DOVER Corp
Form 10-Q
October 18, 2018

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

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-4018
(Exact name of registrant as specified in its charter)

Delaware	53-0257888
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3005 Highland Parkway	
Downers Grove, Illinois	60515
(Address of principal executive offices)	(Zip Code)

(630) 541-1540
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
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, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares outstanding of the Registrant's common stock as of October 11, 2018 was 146,332,674.

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Item 1. Financial Statements

DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$1,747,403	$1,747,775	$5,183,168	$5,068,356
Cost of goods and services	1,100,883	1,098,582	3,268,583	3,189,202
Gross profit	646,520	649,193	1,914,585	1,879,154
Selling, general and administrative expenses	426,445	410,040	1,290,246	1,257,027
Operating earnings	220,075	239,153	624,339	622,127
Interest expense	31,192	35,372	98,957	108,585
Interest income	(2,060)	(1,759)	(6,680)	(6,669)
Gain on sale of businesses	—	—	—	(90,093)
Other (income) expense, net	(2,073)	(1,236)	(6,641)	(1,407)
Earnings before provision for income taxes	193,016	206,776	538,703	611,711
Provision for income taxes	35,711	47,321	105,533	154,693
Earnings from continuing operations	157,305	159,455	433,170	457,018
Earnings (loss) from discontinued operations, net	—	19,457	(4,472)	58,199
Net earnings	$157,305	$178,912	$428,698	$515,217
Earnings per share from continuing operations:				
Basic	$1.07	$1.02	$2.87	$2.94
Diluted	$1.05	$1.01	$2.82	$2.90
Earnings (loss) per share from discontinued operations:				
Basic	$—	$0.12	$(0.03)	$0.37
Diluted	$—	$0.12	$(0.03)	$0.37
Net earnings per share:				
Basic	$1.07	$1.15	$2.84	$3.31
Diluted	$1.05	$1.14	$2.79	$3.27
Weighted average shares outstanding:				
Basic	147,344	155,757	151,177	155,668
Diluted	149,457	157,555	153,429	157,565
Dividends paid per common share	$0.48	$0.47	$1.42	$1.35

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings	$157,305	$178,912	$428,698	$515,217
Other comprehensive (loss) earnings, net of tax				
Foreign currency translation adjustments:				
Foreign currency translation (losses) gains	(13,567)	93,269	(26,418)	159,340
Reclassification of foreign currency translation losses to earnings	—	—	—	3,875
Total foreign currency translation adjustments	(13,567)	93,269	(26,418)	163,215
Pension and other post-retirement benefit plans:				
Amortization of actuarial losses included in net periodic pension cost	402	1,375	3,409	4,066
Amortization of prior service costs included in net periodic pension cost	704	700	2,699	2,104
Total pension and other post-retirement benefit plans	1,106	2,075	6,108	6,170
Changes in fair value of cash flow hedges:				
Unrealized net (losses) gains arising during period	(1,449)	(192)	2,019	(1,989)
Net losses (gains) reclassified into earnings	364	(271)	(347)	(329)
Total cash flow hedges	(1,085)	(463)	1,672	(2,318)
Other	—	272	—	31
Other comprehensive (loss) earnings	(13,546)	95,153	(18,638)	167,098
Comprehensive earnings	$143,759	$274,065	$410,060	$682,315

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 209,277	$ 753,964
Receivables, net of allowances of $29,760 and $34,479	1,283,775	1,183,514
Inventories	803,981	677,043
Prepaid and other current assets	162,016	175,626
Total current assets	2,459,049	2,790,147
Property, plant and equipment, net	806,737	787,940
Goodwill	3,719,598	3,686,372
Intangible assets, net	1,195,850	1,282,624
Other assets and deferred charges	280,536	245,723
Assets of discontinued operations	—	1,865,553
Total assets	$ 8,461,770	$ 10,658,359
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 298,659	$ 581,102
Accounts payable	948,640	882,007
Accrued compensation and employee benefits	215,128	228,118
Accrued insurance	99,001	101,619
Other accrued expenses	312,577	334,435
Federal and other income taxes	16,300	14,697
Total current liabilities	1,890,305	2,141,978
Long-term debt	2,981,923	2,986,702
Deferred income taxes	330,888	348,201
Noncurrent income tax payable	98,954	108,497
Other liabilities	411,766	425,548
Liabilities of discontinued operations	—	264,253
Stockholders' equity:		
Total stockholders' equity	2,747,934	4,383,180
Total liabilities and stockholders' equity	$ 8,461,770	$ 10,658,359

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY
(In thousands, except share data)
(Unaudited)

