John Bean Technologies CORP
Form 10-Q
May 04, 2018

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018
or
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 1-34036

John Bean Technologies Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	91-1650317 (I.R.S. Employer Identification No.)
70 West Madison Street, Suite 4400 Chicago, Illinois (Address of principal executive offices)	60602 (Zip code)

(312) 861-5900
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “non-accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 2, 2018
Common Stock, par value $0.01 per share	31,734,657

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

JOHN BEAN TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
(In millions, except per share data)	2018	2017
Revenue	$409.2	$344.5
Operating expenses:		
Cost of sales	305.6	246.9
Selling, general and administrative expense	76.9	70.8
Research and development expense	7.9	6.3
Restructuring expense	12.7	0.4
Other expense (income), net	0.2	(0.1)
Operating income	5.9	20.2
Other (expense) income, net	(0.2)	0.3
Interest expense, net	(3.7)	(3.4)
Income from continuing operations before income taxes	2.0	17.1
Income tax provision (benefit)	0.4	(0.5)
Income from continuing operations	1.6	17.6
Loss from discontinued operations, net of income taxes	(0.4)	(0.2)
Net income	$1.2	$17.4
Basic earnings per share:		
Income from continuing operations	$0.05	$0.59
Loss from discontinued operations	(0.01)	(0.01)
Net income	$0.04	$0.58
Diluted earnings per share:		
Income from continuing operations	$0.05	$0.58
Loss from discontinued operations	(0.01)	(0.01)
Net income	$0.04	$0.57
Cash dividends declared per share	$0.10	$0.10

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHN BEAN TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
(In millions)	2018	2017
Net income	$1.2	$17.4
Other comprehensive income		
Foreign currency translation adjustments	2.5	4.3
Pension and other postretirement benefits adjustments, net of tax of $0.3 and $0.5 for 2018 and 2017, respectively	1.4	0.8
Derivatives designated as hedges, net of tax of $0 and $0.2 for 2018 and 2017, respectively	1.1	0.4
Other comprehensive income	5.0	5.5
Comprehensive income	$6.2	$22.9

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHN BEAN TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share data and number of shares)	March 31, 2018 (Unaudited)	December 31, 2017
Assets:		
Current Assets:		
Cash and cash equivalents	$ 30.6	$ 34.0
Trade receivables, net of allowances of $3.3 and $3.2, respectively	287.6	316.4
Inventories, net	305.4	190.2
Other current assets	55.0	48.0
Total current assets	678.6	588.6
Property, plant and equipment, net of accumulated depreciation of $281.1 and $273.3, respectively	242.9	233.0
Goodwill	305.7	301.8
Intangible assets, net	218.4	216.8
Deferred income taxes	14.4	13.1
Other assets	38.0	38.1
Total Assets	$ 1,498.0	$ 1,391.4
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Short-term debt and current portion of long-term debt	$ 8.9	$ 10.5
Accounts payable, trade and other	156.8	157.1
Advance and progress payments	245.3	127.6
Other current liabilities	132.7	146.2
Total current liabilities	543.7	441.4
Long-term debt, less current portion	407.4	372.7
Accrued pension and other postretirement benefits, less current portion	82.7	85.9
Other liabilities	45.2	49.5
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, $0.01 par value; 20,000,000 shares authorized; no shares issued	—	—
Common stock, $0.01 par value; 120,000,000 shares authorized; March 31, 2018 and December 31, 2017: 31,623,079 issued and 31,577,182 outstanding	0.3	0.3
Common stock held in treasury, at cost; March 31, 2018 and December 31, 2017: 45,897 shares	(4.0)	(4.0)
Additional paid-in capital	254.6	252.2
Retained earnings	303.4	333.7
Accumulated other comprehensive loss	(135.3)	(140.3)
Total stockholders' equity	419.0	441.9
Total Liabilities and Stockholders' Equity	$ 1,498.0	$ 1,391.4

