock-based compensation	(2,359)	(3,651)
Changes in (net of the effect from acquisitions):		
Receivables	(15,032)	(20,203)
Inventories	(9,600)	(4,344)
Trade accounts payable	6,011	9,559
Accrued expenses	(3,475)	(6,880)
Other net	(4,864)	(1,821)
Net cash flows provided by operating activities of continuing operations	93,805	79,568
Cash flows from investing activities of continuing operations		
Additions to property, plant and equipment	(13,203)	(12,830)
Acquisition of businesses, net of cash acquired	(156,210)	(56,706)
Change in restricted cash	140,005	
Net cash flows used in investing activities of continuing operations	(29,408)	(69,536)
Cash flows from financing activities of continuing operations		
Borrowings under credit facilities for acquisitions		24,177
Borrowings under credit facilities	272,238	21,758
Payments under credit facilities	(167,021)	(81,296)
Payment of senior notes	(150,000)	
Dividends paid	(19,610)	(17,763)
Distributions for discontinued operations		(560)
Proceeds from stock option exercises	7,904	9,535
Excess tax benefit from stock-based compensation	2,359	3,651
Other net	633	1,768
Net cash flows used in financing activities of continuing operations	(53,497)	(38,730)
Cash flows from discontinued operations		

Net cash used in operating activities of discontinued operations		(561)
Net cash provided by financing activities of discontinued operations		560
Net cash flows used in discontinued operations		(1)
Effect of exchange rate changes on cash and cash equivalents	4,881	2,782
Net increase (decrease) in cash	15,781	(25,917)
Cash and cash equivalents at beginning of year	102,757	77,943
Cash and cash equivalents at end of period	118,538	52,026
Less-cash, end of period-discontinued operations		1
Cash and cash equivalents at end of period-continuing operations	$ 118,538	$ 52,025
Supplemental cash flow information		
Cash paid for:		
Interest	$ 11,496	$ 12,253
Income taxes	38,400	40,364
Significant non-cash activities:		
Debt acquired with acquisition of business		1,571
Non-cash capital expenditures	110	300

See Notes to Condensed Consolidated Financial Statements.

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation and Significant Accounting Policies

The condensed consolidated financial statements of IDEX Corporation (IDEX or the Company) have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. The statements are unaudited but include all adjustments, consisting only of recurring items, except as noted, which 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, 2008 are not necessarily indicative of the results to be expected for the entire year.

The condensed consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility of the sales price is reasonably assured. For product sales, delivery does not occur until the products have been shipped and risk of loss has been transferred to the customer. Revenue from services is recognized when the services are provided or ratably over the contract term. Some arrangements with customers may include multiple deliverables, including the combination of products and services. In such cases the Company has identified these as separate elements in accordance with Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables and recognizes revenue consistent with the policy for each separate element based on the fair value of each accounting unit. Revenues from certain long-term contracts are recognized on the percentage-of-completion method. Percentage-of-completion is measured principally by the percentage of costs incurred to date for each contract to the estimated total costs for such contract at completion. Provisions for estimated losses on uncompleted long-term contracts are made in the period in which such losses are determined. 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 in the near-term. Such revisions to costs and income are recognized in the period in which the revisions 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 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.

2. Acquisitions

On January 1, 2008, the Company acquired ADS, LLC (ADS), a leading provider of metering technology and flow monitoring services for water and wastewater markets. ADS is headquartered in Huntsville, Alabama, with regional sales and service offices throughout the United States and Australia. With annual revenues of approximately $70 million, ADS will operate as a standalone business unit within the Company s Fluid and Metering Technologies Segment. The Company acquired ADS for an aggregate purchase price of $156.4 million, consisting entirely of cash. Approximately $155.0 million of the cash payment was financed by borrowings under the Company s credit facility, of which $140.0 million was reflected as restricted cash at December 31, 2007. Goodwill and intangible assets recognized as part of this transaction were $104.2 million and $51.9 million, respectively. The $104.2 million of goodwill is not deductible for tax purposes.