	Common stock $1 par value	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive (loss) earnings	Total stockholders' equity
Balance at December 31, 2017	$256,992	$942,485	$(5,077,039)	$8,455,501	$ (194,759)	$4,383,180
Adoption of ASU 2018-02 (1)	—	—	—	12,856	(12,856)	—
Cumulative catch-up adjustment related to Adoption of Topic 606 (1)	—	—	—	175	—	175
Net earnings	—	—	—	428,698	—	428,698
Dividends paid	—	—	—	(213,126)	—	(213,126)
Separation of Apergy	—	—	—	(939,743)	32,928	(906,815)
Common stock issued for the exercise of share-based awards	783	(45,226)	—	—	—	(44,443)
Stock-based compensation expense	—	16,590	—	—	—	16,590
Common stock acquired, including accelerated share repurchase program	—	(140,000)	(752,771)	—	—	(892,771)
Other comprehensive loss, net of tax	—	—	—	—	(18,638)	(18,638)
Other, net	—	(4,916)	—	—	—	(4,916)
Balance at September 30, 2018	$257,775	$768,933	$(5,829,810)	$7,744,361	$ (193,325)	$2,747,934

(1) See Note 20 — Recent Accounting Pronouncements and Note 3 — Revenue for additional information.

See Notes to Condensed Consolidated Financial Statements

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DOVER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating Activities:		
Net earnings	$428,698	$515,217
Adjustments to reconcile net earnings to cash from operating activities:		
Loss (earnings) from discontinued operations, net	4,472	(58,199)
Depreciation and amortization	206,018	212,161
Stock-based compensation expense	15,846	19,878
Gain on sale of businesses	—	(90,093)
Cash effect of changes in assets and liabilities:		
Accounts receivable, net	(119,687)	(64,803)
Inventories	(130,351)	(65,682)
Prepaid expenses and other assets	(34,604)	(2,806)
Accounts payable	87,898	66,734
Accrued compensation and employee benefits	(17,101)	2,624
Accrued expenses and other liabilities	(8,169)	(44,177)
Accrued and deferred taxes, net	(390)	(38,459)
Other, net	(13,946)	1,602
Net cash provided by operating activities	418,684	453,997
Investing Activities:		
Additions to property, plant and equipment	(134,556)	(130,362)
Acquisitions, net of cash and cash equivalents acquired	(68,557)	(25,568)
Proceeds from sale of property, plant and equipment	4,681	5,989
Proceeds from sale of businesses	2,069	121,175
Other	(13,762)	21,151
Net cash used in investing activities	(210,125)	(7,615)
Financing Activities:		
Cash received from Apergy, net of cash distributed	689,643	—
Repurchase of common stock, including prepayment under an accelerated share repurchase program	(892,771)	—
Change in commercial paper and notes payable	67,617	(279,927)
Dividends paid to stockholders	(213,126)	(210,549)
Payments to settle employee tax obligations on exercise of share-based awards	(44,443)	(13,812)
Repayment of long-term debt	(350,000)	—
Other	(6,233)	(2,913)
Net cash used in financing activities	(749,313)	(507,201)
Cash Flows from Discontinued Operations		
Net cash provided by operating activities of discontinued operations	15,790	57,882
Net cash used in investing activities of discontinued operations	(23,705)	(26,790)
Net cash (used in) provided by discontinued operations	(7,915)	31,092
Effect of exchange rate changes on cash and cash equivalents	3,982	2,620
Net decrease in cash and cash equivalents	(544,687)	(27,107)
Cash and cash equivalents at beginning of period	753,964	349,146

Cash and cash equivalents at end of period	$209,277	$322,039

See Notes to Condensed Consolidated Financial Statements

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

1. Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim periods and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. These unaudited interim Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes for Dover Corporation ("Dover" or the "Company") for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K/A filed with the SEC on February 16, 2018. The year end Condensed Consolidated Balance Sheet was derived from audited financial statements. Certain amounts in the prior periods have been reclassified to conform to the current year presentation.

On May 9, 2018, the Company completed a pro-rata distribution of the common stock of Apergy Corporation ("Apergy") to the Company's shareholders of record as of the close of business on April 30, 2018. Apergy holds entities conducting upstream energy businesses previously included in the Energy segment. As discussed in Note 5 - Discontinued and Disposed Operations, the Apergy businesses met the criteria to be reported as discontinued operations because the spin-off is a strategic shift in business that has a major effect on the Company's operations and financial results. Therefore, the Company is reporting the historical results of Apergy, including the results of operations, cash flows, and related assets and liabilities, as discontinued operations for all periods presented herein. Subsequent to the spin-off of Apergy, effective the second quarter of 2018, the Company no longer has the Energy segment and is aligned into three reportable segments. See Note 17 —Segment Information for additional information regarding the updated segments, including segment results for the three and nine months ended September 30, 2018 and 2017. Unless otherwise noted, the accompanying Notes to the Consolidated Financial Statements have all been revised to reflect the effect of the separation of Apergy and all prior year balances have been revised accordingly to reflect continuing operations only.