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHN BEAN TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
(In millions)	2018	2017
Cash flows (required) provided by operating activities:		
Net income	$1.2	$17.4
Loss from discontinued operations, net	0.4	0.2
Income from continuing operations	1.6	17.6
Adjustments to reconcile income from continuing operations to cash provided by continuing operating activities:		
Depreciation and amortization	13.7	12.2
Gain on disposal of assets	—	(0.4)
Stock-based compensation	2.4	1.8
Pension expense	0.7	0.1
Other	0.4	—
Changes in operating assets and liabilities:		
Trade receivables - billed, net	26.5	26.8
Contract assets	(26.8)	(8.3)
Inventories	(1.4)	(22.8)
Accounts payable, trade and other	(0.1)	(2.6)
Advance and progress payments	1.6	20.5
Accrued pension and other postretirement benefits, net	(4.5)	(0.4)
Other assets and liabilities, net	(18.2)	(20.5)
Cash (required) provided by continuing operating activities	(4.1)	24.0
Cash required by discontinued operating activities	(0.6)	(0.2)
Cash (required) provided by operating activities	(4.7)	23.8
Cash flows required by investing activities:		
Acquisitions, net of cash acquired	(18.8)	(61.0)
Capital expenditures	(10.4)	(7.9)
Proceeds from disposal of assets	0.2	0.5
Cash required by investing activities	(29.0)	(68.4)
Cash flows provided by financing activities:		
Net payments on short-term debt	(0.1)	(1.0)
Proceeds from short-term foreign credit facilities	—	1.0
Payments of short-term foreign credit facilities	(1.5)	(0.8)
Net proceeds (payments) from domestic credit facilities	34.7	(117.1)
Repayment of long-term debt	—	(0.5)
Proceeds from stock issuance, net of stock issuance costs	—	184.6
Settlement of taxes withheld on equity compensation awards	—	(9.5)
Dividends	(3.2)	(3.2)
Cash provided by financing activities	29.9	53.5
Effect of foreign exchange rate changes on cash and cash equivalents	0.4	0.8

(Decrease) increase in cash and cash equivalents	(3.4)	9.7
Cash and cash equivalents, beginning of period	34.0	33.2
Cash and cash equivalents, end of period	$30.6	$42.9

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHN BEAN TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business
John Bean Technologies Corporation and its majority-owned consolidated subsidiaries (the “Company,” “JBT,” “our,” “us,” or “we”) provide global technology solutions to high-value segments of the food and beverage and air transportation industries. We design, produce and service sophisticated products and systems for multi-national and regional customers through our JBT FoodTech and JBT AeroTech segments. We have manufacturing operations worldwide and are strategically located to facilitate delivery of our products and services to our customers.

Basis of Presentation
In accordance with Securities and Exchange Commission (“SEC”) rules for interim periods, the accompanying unaudited condensed consolidated financial statements (the “interim financial statements”) do not include all of the information and notes for complete financial statements as required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). As such, the accompanying interim financial statements should be read in conjunction with the JBT Annual Report on Form 10-K for the year ended December 31, 2017, which provides a more complete understanding of the Company’s accounting policies, financial position, operating results, business, properties, and other matters. The year-end condensed consolidated balance sheet was derived from audited financial statements.

In the opinion of management, the interim financial statements reflect all normal recurring adjustments necessary for a fair presentation of our financial condition and operating results as of and for the periods presented. Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the interim results and trends in the interim financial statements may not be representative of those for the full year or any future period.

Use of estimates
Preparation of financial statements that follow U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently adopted accounting standards
Beginning in 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("Topic 606"), plus a number of related ASU’s designed to clarify and interpret Topic 606. The new standard replaced most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU requires revenue recognition based upon newly defined criteria, either at a point in time or over time as control of goods or services is transferred. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates, and changes in those estimates. The new standard became effective for us as of January 1, 2018 and was adopted on a modified-retrospective basis.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of Topic 606 was as follows (in millions):

	As Reported December 31, 2017	Adjustments due to Topic 606	As Restated January 1, 2018
Trade receivables, net of allowance	$ 316.4	$ (31.3)	$ 285.1
Inventories	190.2	103.6	293.8
Other current assets	48.0	7.0	55.0
Deferred income taxes	$ 13.1	2.3	$ 15.4
Total Assets	$ 1,391.4	$ 81.6	$ 1,473.0
Advance and progress payments	127.6	113.1	240.7
Other current liabilities	96.4	(2.3)	94.1
Other long-term liabilities	49.5	(1.2)	48.3
Retained earnings	333.7	(28.0)	305.7
Total Liabilities and Stockholders' Equity	$ 1,391.4	$ 81.6	$ 1,473.0