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The purchase price for ADS, including transaction costs, has been allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of the acquisition. The purchase price allocation is preliminary and further refinements may be necessary pending finalization of asset valuations.

The results of operations for this acquisition have been included within the Company s financial results from the date of the acquisition. The Company does not consider this acquisition to be material to its results of operations for any of the periods presented.

3. Discontinued Operations

On August 13, 2007, the Company completed the sale of Halox, its chemical and electrochemical systems product line operating as a unit of Pulsafeeder in IDEX s Fluid & Metering Technologies Segment, resulting in an after-tax loss of $0.1 million.

Summarized results of the Company s discontinued operations are as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	(In thousands)	
Revenue	$ 515	$ 1,136
Loss from discontinued operations before income taxes	$ (315)	$ (567)
Income tax benefit	110	198
Loss from discontinued operations	$ (205)	$ (369)

4. Business Segments

The Company consists of four reporting segments: Fluid & Metering Technologies, Health & Science Technologies, Dispensing Equipment and Fire & Safety/Diversified Products.

The Fluid & Metering Technologies Segment produces pumps, flow meters, and related controls for the movement of liquids and gases in a diverse range of end markets from industrial infrastructure to food and beverage. The Health & Science Technologies Segment produces a wide variety of small-scale, highly accurate pumps, valves, fittings and medical devices, as well as compressors used in medical, dental and industrial applications. The Dispensing Equipment Segment produces highly engineered equipment for dispensing, metering and mixing colorants, paints, inks and dyes, as well as refinishing equipment. The Fire & Safety/Diversified Products Segment produces firefighting pumps, rescue tools, lifting bags and other components and systems for the fire and rescue industry, as well as engineered stainless steel banding and clamping devices used in a variety of industrial and commercial applications.

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IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(In thousands)			
Net sales				
Fluid & Metering Technologies:				
External customers	$ 177,096	$ 140,583	$ 347,684	$ 276,885
Intersegment sales	262	511	604	915
Total group sales	177,358	141,094	348,288	277,800
Health & Science Technologies:				
External customers	86,366	81,232	168,773	161,110
Intersegment sales	881	1,138	2,116	1,980
Total group sales	87,247	82,370	170,889	163,090
Dispensing Equipment:				
External customers	56,601	49,859	106,609	97,752
Intersegment sales				
Total group sales	56,601	49,859	106,609	97,752
Fire & Safety/Diversified Products:				
External customers	77,247	72,808	145,906	142,003
Intersegment sales			4	1
Total group sales	77,247	72,808	145,910	142,004
Intersegment elimination	(1,143)	(1,649)	(2,724)	(2,896)
Total net sales	$ 397,310	$ 344,482	$ 768,972	$ 677,750
Operating income				
Fluid & Metering Technologies	$ 34,655	$ 30,133	$ 68,900	$ 59,884
Health & Science Technologies	16,054	15,167	31,133	29,030
Dispensing Equipment	14,294	14,248	25,527	25,952

Fire & Safety/Diversified Products	18,608	18,117	36,338	33,475
Corporate office and other	(9,803)	(8,800)	(19,991)	(17,924)
Total operating income	$ 73,808	$ 68,865	$ 141,907	$ 130,417

5. Earnings Per Common Share

Earnings per common share (EPS) are computed by dividing net income by the weighted average number of shares of common stock (basic) plus common stock equivalents outstanding (diluted) during the period. Common stock equivalents consist of stock options, which have been included in the calculation of weighted average shares outstanding using the treasury stock method, unvested shares, and shares issuable in connection with certain

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deferred compensation agreements (DCUs). Basic weighted average shares reconciles to diluted weighted average shares as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(In thousands)			
Basic weighted average common shares outstanding	81,322	80,595	81,194	80,429
Dilutive effect of stock options, unvested shares, and DCUs	1,424	1,451	1,317	1,426
Diluted weighted average common shares outstanding	82,746	82,046	82,511	81,855

Options to purchase approximately 1.9 million and 1.7 million shares of common stock as of June 30, 2008 and 2007, respectively, were not included in the computation of diluted EPS because the exercise price was greater than the average market price of the Company s common stock and, therefore, the effect of their inclusion would be antidilutive.