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair statement of results for these interim periods. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

2. Spin-off of Apergy Corporation

On May 9, 2018, Dover completed the distribution of Apergy to its shareholders. The transaction was completed through the pro rata distribution of 100% of the common stock of Apergy to Dover's shareholders of record as of the close of business on April 30, 2018. Each Dover shareholder received one share of Apergy common stock for every two shares of Dover common stock held as of the record date.

The following is a summary of the assets and liabilities transferred to Apergy as part of the separation on May 9, 2018:
Assets:

Cash and cash equivalents	$10,357
Current assets	462,620
Non-current assets	1,438,760
	$1,911,737
Liabilities:	
Current liabilities	$185,354
Non-current liabilities	119,568
	$304,922
Net assets distributed to Apergy Corporation	$1,606,815
Less: Cash received from Apergy Corporation	700,000
Net distribution to Apergy Corporation	$906,815

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In connection with the spin-off from the company, Apergy issued and sold $300.0 million in aggregate principal amount of its 6.375% senior notes due May 2026 in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended, and incurred $415.0 million in borrowings under its new senior secured term loan facility to fund a one-time cash payment of $700.0 million to Dover. Dover received net cash of $689.6 million upon separation, which reflects $10.4 million of cash held by Apergy on the distribution date and retained by it in connection with its separation from Dover. Dover utilized the proceeds from Apergy as the primary source of funding for $1 billion of share repurchases started in December 2017. See Note 18 — Share Repurchases for further information. Included within the net assets distributed to Apergy is approximately $33 million of accumulated other comprehensive earnings attributable to Apergy, relating primarily to foreign currency translation gains, offset by unrecognized losses on pension obligations.

The historical results of Apergy, including the results of operations, cash flows, and related assets and liabilities have been reclassified to discontinued operations for all periods presented herein. See Note 5 — Discontinued and Disposed Operations. Pursuant to the separation of Apergy from Dover, and the related separation and distribution agreements, any liabilities due from Dover to Apergy are not significant and will be paid in the near future.

3. Revenue

Revenue from contracts with customers

Effective January 1, 2018, the Company adopted Accounting Standard Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("Topic 606” or “ASC 606”), using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Accordingly, all periods prior to January 1, 2018 are presented in accordance with ASC Topic 605, Revenue Recognition ("Topic 605” or “ASC 605”).

Under Topic 606, a contract with a customer is an agreement which both parties have approved, that creates enforceable rights and obligations, has commercial substance and where payment terms are identified and collectability is probable. Once the Company has entered a contract, it is evaluated to identify performance obligations. For each performance obligation, revenue is recognized as control of promised goods or services transfers to the customer in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The amount of revenue recognized takes into account variable consideration, such as discounts and volume rebates.

A majority of the Company’s revenue is short cycle in nature with shipments within one year from order. A small portion of the Company’s revenue derives from contracts extending over one year. The Company's payment terms generally range between 30 to 90 days and vary by the location of businesses, the type of products manufactured to be sold and the volume of products sold, among other factors.

Disaggregation of Revenue

Revenue from contracts with customers is disaggregated by end markets, segments and geographic location, as it best depicts the nature and amount of the Company’s revenue.

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(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

The following table presents revenue disaggregated by end market and segment:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Printing & Identification	$283,232	$865,588
Industrials	388,302	1,180,561
Total Engineered Systems segment	671,534	2,046,149
Fueling & Transport	367,617	1,050,276
Pumps	167,542	503,157
Process Solutions	154,906	458,396
Total Fluids segment	690,065	2,011,829
Refrigeration	328,281	937,168
Food Equipment	57,933	189,047
Total Refrigeration & Food Equipment segment	386,214	1,126,215
Intra-segment eliminations	(410)	(1,025)
Total Consolidated Revenue	$1,747,403	$5,183,168

The following table presents revenue disaggregated by geography based on the location of the Company's customer:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
United States	$922,261	$2,707,470
Europe	369,479	1,158,891
Asia	219,645	633,280
Other Americas	166,182	467,523
Other	69,836	216,004
Total	$1,747,403	$5,183,168

The majority of revenue from our Engineered Systems, Fluids and Refrigeration and Food Equipment segments is generated from sales to customers within the United States and Europe. Each segment also generates revenue across the other geographies, with no significant concentration of any segment’s remaining revenue.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service, or a bundle of goods or services, to the customer, and is the unit of accounting under ASC Topic 606. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. A majority of the Company’s contracts have a single performance obligation which represents, in most cases, the equipment or product being sold to the customer. Some contracts include multiple performance obligations such as a product and the related installation, extended warranty and/or maintenance services. These contracts require judgment in determining the number of performance obligations.

The Company has elected to use the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component if it is expected, at contract inception, that the period between when Dover transfers a promised good or service to a customer, and when the customer pays for that good or service, will be one year or less. Thus, the Company may not consider an advance payment to be a significant financing component, if it is received less than one year before product completion.

The majority of the Company’s contracts offer assurance-type warranties in connection with the sale of a product to a customer. Assurance-type warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Such warranties do not represent a separate performance obligation.

