

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 28, 2019**

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 **1-6948**

SPX CORPORATION

(Exact Name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

38-1016240

(I.R.S. Employer Identification No.)

13320-A Ballantyne Corporate Place, Charlotte, North Carolina 28277

(Address of principal executive offices) (Zip Code)

(980) 474-3700

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address, and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbols(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	SPXC	New York Stock Exchange

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Common shares outstanding October 25, 2019, 44,145,177

SPX CORPORATION AND SUBSIDIARIES
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PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

SPX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited; in millions, except per share amounts)

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Revenues	\$ 364.8	\$ 362.5	\$ 1,080.8	\$ 1,093.6
Costs and expenses:				
Cost of products sold	258.6	274.8	783.2	818.1
Selling, general and administrative	74.6	71.6	229.5	212.8
Intangible amortization	2.0	1.7	6.0	2.7
Special charges, net	2.0	1.0	3.4	4.6
Other operating expenses	—	—	1.8	—
Operating income	27.6	13.4	56.9	55.4
Other income, net	1.0	0.7	10.1	3.9
Interest expense	(5.0)	(5.9)	(15.6)	(15.3)
Interest income	0.4	0.3	1.3	1.1
Income from continuing operations before income taxes	24.0	8.5	52.7	45.1
Income tax provision	(2.8)	(1.7)	(11.5)	(6.2)
Income from continuing operations	21.2	6.8	41.2	38.9
Income (loss) from discontinued operations, net of tax	—	—	—	—
Gain (loss) on disposition of discontinued operations, net of tax	0.3	(0.2)	(1.3)	3.1
Gain (loss) from discontinued operations, net of tax	0.3	(0.2)	(1.3)	3.1
Net income	\$ 21.5	\$ 6.6	\$ 39.9	\$ 42.0
Basic income per share of common stock:				
Income from continuing operations	\$ 0.48	\$ 0.16	\$ 0.94	\$ 0.91
Income (loss) from discontinued operations	0.01	(0.01)	(0.03)	0.07
Net income per share	\$ 0.49	\$ 0.15	\$ 0.91	\$ 0.98
Weighted-average number of common shares outstanding — basic	44.072	43.080	43.870	42.948
Diluted income per share of common stock:				
Income from continuing operations	\$ 0.47	\$ 0.15	\$ 0.92	\$ 0.87
Income (loss) from discontinued operations	0.01	—	(0.03)	0.07
Net income per share	\$ 0.48	\$ 0.15	\$ 0.89	\$ 0.94
Weighted-average number of common shares outstanding — diluted	45.176	44.904	44.861	44.648
Comprehensive income	\$ 18.7	\$ 5.6	\$ 34.9	\$ 42.4

The accompanying notes are an integral part of these statements.

SPX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions, except share data)

	September 28, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and equivalents	\$ 49.3	\$ 68.8
Accounts receivable, net	246.4	269.1
Contract assets	68.9	91.2
Inventories, net	157.7	128.8
Other current assets (includes income taxes receivable of \$18.0 and \$18.9 at September 28, 2019 and December 31, 2018, respectively)	40.8	40.5
Total current assets	563.1	598.4
Property, plant and equipment:		
Land	18.7	19.4
Buildings and leasehold improvements	119.8	125.2
Machinery and equipment	337.9	334.1
	476.4	478.7
Accumulated depreciation	(298.9)	(294.5)
Property, plant and equipment, net	177.5	184.2
Goodwill	429.4	394.4
Intangibles, net	230.9	198.4
Other assets	641.7	657.7
Deferred income taxes	19.8	24.4
TOTAL ASSETS	\$ 2,062.4	\$ 2,057.5
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 132.5	\$ 153.6
Contract liabilities	85.6	79.5
Accrued expenses	188.2	183.7
Income taxes payable	1.4	3.5
Short-term debt	40.6	31.9
Current maturities of long-term debt	18.5	18.0
Total current liabilities	466.8	470.2
Long-term debt	323.8	331.9
Deferred and other income taxes	32.4	23.2
Other long-term liabilities	778.1	817.3
Total long-term liabilities	1,134.3	1,172.4
Commitments and contingent liabilities (Note 15)		
Equity:		
Common stock (51,940,314 and 44,124,375 issued and outstanding at September 28, 2019, respectively, and 51,528,778 and 43,450,305 issued and outstanding at December 31, 2018, respectively)	0.5	0.5
Paid-in capital	1,291.2	1,295.4
Retained deficit	(610.2)	(650.1)
Accumulated other comprehensive income	239.9	244.9
Common stock in treasury (7,815,939 and 8,078,473 shares at September 28, 2019 and December 31, 2018, respectively)	(460.1)	(475.8)
Total equity	461.3	414.9
TOTAL LIABILITIES AND EQUITY	\$ 2,062.4	\$ 2,057.5

The accompanying notes are an integral part of these statements.

SPX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions)

Three months ended September 28, 2019

	Common Stock	Paid-In Capital	Retained Deficit	Accum. Other Comprehensive Income	Common Stock In Treasury	SPX Corporation Shareholders' Equity
Balance at June 29, 2019	\$ 0.5	\$ 1,285.3	\$ (631.7)	\$ 242.7	\$ (460.1)	\$ 436.7
Net income	—	—	21.5	—	—	21.5
Other comprehensive loss, net	—	—	—	(2.8)	—	(2.8)
Incentive plan activity	—	3.1	—	—	—	3.1
Long-term incentive compensation expense	—	2.8	—	—	—	2.8
Restricted stock and restricted stock unit vesting	—	—	—	—	—	—
Balance at September 28, 2019	<u>\$ 0.5</u>	<u>\$ 1,291.2</u>	<u>\$ (610.2)</u>	<u>\$ 239.9</u>	<u>\$ (460.1)</u>	<u>\$ 461.3</u>

Nine months ended September 28, 2019

	Common Stock	Paid-In Capital	Retained Deficit	Accum. Other Comprehensive Income	Common Stock In Treasury	SPX Corporation Shareholders' Equity
Balance at December 31, 2018	\$ 0.5	\$ 1,295.4	\$ (650.1)	\$ 244.9	\$ (475.8)	\$ 414.9
Net income	—	—	39.9	—	—	39.9
Other comprehensive loss, net	—	—	—	(5.0)	—	(5.0)
Incentive plan activity	—	10.0	—	—	—	10.0
Long-term incentive compensation expense	—	8.1	—	—	—	8.1
Restricted stock and restricted stock unit vesting	—	(22.3)	—	—	15.7	(6.6)
Balance at September 28, 2019	<u>\$ 0.5</u>	<u>\$ 1,291.2</u>	<u>\$ (610.2)</u>	<u>\$ 239.9</u>	<u>\$ (460.1)</u>	<u>\$ 461.3</u>

Three months ended September 29, 2018

	Common Stock	Paid-In Capital	Retained Deficit	Accum. Other Comprehensive Income	Common Stock In Treasury	SPX Corporation Shareholders' Equity
Balance at June 30, 2018	\$ 0.5	\$ 1,305.8	\$ (707.9)	\$ 251.5	\$ (491.3)	\$ 358.6
Net income	—	—	6.6	—	—	6.6
Other comprehensive loss, net	—	—	—	(1.0)	—	(1.0)
Incentive plan activity	—	2.5	—	—	—	2.5
Long-term incentive compensation expense	—	3.3	—	—	—	3.3
Restricted stock and restricted stock unit vesting	—	(1.4)	—	—	1.1	(0.3)
Balance at September 29, 2018	<u>\$ 0.5</u>	<u>\$ 1,310.2</u>	<u>\$ (701.3)</u>	<u>\$ 250.5</u>	<u>\$ (490.2)</u>	<u>\$ 369.7</u>

Nine months ended September 29, 2018

	Common Stock	Paid-In Capital	Retained Deficit	Accum. Other Comprehensive Income	Common Stock In Treasury	SPX Corporation Shareholders' Equity
Balance at December 31, 2017	\$ 0.5	\$ 1,309.8	\$ (742.3)	\$ 250.1	\$ (503.4)	\$ 314.7
Net income	—	—	42.0	—	—	42.0
Other comprehensive income, net	—	—	—	0.4	—	0.4
Incentive plan activity	—	7.8	—	—	—	7.8
Long-term incentive compensation expense	—	9.4	—	—	—	9.4
Restricted stock and restricted stock unit vesting	—	(16.8)	—	—	13.2	(3.6)
Impact of adoption of ASC 606 - See Note 2	—	—	4.0	—	—	4.0
Impact of adoption of ASU 2016-16 - See Note 2	—	—	(0.2)	—	—	(0.2)
Stranded income tax effects resulting from tax reform - See Note 2	—	—	(4.8)	—	—	(4.8)
Balance at September 29, 2018	<u>\$ 0.5</u>	<u>\$ 1,310.2</u>	<u>\$ (701.3)</u>	<u>\$ 250.5</u>	<u>\$ (490.2)</u>	<u>\$ 369.7</u>

SPX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	Nine months ended	
	September 28, 2019	September 29, 2018
Cash flows from operating activities:		
Net income	\$ 39.9	\$ 42.0
Less: Gain (loss) from discontinued operations, net of tax	(1.3)	3.1
Income from continuing operations	41.2	38.9
Adjustments to reconcile income from continuing operations to net cash from operating activities:		
Special charges, net	3.4	4.6
Gain on change in fair value of equity security	(7.9)	—
Deferred and other income taxes	8.3	6.6
Depreciation and amortization	24.7	21.3
Pension and other employee benefits	7.6	5.1
Long-term incentive compensation	10.1	12.4
Other, net	1.2	1.5
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable and other assets	94.6	19.9
Inventories	(18.5)	(6.2)
Accounts payable, accrued expenses and other	(88.2)	(86.7)
Cash spending on restructuring actions	(3.2)	(2.4)
Net cash from continuing operations	73.3	15.0
Net cash used in discontinued operations	(3.5)	(1.7)
Net cash from operating activities	69.8	13.3
Cash flows used in investing activities:		
Proceeds from company-owned life insurance policies, net	5.9	0.2
Business acquisitions, net of cash acquired	(87.2)	(182.6)
Net proceeds from sales of assets	5.5	9.5
(Increase) decrease in restricted cash	(0.2)	0.3
Capital expenditures	(10.7)	(8.0)
Net cash used in continuing operations	(86.7)	(180.6)
Net cash from discontinued operations	—	3.6
Net cash used in investing activities	(86.7)	(177.0)
Cash flows from (used in) financing activities:		
Borrowings under senior credit facilities	132.4	157.4
Repayments under senior credit facilities	(127.6)	(76.6)
Borrowings under trade receivables financing arrangement	55.0	60.0
Repayments under trade receivables financing arrangement	(64.0)	(33.0)
Net borrowings (repayments) under other financing arrangements	3.7	(2.0)
Minimum withholdings paid on behalf of employees for net share settlements, net of proceeds from the exercise of employee stock options and other	(4.2)	(3.0)
Net cash from (used in) continuing operations	(4.7)	102.8
Net cash from (used in) discontinued operations	—	—
Net cash from (used in) financing activities	(4.7)	102.8
Change in cash and equivalents due to changes in foreign currency exchange rates	2.1	(1.5)
Net change in cash and equivalents	(19.5)	(62.4)
Consolidated cash and equivalents, beginning of period	68.8	124.3
Consolidated cash and equivalents, end of period	\$ 49.3	\$ 61.9

The accompanying notes are an integral part of these statements.

SPX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; in millions, except per share data)

(1) BASIS OF PRESENTATION

Unless otherwise indicated, “we,” “us” and “our” mean SPX Corporation and its consolidated subsidiaries (“SPX”).

We prepared the condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules and regulations, certain footnotes or other financial information normally required by accounting principles generally accepted in the United States (“GAAP”) can be condensed or omitted. The financial statements represent our accounts after the elimination of intercompany transactions and, in our opinion, include the adjustments (consisting only of normal and recurring items) necessary for their fair presentation.

We account for investments in unconsolidated companies where we exercise significant influence but do not have control using the equity method. In determining whether we are the primary beneficiary of a variable interest entity (“VIE”), we perform a qualitative analysis that considers the design of the VIE, the nature of our involvement and the variable interests held by other parties to determine which party has the power to direct the activities of the VIE that most significantly impact the entity’s economic performance, and which party has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. We have an interest in a VIE, in which we are not the primary beneficiary, as a result of the 2016 sale of Balcke Dürr. All other VIEs are considered immaterial, individually and in aggregate, to our condensed consolidated financial statements.

Sale of Balcke Dürr

On December 30, 2016, we completed the sale of Balcke Dürr to a subsidiary of mutares AG (the “Buyer”). On April 30, 2018, we reached a settlement with the Buyer on the amount of cash and working capital at the closing date, as well as on various other matters, for a net payment from the Buyer in the amount of Euro 3.0 (with Euro 2.0 received in May 2018 and Euro 1.0 in July 2018). The settlement resulted in a gain, net of tax, of \$3.8, which was recorded to “Gain (loss) on disposition of discontinued operations, net of tax” during the second quarter of 2018. See Note 3 for information on discontinued operations.

Wind-Down of Heat Transfer

Transactions of note associated with the wind-down of SPX Heat Transfer (“Heat Transfer”) were as follows:

- Second quarter of 2018:
 - We recorded charges of \$2.0, with \$0.9 related to the write-down of inventories (included in “Cost of products sold”), \$0.6 related to the impairment of machinery and equipment, and \$0.5 related to severance costs (both included in “Special charges, net” - See Note 7).
 - We sold certain intangible assets of the business for net cash proceeds of \$4.8, which resulted in a gain of less than \$0.1.
- Third quarter of 2018 - We recorded additional severance costs to “Special charges, net” of \$0.8.
- First quarter of 2019 - We sold the business’s manufacturing facility for cash proceeds of \$5.5, which resulted in a gain of \$0.3 (included in “Other income, net”).

We anticipate completing the wind-down by the end of 2019.

Change in Segment Reporting Structure

During the fourth quarter of 2018, due, in part, to the certain wind-down activities, and the related decline in volumes, at our South African subsidiary, DBT Technologies (PTY) LTD (“DBT”), and Heat Transfer, we concluded that these operating segments were no longer economically similar to the other operating segments within our Engineered Solutions reportable segment. As such, DBT and Heat Transfer are now being reported, for all periods presented, within an “All Other” category outside of our reportable segments. See Notes 4 and 6 for additional details.

Acquisition of Schonstedt

On March 1, 2018, we completed the acquisition of Schonstedt Instrument Company (“Schonstedt”), a manufacturer and distributor of magnetic locator products used for locating underground utilities and other buried objects, for a purchase price of \$16.4, net of cash acquired of \$0.3. The post-acquisition operating results of Schonstedt are reflected within our Detection and Measurement reportable segment.

Acquisition of Cues

On June 7, 2018, we completed the acquisition of Cues, Inc. (“Cues”), a manufacturer of pipeline inspection and rehabilitation equipment. The acquisition was completed through the purchase of all of the issued and outstanding shares of Cues’ parent company for a purchase price of \$164.4, net of cash acquired of \$20.6. The post-acquisition operating results of Cues are reflected within our Detection and Measurement reportable segment. See Note 3 for additional details on the Cues acquisition.

Acquisition of Sabik

On February 1, 2019, we completed the acquisition of Sabik Marine (“Sabik”), a manufacturer of obstruction lighting products, from Carmanah Technologies Corporation for a purchase price of \$77.2, net of cash acquired of \$0.6. The assets acquired and liabilities assumed have been recorded at estimates of fair value as determined by management, based on information available and on assumptions as to future operations and are subject to change upon completion of acquisition accounting. The post-acquisition operating results of Sabik are reflected within our Detection and Measurement reportable segment. See Notes 3 and 9 for additional details on the Sabik acquisition.

Acquisition of SGS

On July 3, 2019, we completed the acquisition of SGS Refrigeration Inc. (“SGS”), a manufacturer of industrial refrigeration products in North America, for cash proceeds of \$10.0 and a deferred payment not to exceed \$1.5, with the ultimate amount of such deferred payment, if any, dependent upon achievement of certain financial metrics by SGS during the year ending December 31, 2019. The assets acquired and liabilities assumed have been recorded at preliminary estimates of fair value as determined by management, based on information currently available and on current assumptions as to future operations and are subject to change upon completion of acquisition accounting. The post-acquisition operating results of SGS are reflected within our HVAC reportable segment. See Notes 3 and 9 for additional details on the SGS acquisition.