6. Inventories

The components of inventories as of June 30, 2008 and December 31, 2007 were:

	June 30, 2008	December 31, 2007
	(In thousands)	
Raw materials and components parts	$ 105,162	$ 88,159
Work-in-process	25,760	22,670
Finished goods	66,780	66,606
Total	$ 197,702	$ 177,435

Inventories carried on a LIFO basis amounted to $162.8 million and $148.4 million at June 30, 2008 and December 31, 2007, respectively. All other inventory was valued on the FIFO method. The excess of current cost over LIFO inventory value amounted to $4.3 million for June 30, 2008 and $4.2 million for December 31, 2007.

7. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2008, by reporting segment, were as follows:

	Fluid & Metering Technologies	Health & Science Technologies	Dispensing Equipment (In thousands)	Fire & Safety/ Diversified Products	Total
Balance at December 31, 2007	$ 334,862	$ 353,060	$ 137,390	$ 151,707	$ 977,019
Acquisitions	104,186				104,186
Foreign currency translation	1,089	1,468	6,266	4,715	13,538
Acquisition adjustments	133	(87)			46
Balance at June 30, 2008	$ 440,270	$ 354,441	$ 143,656	$ 156,422	$ 1,094,789

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset as of June 30, 2008 and December 31, 2007:

	At June 30, 2008			At December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Average Life	Gross Carrying Amount	Accumulated Amortization
			(In thousands)		
Amortizable intangible assets:					
Patents	$ 8,389	$ (5,433)	11	$ 8,154	$ (5,074)
Trade names	47,275	(4,789)	16	37,716	(3,259)
Customer relationships	107,648	(10,774)	15	76,959	(6,288)
Non-compete agreements	4,508	(2,667)	4	4,474	(2,141)
Unpatented technology	27,615	(1,807)	16	14,804	(892)
Other	6,288	(1,379)	10	6,283	(1,070)
Total amortizable intangible assets	201,723	(26,849)		148,390	(18,724)
Banjo trade name	62,100			62,100	
	$ 263,823	$ (26,849)		$ 210,490	$ (18,724)

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

8. Accrued Expenses

The components of accrued expenses as of June 30, 2008 and December 31, 2007 were:

	June 30, 2008	December 31, 2007
	(In thousands)	
Payroll and related items	$ 41,551	$ 38,461
Management incentive compensation	8,446	11,109
Income taxes payable	12,123	7,299
Deferred income taxes	1,261	3,162
Insurance	9,692	11,903
Warranty	4,318	3,966
Deferred revenue	4,477	1,978
Other	24,557	21,247

Total accrued expenses	$ 106,425	$ 99,125

9. Borrowings

The Company maintains a $600.0 million unsecured domestic, multi-currency bank revolving credit facility (Credit Facility), which expires on December 21, 2011. At June 30, 2008 there was $301.0 million outstanding under the Credit Facility and outstanding letters of credit totaled approximately $7.5 million. The net available borrowing under the Credit Facility as of June 30, 2008, was approximately $291.5 million.

Interest is payable quarterly on the outstanding borrowings at the bank agent s reference rate. Interest on borrowings based on LIBOR plus an applicable margin is payable on the maturity date of the borrowing, or quarterly from the effective date for borrowings exceeding three months. The applicable margin is based on the

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IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s senior, unsecured, long-term debt rating and can range from 24 basis points to 50 basis points. Based on the Company s BBB rating at June 30, 2008, the applicable margin was 40 basis points. An annual Credit Facility fee, also based on the Company s credit rating, is currently 10 basis points and is payable quarterly.