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The Company may also offer service-type warranties that provide services to the customer, in addition to the assurance that the product complies with agreed-upon specifications. If a warranty is determined to be a service-type warranty, it represents a distinct service and is treated as a separate performance obligation.

For contracts with multiple performance obligations, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The Company uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available.

Over 95% of the Company's performance obligations are recognized at a point in time that relate to the manufacture and sale of a broad range of products and components. Revenue is recognized when control transfers to the customer upon shipment or completion of installation, testing, certification, or other substantive acceptance provisions required under the contract. Less than 5% of the Company's revenue is recognized over time and relates to the sale of engineered to order equipment or services.

For revenue recognized over time, there are two types of methods for measuring progress and both are relevant to the Company: (1) input methods and (2) output methods. Although this may vary by business, input methods generally are based on costs incurred relative to estimated total costs. Output methods generally are based on a measurement of progress, such as milestone achievement. The businesses use the method and measure of progress that best depicts the transfer of control to the customer of the goods or services to date relative to the remaining goods or services promised under the contract.

Transaction Price Allocated to the Remaining Performance Obligations

At September 30, 2018, we estimated that $71.6 million in revenue is expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period. We expect to recognize approximately 56% of our unsatisfied (or partially unsatisfied) performance obligations as revenue in 2019, with the remaining balance to be recognized in 2020 and thereafter.

Remaining consideration, including variable consideration, from contracts with customers is included in the amounts presented above and primarily consists of extended warranties on products and multi-year maintenance agreements, which are typically recognized as the performance obligation is satisfied.

The Company applied the standard's practical expedient that permits the omission of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed.

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with customers:

	September 30, 2018	At Adoption
Contract assets	$ 16,202	$ 11,932
Contract liabilities - current	43,075	48,268
Contract liabilities - non-current	9,617	9,916

Contract assets primarily relate to the Company's right to consideration for work completed but not billed at the reporting date and are recorded in prepaid and other current assets in the Condensed Consolidated Balance Sheet. Contract assets are transferred to receivables when the right to consideration becomes unconditional. Contract liabilities relate to advance consideration received from customers for which revenue has not been recognized. Current contract liabilities are recorded in other accrued expenses and non-current contract liabilities are recorded in other liabilities in the Condensed Consolidated Balance Sheet. Contract liabilities are reduced when the associated revenue from the contract is recognized.

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(Amounts in thousands except share data and where otherwise indicated) (Unaudited)

Significant changes in contract assets and liabilities balances during the period are as follows:

	Contract Assets
Opening balance at January 1, 2018	$ 11,932
Cumulative catch-up adjustment upon transition	701
Changes in the estimate of the stage of completion	10,870
Transferred to receivables from contract assets recognized during the period	(7,255)
Other	(46)
Closing balance at September 30, 2018	$ 16,202

	Contract Liabilities
Opening balance at January 1, 2018	$ 58,184
Cumulative catch-up adjustment upon transition	—
Revenue recognized that was included in the contract liability balance at the beginning of the period	(52,730)
Increases due to cash received, excluding amounts recognized as revenue during the period	47,880
Other	(642)
Closing balance at September 30, 2018	$ 52,692

Contract Costs

Costs incurred to obtain a customer contract are not material to the Company. The Company elected to apply the practical expedient to not capitalize contract costs to obtain contracts with a duration of one year or less, which are expensed and included within cost of goods and services in the Condensed Consolidated Statements of Earnings.

Critical Accounting Estimates

Estimates are used to determine the amount of variable consideration in contracts, the standalone selling price among separate performance obligations and the measure of progress for contracts where revenue is recognized over time. The Company reviews and updates these estimates regularly.

Some contracts with customers include variable consideration primarily related to volume rebates. The Company estimates variable consideration at the most likely amount to determine the total consideration which the Company expects to be entitled. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company’s estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Changes in Accounting Policies

The Company adopted Topic 606, effective January 1, 2018, using the modified retrospective method applying Topic 606 to contracts that are not complete as of the date of initial application. Under the modified retrospective method, the cumulative effect of applying the standard has been recognized at the date of initial application, January 1, 2018. The comparative information has not been adjusted and continues to be reported under Topic 605. The Company's accounting policy has been updated to align with Topic 606, and no significant changes to revenue recognition have occurred as a result of the change.

Shipping and handling charges are not considered a separate performance obligation. If revenue is recognized for the related good before the shipping and handling activities occur, the related costs of those shipping and handling activities must be accrued.
Additionally, all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer (e.g., sales, use, value added, and some excise taxes) are excluded from revenue. The Company's policy elections related to shipping and handling and taxes have not changed with the adoption of Topic 606.