Other

Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from these estimates. The unaudited information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018. Interim results are not necessarily indicative of full year results. We have reclassified certain prior year amounts to conform to the current year presentation, including amounts related to the change in the segment reporting structure previously discussed. Unless otherwise indicated, amounts provided in these Notes pertain to continuing operations only. See Note 3 for information on discontinued operations.

We establish actual interim closing dates using a fiscal calendar, which requires our businesses to close their books on the Saturday closest to the end of the first calendar quarter, with the second and third quarters being 91 days in length. Our fourth quarter ends on December 31. The interim closing dates for the first, second and third quarters of 2019 are March 30, June 29 and September 28, compared to the respective March 31, June 30 and September 29, 2018 dates. We had one less day in the first quarter of 2019 and will have one more day in the fourth quarter of 2019 than in the respective 2018 periods. We do not believe the one less day during the first quarter of 2019 had a material impact on our consolidated operating results for the first nine months of 2019, when compared to the consolidated operating results for the first nine months of 2018.

(2) NEW ACCOUNTING PRONOUNCEMENTS

The following is a summary of new accounting pronouncements that apply or may apply to our business.

ASC Topic 842

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an amendment to existing guidance, Accounting Standards Codification (“ASC”) 842, that requires lessees to recognize assets and liabilities for the rights and obligations created by leases. Under the amendment, additional qualitative and quantitative disclosures are required to allow users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Effective January 1, 2019, we adopted ASC 842 using the modified retrospective transition approach. The modified retrospective transition approach recognizes any

changes as of the beginning of the year of initial application (i.e., as of January 1, 2019) through retained earnings, with no restatement of comparative periods.

The new standard provides a number of optional practical expedients upon transition. We elected the “package of practical expedients,” which allowed us to maintain our prior conclusions regarding lease identification, lease classification and initial direct costs. We did not elect the practical expedients for the use-of-hindsight or land easements; the latter not being applicable to us.

The impact of the initial adoption of the standard on our condensed consolidated balance sheet is summarized below, with the most significant impact being the recognition of right-of-use (“ROU”) assets and lease liabilities for operating leases. Our accounting for finance leases remains substantially unchanged.

	December 31, 2018	Impact of Adoption of ASC 842	January 1, 2019
Assets			
Other assets	\$ 657.7	\$ 27.7	\$ 685.4
Liabilities			
Accrued expenses	183.7	7.9	191.6
Other long-term liabilities	817.3	19.8	837.1

The adoption of ASC 842 had no impact on our retained deficit and no significant impact on the accompanying condensed consolidated statements of operations for the three and nine months ended September 28, 2019 and condensed consolidated statement of cash flows for the nine months ended September 28, 2019.

See Note 5 for further discussion of the post adoption impact of ASC 842.

Other Accounting Pronouncements

In May 2014, the FASB issued a new standard on revenue recognition (“ASC 606”) that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The only significant change in revenue recognition as a result of the adoption of ASC 606 related to our power transformer business. Under ASC 606, revenues for our power transformer business are being recognized over time, while under previous revenue recognition guidance (ASC 605), revenues for power transformers were recognized at a point in time. We adopted the standard as of January 1, 2018 under the modified retrospective transition approach, which resulted in a decrease of our retained deficit of \$4.0.

In June 2016 the FASB issued an amendment on the measurement of credit losses. The FASB’s new guidance changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, including trade receivables, based on historical experience, current conditions and reasonable and supportable forecasts. This amendment is effective for interim and annual reporting periods beginning after December 15, 2019. We are currently evaluating the impact this amendment may have on our consolidated financial statements.

In October 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-16, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 became effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The requirements of ASU 2016-16 were to be applied on a modified retrospective basis, which entailed recognizing the initial effect of adoption in retained earnings. We adopted ASU 2016-16 as of January 1, 2018, which resulted in an increase of our retained deficit of \$0.2.

In January 2017, the FASB issued an amendment to simplify the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires that an entity recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. This amendment is effective for annual reporting periods beginning after December 31, 2019, including interim periods within those annual reporting periods. Early adoption is permitted. The impact of this amendment on our consolidated financial statements will depend on the results of future goodwill impairment tests.

In August 2017, the FASB issued significant amendments to hedge accounting. The FASB’s new guidance will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. We adopted this guidance during the first quarter of 2019, with such adoption having no material impact to our condensed consolidated financial statements.

In February 2018, the FASB amended its guidance for reporting comprehensive income to reflect the potential impacts of the reduction in the corporate tax rate resulting from the Tax Cuts and Jobs Act (the “Act”). The amendment gives the option of reclassifying the stranded tax effects within accumulated other comprehensive income (“AOCI”) to retained earnings during the fiscal year or quarter in which the effect of the lower tax rate is recorded. We adopted this guidance as of January 1, 2018, which resulted in an increase of our retained deficit of \$4.8.

(3) ACQUISITIONS AND DISCONTINUED OPERATIONS

Acquisition of SGS

As indicated in Note 1, on July 3, 2019, we completed the acquisition of SGS for cash proceeds of \$10.0 and a deferred payment not to exceed \$1.5, with the ultimate amount of such deferred payment, if any, dependent upon achievement of certain financial metrics by SGS during the year ending December 31, 2019. For the period July 3, 2019 to September 28, 2019, SGS recognized revenues and net income of \$3.4 and \$0.3, respectively. The pro forma effects of the SGS acquisition are not material to our consolidated results of operations.

Acquisition of Sabik

As indicated in Note 1, on February 1, 2019, we completed the acquisition of Sabik for \$77.2, net of cash acquired of \$0.6. We financed the acquisition with available cash and borrowings under our senior credit and trade receivables financing arrangements. For the period February 1, 2019 to September 28, 2019, Sabik recognized revenues and a net income of \$22.1 and \$1.7, respectively, with the net income impacted by charges of \$1.7 associated with the excess fair value (over historical cost) of inventory acquired which was subsequently sold during the period. During the nine months ended September 28, 2019, we incurred acquisition related costs for Sabik of \$0.3, which have been recorded to “Selling, general and administrative” within the accompanying condensed consolidated statement of operations. The pro forma effects of the Sabik acquisition are not material to our consolidated results of operations.

Acquisition of Cues

As indicated in Note 1, on June 7, 2018, we completed the acquisition of Cues for \$164.4, net of cash acquired of \$20.6. We financed the acquisition with available cash and borrowings under our senior credit and trade receivables financing arrangements. The following is a summary of the recorded fair values of the assets acquired and liabilities assumed for Cues as of June 7, 2018:

Assets acquired:

Current assets, including cash and equivalents of \$20.6	\$	70.4
Property, plant and equipment		7.4
Goodwill		47.8
Intangible assets		79.5
Other assets		2.3
Total assets acquired		207.4
Current liabilities assumed		7.8
Non-current liabilities assumed		14.6
Net assets acquired	\$	185.0

The identifiable intangible assets acquired consist of a trademark, customer backlog, customer relationships, and technology of \$27.6, \$0.8, \$42.6, and \$8.5, respectively, with such amounts based on an assessment of the related fair values. We are amortizing the customer backlog, customer relationships, and technology assets over 0.5, 12.0, and 11.0 years, respectively.

We acquired gross receivables of \$13.6, which had a fair value at the acquisition date of \$13.2 based on our estimates of cash flows expected to be recovered.

The qualitative factors that comprise the recorded goodwill include expected synergies from combining our existing inspection equipment operations with those of Cues, expected market growth for Cues’ existing operations, and various other factors. We expect none of this goodwill or the intangible assets described above to be deductible for tax purposes.

The following unaudited pro forma information presents our results of operations for the three and nine months September 29, 2018 as if the acquisition of Cues had taken place on January 1, 2018. The unaudited pro forma financial information is not intended to represent, or be indicative of, our consolidated results of operations that would have been reported had the acquisition been completed as of the date presented, and should not be taken as representative of our future consolidated results of operations. The pro forma results include estimates and assumptions that management believes are reasonable; however, these results do not include any anticipated cost savings or expenses of the planned integration of Cues. These pro forma results of operations have been prepared for comparative purposes only and include additional interest expense on the borrowings required to finance the acquisition, additional depreciation and amortization expense associated with fair value adjustments to the acquired property, plant and equipment and intangible assets, the removal of charges associated with excess fair value (over historical cost) of inventory acquired and subsequently sold, the removal of professional fees incurred in connection with the transaction, and the related income tax effects.

	<u>Three months ended</u> <u>September 29,</u> <u>2018</u>	<u>Nine months ended</u> <u>September 29,</u> <u>2018</u>
Revenues	\$ 362.5	\$ 1,127.7
Income from continuing operations	9.4	45.4
Net income	9.2	48.5
Income from continuing operations per share of common stock:		
Basic	\$ 0.22	\$ 1.06
Diluted	\$ 0.21	\$ 1.02
Net income per share of common stock:		
Basic	\$ 0.21	\$ 1.13
Diluted	\$ 0.20	\$ 1.09

Acquisition of Schonstedt

As indicated in Note 1, on March 1, 2018, we completed the acquisition of Schonstedt for \$16.4, net of cash acquired of \$0.3. The pro forma effects of the Schonstedt acquisition are not material to our consolidated results of operations.

Discontinued Operations

As indicated in Note 1, during the second quarter of 2018, we reached a settlement with the Buyer of Balcke Dürr on the working capital and cash at the closing date, as well as on various other matters. The settlement resulted in a gain, net of tax, of \$3.8, which was recorded to "Gain (loss) on disposition of discontinued operations, net of tax" during the second quarter of 2018.

In addition to the adjustment to the net loss related to the Balcke Dürr sale, we recognized net income (loss) of \$0.3 and \$(1.3), respectively, during the three and nine months ended September 28, 2019 and a net loss of \$0.2 and \$0.7, respectively, during the three and nine months ended September 29, 2018, resulting primarily from revisions to liabilities retained from businesses discontinued prior to 2016.

Summarized below are the components of discontinued operations for the three and nine months ended September 28, 2019 and September 29, 2018:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Balcke Dürr				
Gain from discontinued operations	\$ —	\$ —	\$ —	\$ 6.3
Income tax provision	—	—	—	(2.5)
Gain from discontinued operations, net	—	—	—	3.8
All other				
Gain (loss) from discontinued operations	0.4	(0.3)	0.2	(1.0)
Income tax (provision) benefit	(0.1)	0.1	(1.5)	0.3
Gain (loss) from discontinued operations, net	0.3	(0.2)	(1.3)	(0.7)
Total				
Gain (loss) from discontinued operations	0.4	(0.3)	0.2	5.3
Income tax (provision) benefit	(0.1)	0.1	(1.5)	(2.2)
Gain (loss) from discontinued operations, net	\$ 0.3	\$ (0.2)	\$ (1.3)	\$ 3.1

(4) REVENUES FROM CONTRACTS

Disaggregated Revenues

We disaggregate revenue from contracts with customers by major product line and based on the timing of recognition for each of our reportable segments and other operating segments, as we believe such disaggregation best depicts how the nature, amount, timing, and uncertainty of our revenues and cash flows are affected by economic factors, with such disaggregation presented below for the three and nine months ended September 28, 2019 and September 29, 2018:

Reportable Segments and All Other	Three months ended September 28, 2019				
	HVAC	Detection and Measurement	Engineered Solutions	All Other	Total
Major product lines					
Cooling	\$ 68.4	\$ —	\$ —	\$ —	\$ 68.4
Boilers, comfort heating, and ventilation	71.7	—	—	—	71.7
Underground locators and inspection and rehabilitation equipment	—	45.0	—	—	45.0
Signal monitoring, obstruction lighting, and bus fare collection systems	—	52.6	—	—	52.6
Power transformers	—	—	93.4	—	93.4
Process cooling equipment and services, and heat exchangers	—	—	27.7	0.9	28.6
South African projects	—	—	—	5.1	5.1
	\$ 140.1	\$ 97.6	\$ 121.1	\$ 6.0	\$ 364.8
Timing of Revenue Recognition					
Revenues recognized at a point in time	\$ 140.1	\$ 91.0	\$ 12.6	\$ 0.4	\$ 244.1
Revenues recognized over time	—	6.6	108.5	5.6	120.7
	\$ 140.1	\$ 97.6	\$ 121.1	\$ 6.0	\$ 364.8

Nine months ended September 28, 2019

Reportable Segments and All Other	HVAC	Detection and Measurement	Engineered Solutions	All Other	Total
Major product lines					
Cooling	\$ 194.3	\$ —	\$ —	\$ —	\$ 194.3
Boilers, comfort heating, and ventilation	205.1	—	—	—	205.1
Underground locators and inspection and rehabilitation equipment	—	144.7	—	—	144.7
Signal monitoring, obstruction lighting, and bus fare collection systems	—	139.7	—	—	139.7
Power transformers	—	—	296.8	—	296.8
Process cooling equipment and services, and heat exchangers	—	—	101.3	7.7	109.0
South African projects ⁽¹⁾	—	—	—	(8.8)	(8.8)
	<u>\$ 399.4</u>	<u>\$ 284.4</u>	<u>\$ 398.1</u>	<u>\$ (1.1)</u>	<u>\$ 1,080.8</u>

Timing of Revenue Recognition

Revenues recognized at a point in time	\$ 399.4	\$ 266.7	\$ 38.0	\$ 2.0	\$ 706.1
Revenues recognized over time ⁽¹⁾	—	17.7	360.1	(3.1)	374.7
	<u>\$ 399.4</u>	<u>\$ 284.4</u>	<u>\$ 398.1</u>	<u>\$ (1.1)</u>	<u>\$ 1,080.8</u>

⁽¹⁾ As further discussed below, during the nine months ended September 28, 2019, we reduced the amount of revenue associated with the large power projects in South Africa by \$23.5.

Three months ended September 29, 2018

Reportable Segments and All Other	HVAC	Detection and Measurement	Engineered Solutions	All Other	Total
Major product lines					
Cooling	\$ 65.1	\$ —	\$ —	\$ —	\$ 65.1
Boilers, comfort heating, and ventilation	66.9	—	—	—	66.9
Underground locators and inspection and rehabilitation equipment	—	49.8	—	—	49.8
Signal monitoring, obstruction lighting, and bus fare collection systems	—	34.5	—	—	34.5
Power transformers	—	—	89.4	—	89.4
Process cooling equipment and services, and heat exchangers	—	—	35.4	11.6	47.0
South African projects	—	—	—	9.8	9.8
	<u>\$ 132.0</u>	<u>\$ 84.3</u>	<u>\$ 124.8</u>	<u>\$ 21.4</u>	<u>\$ 362.5</u>

Timing of Revenue Recognition

Revenues recognized at a point in time	\$ 132.0	\$ 79.5	\$ 15.2	\$ 1.9	\$ 228.6
Revenues recognized over time	—	4.8	109.6	19.5	133.9
	<u>\$ 132.0</u>	<u>\$ 84.3</u>	<u>\$ 124.8</u>	<u>\$ 21.4</u>	<u>\$ 362.5</u>

Nine months ended September 29, 2018

Reportable Segments and All Other	HVAC	Detection and Measurement	Engineered Solutions	All Other	Total
Major product lines					
Cooling	\$ 201.6	\$ —	\$ —	\$ —	\$ 201.6
Boilers, comfort heating, and ventilation	197.8	—	—	—	197.8
Underground locators and inspection and rehabilitation equipment	—	110.7	—	—	110.7
Signal monitoring, obstruction lighting, and bus fare collection systems	—	113.8	—	—	113.8
Power transformers	—	—	274.9	—	274.9
Process cooling equipment and services, and heat exchangers	—	—	113.1	42.9	156.0
South African projects	—	—	—	38.8	38.8
	<u>\$ 399.4</u>	<u>\$ 224.5</u>	<u>\$ 388.0</u>	<u>\$ 81.7</u>	<u>\$ 1,093.6</u>

Timing of Revenue Recognition

Revenues recognized at a point in time	\$ 399.4	\$ 215.6	\$ 43.5	\$ 4.6	\$ 663.1
Revenues recognized over time	—	8.9	344.5	77.1	430.5
	<u>\$ 399.4</u>	<u>\$ 224.5</u>	<u>\$ 388.0</u>	<u>\$ 81.7</u>	<u>\$ 1,093.6</u>

Contract Balances

Our customers are invoiced for products and services at the time of delivery or based on contractual milestones, resulting in outstanding receivables with payment terms from these customers (“Contract Accounts Receivable”). In some cases, the timing of revenue recognition, particularly for revenue recognized over time, differs from when such amounts are invoiced to customers, resulting in a contract asset (revenue recognition precedes the invoicing of the related revenue amount) or a contract liability (payment from the customer precedes recognition of the related revenue amount). Contract assets and liabilities are generally classified as current. On a contract-by-contract basis, the contract assets and contract liabilities are reported net within our condensed consolidated balance sheets. Our contract balances consisted of the following as of September 28, 2019 and December 31, 2018:

Contract Balances	September 28, 2019	December 31, 2018	Change
Contract Accounts Receivable ⁽¹⁾	\$ 241.8	\$ 263.9	\$ (22.1)
Contract Assets	68.9	91.2	(22.3)
Contract Liabilities - current	(85.6)	(79.5)	(6.1)
Contract Liabilities - non-current ⁽²⁾	(2.4)	(2.1)	(0.3)
Net contract balance	<u>\$ 222.7</u>	<u>\$ 273.5</u>	<u>\$ (50.8)</u>

⁽¹⁾ Included in “Accounts receivable, net” within the accompanying condensed consolidated balance sheets.