In addition to the $600.0 million Credit Facility, on April 18, 2008 the Company entered into a $100.0 million senior bank term loan agreement (Term Loan) with covenants consistent with the existing Credit Facility and a maturity on December 21, 2011. At June 30, 2008, there was $100.0 million outstanding under the Term Loan with $5.0 million included within short term borrowings. Interest under the Term Loan is based on the bank agent s reference rate or LIBOR plus an applicable margin and is payable at the end of the selected interest period, but at least quarterly. The applicable margin is based on the Company s senior, unsecured, long-term debt rating and can range from 45 to 100 basis points. Based on the Company s current debt rating, the applicable margin is 80 basis points. The Term Loan requires repayments in April of 2009, 2010, and 2011 of $5.0 million, $5.0 million and $7.5 million, respectively, with the remaining balance due on December 21, 2011.

The Company also has a $30.0 million demand line of credit (Short-Term Facility), which expires on December 12, 2008. Borrowings under the Short-Term Facility are based on LIBOR plus an applicable margin. At June 30, 2008, there were no borrowings under the Short-Term Facility.

On February 15, 2008, the Company retired its $150.0 million senior notes using proceeds available under the Company s Credit Facility.

10. Derivative Instruments

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

The effective portion of the gains or losses on the interest rate exchange agreement is reported in accumulated other comprehensive income in shareholders equity and reclassified into net income in the same period or periods in which the hedged transaction affects net income. The remaining gain or loss in excess of the cumulative change in the present value of future cash flows or the hedged item, if any, is recognized in 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 terminate the contracts at the reporting date based on quoted market prices of comparable contracts at each balance sheet date.

At June 30, 2008, the Company had one interest rate swap expiring in January 2011, which effectively converted $250.0 million of floating rate debt into fixed rate debt at an interest rate of 3.25%. The fair value of the interest rate swap was recorded as a non-current asset for $4.9 million at June 30, 2008.

The net gain recognized to net income for the three and six months ended June 30, 2008 related to the cash flow hedge was immaterial. Based on interest rates at June 30, 2008, no significant portion of the amount included in accumulated other comprehensive income in shareholders equity at June 30, 2008 will be recognized to net income over the next

12 months as the underlying hedged transactions are realized.

At June 30, 2008, the Company had two foreign currency contracts with an aggregate notional amount of $3.7 million to manage its exposure to fluctuations in foreign currency exchange rates. The decrease in fair market value of these contracts resulted in expense of $0.1 million for the three and six months ended June 30, 2008 and was recorded in Other (income) expense net within the Consolidated Statements of Operations.

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IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fair Value Measurements

The Company adopted Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements , (SFAS No. 157) on January 1, 2008, for our financial assets and financial liabilities. SFAS No. 157 defines fair value, provides guidance for measuring fair value and requires certain disclosures. SFAS No. 157 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 statement 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 sheet:

		Basis of Fair Value Measurements		
	Balance at June 30, 2008	Level 1	Level 2	Level 3
		(In thousands)		
Interest rate swap derivative financial instruments (included in other noncurrent assets)	$ 4,939		$ 4,939	
Foreign currency contracts (included in accrued expenses)	$ 80		$ 80	

In determining the fair value of the Company s interest swap derivatives, the Company uses a present value of expected cash flows based on market observable interest rate yield curves commensurate with the term of each instrument and the credit default swap market to reflect the credit risk of either the Company or the counterparty.

12. Preferred Stock

The Company had 5.0 million shares of preferred stock authorized but unissued at June 30, 2008 and December 31, 2007.

13. Share-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123R, Share-Based Payment , (SFAS No. 123R) using the modified prospective method, and thus did not restate any prior period amounts. Under this method, compensation cost in the three and six months ending June 30, 2008 and 2007 include the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated using the Black-Scholes option-pricing model in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using the Binomial lattice option-pricing model.

On April 8, 2008, the Company granted approximately 0.9 million stock options and 0.6 million unvested shares, respectively.