Under Topic 605, revenue was generally recognized when all of the following criteria were met: a) persuasive evidence of an arrangement exists, b) price is fixed or determinable, c) collectability is reasonably assured and d) delivery has occurred or services have been rendered. The majority of the Company's revenue is generated through the manufacture and sale of a broad range of specialized products and components and revenue was recognized upon transfer of title and risk of loss, which was generally upon shipment. In limited cases, the Company's revenue arrangements with customers required delivery, installation, testing, certification, or other acceptance provisions to be satisfied before revenue was recognized. The Company included shipping costs billed to customers in Revenue and the related shipping costs in Cost of goods and services.

Impact on Financial Statements

The adoption of Topic 606 impacted certain contracts for highly customized customer products that have no alternative use and in which the contract specifies the Company has a right to payment for its costs, plus a reasonable margin. For these contracts, the Company now recognizes revenue over time based on the method and measure of progress that best depicts the transfer of control to the customer of the goods or services to date relative to the remaining goods or services promised under the contract.

The Company recorded a cumulative catch-up adjustment to retained earnings at January 1, 2018 for $0.2 million, related to the impact of adopting Topic 606 under the modified retrospective method.

The impact of adopting Topic 606 was not material to the Company’s consolidated financial statements as of and for the three and nine months ended September 30, 2018.

4. Acquisitions

2018 Acquisitions

During the nine months ended September 30, 2018, the Company acquired two businesses in separate transactions for total consideration of $68,557, net of cash acquired. These businesses were acquired to complement and expand upon existing operations within the Fluids and Refrigeration & Food Equipment segments. The goodwill recorded as a result of these acquisitions reflects the benefits expected to be derived from product line expansions and operational synergies. The goodwill is non-deductible for U.S. federal income tax purposes for these acquisitions.

On January 2, 2018, the Company acquired 100% of the voting stock of Ettlinger Group ("Ettlinger"), within the Fluids segment for $53,218, net of cash acquired. In connection with this acquisition, the Company recorded goodwill of $36,493 and intangible assets of $19,907, primarily related to customer intangibles. The intangible assets are being amortized over 8 to 15 years.

On January 12, 2018, the Company acquired 100% of the voting stock of Rosario Handel B.V. ("Rosario"), within the Refrigeration & Food Equipment segment for total consideration of $15,339, net of cash acquired. In connection with this acquisition, the Company recorded goodwill of $10,402 and a customer intangible asset of $4,149. The customer intangible asset is being amortized over 10 years.

2017 Acquisitions

During the nine months ended September 30, 2017, the Company acquired Caldera Graphics S.A.S. ("Caldera") within the Engineered Systems segment for $32,680, net of cash acquired and including contingent consideration. In connection with this acquisition, the Company recorded goodwill of $24,649 and intangible assets of $8,169, primarily related to customer intangibles. The goodwill is non-deductible for U.S. federal income tax purposes. The intangible assets are being amortized over 7 to 15 years.

Pro Forma Information

The following unaudited pro forma information illustrates the impact of 2018 and 2017 acquisitions on the Company's revenue and earnings from operations for the nine months ended September 30, 2018 and 2017, respectively. In the year 2017, the Company acquired two businesses in separate transactions for total net consideration of $34,300.

The unaudited pro forma information assumes that the 2018 and 2017 acquisitions had taken place at the beginning of the prior year, 2017 and 2016, respectively. Unaudited pro forma earnings are adjusted to reflect the comparable impact of additional depreciation and amortization expense, net of tax, resulting from the fair value measurement of intangible and tangible assets relating to the year of acquisition.

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The unaudited pro forma effects for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
As reported	$1,747,403	$1,747,775	$5,183,168	$5,068,356
Pro forma	1,747,403	1,756,565	5,183,484	5,097,953
Earnings:				
As reported	$157,305	$159,455	$433,170	$457,018
Pro forma	157,097	160,686	436,811	456,833
Basic earnings per share:				
As reported	$1.07	$1.02	$2.87	$2.94
Pro forma	1.07	1.03	2.89	2.93
Diluted earnings per share:				
As reported	$1.05	$1.01	$2.82	$2.90
Pro forma	1.05	1.02	2.85	2.90

5. Discontinued and Disposed Operations

Discontinued Operations

The Apergy businesses, as discussed in Note 2, met the criteria to be reported as discontinued operations because the spin-off is a strategic shift in business that has a major effect on the Company's operations and financial results. Therefore, the results of discontinued operations for the three and nine months ended September 30, 2018 and 2017 include the historical results of Apergy prior to its distribution on May 9, 2018. The three and nine months ended September 30, 2018 included costs incurred by Dover to complete the spin-off of Apergy amounting to $0 and $46,384, respectively, reflected in selling, general and administrative expenses in discontinued operations. The spin-off costs for the three and nine months ended September 30, 2017 were both at $1,721. See Note 2 Spin-off of Apergy Corporation for further information.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$—	$258,649	$403,688	$745,079
Cost of goods and services	—	163,509	254,205	469,280
Gross profit	—	95,140	149,483	275,799
Selling, general and administrative expenses	—	64,170	144,114	186,517
Operating earnings	—	30,970	5,369	89,282
Other expense, net	—	318	349	802
Earnings from discontinued operations before taxes	—	30,652	5,020	88,480