⁽²⁾ Included in “Other long-term liabilities” within the accompanying condensed consolidated balance sheets.

The \$50.8 decrease in our net contract balance from December 31, 2018 to September 28, 2019 was due primarily to cash payments received from customers during the period, partially offset by revenue recognized during the period.

During the three and nine months ended September 28, 2019, we recognized revenues of \$10.2 and \$54.5, respectively, related to our contract liabilities at December 31, 2018.

Performance Obligations

As of September 28, 2019, the aggregate amount allocated to remaining performance obligations was \$86.2. We expect to recognize revenue on approximately 60% and 76% of remaining performance obligations over the next 12 and 24 months, respectively, with the remaining recognized thereafter.

Variable Consideration

Our recorded cumulative revenue associated with the large power projects in South Africa includes amounts of variable consideration related to claims and unapproved change orders. As indicated in Note 15, during February, March, and April of 2019, we received a number of claims from the prime contractors on these projects asserting various amounts of damages. In consideration of these claims (including the magnitude of the claims and claims in areas that had not been previously identified by the prime contractors), and in accordance with ASC 606, we analyzed the risk of a significant revenue reversal associated with the amount of variable consideration noted above. Based on such analysis, we reduced the amount of cumulative revenue associated with the variable consideration on the large power projects in South Africa by \$17.5 during the first quarter of 2019, as it was no longer probable that such amounts of revenue would not be reversed.

As indicated in Note 15, on June 28, 2019, our South African subsidiary, DBT, reached an agreement with Alstom S&E Africa (PTY) LTD (“Alstom/GE”), one of the prime contractors on the large power projects in South Africa, to, among other things, settle all material outstanding claims between the parties (other than certain pass-through claims relating to third parties). In connection with the agreement, we reduced the amount of cumulative revenue associated with variable consideration on the large power projects in South Africa by \$5.8 during the second quarter of 2019.

At September 28, 2019, our cumulative recognized revenue related to the variable consideration on the large power projects in South Africa totaled \$9.8. We have recognized revenue associated with these claims, along with certain unapproved change orders, to the extent we have an enforceable right to the claim or change order, the amount can be reliably estimated, and it is probable that a significant reversal of the cumulative revenue recognized will not occur. While we believe these amounts are recoverable under the provisions of the related contracts, actual amounts of consideration ultimately received may differ from our estimates, which could have a material impact on our consolidated results of operations.

(5) LEASES

As indicated in Note 2, effective January 1, 2019, we adopted ASC 842 under the modified retrospective transition approach. As a result, for periods prior to 2019, leases continue to be presented based on prior guidance. Summarized below is our policy under, as well as the various other disclosures required by, ASC 842.

We elected to account for lease agreements with lease and non-lease components as a single component for all leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet and we recognize lease expense for these leases on a straight-line basis over the lease term.

We review if an arrangement is a lease at inception and conclude whether the contract contains an identified asset if we have the right to obtain substantially all the economic benefit and direct the use of the asset. Operating leases with ROU assets are reflected within “Other assets,” “Accrued expenses,” and “Other long-term liabilities” within our condensed consolidated balance sheet. Finance leases are included in “Property, plant and equipment,” “Current maturities of long-term debt,” and “Long-term debt.”

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and the related liabilities are recognized at commencement date based on the present value of lease payments over the lease term. These payments include renewal options when reasonably certain to be exercised, and exclude termination options. As none of our leases provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any prepaid lease payments and excludes lease incentives.

We have operating and finance leases for facilities, equipment, and vehicles. Our leases have remaining lease terms of one year to 10 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the lease within one year. We rent or sublease certain space within owned facilities to third parties under operating leases, with the impact of these lease arrangements being immaterial to our condensed consolidated financial statements.

The components of lease expense were as follows:

	Three months ended September 28, 2019	Nine months ended September 28, 2019
Operating lease cost ⁽¹⁾	\$ 3.4	\$ 10.0
Variable lease cost	\$ —	\$ 0.1
Finance lease cost:		
Amortization of right-of-use assets	\$ 0.3	\$ 0.9
Interest on lease liabilities	—	0.1
Total finance lease cost	\$ 0.3	\$ 1.0

⁽¹⁾ Includes short-term lease cost of \$1.1 and \$3.0 for the three and nine months ended September 28, 2019, respectively.

Supplemental cash flow information related to leases for the nine months ended September 28, 2019 was as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flow from operating leases	\$ 7.0
Operating cash flows from finance leases	0.1
Financing cash flows from finance leases	0.9

Non-cash activities:

Operating lease right-of-use assets obtained in exchange for new lease obligations	3.2
Finance lease right-of-use assets obtained in exchange for new lease obligations	0.8

Supplemental balance sheet information related to leases as of September 28, 2019 was as follows:

Operating Leases:	Affected Line Item in the Condensed Consolidated Balance Sheet	
Operating lease ROU assets	\$ 24.5	Other assets
Operating lease current liabilities	\$ 8.0	Accrued expenses
Operating lease non-current liabilities	18.2	Other long-term liabilities
Total operating lease liabilities	\$ 26.2	

Finance Leases:

Finance Lease Assets	\$ 2.4	Property, plant and equipment, net
Finance lease current liabilities	\$ 1.0	Current maturities of long-term debt
Finance lease non-current liabilities	1.6	Long-term debt
Total finance lease liabilities	\$ 2.6	

The weighted average remaining lease terms (years) of our leases as of September 28, 2019 were as follows:

Operating Leases	5.1
Finance Leases	3.2

The discount rate utilized to determine the present value of lease payments over the lease term is our incremental borrowing rate based on the information available at commencement date. In developing the incremental borrowing rate, we considered the interest rate that reflects a term similar to the underlying lease term on a fully collateralized basis. We concluded to apply the incremental borrowing rate at a consolidated portfolio level using a five-year term, as the results did not materially differ upon further stratification. The weighted-average discount for both our operating and finance leases was 3.8% at September 28, 2019.

The future minimum payments under our operating and finance leases were as follows as of September 28, 2019:

	Operating Leases	Finance Leases	Total
Next 12 months	\$ 8.8	\$ 1.0	\$ 9.8
12 to 24 months	5.7	0.8	6.5
24 to 36 months	4.6	0.5	5.1
36 to 48 months	4.2	0.3	4.5
48 to 60 months	3.9	0.1	4.0
Thereafter	1.8	—	1.8
Total lease payments	29.0	2.7	31.7
Less imputed interest	2.8	0.1	2.9
Total	\$ 26.2	\$ 2.6	\$ 28.8

As a result of adopting ASC 842 on January 1, 2019, we are required to present the future minimum lease payments under operating leases with remaining non-cancelable terms in excess of one year that were previously disclosed in our 2018 Annual Report on Form 10-K and accounted for under the previous lease guidance. Our operating lease commitments as of December 31, 2018 were as follows:

2019	\$ 9.1
2020	7.3
2021	4.5
2022	3.8
2023	3.4
Thereafter	3.1
Total minimum payments	\$ 31.2

(6) INFORMATION ON REPORTABLE AND OTHER OPERATING SEGMENTS

We are a global supplier of highly specialized, engineered solutions with operations in 17 countries and sales in over 100 countries around the world.

As indicated in Note 1, our DBT and Heat Transfer operating segments are now being reported in an “All Other” category for segment reporting purposes. We have aggregated our other operating segments into the following three reportable segments: HVAC, Detection and Measurement, and Engineered Solutions. The factors considered in determining our aggregated segments are the economic similarity of the businesses, the nature of products sold or services provided, production processes, types of customers, distribution methods, and regulatory environment. In determining our reportable segments, we apply the threshold criteria of the Segment Reporting Topic of the Codification. Operating income or loss for each of our operating segments is determined before considering impairment and special charges, long-term incentive compensation and other indirect corporate expenses. This is consistent with the way our chief operating decision maker evaluates the results of each segment.

HVAC Reportable Segment

Our HVAC reportable segment engineers, designs, manufactures, installs and services cooling products for the HVAC and industrial markets, as well as boilers and comfort heating and ventilation products for the residential and commercial markets. The primary distribution channels for the segment’s products are direct to customers, independent manufacturing representatives, third-party distributors, and retailers. The segment serves a customer base in North America, Europe, and Asia Pacific.

Detection and Measurement Reportable Segment

Our Detection and Measurement reportable segment engineers, designs, manufactures and installs underground pipe and cable locators, inspection and rehabilitation equipment, bus fare collection systems, communication technologies, and obstruction lighting. The primary distribution channels for the segment’s products are direct to customers and third-party distributors. The segment serves a global customer base, with a strong presence in North America, Europe, and Asia Pacific.

Engineered Solutions Reportable Segment

Our Engineered Solutions reportable segment engineers, designs, manufactures, installs and services transformers for the power transmission and distribution market and process cooling equipment for the industrial and power generation markets. The primary distribution channels for the segment’s products are direct to customers and third-party representatives. The segment has a strong presence in North America.

All Other

Our “All Other” group of operating segments engineer, design, manufacture, install and service equipment, including heat exchangers, primarily for the power generation market. The primary distribution channels for the group’s products are direct to customers and third-party representatives. These operating segments have a presence in North America and South Africa.

Corporate Expense

Corporate expense generally relates to the cost of our Charlotte, North Carolina corporate headquarters.

Financial data for our reportable segments and other operating segments for the three and nine months ended September 28, 2019 and September 29, 2018 are presented below:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Revenues:				
HVAC reportable segment	\$ 140.1	\$ 132.0	\$ 399.4	\$ 399.4
Detection and Measurement reportable segment	97.6	84.3	284.4	224.5
Engineered Solutions reportable segment	121.1	124.8	398.1	388.0
All Other ⁽¹⁾	6.0	21.4	(1.1)	81.7
Consolidated revenues	<u>\$ 364.8</u>	<u>\$ 362.5</u>	<u>\$ 1,080.8</u>	<u>\$ 1,093.6</u>
Income (loss):				
HVAC reportable segment	\$ 22.2	\$ 15.6	\$ 57.3	\$ 52.7
Detection and Measurement reportable segment	20.5	15.5	59.2	47.7
Engineered Solutions reportable segment	5.9	6.5	26.9	23.7
All Other ⁽¹⁾	(5.7)	(8.0)	(38.3)	(16.5)
Total income for segments	42.9	29.6	105.1	107.6
Corporate expense	(10.0)	(10.5)	(32.9)	(34.8)
Long-term incentive compensation expense	(3.3)	(4.3)	(10.1)	(12.4)
Special charges, net	(2.0)	(1.0)	(3.4)	(4.6)
Other operating expenses	—	—	(1.8)	—
Loss on sale of dry cooling business	—	(0.4)	—	(0.4)
Consolidated operating income	<u>\$ 27.6</u>	<u>\$ 13.4</u>	<u>\$ 56.9</u>	<u>\$ 55.4</u>

⁽¹⁾As indicated in Notes 4 and 15, during the nine months ended September 28, 2019, we reduced revenues associated with the large power projects in South Africa by \$23.5.

(7) SPECIAL CHARGES, NET

Special charges, net, for the three and nine months ended September 28, 2019 and September 29, 2018 are described in more detail below:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
HVAC reportable segment	\$ 0.1	\$ 0.2	\$ 0.8	\$ 0.2
Detection and Measurement reportable segment	—	—	—	—
Engineered Solutions reportable segment	0.3	—	0.7	—
All Other	1.4	0.8	1.7	4.0
Corporate	0.2	—	0.2	0.4
Total	<u>\$ 2.0</u>	<u>\$ 1.0</u>	<u>\$ 3.4</u>	<u>\$ 4.6</u>

HVAC — Charges for the three and nine months ended September 28, 2019 related primarily to severance, asset impairment, and other charges associated with the relocation of certain operations and severance costs associated with a restructuring action at the segment's Cooling EMEA business. Charges for the three and nine months ended September 29, 2018 related primarily to severance costs associated with a restructuring action at the segment's boiler products business.

Engineered Solutions — Charges for the three and nine months ended September 28, 2019 related primarily to charges associated with the relocation of certain operations and an asset impairment charge.

All Other — Charges for the three and nine months ended September 28, 2019 related primarily to severance costs incurred in connection with the wind-down activities at DBT, our South African subsidiary. Charges for the three and nine months ended September 29, 2018 related to severance costs associated with a restructuring action at DBT and severance costs and asset impairment charges related to the wind-down of our Heat Transfer business.

Corporate — Charges for the three and nine months ended September 28, 2019 and nine months ended September 29, 2018 related to severance costs incurred in connection with the rationalization of certain administrative functions.

No significant charges are expected to be incurred under actions approved as of September 28, 2019.

The following is an analysis of our restructuring liabilities for the nine months ended September 28, 2019 and September 29, 2018:

	Nine months ended	
	September 28, 2019	September 29, 2018
Balance at beginning of year	\$ 2.7	\$ 0.6
Special charges ⁽¹⁾	2.6	4.0
Utilization — cash	(3.2)	(2.4)
Balance at end of period	<u>\$ 2.1</u>	<u>\$ 2.2</u>

⁽¹⁾ For the nine months ended September 28, 2019 and September 29, 2018, excludes \$0.8 and \$0.6, respectively, of non-cash charges that impacted “Special charges” but not the restructuring liabilities.

(8) INVENTORIES, NET

Inventories at September 28, 2019 and December 31, 2018 comprised the following:

	September 28, 2019	December 31, 2018
Finished goods	\$ 62.2	\$ 49.8
Work in process	22.1	16.2
Raw materials and purchased parts	87.1	74.9
Total FIFO cost	171.4	140.9
Excess of FIFO cost over LIFO inventory value	(13.7)	(12.1)
Total inventories, net	<u>\$ 157.7</u>	<u>\$ 128.8</u>

Inventories include material, labor and factory overhead costs and are reduced, when necessary, to estimated net realizable values. Certain inventories are valued using the last-in, first-out (“LIFO”) method. These inventories were approximately 43% and 45% of total inventory at September 28, 2019 and December 31, 2018, respectively. Other inventories are valued using the first-in, first-out (“FIFO”) method.

(9) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 28, 2019 were as follows:

	December 31, 2018	Goodwill Resulting from Business Combinations ⁽¹⁾	Impairments	Foreign Currency Translation	September 28, 2019
HVAC reportable segment					
Gross goodwill	\$ 261.8	\$ 1.9	\$ —	\$ (1.5)	\$ 262.2
Accumulated impairments	(144.4)	—	—	0.1	(144.3)
Goodwill	117.4	1.9	—	(1.4)	117.9
Detection and Measurement reportable segment					
Gross goodwill	265.0	36.1	—	(2.3)	298.8
Accumulated impairments	(134.3)	—	—	0.7	(133.6)
Goodwill	130.7	36.1	—	(1.6)	165.2
Engineered Solutions reportable segment					
Gross goodwill	335.3	—	—	(2.0)	333.3
Accumulated impairments	(189.0)	—	—	2.0	(187.0)
Goodwill	146.3	—	—	—	146.3
All Other					
Gross goodwill	20.8	—	—	—	20.8
Accumulated impairments	(20.8)	—	—	—	(20.8)
Goodwill	—	—	—	—	—
Total					
Gross goodwill	882.9	38.0	—	(5.8)	915.1
Accumulated impairments	(488.5)	—	—	2.8	(485.7)
Goodwill	\$ 394.4	\$ 38.0	\$ —	\$ (3.0)	\$ 429.4

⁽¹⁾ Reflects goodwill acquired in connection with the Sabik and SGS acquisitions of \$36.9 and \$1.9, respectively, partially offset by a reduction in Cues' goodwill during the period of \$0.8 resulting from revisions to the valuation of certain income tax accounts. As indicated in Note 3, the acquired assets, including goodwill, and liabilities assumed in the Sabik and SGS acquisitions have been recorded at estimates of fair value and are subject to change upon completion of acquisition accounting.