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IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total compensation cost for stock options is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Cost of goods sold	$ 354	$ 355	$ 587	$ 571
General and administrative expenses	2,380	2,646	4,014	3,971
Total expense before income taxes	2,734	3,001	4,601	4,542
Income tax benefit	(988)	(1,093)	(1,663)	(1,654)
Total expense after income taxes	$ 1,746	$ 1,908	$ 2,938	$ 2,888

Total compensation cost for unvested shares is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Cost of goods sold	$ 22	$ 8	$ 31	$ 12
General and administrative expenses	2,540	1,268	3,579	2,167
Total expense before income taxes	2,562	1,276	3,610	2,179
Income tax benefit	(556)	(285)	(741)	(451)
Total expense after income taxes	$ 2,006	$ 991	$ 2,869	$ 1,728

Classification of stock compensation cost within the Consolidated Statements of Operations is consistent with classification of cash compensation for the same employees and $0.1 million of compensation cost was capitalized as part of inventory.

As of June 30, 2008, there was $16.8 million of total unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 1.5 years, and $19.9 million of total unrecognized compensation cost related to unvested shares that is expected to be recognized over a weighted-average period of 1.5 years.

14. Retirement Benefits

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

	Pension Benefits Three Months Ended June 30,			
	2008		2007	
	U.S.	Non-U.S.	U.S.	Non-U.S.
	(In thousands)			
Service cost	$ 446	$ 228	$ 426	$ 223
Interest cost	1,132	473	1,082	396
Expected return on plan assets	(1,272)	(270)	(1,299)	(267)
Net amortization	534	103	699	188
Net periodic benefit cost	$ 840	$ 534	$ 908	$ 540

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Pension Benefits Six months Ended June 30, (In thousands)			
	2008		2007	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	$ 882	$ 454	$ 938	$ 444
Interest cost	2,242	939	2,144	782
Expected return on plan assets	(2,585)	(541)	(2,621)	(528)
Net amortization	1,033	204	1,365	373
Net periodic benefit cost	$ 1,572	$ 1,056	$ 1,826	$ 1,071

	Other Postretirement Benefits (In thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Service cost	$ 154	$ 132	$ 306	$ 255
Interest cost	333	330	667	655
Net amortization	29	90	70	173
Net periodic benefit cost	$ 516	$ 552	$ 1,043	$ 1,083

The Company previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute approximately $1.8 million to these pension plans and $1.2 million to its other postretirement benefit plans in 2008. As of June 30, 2008, $1.2 million of contributions have been made to the pension plans and $0.5 million has been made to its other postretirement benefit plans. The Company presently anticipates contributing up to an additional $1.3 million in 2008 to fund these pension plans and other postretirement benefit plans.

15. Legal Proceedings

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

16. Income Taxes

The Company s provision for income taxes is based upon estimated annual tax rates for the year applied to federal, state and foreign income. The provision for income taxes from continuing operations increased to $24.6 million in the second quarter of 2008 from $21.5 million in the second quarter of 2007. The effective tax rate increased to 34.9% for the second quarter of 2008 compared to 33.9% in the second quarter of 2007 due to the non-renewal of the research and development tax credit, the mix of global pre-tax income among jurisdictions and non-recurring favorable discrete items in the second quarter of 2007.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company adopted the provisions of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109 on January 1, 2007. In accordance with FIN 48, the Company recognized a cumulative-effect adjustment of $1.2 million, increasing its liability for unrecognized tax benefits, interest, and penalties and reducing the January 1, 2007 balance of retained earnings. Due to the potential for resolution of federal, state and foreign examinations, and the expiration of various

IDEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statutes of limitation, it is reasonably possible that the Company s gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to $2.2 million.

17. New Accounting Pronouncements

On February 6, 2008, the FASB issued a FASB Staff Position (FSP) to allow a one-year deferral of adoption of SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized at fair value on a nonrecurring basis. The Company has adopted Statement 157 as of January 1, 2008 and is currently assessing the impact on non-financial assets and non-financial liabilities within the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R) (revised 2007), Business Combinations , which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements, the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. The Company will adopt this statement for acquisitions consummated after its effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. It also establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary and requires expanded disclosures. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact of SFAS No. 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment to FASB Statement No. 133. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact of SFAS No. 161 on its financial statements.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Present Fairly in Conformity with Generally Accepted Accounting Principles. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company is currently evaluating the impact of EITF No. 03-6-1 on its financial statements.