Provision for income taxes	—	11,195	9,492	30,281
Earnings (loss) from discontinued operations, net of tax	$—	$19,457	$(4,472)	$58,199

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Assets and liabilities of discontinued operations are summarized below:

	December 31, 2017
Assets of Discontinued Operations	
Accounts receivable	$ 202,052
Inventories, net	201,591
Prepaid and other current assets	14,035
Total current assets	417,678
Property, plant and equipment, net	211,832
Goodwill and intangible assets, net	1,232,843
Other assets and deferred charges	3,200
Total assets	$ 1,865,553
Liabilities of Discontinued Operations	
Accounts payable	$ 97,439
Other current liabilities	59,482
Total current liabilities	156,921
Deferred income taxes	90,641
Other liabilities	16,691
Total liabilities	$ 264,253

On May 9, 2018, all assets and liabilities of Apergy were spun-off. Therefore, as of September 30, 2018, there were no assets and liabilities classified as discontinued operations.

Disposed Operations

2018

There were no other dispositions aside from the spin-off of Apergy during the nine months ended September 30, 2018.

2017

On February 14, 2017, the Company completed the sale of Performance Motorsports International ("PMI"), which was a wholly owned subsidiary of the Company that manufactures pistons and other engine related components serving the motorsports and powersports markets. Total consideration for the transaction was $147,313, including cash proceeds of $118,706. We recognized a pre-tax gain on sale of $88,402 for the nine months ended September 30, 2017 within gain on sale of businesses in the Condensed Consolidated Statements of Earnings and recorded a 25% equity method investment at fair value of $18,607 as well as a subordinated note receivable of $10,000.

During the nine months ended September 30, 2017, the Company recorded a working capital adjustment for the sale of Tipper Tie in the fourth quarter of 2016 for $1,691. This adjustment is included within gain on sale of businesses in the Condensed Consolidated Statements of Earnings.

These disposals did not represent strategic shifts in operations and, therefore, did not qualify for presentation as discontinued operations.

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6. Inventories

	September 30, 2018	December 31, 2017
Raw materials	$ 409,217	$ 400,009
Work in progress	177,567	128,296
Finished goods	330,147	251,402
Subtotal	916,931	779,707
Less reserves	(112,950)	(102,664)
Total	$ 803,981	$ 677,043

7. Property, Plant and Equipment, net

	September 30, 2018	December 31, 2017
Land	$ 54,060	$ 54,918
Buildings and improvements	523,624	517,049
Machinery, equipment and other	1,549,991	1,472,852
Property, plant and equipment, gross	2,127,675	2,044,819
Total accumulated depreciation	(1,320,938)	(1,256,879)
Property, plant and equipment, net	$ 806,737	$ 787,940

Depreciation expense totaled $32,514 and $34,663 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, depreciation expense was $97,625 and $98,812, respectively.

8. Goodwill and Other Intangible Assets

ASC 350, “Intangibles - Goodwill and Other Intangibles” provides guidance on an entity's subsequent measurement and subsequent recognition of goodwill and other intangibles, including subsequent changes to carrying amounts, including impairment and fair value adjustments. In accordance with the guidance set forth in ASC 350, and in connection with the separation of Apergy, the Company was required to calculate the portion of goodwill included in the Apergy distribution. Using a relative fair value approach, the Company reallocated $3,546 of goodwill from a reporting unit that included Apergy to a reporting unit now included within the Engineered Systems segment. Refer to See Note 17 —Segment Information for further information.

Further, the Company realigned its remaining businesses and reallocated goodwill among its reporting units based on their relative fair value and tested goodwill for impairment in the second quarter of 2018. The Company concluded that no impairment indicators exist.

The changes in the carrying value of goodwill by reportable operating segments were as follows:

	Engineered Systems	Fluids	Refrigeration & Food Equipment	Total
Balance at December 31, 2017	$ 1,645,389	$ 1,504,284	$ 536,699	$ 3,686,372
Reallocation due to Apergy separation	3,546	—	—	3,546
Acquisitions	—	36,493	10,402	46,895
Purchase price adjustments	328	—	—	328

Foreign currency translation	(6,483)	(10,627)	(433)	(17,543)
Balance at September 30, 2018	$1,642,780	$1,530,150	$546,668	$3,719,598

During the nine months ended September 30, 2018, the Company recorded additions of $46,895 to goodwill as a result of the acquisitions discussed in Note 4 — Acquisitions. The net goodwill transferred to Apergy on May 9, 2018 amounted to $899,888.