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. The new guidance is intended to simplify the accounting for intercompany asset transfers. The core principle requires an entity to immediately recognize the tax consequences of intercompany asset transfers. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the new ASU as of January 1, 2018. There was no impact on our consolidated financial statements and related disclosures as a result of adopting the ASU.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (ASC 715) - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Cost. The core principle of the ASU is to provide more transparency in the presentation of these costs by requiring the service cost component to be reported in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented separately from the service cost component and outside a subtotal of income from operations. The amendments require that the Consolidated Statements of Income impacts be applied retrospectively, while Balance Sheet changes be applied prospectively. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the new ASU as of January 1, 2018. As such, the Company revised operating income for the first quarter 2017 by $0.3 million, and reported this income in non operating income. There was no impact to net income or to the Balance Sheet or Statement of Cash Flows.

Recently issued accounting standards not yet adopted
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), plus a number of related statements designed to clarify and interpret Topic 842. The new standard will replace most existing lease guidance in U.S. GAAP. The core principle of the ASU is the requirement for lessees to report a right to use asset and a lease payment obligation on the balance sheet but recognize expenses on their income statements in a manner similar to today’s accounting, and for lessors the guidance remains substantially similar to current U.S. GAAP. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2018. However, early adoption is permitted. Entities are required to use a modified retrospective approach for leases that

exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are in the process of evaluating the impact this standard will have on our consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (ASC 815) - Targeted Improvements to Accounting for Hedging Activities. The core principle is to simplify hedge accounting, as well as improve the financial reporting of hedging results, for both financial and commodity risks, in the financial statements and related disclosures. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted in any interim period after the issuance of the amendment, however, any adjustments should be made as of the beginning of the fiscal year in which the interim period occurred. The Company is currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The core principle is to reclassify the tax effects of items within accumulated other comprehensive income to retained earnings in order to reflect the adjustment of deferred taxes due to the Tax Cuts and Jobs Act enacted in December 2017. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted in any interim period for reporting periods for which financial statements have not yet been issued. The Company is currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

NOTE 2. ACQUISITIONS

During 2018 and 2017 the Company acquired four businesses for an aggregate consideration of $127.3 million, net of cash acquired. A summary of the acquisitions made during the period is as follows:

Date	Type	Company/Product Line	Location (Near)	Segment
January 26, 2018	Stock	Schröder	Breidenbach, Germany	FoodTech
Manufacturer of engineered processing and packaging solutions to the food industry.				
July 31, 2017	Stock	PLF International Ltd.	Harwich (Sussex), England	FoodTech
Manufacturer of high speed powder filling systems for global food and beverage, and nutraceutical markets headquartered in Harwich (Essex), England.				
July 3, 2017	Stock	Aircraft Maintenance Support Services, Ltd. (AMSS)	Cardiff, Wales	AeroTech
Manufacturer of military and commercial aviation equipment.				
February 24, 2017	Stock	Avure Technologies, Inc.	Middletown, OH	FoodTech
Manufacturer of high pressure processing (HPP) systems. HPP is a cold pasteurization technology that ensures food safety without heat or preservatives, maintaining fresh food characteristics such as flavor and nutritional value, while extending shelf life.				

Each acquisition has been accounted for as a business combination. Tangible and identifiable intangible assets acquired and liabilities assumed were recorded at their respective estimated fair values. The excess of the consideration transferred over the estimated fair value of the net assets received has been recorded as goodwill. The factors that contributed to the recognition of goodwill primarily relate to acquisition-driven anticipated cost savings and revenue enhancement synergies coupled with the assembled workforce acquired.