18. Subsequent Events

In July 2008, the Company initiated procedures to cease manufacturing operations at the Dispensing Segment s Milan, Italy facility. Due to uncertainty in the timing of the facility divestiture, formalization of specific severance plans and identification of assets that will be moved or disposed, the financial statement impact of the expected costs to be incurred is not feasible at this time.

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

Cautionary Statement Under the Private Securities Litigation Reform Act

The Historical Overview and Outlook and the Liquidity and Capital Resources sections of this management s discussion and analysis of our financial condition and results of operations contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. These statements may relate to, among other things, capital expenditures, cost reductions, cash flow, and operating improvements and are indicated by words or phrases such as anticipate, estimate, plans, expects, projec should, will, management believes, the company believes, we believe, the company intends and similar word phrases. These statements are subject to inherent uncertainties and risks that could cause actual results to differ materially from those anticipated at the date of this filing. The risks and uncertainties include, but are not limited to, the following: levels of industrial activity and economic conditions in the U.S. and other countries around the world; pricing pressures and other competitive factors, and levels of capital spending in certain industries; economic and political consequences resulting from terrorist attacks and wars all of which could have a material impact on our order rates and results, particularly in light of the low levels of order backlogs we typically maintain; our ability to make acquisitions and to integrate and operate acquired businesses on a profitable basis; the relationship of the U.S. dollar to other currencies and its impact on pricing and cost competitiveness; political and economic conditions in foreign countries in which we operate; interest rates; capacity utilization and the effect this has on costs; labor markets; market conditions and material costs; and developments with respect to contingencies, such as litigation and environmental matters. The forward-looking statements included here are only made as of the date of this report, and we undertake no obligation to publicly update them to reflect subsequent events or circumstances. Investors are cautioned not to rely unduly on forward-looking statements when evaluating the information presented here.

Historical Overview and Outlook

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

IDEX consists of four reportable segments: Fluid & Metering Technologies, Health & Science Technologies, Dispensing Equipment and Fire & Safety/Diversified Products.

The Fluid & Metering Technologies Segment produces pumps, compressors, flow meters and related controls for the movement of liquids and gases in a diverse range of end markets from industrial infrastructure to food and beverage; and provides metering technology and flow monitoring services for water and wastewater markets. The Health & Science Technologies Segment produces a wide variety of small scale, highly accurate pumps, valves, fittings and medical devices, as well as compressors used in medical, dental and industrial applications. The Dispensing Equipment Segment produces highly engineered equipment for dispensing, metering and mixing colorants, paints, inks and dyes, hair colorants and other personal care products, as well as refinishing equipment. The Fire & Safety/Diversified Products Segment produces firefighting pumps, rescue tools, lifting bags and other components and systems for the fire and rescue industry; and engineered stainless steel banding and clamping devices used in a variety of industrial and commercial applications.

The Company has a history of achieving above-average operating margins. Our operating margins have exceeded the average operating margin for the companies that comprise the Value Line Composite Index (VLCI) every year since 1988. We view the VLCI operating performance statistics as a proxy for an average industrial company. Our operating margins are influenced by, among other things, utilization of facilities as sales volumes change and inclusion of newly acquired businesses.

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Some of our key 2008 financial highlights for the six months ended June 30, 2008 were as follows:

Sales of $769.0 million increased 13% compared to the prior year; reflecting 7% acquisitions, 2% organic (excludes growth from acquisitions and foreign currency translation) and 4% foreign currency translation.

Income from continuing operations of $87.4 million increased 11% over the prior year.

Diluted EPS from continuing operations of $1.06 was $0.10 higher compared to the same period of 2007.