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The Company’s definite-lived and indefinite-lived intangible assets by major asset class were as follows:

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Customer intangibles	$1,416,686	$ 628,959	$787,727	$1,405,361	$ 559,447	$845,914
Trademarks	217,289	69,224	148,065	217,621	58,523	159,098
Patents	145,357	127,590	17,767	145,577	123,135	22,442
Unpatented technologies	157,394	82,670	74,724	152,913	71,284	81,629
Distributor relationships	85,202	36,874	48,328	85,794	32,092	53,702
Drawings & manuals	32,832	23,175	9,657	32,739	20,767	11,972
Other	28,346	15,534	12,812	23,095	12,028	11,067
Total	2,083,106	984,026	1,099,080	2,063,100	877,276	1,185,824
Unamortized intangible assets:						
Trademarks	96,770	—	96,770	96,800	—	96,800
Total intangible assets, net	$2,179,876	$ 984,026	$1,195,850	$2,159,900	$ 877,276	$1,282,624

Amortization expense was $35,576 and $37,870, respectively, including acquisition-related intangible amortization of $35,258 and $37,324 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, amortization expense was $108,393 and $113,349, respectively, including acquisition-related intangible amortization of $107,092 and $111,722, respectively.

9. Restructuring Activities

The Company's restructuring charges by segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Engineered Systems	$10,637	$926	$13,872	$2,744
Fluids	10,473	2,403	16,021	6,910
Refrigeration & Food Equipment	452	1,185	598	2,710
Corporate	2,639	—	5,932	—
Total	$24,201	$4,514	$36,423	$12,364
These amounts are classified in the Condensed Consolidated Statements of Earnings as follows:				
Cost of goods and services	$3,586	$1,840	$7,985	$6,075
Selling, general and administrative expenses	20,615	2,674	28,438	6,289
Total	$24,201	$4,514	$36,423	$12,364

The restructuring expenses of $24,201 and $36,423 incurred during the three and nine months ended September 30, 2018, respectively, were related to restructuring programs initiated during 2018 and 2017. Restructuring expense includes $24,201 and $34,058 related to rightsizing restructuring programs for the three and nine months ended September 30, 2018, respectively. The current quarter rightsizing programs were comprised primarily of broad-based selling, general and administrative expense reduction initiatives designed to increase operating margin, enhance operations and position the Company for sustained growth and investment. The first half of the year rightsizing programs were largely initiated in the fourth quarter of 2017 and designed to better align the Company's cost structure in preparation for the Apergy separation and included targeted facility consolidations, headcount reductions and other measures to further optimize operations. The rightsizing actions taken due to the Apergy separation are substantially complete. The Company expects to incur total charges of approximately $39 million related to selling, general and administrative expense reduction initiatives, $21 million of which was incurred during the three months ended September 30, 2018 and $18 million of which the Company expects to incur during the fourth quarter of 2018 and into the first half of 2019.

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The $24,201 of restructuring charges incurred during the third quarter of 2018 primarily included the following items:

- The Engineered Systems segment recorded $10,637 of restructuring charges related to programs focused on headcount reduction.
- The Fluids segment recorded $10,473 of restructuring charges principally related to headcount reductions and facility restructuring costs, focused on achieving acquisition integration benefits.
- The Refrigeration and Food Equipment segment recorded $452 of restructuring expense primarily due to headcount reductions and facility restructuring costs.
- Corporate recorded $2,639 of restructuring charges primarily related to headcount reductions.

The Company’s severance and exit accrual activities were as follows:

	Severance	Exit	Total
Balance at December 31, 2017	$25,681	$5,591	$31,272
Restructuring charges	31,786	4,637	36,423
Payments	(31,100)	(7,483)	(38,583)
Other, including foreign currency translation	(934)	(288) [1]	(1,222)
Balance at September 30, 2018	$25,433	$2,457	$27,890

(1) Other activity in exit reserves primarily represents the non-cash write-off of certain long-lived assets and inventory in connection with certain facility closures and product exits.

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10. Borrowings

Borrowings consisted of the following:

	September 30, 2018	December 31, 2017
Short-term		
Current portion of long-term debt and short-term borrowings	$ 59	$ 350,402
Commercial paper	298,600	230,700
Notes payable and current maturities of long-term debt	$ 298,659	$ 581,102

		Carrying amount [1]	
	Principal	September 30, 2018	December 31, 2017
Long-term			
5.45% 10-year notes due March 15, 2018	$350,000	$—	$349,918
2.125% 7-year notes due December 1, 2020 (euro-denominated)	€300,000	352,119	354,349
4.30% 10-year notes due March 1, 2021	$450,000	449,108	448,831
3.150% 10-year notes due November 15, 2025	$400,000	395,200	394,695
1.25% 10-year notes due November 9, 2026 (euro-denominated)	€600,000	696,793	701,058
6.65% 30-year debentures due June 1, 2028	$200,000	199,029	198,954
5.375% 30-year debentures due October 15, 2035	$300,000	295,748	295,561
6.60% 30-year notes due March 15, 2038	$250,000	247,798	247,713
5.375% 30-year notes due March 1, 2041	$350,000	343,808	343,600
Other		2,320	2,034
Total long-term debt		2,981,923	3,336,713
Less long-term debt current portion		—	(350,011)
Net long-term debt		$2,981,923	$2,986,702

[1] Carrying amount is net of unamortized debt discount and deferred debt issuance costs. Total unamortized debt discounts were
$16.4 million and $17.6 million as of September 30, 2018 and December 31, 2017, respectively. Total deferred debt issuance costs were $13.5 million and $14.9 million as of September 30, 2018 and December 31, 2017, respectively.