8

The following presents the allocation of acquisition costs to the assets acquired and the liabilities assumed, based on their estimated values:

	PLF[1]	Avure[2]	Other [3][1]	Total
(In millions)				
Financial assets	$20.8	$ 4.3	$11.1	$36.2
Inventories	1.0	14.4	9.8	25.2
Property, plant and equipment	2.2	4.5	9.9	16.6
Other intangible assets[4]	17.9	20.8	9.7	48.4
Deferred taxes	(3.4)	(3.6)	(0.7)	(7.7)
Financial liabilities	(5.5)	(10.5)	(9.5)	(25.5)
Total identifiable net assets	$33.0	$ 29.9	$30.3	$93.2
Cash consideration paid	$46.1	$ 58.9	$32.6	$137.6
Holdback payments due to seller	5.5	—	1.9	7.4
Total consideration	51.6	58.9	34.5	145.0
Cash acquired	15.5	—	2.2	17.7
Net consideration	$36.1	$ 58.9	$32.3	$127.3
Goodwill	$18.6	$ 29.0	$4.2	$51.8

(1) The purchase accounting for these acquisitions is preliminary. For PLF, AMSS and Schröder the valuation of certain working capital balances, intangibles, income tax balances and residual goodwill related to each is not complete. We are also currently assessing the amount of goodwill that we expect to be deductible for tax purposes. These amounts are subject to adjustment as additional information is obtained within the measurement period (not to exceed 12 months from the acquisition date). During the quarter ended March 31, 2018 we had no measurement period adjustments.

(2) The purchase accounting for this acquisition is final.

(3) Other balances include AMSS and Schröder, which are preliminary, refer to Note (1).

(4) The acquired definite-lived intangibles are being amortized on a straight-line basis over their estimated useful lives, which range from five to fourteen years. The tradename intangible assets for Avure and PLF have been identified as indefinite-lived intangible assets and will be reviewed annually for impairment.

NOTE 3. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by business segment were as follows:

(In millions)	JBT FoodTech	JBT AeroTech	Total
Balance as of December 31, 2017	$ 290.8	$ 11.0	$301.8
Acquisitions	1.8	—	1.8
Currency translation	1.9	0.2	2.1
Balance as of March 31, 2018	$ 294.5	$ 11.2	$305.7

Intangible assets consisted of the following:

	March 31, 2018		December 31, 2017	
(In millions)	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Customer relationships	$161.4	$ 36.8	$158.8	$ 33.5
Patents and acquired technology	95.6	33.7	92.1	32.1
Tradenames	20.6	9.7	20.0	9.5
Indefinite lived intangible assets	16.1	—	15.9	—
Other	14.6	9.7	14.5	9.4
Total intangible assets	$308.3	$ 89.9	$301.3	$ 84.5

NOTE 4. INVENTORIES

Inventories consisted of the following:

(In millions)	March 31, 2018	December 31, 2017
Raw materials	$ 80.8	$ 72.6
Work in process	166.8	73.7
Finished goods	122.3	109.2
Gross inventories before LIFO reserves and valuation adjustments	369.9	255.5
LIFO reserves and valuation adjustments	(64.5)	(65.3)
Inventories, net	$ 305.4	$ 190.2

NOTE 5. PENSION

Components of net periodic benefit cost (income) were as follows:

	Pension Benefits Three Months Ended March 31,	
(In millions)	2018	2017
Service cost	$0.5	$0.4
Interest cost	2.7	2.7
Expected return on plan assets	(4.2)	(4.3)
Settlement charge	0.1	—
Amortization of net actuarial losses	1.6	1.3
Net periodic cost	$0.7	$0.1

We expect to contribute $15.3 million to our pension and other postretirement benefit plans in 2018. We contributed $2.0 million to our U.S. qualified pension plan during the three months ended March 31, 2018. The components of net periodic cost other than service cost are included in other (expense) income, net below operating income in our consolidated statements of income.

10

NOTE 6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For JBT, AOCI is primarily composed of adjustments related to pension and other postretirement benefit plans, derivatives designated as hedges, and foreign currency translation adjustments. Changes in the AOCI balances for the three months ended March 31, 2018 and 2017 by component are shown in the following tables:

(In millions)	Pension and Other Postretirement Benefits	Derivatives Designated as Hedges	Foreign Currency Translation	Total
Beginning balance, December 31, 2017	$ (113.9)	$ 1.4	$ (27.8)	$(140.3)
Other comprehensive income before reclassification	—	1.1	2.5	3.6
Amounts reclassified from accumulated other comprehensive income	1.4	—	—	1.4
Ending balance, March 31, 2018	$ (112.5)	$ 2.5	$ (25.3)	$(135.3)

Reclassification adjustments from AOCI into earnings for pension and other postretirement benefit plans for the three months ended March 31, 2018 were $1.6 million of charges in other (expense) income, net below operating income net of $0.2 million in provision for income taxes.