Growth in the Fluid and Metering Technologies segment was driven by strong global demand in the process control and infrastructure-related end markets. In the Health and Science Technologies segment, we realized strong growth in the core health and science end markets, driven by strength in the core analytical instrumentation, IVD and biotechnology markets. Within the Dispensing Equipment segment, the Company experienced modest growth in both the European and North American markets. Despite softness in our fire suppression business, our engineered band clamping and rescue tools businesses performed well within the Fire & Safety/Diversified Products segment.

Results of Operations

The following is a discussion and analysis of our financial position and results of operations for the period ended June 30, 2008 and 2007. For purposes of this discussion and analysis section, reference is made to the table below and the Company s Condensed Consolidated Statements of Operations included in Item 1.

Performance in the Three Months Ended June 30, 2008 Compared with the Same Period of 2007

Sales in the three months ended June 30, 2008 were $397.3 million, a 15% improvement from the comparable period last year. Three acquisitions (Quadro June 2007, Isolation Technologies October 2007 and ADS January 2008) accounted for a sales improvement of 7%, organic sales grew 5% and foreign currency translation contributed 3%. Sales to international customers represented approximately 47% of total sales in both 2008 and 2007.

During the quarter, Fluid & Metering Technologies contributed 45% of sales and 42% of operating income; Health & Science Technologies accounted for 22% of sales and 19% of operating income; Dispensing Equipment accounted for 14% of sales and 17% of operating income; and Fire & Safety/Diversified Products represented 19% of sales and 22% of operating income.

Fluid & Metering Technologies sales of $177.4 million for the three months ended June 30, 2008 rose $36.3 million, or 26% compared with 2007, reflecting 8% organic growth, 16% for acquisitions (Quadro and ADS) and a 2% favorable impact from foreign currency translation. Growth was driven by continued global demand for infrastructure-related applications and acquisition performance. In the second quarter of 2008, organic sales grew approximately 3% domestically and 15% internationally. Organic business sales to customers outside the U.S. were approximately 44% of total segment sales during the second quarter of 2008, compared to 42% in 2007.

Health & Science Technologies sales of $87.2 million increased $4.9 million, or 6%, in the second quarter of 2008 compared with last year s second quarter. This increase reflects a 3% increase for acquisitions (Isolation Technologies), 1% increase in organic growth and 2% from favorable foreign currency translation. Growth in core analytical instrumentation, IVD and biotechnology markets along with acquisitions was partially offset by the exit from two specific OEM contracts. In the second quarter of 2008, organic sales increased 7% domestically and decreased 7% internationally. Organic business sales to customers outside the U.S. were approximately 40% of total segment sales in the second quarter of 2008, compared to 43% in 2007.

Dispensing Equipment sales of $56.6 million increased $6.7 million, or 14% in the second quarter of 2008 compared with 2007. This increase reflects a 3% increase in organic growth and 11% from favorable foreign currency translation. The dispensing business experienced modest growth in both the European and North American markets. In the second quarter of 2008, organic sales decreased 3% domestically and increased 5% internationally. Organic sales to customers outside the U.S. were approximately 72% of total segment sales in the second quarter of 2008, compared with 70% in the comparable quarter of 2007.

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Fire & Safety/Diversified Products sales of $77.2 million increased $4.4 million, or 6% in the second quarter of 2008 compared with 2007. This increase reflects a 2% increase in organic business volume and 4% from favorable foreign currency translation. The engineered band clamping business as well as rescue business achieved strong growth, offset by weak demand in the North American fire suppression market. In the second quarter of 2008, organic business sales increased 11% domestically and decreased 9% internationally. Organic sales to customers outside the U.S. were approximately 42% of total segment sales in the second quarter of 2008, compared to 47% in 2007.

	Three Months Ended June 30,[(1)]		**Six Months Ended June 30,[(1)]**	
	2008	**2007**	**2008**	**2007**
Fluid & Metering Technologies				
Net sales	$ 177,358	$ 141,094	$ 348,288	$ 277,800
Operating income[(2)]	34,655	30,133	68,900	59,884
Operating margin	19.5%	21.4%	19.8%	21.6%
Depreciation and amortization	$ 6,450	$ 4,269	$ 12,763	