Other Intangibles, Net

Identifiable intangible assets at September 28, 2019 and December 31, 2018 comprised the following:

	September 28, 2019			December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets with determinable lives:⁽¹⁾						
Customer relationships	\$ 64.3	\$ (7.1)	\$ 57.2	\$ 44.8	\$ (3.5)	\$ 41.3
Technology	25.9	(2.7)	23.2	17.1	(1.1)	16.0
Patents	4.5	(4.5)	—	4.5	(4.5)	—
Other	12.2	(8.5)	3.7	11.3	(7.9)	3.4
	106.9	(22.8)	84.1	77.7	(17.0)	60.7
Trademarks with indefinite lives:⁽²⁾						
	146.8	—	146.8	137.7	—	137.7
Total	\$ 253.7	\$ (22.8)	\$ 230.9	\$ 215.4	\$ (17.0)	\$ 198.4

⁽¹⁾ The identifiable intangible assets associated with the SGS and Sabik acquisitions consist of customer backlog of \$0.4 and \$0.4, respectively, and customer relationships of \$3.7 and \$16.3, respectively. In addition, the Sabik acquisition included definite-lived trademarks and technology of \$0.2 and \$9.1, respectively.

(2) Changes during the nine months ended September 28, 2019 related primarily to the acquisition of SGS and Sabik trademarks of \$1.0 and \$9.0, respectively.

In connection with the acquisitions of Sabik and SGS, which have definite-lived intangibles as noted above, we updated our estimated annual amortization expense related to intangible assets to approximately \$7.9 for the full year 2019 and for each of the five years thereafter.

At September 28, 2019, the net carrying value of intangible assets with determinable lives consisted of \$7.2 in the HVAC reportable segment and \$76.9 in the Detection and Measurement reportable segment. At September 28, 2019, trademarks with indefinite lives consisted of \$90.1 in the HVAC reportable segment, \$47.6 in the Detection and Measurement reportable segment, and \$9.1 in the Engineered Solutions reportable segment.

We perform our annual goodwill impairment testing during the fourth quarter in conjunction with our annual financial planning process, with such testing based primarily on events and circumstances existing as of the end of the third quarter. In addition, we test goodwill for impairment on a more frequent basis if there are indications of potential impairment. A significant amount of judgment is involved in determining if an indication of impairment has occurred between annual testing dates. Such indication may include: a significant decline in expected future cash flows; a significant adverse change in legal factors or the business climate; unanticipated competition; and a more likely than not expectation of selling or disposing all, or a portion, of a reporting unit.

We perform our annual trademarks impairment testing during the fourth quarter, or on a more frequent basis, if there are indications of potential impairment. The fair values of our trademarks are determined by applying estimated royalty rates to projected revenues, with the resulting cash flows discounted at a rate of return that reflects current market conditions (fair value based on unobservable inputs - Level 3, as defined in Note 17). The primary basis for these projected revenues is the annual operating plan for each of the related businesses, which is prepared in the fourth quarter of each year.

(10) WARRANTY

The following is an analysis of our product warranty accrual for the periods presented:

	Nine months ended	
	September 28, 2019	September 29, 2018
Balance at beginning of year	\$ 34.0	\$ 33.9
Acquisitions	0.1	1.3
Impact of initial adoption of ASC 606	—	0.4
Provisions	9.3	7.6
Usage	(9.3)	(9.8)
Currency translation adjustment	—	0.1
Balance at end of period	34.1	33.5
Less: Current portion of warranty	12.1	14.6
Non-current portion of warranty	\$ 22.0	\$ 18.9

(11) EMPLOYEE BENEFIT PLANS

Net periodic benefit expense (income) for our pension and postretirement plans include the following components:

Domestic Pension Plans

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	3.3	3.1	9.9	9.2
Expected return on plan assets	(2.4)	(2.6)	(7.3)	(7.8)
Net periodic pension benefit expense	\$ 0.9	\$ 0.5	\$ 2.6	\$ 1.4

Foreign Pension Plans

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	1.2	1.2	3.5	3.6
Expected return on plan assets	(1.7)	(2.0)	(4.9)	(5.8)
Net periodic pension benefit income	\$ (0.5)	\$ (0.8)	\$ (1.4)	\$ (2.2)

Postretirement Plans

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	0.6	0.6	1.8	1.7
Amortization of unrecognized prior service credits	(1.0)	(1.0)	(3.0)	(3.0)
Net periodic postretirement benefit income	\$ (0.4)	\$ (0.4)	\$ (1.2)	\$ (1.3)

(12) INDEBTEDNESS

The following summarizes our debt activity (both current and non-current) for the nine months ended September 28, 2019:

	December 31, 2018	Borrowings	Repayments	Other ⁽⁴⁾	September 28, 2019
Revolving loans	\$ 6.4	\$ 132.4	\$ (118.8)	\$ —	\$ 20.0
Term loan ⁽¹⁾	348.1	—	(8.8)	0.4	339.7
Trade receivables financing arrangement ⁽²⁾	23.0	55.0	(64.0)	—	14.0
Other indebtedness ⁽³⁾	4.3	4.4	(0.7)	1.2	9.2
Total debt	381.8	\$ 191.8	\$ (192.3)	\$ 1.6	382.9
Less: short-term debt	31.9				40.6
Less: current maturities of long-term debt	18.0				18.5
Total long-term debt	\$ 331.9				\$ 323.8

⁽¹⁾ The term loan is repayable in quarterly installments of 1.25% of the initial loan amount of \$350.0, beginning in the first quarter of 2019, with the remaining balance payable in full on December 19, 2022. Balances are net of unamortized debt issuance costs of \$1.5 and \$1.9 at September 28, 2019 and December 31, 2018, respectively.

⁽²⁾ Under this arrangement, we can borrow, on a continuous basis, up to \$50.0, as available. At September 28, 2019, we had \$11.8 of available borrowing capacity under this facility after giving effect to outstanding borrowings of \$14.0. Borrowings under this arrangement are collateralized by eligible trade receivables of certain of our businesses.

⁽³⁾ Primarily includes balances under a purchase card program of \$3.8 and \$2.5, capital lease obligations of \$2.6 and \$1.8, and borrowings under a line of credit in China of \$2.8 and \$0.0, at September 28, 2019 and December 31, 2018, respectively. The purchase card program allows for payment beyond the normal payment terms for goods and services acquired under the program. As this arrangement extends the payment of these purchases beyond their normal payment terms through third-party lending institutions, we have classified these amounts as short-term debt.

⁽⁴⁾ "Other" primarily includes debt assumed, foreign currency translation on any debt instruments denominated in currencies other than the U.S. dollar, and the impact of amortization of debt issuance costs associated with the term loan.

Senior Credit Facilities

A detailed description of our senior credit facilities is included in our 2018 Annual Report on Form 10-K.

At September 28, 2019, we had \$30.7 and \$92.2 of outstanding letters of credit issued under our revolving credit and our foreign credit instrument facilities of our senior credit agreement, respectively.

The weighted-average interest rate of outstanding borrowings under our senior credit agreement was approximately 3.6% at September 28, 2019.

At September 28, 2019, we were in compliance with all covenants of our senior credit agreement.

(13) DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps

On March 8, 2018, we entered into an interest rate swap agreement (the “Swaps”) to hedge the interest rate risk on the variable interest rate borrowings under our senior credit agreement. The Swaps, which we have designated and are accounting for as cash flow hedges, had an initial notional amount of \$260.0 and maturities through December 2021 and effectively convert a portion of the borrowings under our senior credit agreement to a fixed rate of 2.535%, plus the applicable margin. As of September 28, 2019, the aggregate notional amounts of the Swaps was \$253.5. As of September 28, 2019 and December 31, 2018, the fair value of the Swaps were \$3.2 (long-term liability) and \$0.2 (long-term asset), respectively. The unrealized gain (loss), net of tax, recorded in AOCI was \$(2.5) and \$0.2 at September 28, 2019 and December 31, 2018, respectively. We reclassify AOCI associated with our Swaps into earnings as a component of interest expense when the forecasted transaction impacts earnings.

Currency Forward Contracts

From time to time, we enter into forward contracts to manage the exposure on contracts with forecasted transactions denominated in non-functional currencies and to manage the risk of transaction gains and losses associated with assets/liabilities denominated in currencies other than the functional currency of certain subsidiaries (“FX forward contracts”). Certain of our FX forward contracts are designated as cash flow hedges. These changes in fair value are reclassified into earnings as a component of revenues or cost of products sold, as applicable, when the forecasted transaction impacts earnings. In addition, if the forecasted transaction is no longer probable, the cumulative change in the derivative’s fair value is recorded as a component of “Other income (expense), net” in the period in which the transaction is no longer considered probable of occurring.

We had FX forward contracts with an aggregate notional amount of \$20.6 and \$14.4 outstanding as of September 28, 2019 and December 31, 2018, respectively, with all of the \$20.6 scheduled to mature within one year. There were no unrealized gains or losses recorded in AOCI related to FX forward contracts as of September 28, 2019 and December 31, 2018.

The fair value of our FX forward contracts were not material to our condensed consolidated balance sheets as of September 28, 2019 and December 31, 2018.

Commodity Contracts

From time to time, we enter into commodity contracts to manage the exposure on forecasted purchases of commodity raw materials. At September 28, 2019 and December 31, 2018, the outstanding notional amount of commodity contracts was 3.8 and 3.9 pounds of copper, respectively. We designate and account for these contracts as cash flow hedges. We reclassify AOCI associated with our commodity contracts to cost of products sold when the forecasted transaction impacts earnings. As of September 28, 2019 and December 31, 2018, the fair value of these contracts were \$0.6 (current liability) and \$1.0 (current liability), respectively. The unrealized losses, net of taxes, recorded in AOCI were \$0.4 and \$0.8 as of September 28, 2019 and December 31, 2018, respectively. We anticipate reclassifying the unrealized losses as of September 28, 2019 to earnings over the next 12 months.

(14) EQUITY AND LONG-TERM INCENTIVE COMPENSATION

Income Per Share

The following table sets forth the number of weighted-average shares outstanding used in the computation of basic and diluted income per share:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Weighted-average number of common shares used in basic income per share	44.072	43.080	43.870	42.948
Dilutive securities — Employee stock options and restricted stock units	1.104	1.824	0.991	1.700
Weighted-average number of common shares and dilutive securities used in diluted income per share	45.176	44.904	44.861	44.648

The weighted-average number of restricted stock units and stock options excluded from the computation of diluted income per share because the assumed proceeds for these instruments exceed the average market value of the underlying common stock for the related period were 0.369 and 0.909, respectively, for the three months ended September 28, 2019 and 0.373 and 0.961, respectively, for the nine months ended September 28, 2019.

The weighted-average number of restricted stock units and stock options excluded from the computation of diluted income per share because the assumed proceeds for these instruments exceed the average market value of the underlying common stock for the related period were 0.252 and 0.859, respectively, for the three months ended September 29, 2018 and 0.286 and 0.871, respectively, for the nine months ended September 29, 2018.

Long-Term Incentive Compensation

Long-term incentive compensation awards may be granted to certain eligible employees or non-employee directors. A detailed description of the awards granted prior to 2019 is included in our 2018 Annual Report on Form 10-K.

Awards granted on February 21, 2019 to executive officers and other members of senior management were comprised of performance stock units (“PSU’s”), stock options, and time-based restricted stock units (“RSU’s”), while other eligible employees were granted PSU’s and RSU’s. The PSU’s are eligible to vest at the end of a three-year performance period, with performance based on the total return of our stock over the three-year performance period against a peer group within the S&P 600 Capital Goods Index. Stock options and RSU’s vest ratably over the three-year period subsequent to the date of grant.

Effective May 10, 2019, we granted 0.023 RSU’s to our non-employee directors, which vest in their entirety immediately prior to the annual meeting of stockholders in May 2020.

Compensation expense within income from continuing operations related to long-term incentive awards totaled \$3.3 and \$4.3 for the three months ended September 28, 2019 and September 29, 2018, respectively, and \$10.1 and \$12.4 for the nine months ended September 28, 2019 and September 29, 2018, respectively. The related tax benefit was \$0.8 and \$1.1 for the three months ended September 28, 2019 and September 29, 2018, respectively, and \$2.5 and \$3.2 for the nine months ended September 28, 2019 and September 29, 2018.

Accumulated Other Comprehensive Income

The changes in the components of accumulated other comprehensive income, net of tax, for the three months ended September 28, 2019 were as follows:

	Foreign Currency Translation Adjustment	Net Unrealized Losses on Qualifying Cash Flow Hedges ⁽¹⁾	Pension and Postretirement Liability Adjustment ⁽²⁾	Total
Balance at beginning of period	\$ 227.2	\$ (2.7)	\$ 18.2	\$ 242.7
Other comprehensive loss before reclassifications	(1.8)	(0.6)	—	(2.4)
Amounts reclassified from accumulated other comprehensive income (loss)	—	0.4	(0.8)	(0.4)
Current-period other comprehensive loss	(1.8)	(0.2)	(0.8)	(2.8)
Balance at end of period	\$ 225.4	\$ (2.9)	\$ 17.4	\$ 239.9

⁽¹⁾ Net of tax benefit of \$1.0 and \$0.9 as of September 28, 2019 and June 29, 2019, respectively.

⁽²⁾ Net of tax provision of \$5.9 and \$6.1 as of September 28, 2019 and June 29, 2019, respectively. The balances as of September 28, 2019 and June 29, 2019 include unamortized prior service credits.

The changes in the components of accumulated other comprehensive income, net of tax, for the nine months ended September 28, 2019 were as follows:

	Foreign Currency Translation Adjustment	Net Unrealized Losses on Qualifying Cash Flow Hedges ⁽¹⁾	Pension and Postretirement Liability Adjustment ⁽²⁾	Total
Balance at beginning of period	\$ 225.8	\$ (0.6)	\$ 19.7	\$ 244.9
Other comprehensive loss before reclassifications	(0.4)	(2.9)	—	(3.3)
Amounts reclassified from accumulated other comprehensive income (loss)	—	0.6	(2.3)	(1.7)
Current-period other comprehensive loss	(0.4)	(2.3)	(2.3)	(5.0)
Balance at end of period	\$ 225.4	\$ (2.9)	\$ 17.4	\$ 239.9

⁽¹⁾ Net of tax benefit of \$1.0 and \$0.2 as of September 28, 2019 and December 31, 2018, respectively.

⁽²⁾ Net of tax provision of \$5.9 and \$6.6 as of September 28, 2019 and December 31, 2018, respectively. The balances as of September 28, 2019 and December 31, 2018 include unamortized prior service credits.

The changes in the components of accumulated other comprehensive income, net of tax, for the three months ended September 29, 2018 were as follows:

	Foreign Currency Translation Adjustment	Net Unrealized Losses on Qualifying Cash Flow Hedges ⁽¹⁾	Pension and Postretirement Liability Adjustment ⁽²⁾	Total
Balance at beginning of period	\$ 229.4	\$ (0.2)	\$ 22.3	\$ 251.5
Other comprehensive loss before reclassifications	—	(0.4)	—	(0.4)
Amounts reclassified from accumulated other comprehensive income (loss)	—	0.3	(0.9)	(0.6)
Current-period other comprehensive loss	—	(0.1)	(0.9)	(1.0)
Balance at end of period	\$ 229.4	\$ (0.3)	\$ 21.4	\$ 250.5

⁽¹⁾ Net of tax benefit of \$0.1 as of September 29, 2018 and June 30, 2018.