(In millions)	Pension and Other Postretirement Benefits	Derivatives Designated as Hedges	Foreign Currency Translation	Total
Beginning balance, December 31, 2016	$ (108.6)	$ (0.1)	$ (48.3)	$(157.0)
Other comprehensive income (loss) before reclassification	—	0.2	4.3	4.5
Amounts reclassified from accumulated other comprehensive income	0.8	0.2	—	1.0
Ending balance, March 31, 2017	$ (107.8)	$ 0.3	$ (44.0)	$(151.5)

Reclassification adjustments from AOCI into earnings for pension and other postretirement benefit plans for the three months ended March 31, 2017 were $1.3 million of charges in other (expense) income, net below operating income net of $0.5 million in provision for income taxes. Reclassification adjustments for derivatives designated as hedges for the same period were $0.4 million of charges in interest expense, net of $0.2 million in provision for income taxes.

NOTE 7. REVENUE RECOGNITION

We adopted Topic 606 Revenue from Contracts with Customers on January 1, 2018. As a result, we have changed our accounting policy for revenue recognition as detailed below.

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties when JBT is acting in an agent capacity. We recognize revenue when we satisfy a performance obligation by transferring control of a product or service to a customer.

Performance Obligations & Contract Estimates

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation based on its respective stand-alone selling price and recognized as revenue when, or as, the performance obligation is satisfied. A large portion of our revenue across JBT is derived from manufactured equipment, which may be customized to meet customer specifications, or is standard or turnkey.

JBT FoodTech designs, manufactures and services technologically sophisticated food processing systems and customized

solutions for the preparation of meat, seafood and poultry products, ready-to-eat meals, shelf stable packaged foods, bakery products, juice and dairy products, and fruit and vegetable products.

JBT AeroTech supplies customized solutions and services used for applications in the air transportation industry, including airport authorities, airlines, airfreight, ground handling companies, the military and defense contractors. We customize our equipment and services utilizing differentiated technology to meet the specific needs of our customers.

Our contracts with customers in both segments often include multiple performance obligations. For instance, a contract may include equipment, installation, optional warranties, periodic service calls, etc. We frequently have contracts for which the equipment and installation are considered a single performance obligation as in these instances the installation services are not separately identifiable. However, due to the varying nature of contracts across JBT, we also have contracts where the installation services are deemed to be separately identifiable and are therefore deemed to be a separate performance obligation.

When an obligation is distinct, as defined in Topic 606, we allocate a portion of the contract price to the obligation and recognize it separately from the other performance obligations. Contract price allocation among multiple obligations is based on standalone selling price of each distinct good or service in the contract. When not sold separately, an estimate of the standalone selling price is determined using cost plus a reasonable margin.

We have elected the practical expedient to not adjust the transaction price for significant financing component for contracts with duration of less than one year.

The timing of revenue for each performance obligation is either over time as control transfers or at a point in time. We recognize revenue over time for contracts that provide: service over a period of time, for refurbishments of customer-owned equipment, and for highly customized equipment for which we have a contractual, enforceable right to collect payment upon customer cancellation. Revenue generated from standard equipment, highly customized equipment contracts without an enforceable right to payment for performance completed to-date, as well as aftermarket parts sales, are recognized at a point in time.

We utilize the input method of “cost-to-cost” to recognize revenue over time. We measure progress based on costs incurred to date relative to total estimated cost at completion. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, and certain allocated overhead expenses. Cost estimates are based on various assumptions to project the outcome of future events; including labor productivity and availability, the complexity of the work to be performed, the cost of materials, and the performance of subcontractors.

Revenue attributable to equipment measured at a point in time is recognized when our customers take control of the asset. We define this as the point in time in which we are able to objectively verify that the customer has the capability of full beneficial use of the asset as intended per the contract. Service revenue is recognized over time either proportionately over the period of the underlying contract or as invoiced, depending on the terms of the arrangement.