On March 15, 2018, the outstanding 5.45% notes with a principal value of $350.0 million matured. The repayment of debt was funded by the Company's commercial paper program and through a reduction of existing cash balances.

The Company maintains a $1.0 billion five-year unsecured revolving credit facility (the "Credit Agreement") with a syndicate of banks which expires on November 10, 2020. The Company was in compliance with all covenants in the Credit Agreement and other long-term debt covenants at September 30, 2018 and had a coverage ratio of 10.2 to 1.0. The Company uses the Credit Agreement as liquidity back-up for its commercial paper program and has not drawn down any loans under the facility and does not anticipate doing so. The Company generally uses commercial paper borrowings for general corporate purposes, funding of acquisitions and repurchases of its common stock.

As of September 30, 2018, the Company had approximately $142.3 million outstanding in letters of credit and performance and other guarantees which expire on various dates in 2018 through 2028. These letters of credit are primarily maintained as security for insurance, warranty and other performance obligations. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations.

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11. Financial Instruments

Derivatives

The Company is exposed to market risk for changes in foreign currency exchange rates due to the global nature of its operations and certain commodity risks. In order to manage these risks, the Company has hedged portions of its forecasted sales and purchases to occur within the next twelve months that are denominated in non-functional currencies, with currency forward contracts designated as cash flow hedges. At September 30, 2018 and December 31, 2017, the Company had contracts with U.S. dollar equivalent notional amounts of $205,850 and $115,580, respectively, to exchange foreign currencies, principally the Pound Sterling, Chinese Yuan, Swedish Krona, Swiss Franc, Canadian Dollar and Euro. The Company believes it is probable that all forecasted cash flow transactions will occur.

In addition, the Company had outstanding contracts with a total notional amount of $98,008 and $59,952 as of September 30, 2018 and December 31, 2017, respectively, that are not designated as hedging instruments. These instruments are used to reduce the Company's exposure for operating receivables and payables that are denominated in non-functional currencies. Gains and losses on these contracts are recorded in other (income) expense, net in the Condensed Consolidated Statements of Earnings.

The following table sets forth the fair values of derivative instruments held by the Company as of September 30, 2018 and December 31, 2017 and the balance sheet lines in which they are recorded:

	Fair Value Asset (Liability)		
	September 30, 2018	December 31, 2017	Balance Sheet Caption
Foreign currency forward	$3,158	$ 358	Prepaid / Other current assets
Foreign currency forward	(1,456)	(2,243)	Other accrued expenses

For a cash flow hedge, the effective portion of the change in estimated fair value of a hedging instrument is recorded in accumulated other comprehensive loss as a separate component of the Condensed Consolidated Statement of Stockholders' Equity and is reclassified into revenues and cost of goods and services in the Condensed Consolidated Statements of Earnings during the period in which the hedged transaction is recognized. The amount of gains or losses from hedging activity recorded in earnings is not significant, and the amount of unrealized gains and losses from cash flow hedges that are expected to be reclassified to earnings in the next twelve months is not significant; therefore, additional tabular disclosures are not presented. There are no amounts excluded from the assessment of hedge effectiveness and the Company's derivative instruments that are subject to credit risk contingent features were not significant.

The Company is exposed to credit loss in the event of nonperformance by counterparties to the financial instrument contracts held by the Company; however, nonperformance by these counterparties is considered unlikely as the Company’s policy is to contract with highly-rated, diversified counterparties.

The Company has designated the €600,000 and €300,000 of euro-denominated notes issued November 9, 2016 and December 4, 2013, respectively, as hedges of a portion of its net investment in euro-denominated operations. Changes in the value of the euro-denominated debt are recognized in foreign currency translation adjustments within other comprehensive (loss) earnings of the Condensed Consolidated Statements of Comprehensive Earnings to offset changes in the value of the net investment in euro-denominated operations.

Amounts recognized in other comprehensive (loss) earnings for the gains (losses) on net investment hedges were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Loss) gain on euro-denominated debt	$(6,155)	$(58,419)	$7,734	$(124,258)
Tax benefit (expense)	1,293	20,446	(1,624)	43,490
Net (loss) gain on net investment hedges, net of tax	$(4,862)	$(37,973)	$6,110	$(80,768)

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Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table presents the Company’s assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	Level 2	Level 2
Assets:		
Foreign currency cash flow hedges		