⁽²⁾ Net of tax provision of \$7.2 and \$7.3 as of September 29, 2018 and June 30, 2018. The balances as of September 29, 2018 and June 30, 2018 include unamortized prior service credits.

The changes in the components of accumulated other comprehensive income, net of tax, for the nine months ended September 29, 2018 were as follows:

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Qualifying Cash Flow Hedges ⁽¹⁾	Pension and Postretirement Liability Adjustment ⁽²⁾	Total
Balance at beginning of period	\$ 230.2	\$ 0.8	\$ 19.1	\$ 250.1
Other comprehensive loss before reclassifications	(0.8)	(1.2)	—	(2.0)
Amounts reclassified from accumulated other comprehensive income:				
Impact of initial adoption of ASC 606 - See Note 2	—	(0.3)	—	(0.3)
Stranded income tax effects resulting from tax reform - See Note 2	—	0.2	4.6	4.8
Commodity contracts and amortization of prior service credits - See below	—	0.2	(2.3)	(2.1)
Current-period other comprehensive income (loss)	(0.8)	(1.1)	2.3	0.4
Balance at end of period	\$ 229.4	\$ (0.3)	\$ 21.4	\$ 250.5

⁽¹⁾ Net of tax (provision) benefit of \$0.1 and \$(0.5) as of September 29, 2018 and December 31, 2017, respectively.

⁽²⁾ Net of tax provision of \$7.2 and \$12.5 as of September 29, 2018 and December 31, 2017. The balances as of September 29, 2018 and December 31, 2017 include unamortized prior service credits.

The following summarizes amounts reclassified from each component of accumulated comprehensive income for the three months ended September 28, 2019 and September 29, 2018:

	Amount Reclassified from AOCI		Affected Line Item in the Condensed Consolidated Statements of Operations
	Three months ended		
	September 28, 2019	September 29, 2018	
Losses on qualifying cash flow hedges:			
Commodity contracts	\$ 0.3	\$ 0.4	Cost of products sold
Swaps	0.2	—	Interest expense
Pre-tax	0.5	0.4	
Income taxes	(0.1)	(0.1)	
	\$ 0.4	\$ 0.3	
Gains on pension and postretirement items:			
Amortization of unrecognized prior service credits - Pre-tax	\$ (1.0)	\$ (1.0)	Other income (expense), net
Income taxes	0.2	0.1	
	\$ (0.8)	\$ (0.9)	

The following summarizes amounts reclassified from each component of accumulated comprehensive income for the nine months ended September 28, 2019 and September 29, 2018:

	<u>Amount Reclassified from AOCI</u>		<u>Affected Line Item in the Condensed Consolidated Statements of Operations</u>
	<u>Nine months ended</u>		
	<u>September 28, 2019</u>	<u>September 29, 2018</u>	
Losses on qualifying cash flow hedges:			
Commodity contracts	\$ 0.6	\$ 0.2	Cost of products sold
Swaps	0.2	—	Interest expense
Pre-tax	0.8	0.2	
Income taxes	(0.2)	—	
	<u>\$ 0.6</u>	<u>\$ 0.2</u>	
Gains on pension and postretirement items:			
Amortization of unrecognized prior service credits - Pre-tax	\$ (3.0)	\$ (3.0)	Other income (expense), net
Income taxes	0.7	0.7	
	<u>\$ (2.3)</u>	<u>\$ (2.3)</u>	

(15) CONTINGENT LIABILITIES AND OTHER MATTERS

General

Numerous claims, complaints and proceedings arising in the ordinary course of business have been asserted or are pending against us or certain of our subsidiaries (collectively, "claims"). These claims relate to litigation matters (e.g., class actions and contracts, intellectual property, and competitive claims), environmental matters, product liability matters (predominately associated with alleged exposure to asbestos-containing materials), and other risk management matters (e.g., general liability, automobile, and workers' compensation claims). Additionally, we may become subject to other claims of which we are currently unaware, which may be significant, or the claims of which we are aware may result in our incurring significantly greater loss than we anticipate. While we (and our subsidiaries) maintain property, cargo, auto, product, general liability, environmental, and directors' and officers' liability insurance and have acquired rights under similar policies in connection with acquisitions that we believe cover a significant portion of these claims, this insurance may be insufficient or unavailable (e.g., in the case of insurer insolvency) to protect us against potential loss exposures. Also, while we believe we are entitled to indemnification from third parties for some of these claims, these rights may be insufficient or unavailable to protect us against potential loss exposures.

Our recorded liabilities related to these matters totaled \$583.7 (including \$539.9 for asbestos product liability matters) and \$631.7 (including \$587.5 for asbestos product liability matters) at September 28, 2019 and December 31, 2018, respectively. Of these amounts, \$556.6 and \$600.3 are included in "Other long-term liabilities" within our condensed consolidated balance sheets at September 28, 2019 and December 31, 2018, respectively, with the remainder included in "Accrued expenses." The liabilities we record for these claims are based on a number of assumptions, including historical claims and payment experience and, with respect to asbestos claims, actuarial estimates of the future period during which additional claims are reasonably foreseeable. While we base our assumptions on facts currently known to us, they entail inherently subjective judgments and uncertainties. As a result, our current assumptions for estimating these liabilities may not prove accurate, and we may be required to adjust these liabilities in the future, which could result in charges to earnings. These variances relative to current expectations could have a material impact on our financial position and results of operations.

Our asbestos-related claims are typical in certain of the industries in which we operate or pertain to legacy businesses we no longer operate. It is not unusual in these cases for fifty or more corporate entities to be named as defendants. We vigorously defend these claims, many of which are dismissed without payment, and the significant majority of costs related to these claims have historically been paid pursuant to our insurance arrangements. During the nine months ended September 28, 2019, our payments for asbestos-related matters, net of insurance recoveries of \$39.1, were \$9.8. During the nine months ended September 29, 2018, our payments for asbestos-related matters, net of insurance recoveries of \$26.9, were \$5.3. A significant increase in claims, costs and/or issues with existing insurance coverage (e.g., dispute with or insolvency of insurer(s)) could have a material adverse impact on our share of future payments related to these matters, and, as such, have a material impact on our financial position, results of operations and cash flows.

We have recorded insurance recovery assets associated with the asbestos product liability matters, with such amounts totaling \$502.8 and \$541.9 at September 28, 2019 and December 31, 2018, respectively, and included in "Other assets" within our condensed consolidated balance sheets. These assets represent amounts that we believe we are or will be entitled to recover under agreements we have with insurance companies. The assets we record for these insurance recoveries are based on a number of assumptions, including the continued solvency of the insurers, and are subject to a variety of uncertainties. Our current assumptions for estimating these assets may not prove accurate, and we may be required to adjust these assets in the future, which could result in additional charges to earnings. These variances relative to current expectations could have a material impact on our financial position and results of operations.

During the three and nine months ended September 28, 2019 and September 29, 2018, there were no changes in estimates associated with the liabilities and assets related to our asbestos product liability matters.

Large Power Projects in South Africa

Overview - Since 2008, our South African subsidiary, DBT, has been executing contracts on two large power projects in South Africa (Kusile and Medupi). Over such time, the business environment surrounding these projects has been difficult, as DBT, along with many other contractors on the projects, have experienced delays, cost over-runs, and various other challenges associated with a complex set of contractual relationships among the end customer, prime contractors, various subcontractors (including DBT and its subcontractors), and various suppliers. DBT has completed the majority of its contractual scope of work on the projects and we believe its remaining scope of work will be substantially complete by the end of 2019.

The challenges related to these projects have resulted in (i) significant adjustments to our revenue and cost estimates for the projects, (ii) DBT's submission of numerous change orders to the prime contractors, (iii) various claims and disputes between DBT and other parties involved with the projects (e.g., prime contractors, subcontractors, suppliers, etc.), and (iv) the possibility that DBT may become subject to additional claims, which could be significant. It is possible that some outstanding claims may

not be resolved until after the prime contractors complete their scopes of work. Our future financial position, operating results, and cash flows could be materially impacted by the resolution of current and any future claims.

Claims by DBT - DBT has made numerous claims against Mitsubishi-Hitachi Power Systems Africa (PTY) LTD (“MHPSA”), one of the prime contractors on the projects, including claims totaling South African Rand 1,033.3 (or \$68.9) that have been submitted to dispute adjudication processes as required under the relevant contracts. As of September 28, 2019, the recorded cumulative revenues related to these claims, as well as certain unapproved change orders, totaled \$9.8 (see Note 4 for further discussion). In addition to existing asserted claims, DBT may have additional claims and rights to recovery based on its remaining performance under the contracts with, and actions taken by, MHPSA. The amounts DBT may recover for current and potential future claims against MHPSA are not currently known given (i) the extent of current and potential future claims by MHPSA against DBT (see below for further discussion) and (ii) the unpredictable nature of any dispute resolution processes that may occur in connection with these current and potential future claims.

Claims by Prime Contractors - On February 26, 2019, DBT received notification of an interim claim consisting of both direct and consequential damages from MHPSA alleging, among other things, that DBT (i) provided defective product and (ii) failed to meet certain project milestones. We believe the notification is unsubstantiated and the vast majority of the claimed damages are prohibited under the relevant contracts. Therefore, we believe any loss for these claimed damages is remote. For the remainder of the claims, which largely appear to be direct in nature (approximately South African Rand 948.0 or \$63.2), DBT has numerous other defenses and, thus, we believe that DBT’s probable loss associated with these claims has been appropriately reflected in provisions established in prior periods and included in the accompanying condensed consolidated balance sheets. It is reasonably possible that DBT’s ultimate loss could exceed the provisions that have been recorded, but we currently cannot estimate the potential additional loss, or the range of the potential additional loss, associated with these claims due to the (i) lack of support provided by MHPSA for these claims; (ii) complexity of contractual relationships between the end customer, MHPSA, and DBT; (iii) legal interpretation of the contract provisions and application of South African common law to the contracts; and (iv) unpredictable nature of any dispute resolution processes that may occur in connection with these claims.

In April and July 2019, DBT received notifications of intent to claim liquidated damages totaling South African Rand 264.4 (or \$17.6) and South African Rand 142.8 (\$9.5), respectively, from MHPSA alleging that DBT failed to meet certain project milestones related to the construction of the filters for both the Kusile and Medupi projects. DBT has numerous defenses against these claims and, thus, we do not believe that DBT has a probable loss associated with these claims. As such, no loss has been recorded in the accompanying condensed consolidated financial statements with respect to these claims. Although it is reasonably possible that some loss may be incurred in connection with these claims, we currently are unable to estimate the potential loss or range of potential loss.

On June 28, 2019, DBT reached an agreement with Alstom/GE, the other prime contractor on the projects, to, among other things, settle all material outstanding claims between the parties (other than certain pass-through claims relating to third parties), including a liquidated damages claim made by Alstom/GE. In connection with the agreement, we reduced revenues (and operating income) by \$6.0 during the three months ended June 29, 2019.

Bank Bonds and Guarantees - In connection with these projects, we have issued, in favor of the prime contractors, bonds totaling \$66.1 (including \$21.8 with more stringent payment terms). In the event that the prime contractors were to receive payment on a portion, or all, of these bonds, we would be required to reimburse the bank. In addition to these bonds, SPX Corporation has guaranteed DBT’s performance on these projects to the prime contractors.

Claims by Subcontractor - On October 30, 2018, a non-governmental business adjudicator in South Africa provided a decision on certain claims made against DBT by one of its subcontractors. As part of its decision, the adjudicator concluded that the subcontractor was entitled to payment of South African Rand 256.0 (or \$17.1). We believe this decision is invalid on numerous bases. Specifically, we believe, among other things, that these and other claims were previously settled and satisfied by way of a 2015 amendment to the contract between DBT and the subcontractor. Therefore, DBT is pursuing all available legal recourse in the matter, and the matter has been referred to both court proceedings and an arbitration process that are scheduled to occur in November 2019. Based on the reasons stated above, we have concluded that it is not probable that a loss has been incurred with respect to this matter and, therefore, a loss has not been recorded in the accompanying condensed consolidated financial statements.

Noncontrolling Interest in South African Subsidiary

DBT has a Black Economic Empowerment shareholder (the “BEE Partner”) that, prior to the settlement discussed below, held a 25.1% noncontrolling interest in DBT. Under the terms of the shareholder agreement between the BEE Partner and SPX Technologies (PTY) LTD (“SPX Technologies”), the BEE Partner had the option to put its ownership interest in DBT to SPX Technologies, the majority shareholder of DBT, at a redemption amount determined in accordance with the terms of the shareholder agreement (the “Put Option”). The BEE Partner notified SPX Technologies of its intention to exercise the Put Option and, on July 6, 2016, an Arbitration Tribunal declared that the BEE Partner was entitled to South African Rand 287.3 in connection with the exercise of the Put Option, having not considered an amount due from the BEE Partner under a promissory note of South African

Rand 30.3 held by SPX Technologies. As a result, and beginning in the third quarter of 2016, we have reflected the net redemption amount of South African Rand 257.0 (or \$17.1 and \$17.7 at September 28, 2019 and December 31, 2018, respectively) within “Accrued expenses” on our condensed consolidated balance sheets, with the related offset recorded to “Paid-in capital” and “Accumulated other comprehensive income.”

In August 2016, SPX Technologies applied to the High Court of South Africa (the “High Court”) to have the Arbitration Tribunal’s ruling set aside. On January 22, 2018, the High Court ruled in SPX Technologies’ favor and set aside the Arbitration Tribunal’s ruling. The BEE Partner subsequently applied to the Supreme Court of Appeal of South Africa (the “SCA”) to have the Arbitration Tribunal’s ruling upheld. On September 6, 2019, the SCA ruled in favor of the BEE Partner. On October 16, 2019, SPXT, DBT, and SPX Corp executed an agreement with the BEE Partner and its affiliates to settle the Put Option and all other claims between the parties for a total payment to the BEE Partner of South African Rand 230.0 (or \$15.3), which was paid in full on October 21, 2019.

Litigation Matters

We are subject to other legal matters that arise in the normal course of business. We believe these matters are either without merit or of a kind that should not have a material effect, individually or in the aggregate, on our financial position, results of operations or cash flows; however, we cannot assure you that these proceedings or claims will not have a material effect on our financial position, results of operations or cash flows.

Environmental Matters

Our operations and properties are subject to federal, state, local and foreign regulatory requirements relating to environmental protection. It is our policy to comply fully with all applicable requirements. As part of our effort to comply, we have a comprehensive environmental compliance program that includes environmental audits conducted by internal and external independent professionals, as well as regular communications with our operating units regarding environmental compliance requirements and anticipated regulations. Based on current information, we believe that our operations are in substantial compliance with applicable environmental laws and regulations, and we are not aware of any violations that could have a material effect, individually or in the aggregate, on our business, financial condition, and results of operations or cash flows. As of September 28, 2019, we had liabilities for site investigation and/or remediation at 29 sites (28 sites at December 31, 2018) that we own or control, or formerly owned and controlled. In addition, while we believe that we maintain adequate accruals to cover the costs of site investigation and/or remediation, we cannot provide assurance that new matters, developments, laws and regulations, or stricter interpretations of existing laws and regulations will not materially affect our business or operations in the future.

Our environmental accruals cover anticipated costs, including investigation, remediation, and maintenance of clean-up sites. Our estimates are based primarily on investigations and remediation plans established by independent consultants, regulatory agencies and potentially responsible third parties. Accordingly, our estimates may change based on future developments, including new or changes in existing environmental laws or policies, differences in costs required to complete anticipated actions from estimates provided, future findings of investigation or remediation actions, or alteration to the expected remediation plans. It is our policy to revise an estimate once the revision becomes probable and the amount of change can be reasonably estimated. We generally do not discount our environmental accruals and do not reduce them by anticipated insurance recoveries. We take into account third-party indemnification from financially viable parties in determining our accruals where there is no dispute regarding the right to indemnification.