Within our AeroTech segment we also provide maintenance and repair expertise for baggage handling systems, facilities, gate systems, and ground support equipment. The timing of these contract billings is concurrent with the completion of the services, and therefore we have availed ourselves of the practical expedient that allows us to recognize revenue commensurate with the amount to which we have a right to invoice, which corresponds directly to the value to the customer of our performance completed to date.

Transaction price allocated to the remaining performance obligations

The majority of our contracts are completed within twelve months. We have elected the practical expedient to not disclose information about remaining performance obligations that have original expected durations of one year or less. For performance obligations that extend beyond one year, we had $206 million of remaining performance obligations as of March 31, 2018, 60% of which we expect to recognize as revenue in 2018 and the remainder in 2019.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales.

Disaggregation of revenue

In the following table, revenue is disaggregated by type of good or service and primary geographical market. The table also includes a reconciliation of the disaggregated revenue with the reportable segments.

	March 31, 2018	
Type of Good or Service	FoodTech	AeroTech
Non-recurring [1]	180.6	62.5
Recurring [1]	$123.0	$ 43.1
Total	$303.6	$ 105.6
Geographical Region [2]		
North America	$164.0	$ 83.8
Europe, Middle East and Africa	76.3	14.1
Asia Pacific	40.2	7.0
Latin America	23.1	0.7
Total	$303.6	$ 105.6

(1) Aftermarket parts and services and revenue from leasing contracts are considered recurring revenue. Non-recurring revenue is new equipment and installation.

(2) Geographical region represents the region in which the end customer resides.

Contract balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and advance payments (contract liabilities). Progress billings generally are issued upon the completion of certain phases of the work as stipulated in the contract. Contract assets exist when revenue recognition occurs prior to billings. The contract assets are transferred to trade receivables when the right to payment becomes unconditional (i.e., when the amounts are billed to the customer and payment is due). These amounts are included in the trade receivables, net line item on the consolidated balance sheets. Conversely, we often receive payments from our customers before revenue is recognized, resulting in contract liabilities. These assets and liabilities are reported on the Consolidated Balance Sheet on a contract-by-contract basis at the end of each reporting period.

We have elected the practical expedient to expense acquisition costs for contracts with duration of less than one year and therefore have not included any acquisition costs (primarily sales commissions) in contract assets.

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

	March 31, 2018	
	Contract assets	Contract liabilities
Balance at beginning of period	$39.1	$(109.6)
Change due to Topic 606 restatement	20.9	(113.1)
Net revenue recognized prior to billings/cash receipts in the period	10.1	(6.7)
Balance at end of period	$70.1	$(229.4)

Impacts on financial statements

The following tables summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements for the quarter ended March 31, 2018.

Consolidated Statement of Income:

	As reported March 31, 2018	Adjustments Due to Topic 606	Balances without Adoption
Revenue	$ 409.2	$ (50.5)	$ 334.5
Cost of sales	305.6	(37.5)	248.3
Gross profit	103.6	(13.0)	86.2
Income tax provision (benefit)	0.4	(3.3)	(4.0)
Net income	$ 1.2	$ (9.7)	$ (11.9)

Consolidated Balance Sheets:

	As reported March 31, 2018	Adjustments Due to Topic 606	Balances without Adoption
Trade receivables, net of allowance	287.6	33.6	321.2
Inventories	305.4	(75.9)	229.5
Other current assets	55.0	(7.8)	47.2
Deferred income taxes	14.4	(1.8)	12.6
Total Assets	$ 1,498.0	$ (51.9)	$ 1,446.1
Accounts payable, trade and other	156.8	(2.2)	154.6
Advance and progress payments	245.3	(68.0)	177.3
Other current liabilities	132.7	(1.8)	130.9
Other liabilities	45.2	1.8	47.0
Retained earnings	303.4	18.3	321.7
Total Liabilities and stockholders' equity	$ 1,498.0	$ (51.9)	$ 1,446.1

NOTE 8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the respective periods and our basic and diluted shares outstanding:

	Three Months Ended March 31,	
(In millions, except per share data)	2018	2017
Basic earnings per share:		
Income from continuing operations	$1.6	$17.6
Weighted average number of shares outstanding	31.9	30.0
Basic earnings per share from continuing operations	$0.05	$0.59
Diluted earnings per share:		
Income from continuing operations	$1.6	$17.6
Weighted average number of shares outstanding	31.9	30.0
Effect of dilutive securities:		
Restricted stock	0.5	0.4
Total shares and dilutive securities	32.4	30.4
Diluted earnings per share from continuing operations	$0.05	$0.58

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities that the Company can assess at the measurement date.
- Level 2: Observable inputs other than those included in Level 1 that are observable for the asset or liability, either directly or indirectly. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

Financial assets and financial liabilities measured at fair value on a recurring basis are as follows:

	As of March 31, 2018				As of December 31, 2017			
(In millions)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Investments	$13.4	$13.4	$—	$ —	$13.1	$13.1	$—	$ —
Derivatives	6.5	—	6.5	—	5.2	—	5.2	—
Total assets	$19.9	$13.4	$6.5	$ —	$18.3	$13.1	$5.2	$ —
Liabilities:								
Derivatives	$8.7	$—	$8.7	$ —	$5.5	$—	$5.5	$ —
Total liabilities	$8.7	$—	$8.7	$ —	$5.5	$—	$5.5	$ —

Investments represent securities held in a trust for the non-qualified deferred compensation plan. Investments are classified as trading securities and are valued based on quoted prices in active markets for identical assets that we have the ability to access. Investments are reported separately in Other assets on the Condensed Consolidated Balance Sheets. Investments include an unrealized loss of $0.1 million as of March 31, 2018 and unrealized gain of $0.5 million as of December 31, 2017.

We use the income approach to measure the fair value of derivative instruments on a recurring basis. This approach calculates the present value of the future cash flow by measuring the change between the derivative contract rate and the published market

indicative currency rate, multiplied by the contract notional values, and applying an appropriate discount rate as well as a factor of credit risk.

The carrying amounts of cash and cash equivalents, trade receivables and payables, as well as financial instruments included in other current assets and other current liabilities, approximate fair values because of their short-term maturities.

The carrying values and the estimated fair values of our debt financial instruments are summarized in the table below:

	As of March 31, 2018		As of December 31, 2017	
(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Revolving credit facility, expires February 10, 2020	$266.9	$ 266.9	$230.5	$ 230.5
Term loan due February 10, 2020	148.1	148.1	150.0	150.0
Foreign credit facilities	1.3	1.3	2.7	2.7
Other	—	—	0.2	0.2

The estimates of the all-in interest rate for discounting the loans are based on a broker quote for loans with similar terms. We do not have a rate adjustment for risk profile changes, covenant issues or credit rating changes, therefore the broker quote is deemed to be the closest approximation of current market rates. The carrying values of the remaining borrowings approximate their fair values due to their variable interest rates.

NOTE 11. COMMITMENTS AND CONTINGENCIES

In the normal course of our business, we are at times subject to pending and threatened legal actions, some for which the relief or damages sought may be substantial. Although we are not able to predict the outcome of such actions, after reviewing all pending and threatened actions with counsel and based on information currently available, management believes that the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on our results of operations or financial position. However, it is possible that the ultimate resolution of such matters, if unfavorable, may be material to our results of operations in a particular future period as the time and amount of any resolution of such actions and its relationship to the future results of operations are not currently known.

Liabilities are established for pending legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. In many lawsuits and arbitrations, it is not considered probable that a liability has been incurred or not possible to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no liability would be recognized until that time.

In 2013, we received a notice of examination from the Delaware Department of Finance commencing an examination of our books and records to determine compliance with Delaware unclaimed property law. The examination was not complete when, in 2017, Delaware promulgated a law which permitted companies an election to convert an examination to a review under the Secretary of State’s voluntary disclosure agreement program. In December 2017, we elected this alternative and are in the process of meeting the requirements under the voluntary disclosure agreement program. The requirements include reviewing our books and records and filing any previously unfiled reports for all unclaimed property presumed unclaimed, under the law, from 2003.
We are required to work with the Secretary of State to complete this exercise by December 2019. We are not able to estimate whether we have significant unclaimed property obligations at this time.