In the case of contamination at offsite, third-party disposal sites, as of September 28, 2019, we have been notified that we are potentially responsible and have received other notices of potential liability pursuant to various environmental laws at 14 sites at which the liability has not been settled, of which 11 sites have been active in the past few years. These laws may impose liability on certain persons that are considered jointly and severally liable for the costs of investigation and remediation of hazardous substances present at these sites, regardless of fault or legality of the original disposal. These persons include the present or former owners or operators of the site and companies that generated, disposed of or arranged for the disposal of hazardous substances at the site. We are considered a “de minimis” potentially responsible party at most of the sites, and we estimate that our aggregate liability, if any, related to these sites is not material to our condensed consolidated financial statements. We conduct extensive environmental due diligence with respect to potential acquisitions, including environmental site assessments and such further testing as we may deem warranted. If an environmental matter is identified, we estimate the cost and either establish a liability, purchase insurance or obtain an indemnity from a financially sound seller; however, in connection with our acquisitions or dispositions, we may assume or retain significant environmental liabilities, some of which we may be unaware. The potential costs related to these environmental matters and the possible impact on future operations are uncertain due in part to the complexity of government laws and regulations and their interpretations, the varying costs and effectiveness of various clean-up technologies, the uncertain level of insurance or other types of recovery, and the questionable level of our responsibility. We record a liability when it is both probable and the amount can be reasonably estimated.

In our opinion, after considering accruals established for such purposes, the cost of remedial actions for compliance with the present laws and regulations governing the protection of the environment are not expected to have a material impact, individually or in the aggregate, on our financial position, results of operations or cash flows.

Self-insured Risk Management Matters

We are self-insured for certain of our workers' compensation, automobile, product and general liability, disability and health costs, and we believe that we maintain adequate accruals to cover our retained liability. Our accruals for risk management matters are determined by us, are based on claims filed and estimates of claims incurred but not yet reported, and generally are not discounted. We consider a number of factors, including third-party actuarial valuations, when making these determinations. We maintain third-party stop-loss insurance policies to cover certain liability costs in excess of predetermined retained amounts. The insurance may be insufficient or unavailable (e.g., because of insurer insolvency) to protect us against loss exposure.

(16) INCOME TAXES

Uncertain Tax Benefits

As of September 28, 2019, we had gross unrecognized tax benefits of \$20.1 (net unrecognized tax benefits of \$15.0). Of these net unrecognized tax benefits, \$10.3 would impact our effective tax rate from continuing operations if recognized.

We classify interest and penalties related to unrecognized tax benefits as a component of our income tax provision. As of September 28, 2019, gross accrued interest totaled \$4.5 (net accrued interest of \$3.5). As of September 28, 2019, we had no accrual for penalties included in our unrecognized tax benefits.

Based on the outcome of certain examinations or as a result of the expiration of statutes of limitations for certain jurisdictions, we believe that within the next 12 months it is reasonably possible that our previously unrecognized tax benefits could decrease by up to \$10.0. The previously unrecognized tax benefits relate to a variety of tax matters including transfer pricing and various state matters.

Other Tax Matters

For the three months ended September 28, 2019, we recorded an income tax provision of \$2.8 on \$24.0 of pre-tax income from continuing operations, resulting in an effective rate of 11.7%. This compares to an income tax provision for the three months ended September 29, 2018 of \$1.7 on \$8.5 of pre-tax income from continuing operations, resulting in an effective rate of 20.0%. The most significant item impacting the income tax provision for the third quarter of 2019 was a \$1.9 tax benefit associated with the revision of a previous estimate related to the taxation of foreign earnings.

For the nine months ended September 28, 2019, we recorded an income tax provision of \$11.5 on \$52.7 of pre-tax income from continuing operations, resulting in an effective rate of 21.8%. This compares to an income tax provision for the nine months ended September 29, 2018 of \$6.2 on \$45.1 of pre-tax income from continuing operations, resulting in an effective rate of 13.7%. The most significant items impacting the income tax provision for the first nine months of 2019 were foreign losses for which no tax benefit was recognized as future realization of any such foreign tax benefit is considered unlikely, offset by (i) \$1.7 of excess tax benefits resulting from stock-based compensation awards that vested and/or were exercised during the period, (ii) \$1.3 of tax benefits related to our U.S. tax credits and incentives, and (iii) the \$1.9 adjustment to the taxation of foreign earnings noted above. The most significant items impacting the income tax provision for the first nine months of 2018 were (i) tax benefits of \$1.7 related to reductions in valuation allowances recorded against certain deferred tax assets and (ii) \$1.0 of excess tax benefits resulting from stock-based compensation awards that vested and/or were exercised during the period.

We perform reviews of our income tax positions on a continuous basis and accrue for potential uncertain positions when we determine that an uncertain position meets the criteria of the Income Taxes Topic of the Codification. Accruals for these uncertain tax positions are recorded in "Income taxes payable" and "Deferred and other income taxes" in the accompanying condensed consolidated balance sheets based on the expectation as to the timing of when the matters will be resolved. As events change and resolutions occur, these accruals are adjusted, such as in the case of audit settlements with taxing authorities.

The Internal Revenue Service ("IRS") currently is performing an audit of our 2014, 2015, 2016 and 2017 federal income tax returns. With regard to all open tax years, we believe any contingencies are adequately provided for.

State income tax returns generally are subject to examination for a period of three to five years after filing the respective tax returns. The impact on such tax returns of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination. We believe any uncertain tax positions related to these examinations have been adequately provided for.

We have various foreign income tax returns under examination. The most significant of these are in Germany for the 2010 through 2014 tax years. We believe that any uncertain tax positions related to these examinations have been adequately provided for.

An unfavorable resolution of one or more of the above matters could have a material impact on our results of operations or cash flows in the quarter and year in which an adjustment is recorded or the tax is due or paid. As audits and examinations are still in process, the timing of the ultimate resolution and any payments that may be required for the above matters cannot be determined at this time.

(17) FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1 — Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 — Significant inputs to the valuation model are unobservable.

There were no changes during the periods presented to the valuation techniques we use to measure asset and liability fair values on a recurring or nonrecurring basis. There were no transfers between the three levels of the fair value hierarchy for the periods presented.

Valuation Methodologies Used to Measure Fair Value on a Non-Recurring Basis

Parent Guarantees and Bonds Associated with Balcke Dürr — In connection with the 2016 sale of Balcke Dürr, existing parent company guarantees and bank surety bonds, which totaled approximately Euro 79.0 and Euro 79.0, respectively, at the time of sale (and Euro 31.7 and Euro 14.3, respectively, at September 28, 2019) will remain in place through each instrument's expiration date, with such expiration dates occurring through 2022. These guarantees and bonds provide protections for Balcke Dürr customers in regard to advance payments, performance, and warranties on projects in existence at the time of sale. In addition, certain bonds relate to lease obligations and foreign tax matters in existence at the time of sale. Balcke Dürr and the acquirer of Balcke Dürr have provided us an indemnity in the event that any bank guarantees or bonds are called. Also, at the time of sale, Balcke Dürr provided cash collateral of Euro 4.0 and mutares AG, an affiliate of the acquirer of Balcke Dürr, provided a guarantee of Euro 5.0 as a security for the above indemnifications (Euro 3.0 and Euro 5.0, respectively, at September 28, 2019). In connection with the sale, we recorded a liability for the estimated fair value of the guarantees and bonds and an asset for the estimated cash collateral and indemnities provided. Summarized below are changes in the liability and asset during the nine months ended September 28, 2019, and September 29, 2018.

	Nine months ended			
	September 28, 2019		September 29, 2018	
	Guarantees and Bonds Liability ⁽¹⁾	Indemnification Assets ⁽¹⁾	Guarantees and Bonds Liability ⁽¹⁾	Indemnification Assets ⁽¹⁾
Balance at beginning of year	\$ 4.4	\$ 1.2	\$ 8.7	\$ 2.8
Reduction/Amortization for the period ⁽²⁾	(2.2)	(0.7)	(3.6)	(1.4)
Impact of changes in foreign currency rates	(0.1)	—	—	—
Balance at end of period ⁽³⁾	\$ 2.1	\$ 0.5	\$ 5.1	\$ 1.4

⁽¹⁾ In connection with the sale, we estimated the fair value of the existing parent company guarantees and bank and surety bonds considering the probability of default by Balcke Dürr and an estimate of the amount we would be obligated to pay in the event of a default. Additionally, we estimated the fair value of the cash collateral provided by Balcke Dürr and guarantee provided by mutares AG based on the terms and conditions and relative risk associated with each of these securities (unobservable inputs - Level 3).

⁽²⁾ We reduce the liability generally at the earlier of the completion of the related underlying project milestones or the expiration of the guarantees or bonds. We amortize the asset based on the expiration terms of each of the securities. We record the reduction of the liability and the amortization of the asset to “Other income (expense), net.”

⁽³⁾ The balance associated with the guarantees and bonds is reflected within “Other long-term liabilities,” while the balance associated with the indemnification assets is reflected within “Other assets.”

Goodwill, Indefinite-Lived Intangible and Other Long-Lived Assets — Certain of our non-financial assets are subject to impairment analysis, including long-lived assets, indefinite-lived intangible assets and goodwill. We review the carrying amounts of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable or at least annually for indefinite-lived intangible assets and goodwill. Any resulting asset impairment would require that the instrument be recorded at its fair value.

Valuation Methodologies Used to Measure Fair Value on a Recurring Basis

Derivative Financial Instruments — Our financial derivative assets and liabilities include interest rate swaps, FX forward contracts, and commodity contracts, valued using valuation models based on observable market inputs such as forward rates, interest rates, our own credit risk and the credit risk of our counterparties, which comprise investment-grade financial institutions. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. We have not made any adjustments to the inputs obtained from the independent sources. Based on our continued ability to enter into forward contracts, we consider the markets for our fair value instruments active. We primarily use the income approach, which uses valuation techniques to convert future amounts to a single present amount.

As of September 28, 2019, there has been no significant impact to the fair value of our derivative liabilities due to our own credit risk, as the related instruments are collateralized under our senior credit facilities. Similarly, there has been no significant impact to the fair value of our derivative assets based on our evaluation of our counterparties’ credit risks.

Equity Security — During 2018, we adopted an amendment to guidance that requires, among other things, equity securities (excluding equity method investments) to be measured at fair value. In connection with our adoption, we adjusted the carrying value of an equity security, previously reflected on our consolidated balance sheet at its historical cost of \$0.7, to its estimated fair value of \$16.6. We determined the estimated fair value utilizing a practical expedient under the amended guidance, with such estimated fair value based on our ownership percentage applied to the net asset value of the investee as presented in the investee’s most recent audited financial statements. The increase in the equity security’s carrying value resulted in a reduction, net of tax, of our retained deficit of \$12.0. We are restricted from transferring this investment without approval of the manager of the investee.

During the nine months ended September 28, 2019, we recorded a gain of \$7.9 to “Other income, net” to reflect an increase in the estimated fair value of the equity security, with such amounts determined based on the investee’s most recent audited or internal financial statements. In addition, we received a distribution during the first quarter of 2019 of \$2.6 included within “Cash flows from operating activities” in our condensed consolidated cash flows. As of September 28, 2019, the estimated fair value of the equity security was \$21.9.

Indebtedness and Other — The estimated fair value of our debt instruments as of September 28, 2019 and December 31, 2018 approximated the related carrying values due primarily to the variable market-based interest rates for such instruments. See Note 12 for further details.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (in millions)

FORWARD-LOOKING STATEMENTS

Some of the statements in this document and any documents incorporated by reference, including any statements as to operational and financial projections, constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our businesses’ or our industries’ actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. Such statements may address our plans, our strategies, our prospects, changes and trends in our business and the markets in which we operate under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) or in other sections of this document. In some cases, you can identify forward-looking statements by terminology such as “may,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “project,” “potential” or “continue” or the negative of those terms or other comparable terminology. Particular risks facing us include economic, business and other risks stemming from our internal operations, legal and regulatory risks, costs of raw materials, pricing pressures, pension funding requirements, integration of acquisitions and changes in the economy. These statements are only predictions. Actual events or results may differ materially because of market conditions in our industries or other factors, and forward-looking statements should not be relied upon as a prediction of actual results. In addition, management’s estimates of future operating results are based on our current complement of businesses, which is subject to change as management selects strategic markets.

All the forward-looking statements are qualified in their entirety by reference to the factors discussed under the heading “Risk Factors” in our 2018 Annual Report on Form 10-K, in any subsequent filing with the U.S. Securities and Exchange Commission, as well as in any documents incorporated by reference that describe risks and factors that could cause results to differ materially from those projected in these forward-looking statements. We caution you that these risk factors may not be exhaustive. We operate in a continually changing business environment and frequently enter into new businesses and product lines. We cannot predict these new risk factors, and we cannot assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, you should not rely on forward-looking statements as a prediction of actual results. We disclaim any responsibility to update or publicly revise any forward-looking statements to reflect events or circumstances that arise after the date of this document.

OVERVIEW OF OPERATING RESULTS

Revenues for the three and nine months ended September 28, 2019 totaled \$364.8 and \$1,080.8, respectively, compared to \$362.5 and \$1,093.6 during the comparable periods in 2018. The increase in revenues during the three months ended September 28, 2019, over the prior-year period, was due primarily to the impact of the acquisitions of Sabik Marine (“Sabik”) on February 1, 2019 and SGS Refrigeration Inc. (“SGS”) on July 3, 2019, partially offset by a decline in organic revenue. The decline in organic revenue was due primarily to lower sales related to the large power projects in South Africa, as these projects are in the latter stages of completion, and the impact of the wind-down of the SPX Heat Transfer business (“Heat Transfer”), partially offset by increases in organic revenue within our HVAC and Detection and Measurement reportable segments. The decrease in revenues during the nine months ended September 28, 2019, over the prior-year period, was due primarily to (i) a decline in organic revenue, (ii) an adjustment during the first quarter of 2019 to the amount of cumulative revenue associated with variable consideration on the large power projects in South Africa of \$17.5, (iii) a reduction in revenue during the second quarter of 2019 of \$6.0 on the large power projects in South Africa associated with a settlement during the period with Alstom S&E Africa (PTY) LTD (“Alstom/GE”), one of the prime contractors on the projects, and (iv) a stronger U.S. dollar during the nine months ended September 28, 2019, partially offset by increases in revenue associated with the acquisitions of Schonstedt Instrument Company (“Schonstedt”) on March 1, 2018 and Cues, Inc. (“Cues”) on June 7, 2018, as well as the acquisitions of Sabik and SGS noted above. The decline in organic revenue during the nine months ended September 28, 2019 was attributable primarily to lower sales related to the large power projects in South Africa and Heat Transfer business, partially offset by increases in organic revenue within our Detection and Measurement and Engineered Solutions reportable segments. See “Results of Reportable and Other Operating Segments” for additional details.

During the three and nine months ended September 28, 2019, we generated operating income of \$27.6 and \$56.9, respectively, compared to \$13.4 and \$55.4 for the same periods in 2018. The increase in operating income during the three months ended September 28, 2019, over the prior-year period, was due primarily to improved operating results within our HVAC and Detection and Measurement reportable segments. The increase in operating income during the nine months ended September 28, 2019, over the prior-year period, was due primarily to improved operating results across all three reportable segments, partially offset by increased losses associated with the large power projects in South Africa, with such losses impacted by the reductions in revenues/profits of \$17.5 and \$6.0, respectively, during the first and second quarters of 2019. See “Results of Reportable and Other Operating Segments” for additional details.

Cash flows from operating activities associated with continuing operations totaled \$73.3 for the nine months ended September 28, 2019, compared to \$15.0 during the nine months ended September 29, 2018. The increase in cash flows from operating activities was due primarily to reductions in working capital at certain of our businesses and a decline in cash outflows related to the large power projects in South Africa, as these projects are in the latter stages of completion. These improvements in operating cash flows were offset partially by a decline in net income tax refunds (net payments of \$5.9 during the nine months ended September 28, 2019 versus net refunds of \$16.1 during the nine months ended September 29, 2018).