Guarantees and Product Warranties

In the ordinary course of business with customers, vendors and others, we issue standby letters of credit, performance bonds, surety bonds and other guarantees. These financial instruments, which totaled $195.2 million at March 31, 2018, represent guarantees of our future performance. We also have provided $6.1 million of bank guarantees and letters of credit to secure a portion of our existing financial obligations. The majority of these financial instruments expire within two years; we expect to replace them through the issuance of new or the extension of existing letters of credit and surety bonds.

In some instances, we guarantee our customers' financing arrangements. We are responsible for payment of any unpaid amounts, but will receive indemnification from third parties for between seventy-five and ninety-five percent of the contract

16

values. In addition, we generally retain recourse to the equipment sold. As of March 31, 2018, the gross value of such arrangements was $7.4 million, of which our net exposure under such guarantees was $0.5 million.

We provide warranties of various lengths and terms to certain of our customers based on standard terms and conditions and negotiated agreements. We provide for the estimated cost of warranties at the time revenue is recognized for products where reliable, historical experience of warranty claims and costs exists. We also provide a warranty liability when additional specific obligations are identified. The warranty obligation reflected in other current liabilities in the consolidated balance sheets is based on historical experience by product and considers failure rates and the related costs in correcting a product failure. Warranty cost and accrual information were as follows:

	Three Months Ended March 31,	
(In millions)	2018	2017
Balance at beginning of period	$14.5	$14.5
Expense for new warranties	3.4	2.5
Adjustments to existing accruals	(0.7)	0.4
Claims paid	(3.2)	(3.5)
Added through acquisition	0.2	1.7
Translation	0.1	0.1
Balance at end of period	$14.3	$15.7

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Derivative Financial Instruments

All derivatives are recorded as other assets or liabilities in the Condensed Consolidated Balance Sheets at their respective fair values. For derivatives designated as cash flow hedges, the effective portion of the unrealized gain or loss related to the derivatives are recorded in Other comprehensive income (loss) until the transaction affects earnings. We assess both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been, and will continue to be, highly effective in offsetting changes in cash flows of the hedged item. The impact of any ineffectiveness is recognized in the Condensed Consolidated Statements of Income. Changes in the fair value of derivatives that do not meet the criteria for designation as a hedge are recognized in earnings.

Foreign Exchange: We manufacture and sell products in a number of countries throughout the world and, as a result, we are exposed to movements in foreign currency exchange rates. Our major foreign currency exposures involve the markets in Western Europe, South America and Asia. Some of our sales and purchase contracts contain embedded derivatives due to the nature of doing business in certain jurisdictions, which we take into consideration as part of our risk management policy. The purpose of our foreign currency hedging activities is to manage the economic impact of exchange rate volatility associated with anticipated foreign currency purchases and sales made in the normal course of business. We primarily utilize forward foreign exchange contracts with maturities of less than 2 years in managing this foreign exchange rate risk. We have not designated these forward foreign exchange contracts, which had a notional value at March 31, 2018 of $510.1 million, as hedges and therefore do not apply hedge accounting.

The following table presents the fair value of foreign currency derivatives included within the Condensed Consolidated Balance Sheets:

	As of March 31, 2018	As of December 31, 2017
(In millions)		

	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current assets / liabilities	$ 3.7	$ 8.9	$ 3.3	$ 5.7

A master netting arrangement allows counterparties to net settle amounts owed to each other as a result of separate offsetting derivative transactions. We enter into master netting arrangements with our counterparties when possible to mitigate credit risk in derivative transactions by permitting us to net settle for transactions with the same counterparty. However, we do not net settle with such counterparties. As a result, we present derivatives at their gross fair values in the Condensed Consolidated Balance Sheets.

As of March 31, 2018 and December 31, 2017, information related to these offsetting arrangements was as follows:

(In millions)	As of March 31, 2018				
Offsetting of Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Amount Subject to Master Netting Agreement	Net Amount
Derivatives	$6.5	$ —	$ 6.5	$ (2.5)	$ 4.0

(In millions)	As of March 31, 2018				
Offsetting of Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Amount Subject to Master Netting Agreement	Net Amount
Derivatives	$ 8.7				