Other significant items impacting our financial results for the three and nine months ended September 28, 2019 were as follows:

- Acquisition of SGS
 - Completed the acquisition on July 3, 2019 for a purchase price of \$10.0 and a deferred payment not to exceed \$1.5.
 - SGS' revenues for the twelve months prior to the date of acquisition were approximately \$11.6.
 - The post-acquisition operating results of SGS are reflected within our HVAC reportable segment.
- Acquisition of Sabik
 - Completed the acquisition on February 1, 2019 for a purchase price of \$77.2, net of cash acquired of \$0.6.
 - Sabik's revenues for the twelve months prior to the date of acquisition were approximately \$28.0.
 - The post-acquisition operating results of Sabik are reflected within our Detection and Measurement reportable segment.
- Charges Related to the Dry Cooling Sale - During the first quarter of 2019, we revised our estimates of certain liabilities retained in connection with the 2016 sale of the dry cooling business, which resulted in charges of \$1.8 during the period.
- Sale of Heat Transfer Facility - In connection with the wind-down of the business, we sold, during the first quarter of 2019, Heat Transfer's manufacturing facility for cash proceeds of \$5.5, resulting in a gain of \$0.3 recorded within "Other income, net."
- Changes in Estimated Fair Value of an Equity Security - During the nine months ended September 28, 2019, we recorded a gain of \$7.9 within "Other income, net" related to the increase in the estimated fair value of an equity security that we hold. See Note 17 to our condensed consolidated financial statements for additional details.
- Adjustments to Revenue on our Large Power Projects in South Africa - During the first quarter of 2019, in consideration of recent claims that had been received from the prime contractors on the projects, and in accordance with ASC 606, we analyzed the risk of a significant revenue reversal associated with the amount of variable consideration recorded on the projects. Based on such analysis, we reduced the amount of cumulative revenue associated with the variable consideration on the projects by \$17.5 during the quarter (see Notes 4 and 15 to the accompanying condensed consolidated financial statements for additional details). On June 28, 2019, our South African subsidiary, DBT Technologies (PTY) LTD ("DBT"), reached an agreement with Alstom/GE, one of the prime contractors on the large power projects in South Africa, to, among other things, settle all material outstanding claims between the parties (other than certain pass-through claims relating to third parties). In connection with the agreement, we reduced revenues associated with the large power projects by \$6.0 during the second quarter of 2019 (see Note 15 to the accompanying condensed consolidated financial statements for additional details).

RESULTS OF CONTINUING OPERATIONS

The unaudited information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements contained in our 2018 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for the full year. We establish actual interim closing dates using a fiscal calendar, which requires our businesses to close their books on the Saturday closest to the end of the first calendar quarter, with the second and third quarters being 91 days in length. Our fourth quarter ends on December 31. The interim closing dates for the first, second and third quarters of 2019 are March 30, June 29 and September 28, compared to the respective March 31, June 30 and September 29, 2018 dates. We had one less day in the first quarter of 2019 and will have one more day in the fourth quarter of 2019 than in the respective 2018 periods. We do not believe the one less day during the first quarter of 2019 had a material impact on our consolidated operating results for the first nine months of 2019, when compared to the consolidated operating results for the first nine months of 2018.

Cyclicality of End Markets, Seasonality and Competition — The financial results of our businesses closely follow changes in the industries in which they operate and end markets in which they serve. In addition, certain of our businesses have seasonal fluctuations. For example, our boiler and heating and ventilation businesses tend to be stronger in the third and fourth quarters, as

customer buying habits are driven largely by seasonal weather patterns. In aggregate, our businesses tend to be stronger in the second half of the year.

Although our businesses operate in highly competitive markets, our competitive position cannot be determined accurately in the aggregate or by segment since none of our competitors offer all the same product lines or serve all the same markets as we do. In addition, specific reliable comparative figures are not available for many of our competitors. In most product groups, competition comes from numerous concerns, both large and small. The principal methods of competition are service, product performance, technical innovation and price. These methods vary with the type of product sold. We believe we compete effectively on the basis of each of these factors.

Non-GAAP Measures — Organic revenue growth (decline) presented herein is defined as revenue growth (decline) excluding the effects of foreign currency fluctuations, acquisitions/divestitures, and the impact of the reductions to revenues on the large power projects in South Africa during the nine months ended September 28, 2019 of \$23.5 and the three and nine months ended September 29, 2018 of \$2.7. We believe this metric is a useful financial measure for investors in evaluating our operating performance for the periods presented, as, when read in conjunction with our revenues, it presents a useful tool to evaluate our ongoing operations and provides investors with a tool they can use to evaluate our management of assets held from period to period. In addition, organic revenue growth (decline) is one of the factors we use in internal evaluations of the overall performance of our business. This metric, however, is not a measure of financial performance under accounting principles generally accepted in the United States (“GAAP”), should not be considered a substitute for net revenue growth (decline) as determined in accordance with GAAP, and may not be comparable to similarly titled measures reported by other companies.

The following table provides selected financial information for the three and nine months ended September 28, 2019 and September 29, 2018, including the reconciliation of organic revenue decline to the net revenue increase (decrease):

	Three months ended			Nine months ended		
	September 28, 2019	September 29, 2018	% Change	September 28, 2019	September 29, 2018	% Change
Revenues	\$ 364.8	\$ 362.5	0.6	\$ 1,080.8	\$ 1,093.6	(1.2)
Gross profit	106.2	87.7	21.1	297.6	275.5	8.0
% of revenues	29.1%	24.2%		27.5%	25.2%	
Selling, general and administrative expense	74.6	71.6	4.2	229.5	212.8	7.8
% of revenues	20.4%	19.8%		21.2%	19.5%	
Intangible amortization	2.0	1.7	17.6	6.0	2.7	122.2
Special charges, net	2.0	1.0	100.0	3.4	4.6	(26.1)
Other operating expenses	—	—	*	1.8	—	*
Other income, net	1.0	0.7	42.9	10.1	3.9	159.0
Interest expense, net	(4.6)	(5.6)	(17.9)	(14.3)	(14.2)	0.7
Income from continuing operations before income taxes	24.0	8.5	182.4	52.7	45.1	16.9
Income tax provision	(2.8)	(1.7)	64.7	(11.5)	(6.2)	85.5
Income from continuing operations	21.2	6.8	211.8	41.2	38.9	5.9
Components of consolidated revenue increase (decrease):						
Organic			(1.8)			(3.2)
Foreign currency			(0.7)			(1.1)
South Africa revenue adjustments			0.6			(2.0)
Acquisitions			2.5			5.1
Net revenue increase (decrease)			0.6			(1.2)

* Not meaningful for comparison purposes.

Revenues — For the three months ended September 28, 2019, the increase in revenues, compared to the respective period in 2018, was due primarily to the impact of the acquisitions of Sabik on February 1, 2019 and SGS on July 3, 2019, partially offset by a decline in organic revenue and a stronger U.S. dollar (primarily against the South African Rand and British Pound) during the three months ended September 28, 2019. The decline in organic revenue was due primarily to lower sales related to the large power projects in South Africa, as these projects are in the latter stages of completion, the impact of the wind-down of Heat Transfer, and our Engineered Solutions reportable segment, partially offset by increases in organic revenue within our HVAC and Detection and Measurement reportable segments.

For the nine months ended September 28, 2019, the decrease in revenues, compared to the respective period in 2018, was due primarily to (i) a decline in organic revenue, (ii) adjustments during the first and second quarters of 2019 to the revenue on our large power projects in South Africa of \$17.5 and \$6.0, respectively, and (iii) a stronger U.S. dollar during the nine months ended September 28, 2019, partially offset by increases in revenue associated with the acquisition of Schonstedt on March 1, 2018,

the acquisition of Cues on June 7, 2018, and the acquisitions of Sabik and SGS noted above. The decline in organic revenue was attributable primarily to lower sales related to the large power projects in South Africa and Heat Transfer business, partially offset by increases in organic revenue within our Detection and Measurement and Engineered Solutions reportable segments.

See “Results of Reportable and Other Operating Segments” for additional details.

Gross Profit — For the three and nine months ended September 28, 2019, the increase in gross profit and gross profit as a percentage of revenues, compared to the respective periods in 2018, was due primarily to a more favorable revenue mix and operational improvements within the cooling businesses of our HVAC reportable segment during 2019. The more favorable revenue mix resulted from increases in revenue associated with recently acquired businesses that historically generate higher gross margins (i.e., Cues and Sabik) and decreases in revenues for businesses that historically generate lower gross margins (i.e., DBT and Heat Transfer). In addition, for the nine months ended September 28, 2019, gross profit and gross profit as a percentage of revenues were impacted negatively by the reduction in revenues noted above of \$23.5 associated with the large power projects in South Africa. Lastly, gross profit for the nine months ended September 28, 2019 and September 29, 2018 included charges of \$2.2 and \$4.4, respectively, associated with the excess fair value (over historical cost) of inventory acquired in the Sabik and Cues acquisitions, which was subsequently sold during the nine months ended September 28, 2019 and September 29, 2018, respectively.

Selling, General and Administrative (“SG&A”) Expense — For the three and nine months ended September 28, 2019, the increase in SG&A expense, compared to the respective periods in 2018, was due primarily to the impact of the acquisitions noted above.

Intangible Amortization — For the three and nine months ended September 28, 2019, the increase in intangible amortization, compared to the respective periods in 2018, was due to the impact of the acquisitions noted above.

Special Charges, net — Special charges, net, related primarily to restructuring initiatives to reduce workforce. See Note 7 to our condensed consolidated financial statements for the details of actions taken in the first nine months of 2019 and 2018.

Other Operating Expenses — Other operating expenses for the nine months ended September 28, 2019 relate to charges associated with revisions to estimates of certain liabilities retained in connection with the 2016 sale of the dry cooling business, with such revisions resulting from settlement activities during the first quarter of 2019.

Other Income, net — Other income, net, for the three months ended September 28, 2019 was composed primarily of income derived from company-owned life insurance policies of \$0.9.

Other income, net, for the three months ended September 29, 2018 was composed primarily of (i) pension and postretirement income of \$0.7 and (ii) income of \$0.4 related to the reduction of the liability and the amortization of the asset associated with the parent company guarantees and bank surety bonds that remain outstanding in connection with the Balcke Dürr sale, partially offset by charges related to certain environmental remediation efforts of \$0.4.

Other income, net, for the nine months ended September 28, 2019 was composed primarily of (i) a gain of \$7.9 related to changes in the estimated fair value of an equity security that we hold and (ii) income derived from company-owned life insurance policies of \$3.0, partially offset by foreign currency transaction losses of \$0.9.

Other income, net, for the nine months ended September 29, 2018 was composed primarily of (i) pension and postretirement income of \$2.1, (ii) income of \$2.2 related to the reduction of the liability and the amortization of the asset associated with the parent company guarantees and bank surety bonds that remain outstanding in connection with the Balcke Dürr sale, and (iii) a gain on previous interest rate swap agreements of \$0.6, partially offset by foreign currency transaction losses of \$0.4 and charges related to certain environmental remediation efforts of \$0.4.

Interest Expense, net — Interest expense, net, includes both interest expense and interest income. The decrease in interest expense, net, during the three months ended September 28, 2019, compared to the same period in 2018, was the result of lower average debt balances during the three months ended September 28, 2019. The increase in interest expense, net, during the nine months ended September 28, 2019, compared to the same period in 2018, was the result of higher average interest rates during the first nine months of 2019.

Income Tax Provision — For the three months ended September 28, 2019, we recorded an income tax provision of \$2.8 on \$24.0 of pre-tax income from continuing operations, resulting in an effective rate of 11.7%. This compares to an income tax provision for the three months ended September 29, 2018 of \$1.7 on \$8.5 of a pre-tax income from continuing operations, resulting in an effective rate of 20.0%. The most significant item impacting the income tax provision for the third quarter of 2019 was a \$1.9 tax benefit associated with the revision of a previous estimate related to the taxation of foreign earnings.

For the nine months ended September 28, 2019, we recorded an income tax provision of \$11.5 on \$52.7 of pre-tax income from continuing operations, resulting in an effective rate of 21.8%. This compares to an income tax provision for the nine months ended September 29, 2018 of \$6.2 on \$45.1 of pre-tax income from continuing operations, resulting in an effective rate of 13.7%. The most significant items impacting the income tax provision for the first nine months of 2019 were foreign losses for which no tax benefit was recognized as future realization of any such foreign tax benefit is considered unlikely, offset by (i) \$1.7 of excess tax benefits resulting from stock-based compensation awards that vested and/or were exercised during the period, (ii) \$1.3 of tax benefits related to our U.S. tax credits and incentives, and (iii) the \$1.9 adjustment to the taxation of foreign earnings noted above. The most significant items impacting the income tax provision for the first nine months of 2018 were (i) tax benefits of \$1.7 related to reductions in valuation allowances recorded against certain deferred tax assets and (ii) \$1.0 of excess tax benefits resulting from stock-based compensation awards that vested and/or were exercised during the period.

RESULTS OF REPORTABLE AND OTHER OPERATING SEGMENTS

The following information should be read in conjunction with our condensed consolidated financial statements and related notes. These results exclude the operating results of discontinued operations for all periods presented. See Note 6 to the condensed consolidated financial statements for a description of each of our reportable segments.

Non-GAAP Measures — Throughout the following discussion of segment results, we use “organic revenue” growth (decline) to facilitate explanation of the operating performance of our segments. Organic revenue growth (decline) is a non-GAAP financial measure and is not a substitute for revenue growth (decline). Refer to the explanation of this measure and purpose of use by management under “Results of Continuing Operations—Non-GAAP Measures.”

HVAC Reportable Segment

	Three months ended			Nine months ended		
	September 28, 2019	September 29, 2018	% Change	September 28, 2019	September 29, 2018	% Change
Revenues	\$ 140.1	\$ 132.0	6.1	\$ 399.4	\$ 399.4	—
Income	22.2	15.6	42.3	57.3	52.7	8.7
% of revenues	15.8%	11.8%		14.3%	13.2%	
Components of revenue increase:						
Organic			4.2			(0.2)
Foreign currency			(0.6)			(0.6)
Acquisition			2.5			0.8
Net revenue increase:			6.1			—

Revenues — For the three months ended September 28, 2019, the increase in revenues, compared to the respective period in 2018, was due to an increase in organic revenue and, to a lesser extent, the impact of the SGS acquisition on July 3, 2019. The increase in organic revenue was due to higher sales of heating products.

For the nine months ended September 28, 2019, revenues were negatively impacted, compared to the respective period in 2018, by a decline in organic revenue and the impact of a stronger U.S. dollar during the first nine months of 2019, and favorably impacted by the SGS acquisition. The decline in organic revenue was due primarily to lower sales of cooling products, partially offset by higher sales of boiler products.

Income — For the three months ended September 28, 2019, the increase in income and margin, compared to the respective period in 2018, was due primarily to the increase in revenues noted above, as well as a more profitable sales mix associated with certain of the segment’s product lines and operational improvements within the segment’s cooling businesses during the third quarter of 2019.

For the nine months ended September 28, 2019, the increase in income and margin, compared to the respective period in 2018, was due primarily to the more profitable sales mix and operational improvements noted above.

Backlog — The segment had backlog of \$77.2 and \$47.9 as of September 28, 2019 and September 29, 2018, respectively.

Detection and Measurement Reportable Segment

	Three months ended			Nine months ended		
	September 28, 2019	September 29, 2018	% Change	September 28, 2019	September 29, 2018	% Change
Revenues	\$ 97.6	\$ 84.3	15.8	\$ 284.4	\$ 224.5	26.7
Income	20.5	15.5	32.3	59.2	47.7	24.1
% of revenues	21.0%	18.4%		20.8%	21.2%	
Components of revenue increase:						
Organic			10.2			4.3
Foreign currency			(1.0)			(1.1)
Acquisitions			6.6			23.5
Net revenue increase			15.8			26.7

Revenues — For the three months ended September 28, 2019, the increase in revenues, compared to the respective period in 2018, was due to an increase in organic revenue and the impact of the Sabik acquisition on February 1, 2019, partially offset by the impact of a stronger U.S. dollar during the third quarter of 2019. The increase in organic revenue was due to additional sales by the segment's communications technologies businesses.

For the nine months ended September 28, 2019, the increase in revenues, compared to the respective period in 2018, was due primarily to the impact of the acquisitions of Schonstedt on March 1, 2018 and Cues on June 7, 2018, as well as the Sabik acquisition noted above, and, to a lesser extent, an increase in organic revenue. The increase in organic revenue was due primarily to additional sales by the segment's communication technologies businesses, partially offset by a decline in sales for the segment's bus fare collection systems business.

Income — For the three months ended September 28, 2019, the increase in income and margin, compared to the respective period in 2018, was due primarily to the revenue growth noted above. In addition, the segment's results for the third quarter of 2018 included a charge of \$2.5 associated with the excess fair value (over historical cost) of inventory acquired in the Cues acquisition, which was subsequently sold during the quarter.

For the nine months ended September 28, 2019, the increase in income, compared to the respective period in 2018, was due to the impact of the acquisitions noted above, and the incremental profit resulting from the additional revenues within the segment's communication technologies' businesses. In addition, the segment's results for the nine months ended September 28, 2019 and September 29, 2018 included charges of \$2.2 and \$4.4, respectively, associated with the excess fair value (over historical cost) of inventory acquired in the Sabik and Cues acquisitions, which was subsequently sold during the nine months ended September 28, 2019 and September 29, 2018, respectively.

Backlog — The segment had backlog of \$86.9 and \$50.9 as of September 28, 2019 and September 29, 2018, respectively.

Engineered Solutions Reportable Segment

	Three months ended			Nine months ended		
	September 28, 2019	September 29, 2018	% Change	September 28, 2019	September 29, 2018	% Change
Revenues	\$ 121.1	\$ 124.8	(3.0)	\$ 398.1	\$ 388.0	2.6
Income	5.9	6.5	(9.2)	26.9	23.7	13.5
% of revenues	4.9%	5.2%		6.8%	6.1%	
Components of revenue increase (decrease):						
Organic			(3.0)			2.6
Foreign currency			—			—
Net revenue increase (decrease)			(3.0)			2.6

Revenues — For the three months ended September 28, 2019, the decrease in revenues, compared to the respective period in 2018, was due to a decline in organic revenue associated with the segment's process cooling business, partially offset by an increase in organic revenue for the segment's power transformer business.

For the nine months ended September 28, 2019, the increase in revenues, compared the respective period in 2018, was due to an organic revenue increase within the segment's power transformers business, partially offset by a decrease in organic revenue for the segment's process cooling business.

Income — For the three months ended September 28, 2019, the decrease in income and margin, compared to the respective period in 2018, was due primarily to the decline in revenue noted above.

For the nine months ended September 28, 2019, the increase in income and margin, compared the respective period in 2018, was due primarily to the revenue increase noted above.

Backlog — The segment had backlog of \$354.5 and \$321.6 as of September 28, 2019 and September 29, 2018, respectively. Portions of the segment's backlog are long-term in nature, with the related revenues expected to be recorded through 2019 and into 2020.

All Other

	Three months ended			Nine months ended		
	September 28, 2019	September 29, 2018	% Change	September 28, 2019	September 29, 2018	% Change
Revenues	\$ 6.0	\$ 21.4	(72.0)	\$ (1.1)	\$ 81.7	(101.3)
Loss	(5.7)	(8.0)	(28.8)	(38.3)	(16.5)	132.1
% of revenues	*	*		*	*	
Components of revenue decrease:						
Organic			(77.1)			(66.6)
Foreign currency			(4.2)			(8.4)
South Africa revenue adjustments			9.3			(26.3)
Net revenue decrease			(72.0)			(101.3)

* Not meaningful for comparison purposes.

Revenues — For the three and nine months ended September 28, 2019, the decrease in revenues, compared the respective periods in 2018, was due primarily to a decline in organic revenue. The decline in organic revenue was the result of lower sales related to (i) the large power projects in South Africa, as these projects are in the latter stages of completion, and (ii) the impact of the wind-down of the Heat Transfer business. In addition, revenues for the nine months ended September 28, 2019 were impacted negatively by an adjustment during the first quarter of 2019 to the amount of cumulative revenue associated with the variable consideration on the large power projects in South Africa of \$17.5 and an adjustment during the second quarter of 2019 of \$6.0 to revenues on the large power projects in South Africa associated with a settlement with Alstom/GE.

Loss — For the three months ended September 28, 2019, the loss decreased, compared to the respective period in 2018, primarily as a result of the wind-down activities noted above.

For the nine months ended September 28, 2019, the loss increased, compared to the respective period in 2018, primarily as a result of the adjustments to revenues noted above.

Backlog — These operating segments had backlog of \$15.9 and \$43.3 as of September 28, 2019 and September 29, 2018, respectively.

CORPORATE AND OTHER EXPENSES

	Three months ended			Nine months ended		
	September 28, 2019	September 29, 2018	% Change	September 28, 2019	September 29, 2018	% Change
Total consolidated revenues	\$ 364.8	\$ 362.5	0.6	\$ 1,080.8	\$ 1,093.6	(1.2)
Corporate expense	10.0	10.5	(4.8)	32.9	34.8	(5.5)
% of revenues	2.7%	2.9%		3.0%	3.2%	
Long-term incentive compensation expense	3.3	4.3	(23.3)	10.1	12.4	(18.5)

Corporate Expense — Corporate expense generally relates to the cost of our Charlotte, NC corporate headquarters. The decrease in corporate expense during the three and nine months ended September 28, 2019, compared to the respective periods in 2018, was due primarily to a decline in acquisition-related costs and other professional fees.

Long-Term Incentive Compensation Expense — Long-term incentive compensation expense represents our consolidated expense, which we do not allocate for segment reporting purposes. The decrease in long-term incentive compensation expense during the three and nine months ended September 28, 2019, compared to the respective periods in 2018, was due primarily to certain one-time awards, which were issued in 2015, that fully vested in the third quarter of 2018.

LIQUIDITY AND FINANCIAL CONDITION

Listed below are the cash flows from (used in) operating, investing, and financing activities and discontinued operations, as well as the net change in cash and equivalents for the nine months ended September 28, 2019 and September 29, 2018.

	Nine months ended	
	September 28, 2019	September 29, 2018
Continuing operations:		
Cash flows from operating activities	\$ 73.3	\$ 15.0
Cash flows used in investing activities	(86.7)	(180.6)
Cash flows from (used in) financing activities	(4.7)	102.8
Cash flows from (used in) discontinued operations	(3.5)	1.9
Change in cash and equivalents due to changes in foreign currency exchange rates	2.1	(1.5)
Net change in cash and equivalents	<u>\$ (19.5)</u>	<u>\$ (62.4)</u>

Operating Activities — The increase in cash flows from operating activities during the nine months ended September 28, 2019, compared to the same period in 2018, was due primarily to reductions in working capital at certain of our businesses and a decline in cash outflows related to the large power projects in South Africa. These improvements in operating cash flows were offset partially by a decline in net income tax refunds (net payments of \$5.9 during the nine months ended September 28, 2019 versus net refunds of \$16.1 during the nine months ended September 29, 2018).

Investing Activities — Cash flows used in investing activities for the nine months ended September 28, 2019 were comprised primarily of cash utilized for the acquisitions of Sabik and SGS of \$87.2 and capital expenditures of \$10.7, partially offset by proceeds from company-owned life insurance policies of \$5.9 and proceeds of \$5.5 received in connection with the sale of Heat Transfer's manufacturing facility.

Cash flows used in investing activities for the nine months ended September 29, 2018 were comprised primarily of cash utilized for the acquisitions of Schonstedt and Cues of \$182.6 and capital expenditures of \$8.0, partially offset by cash proceeds of \$4.8 received in connection with the sale of certain intangible assets of our Heat Transfer business and cash proceeds of \$4.6 received in connection with the subsequent sale of marketable securities acquired in connection with the Cues transaction.

Financing Activities — Cash flows used in financing activities for the nine months ended September 28, 2019 were comprised of minimum withholdings paid on behalf of employees on long-term incentive awards, net of proceeds from options exercised, of \$4.2 and net repayments under our various debt instruments of \$0.5.

Cash flows from financing activities for the nine months ended September 29, 2018 primarily related to borrowings under our senior credit facility in connection with the Cues acquisition.

Discontinued Operations — Cash flows used in discontinued operations for the nine months ended September 28, 2019 related primarily to disbursements for liabilities retained in connection with dispositions.

Cash flows from discontinued operations for the nine months ended September 29, 2018 related primarily to proceeds of \$3.6 received in connection with a settlement reached with the buyer of Balcke Dürr, partially offset by disbursements for liabilities retained in connection with dispositions.

Change in Cash and Equivalents due to Changes in Foreign Currency Exchange Rates — Changes in foreign currency exchange rates did not have a significant impact on our cash and equivalents during the first nine months of 2019 and 2018.

Borrowings and Availability

Borrowings — The following summarizes our debt activity (both current and non-current) for the nine months ended September 28, 2019.

	December 31, 2018	Borrowings	Repayments	Other ⁽⁴⁾	September 28, 2019
Revolving loans	\$ 6.4	\$ 132.4	\$ (118.8)	\$ —	\$ 20.0
Term loan ⁽¹⁾	348.1	—	(8.8)	0.4	339.7
Trade receivables financing arrangement ⁽²⁾	23.0	55.0	(64.0)	—	14.0
Other indebtedness ⁽³⁾	4.3	4.4	(0.7)	1.2	9.2
Total debt	381.8	\$ 191.8	\$ (192.3)	\$ 1.6	382.9
Less: short-term debt	31.9				40.6
Less: current maturities of long-term debt	18.0				18.5
Total long-term debt	\$ 331.9				\$ 323.8

⁽¹⁾ The term loan is repayable in quarterly installments of 1.25% of the initial loan amount of \$350.0, beginning in the first quarter of 2019, with the remaining balance payable in full on December 19, 2022. Balances are net of unamortized debt issuance costs of \$1.5 and \$1.9 at September 28, 2019 and December 31, 2018, respectively.

⁽²⁾ Under this arrangement, we can borrow, on a continuous basis, up to \$50.0, as available. At September 28, 2019, we had \$11.8 of available borrowing capacity under this facility after giving effect to outstanding borrowings of \$14.0. Borrowings under this arrangement are collateralized by eligible trade receivables of certain of our businesses.

⁽³⁾ Primarily includes balances under a purchase card program of \$3.8 and \$2.5, capital lease obligations of \$2.6 and \$1.8, and borrowings under a line of credit in China of \$2.8 and \$0.0 at September 28, 2019 and December 31, 2018, respectively. The purchase card program allows for payment beyond the normal payment terms for goods and services acquired under the program. As this arrangement extends the payment of these purchases beyond their normal payment terms through third-party lending institutions, we have classified these amounts as short-term debt.

⁽⁴⁾ “Other” primarily includes debt assumed, foreign currency translation on any debt instruments denominated in currencies other than the U.S. dollar, and the impact of amortization of debt issuance costs associated with the term loan.

At September 28, 2019, we were in compliance with all covenant provisions of our senior credit agreement.

Availability — At September 28, 2019, we had \$299.3 of available borrowing capacity under our revolving credit facilities after giving effect to borrowings under the domestic revolving loan facility of \$20.0 and \$30.7 reserved for domestic outstanding letters of credit. In addition, at September 28, 2019, we had \$57.8 of available issuance capacity under our foreign credit instrument facilities after giving effect to \$92.2 reserved for outstanding letters of credit.

Financing instruments may be used from time to time including, but not limited to, public and private debt and equity offerings, operating leases, capital leases and securitizations. We expect that we will continue to access these markets as appropriate to maintain liquidity and to provide sources of funds for general corporate purposes, acquisitions or to refinance existing debt.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist of cash and equivalents, trade accounts receivable, and interest rate swap, foreign currency forwards, and commodity contracts. These financial instruments, other than trade accounts receivable, are placed with high-quality financial institutions throughout the world. We periodically evaluate the credit standing of these financial institutions.

We maintain cash levels in bank accounts that, at times, may exceed federally-insured limits. We have not experienced, and believe we are not exposed to, significant risk of loss in these accounts.

We have credit loss exposure in the event of nonperformance by counterparties to the above financial instruments, but have no other off-balance-sheet credit risk of accounting loss. We anticipate, however, that counterparties will be able to fully satisfy their obligations under the contracts. We do not obtain collateral or other security to support financial instruments subject to credit risk, but we do monitor the credit standing of counterparties.

Concentrations of credit risk arising from trade accounts receivable are due to selling to customers in a particular industry. Credit risks are mitigated by performing ongoing credit evaluations of our customers’ financial conditions and obtaining collateral, advance payments, or other security when appropriate. No one customer, or group of customers that to our knowledge are under common control, accounted for more than 10% of our revenues for any period presented.

Other Matters

Contractual Obligations — There have been no material changes in the amounts of our contractual obligations from those disclosed in our 2018 Annual Report on Form 10-K. Our total net liabilities for unrecognized tax benefits including interest were \$18.5 as of September 28, 2019. Based on the outcome of certain examinations or as a result of the expiration of statutes of limitations for certain jurisdictions, we believe that within the next 12 months it is reasonably possible that our previously unrecognized tax benefits could decrease by up to \$10.0.

Contingencies and Other Matters — Numerous claims, complaints and proceedings arising in the ordinary course of business have been asserted or are pending against us or certain of our subsidiaries (collectively, “claims”). These claims relate to litigation matters (e.g., class actions and contracts, intellectual property, and competitive claims), environmental matters, product liability matters (predominately associated with alleged exposure to asbestos-containing materials), and other risk management matters (e.g., general liability, automobile, and workers’ compensation claims). Additionally, we may become subject to other claims of which we are currently unaware, which may be significant, or the claims of which we are aware may result in our incurring significantly greater loss than we anticipate. We accrue for these contingencies when we believe a liability is probable and can be reasonably estimated. As events change and resolutions occur, these accruals may be adjusted and could differ materially from amounts originally estimated. See Note 15 to the condensed consolidated financial statements for a further discussion of contingencies and other matters.

Our Certificate of Incorporation provides that we shall indemnify our officers and directors to the fullest extent permitted by the Delaware General Corporation Law for any personal liability in connection with their employment or service with us. While we maintain insurance for this type of liability, the liability could exceed the amount of the insurance coverage.

In addition, you should read “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Other Matters” and “Risk Factors” in our 2018 Annual Report on Form 10-K, as well as similar sections in any future filings for an understanding of the risks, uncertainties, and trends facing our businesses.

Critical Accounting Policies and Use of Estimates

General — The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The accounting policies that we believe are most critical to the portrayal of our financial condition and results of operations, and that require our most difficult, subjective or complex judgments in estimating the effect of inherent uncertainties are discussed in our 2018 Annual Report on Form 10-K. We have affected no material change in either our critical accounting policies or use of estimates since the filing of our 2018 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Management does not believe our exposure to market risk has significantly changed since December 31, 2018 and does not believe that such risks will result in significant adverse impacts to our financial condition, results of operations or cash flows.

ITEM 4. Controls and Procedures

SPX management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(b), as of September 28, 2019. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 28, 2019.

In connection with the evaluation by SPX management, including the Chief Executive Officer and the Chief Financial Officer, of our internal control over financial reporting, pursuant to Exchange Act Rule 13a-15(d), no changes during the quarter ended September 28, 2019 were identified that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. Legal Proceedings

The information required by this Item is incorporated by reference from the footnotes to the condensed consolidated financial statements, specifically [Note 15](#), included under Part I of this Form 10-Q.

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2018 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 6. Exhibits

- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.1 SPX Corporation financial information from its Form 10-Q for the quarterly period ended September 28, 2019, formatted in Inline XBRL, including: (i) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 28, 2019 and September 29, 2018; (ii) Condensed Consolidated Balance Sheets at September 28, 2019 and December 31, 2018; (iii) Condensed Consolidated Statements of Equity for the three and nine months ended September 28, 2019 and September 29, 2018; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 28, 2019 and September 29, 2018; and (v) Notes to Condensed Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in the Interactive Data Files submitted as Exhibit 101.1)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPX CORPORATION

(Registrant)

Date: October 30, 2019

By

/s/ Eugene J. Lowe, III

President and Chief Executive Officer

Date: October 30, 2019

By

/s/ Scott W. Sproule

Vice President, Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eugene J. Lowe, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SPX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ EUGENE J. LOWE, III

Eugene J. Lowe, III
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott W. Sproule, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SPX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ SCOTT W. SPROULE

Scott W. Sproule
Vice President, Chief Financial Officer
and Treasurer

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SPX Corporation on Form 10-Q for the period ended September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of SPX Corporation.

Date: October 30, 2019

/s/ EUGENE J. LOWE, III

Eugene J. Lowe, III
President and Chief Executive Officer

/s/ SCOTT W. SPROULE

Scott W. Sproule
Vice President, Chief Financial Officer
and Treasurer

A signed original of this written statement required by Section 906 has been provided to SPX Corporation and will be retained by SPX Corporation and furnished to the Securities and Exchange Commission or its staff upon request.