METTLER TOLEDO INTERNATIONAL INC/
Form 10-Q
July 27, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 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: 1-13595
Mettler-Toledo International Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 13-3668641 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |

1900 Polaris Parkway
Columbus, Ohio 43240
and
Im Langacher, P.O. Box MT-100
CH 8606 Greifensee, Switzerland

(Address of principal executive offices)
(Zip Code)

1-614-438-4511 and +41-44-944-22-11

(Registrant's telephone number, including area code)

not applicable

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

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 X No ___

Indicate by checkmark 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files). Yes X No ___
Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer. X Accelerated filer __
Non-accelerated filer __ (Do not check if a smaller reporting company)Smaller reporting company __ Emerging growth company __

If an emerging growth company, indicate by check mark if the registrant has elected not 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 X

The Registrant had 25,213,828 shares of Common Stock outstanding at June 30, 2018.

METTLER-TOLEDO INTERNATIONAL INC.
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Three months ended June 30, 2018 and 2017
(In thousands, except share data)
(unaudited)

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Net sales | | |
| Products | $562,476 | $512,848 |
| Service | 159,520 | 140,808 |
| Total net sales | 721,996 | 653,656 |
| Cost of sales | | |
| Products | 221,729 | 199,586 |
| Service | 87,642 | 78,458 |
| Gross profit | 412,625 | 375,612 |
| Research and development | 35,315 | 32,582 |
| Selling, general and administrative | 208,024 | 195,624 |
| Amortization | 11,970 | 10,249 |
| Interest expense | 8,309 | 8,171 |
| Restructuring charges | 7,321 | 4,023 |
| Other charges (income), net | (1,916) | (1,884) |
| Earnings before taxes | 143,602 | 126,847 |
| Provision for taxes | 32,134 | 25,267 |
| Net earnings | $111,468 | $101,580 |
| | | |
| Basic earnings per common share: | | |
| Net earnings | $4.41 | $3.94 |
| Weighted average number of common shares | 25,299,414 | 25,751,374 |
| | | |
| Diluted earnings per common share: | | |
| Net earnings | $4.31 | $3.84 |
| Weighted average number of common and common equivalent shares | 25,867,383 | 26,439,529 |
| | | |
| Comprehensive income, net of tax (Note 9) | $82,263 | $134,314 |

The accompanying notes are an integral part of these interim consolidated financial statements.

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METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Six months ended June 30, 2018 and 2017
(In thousands, except share data)
(unaudited)

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Net sales | | |
| Products | $1,073,422 | $970,108 |
| Service | 309,395 | 278,115 |
| Total net sales | 1,382,817 | 1,248,223 |
| Cost of sales | | |
| Products | 424,316 | 374,899 |
| Service | 170,943 | 154,323 |
| Gross profit | 787,558 | 719,001 |
| Research and development | 70,028 | 63,782 |
| Selling, general and administrative | 408,698 | 381,280 |
| Amortization | 23,705 | 20,294 |
| Interest expense | 16,668 | 15,912 |
| Restructuring charges | 11,734 | 5,455 |
| Other charges (income), net | (4,316) | (8,417) |
| Earnings before taxes | 261,041 | 240,695 |
| Provision for taxes | 56,269 | 46,649 |
| Net earnings | $204,772 | $194,046 |
| | | |
| Basic earnings per common share: | | |
| Net earnings | $8.07 | $7.51 |
| Weighted average number of common shares | 25,383,402 | 25,841,243 |
| | | |
| Diluted earnings per common share: | | |
| Net earnings | $7.88 | $7.32 |
| Weighted average number of common and common equivalent shares | 25,979,508 | 26,514,311 |
| | | |
| Comprehensive income, net of tax (Note 9) | $204,457 | $250,658 |

The accompanying notes are an integral part of these interim consolidated financial statements.

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METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED BALANCE SHEETS
As of June 30, 2018 and December 31, 2017
(In thousands, except share data)
(unaudited)

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $183,190 | $148,687 |
| Trade accounts receivable, less allowances of $16,074 at June 30, 2018 and $15,549 at December 31, 2017 | 486,203 | 528,615 |
| Inventories | 270,047 | 255,390 |
| Other current assets and prepaid expenses | 63,867 | 74,031 |
| Total current assets | 1,003,307 | 1,006,723 |
| Property, plant and equipment, net | 678,706 | 668,271 |
| Goodwill | 536,407 | 539,838 |
| Other intangible assets, net | 219,858 | 226,718 |
| Deferred tax assets, net | 36,880 | 41,425 |
| Other non-current assets | 83,058 | 66,830 |
| Total assets | $2,558,216 | $2,549,805 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | $170,865 | $167,627 |
| Accrued and other liabilities | 145,892 | 152,834 |
| Accrued compensation and related items | 116,567 | 170,159 |
| Deferred revenue and customer prepayments | 126,835 | 107,166 |
| Taxes payable | 76,606 | 72,210 |
| Short-term borrowings and current maturities of long-term debt | 52,052 | 19,677 |
| Total current liabilities | 688,817 | 689,673 |
| Long-term debt | 1,020,420 | 960,170 |
| Deferred tax liabilities, net | 46,138 | 51,230 |
| Other non-current liabilities | 270,407 | 301,452 |
| Total liabilities | 2,025,782 | 2,002,525 |
| Commitments and contingencies (Note 15) | | |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value per share; authorized 10,000,000 shares | — | — |
| Common stock, $0.01 par value per share; authorized 125,000,000 shares; issued 44,786,011 and 44,786,011 shares; outstanding 25,213,828 and 25,541,393 shares at June 30, 2018 and December 31, 2017, respectively | 448 | 448 |
| Additional paid-in capital | 755,374 | 747,138 |
| Treasury stock at cost (19,572,183 shares at June 30, 2018, and 19,244,618 shares at December 31, 2017) | (3,595,296) | (3,368,182) |
| Retained earnings | 3,637,629 | 3,433,282 |
| Accumulated other comprehensive loss | (265,721) | (265,406) |
| Total shareholders' equity | 532,434 | 547,280 |
| Total liabilities and shareholders' equity | $2,558,216 | $2,549,805 |

The accompanying notes are an integral part of these interim consolidated financial statements.

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METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Six months ended June 30, 2018 and twelve months ended December 31, 2017
(In thousands, except share data)
(unaudited)

| | Common Stock | | Additional Paid-in | Treasury | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Stock | Earnings | Income (Loss) | Total |
| Balance at December 31, 2016 | 26,020,234 | $ 448 | $730,556 | $(3,006,771) | $3,065,708 | $ (354,998) | $434,943 |
| Exercise of stock options and restricted stock units | 270,413 | — | — | 38,586 | (9,937) | — | 28,649 |
| Repurchases of common stock | (749,254) | — | — | (399,997) | — | — | (399,997) |
| Effect of accounting change | — | — | — | — | 1,539 | — | 1,539 |
| Share-based compensation | — | — | 16,582 | — | — | — | 16,582 |
| Net earnings | — | — | — | — | 375,972 | — | 375,972 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | 89,592 | 89,592 |
| Balance at December 31, 2017 | 25,541,393 | $ 448 | $747,138 | $(3,368,182) | $3,433,282 | $ (265,406) | $547,280 |
| Exercise of stock options and restricted stock units | 68,653 | — | — | 10,385 | (425) | — | 9,960 |
| Repurchases of common stock | (396,218) | — | — | (237,499) | — | — | (237,499) |
| Share-based compensation | — | — | 8,236 | — | — | — | 8,236 |
| Net earnings | — | — | — | — | 204,772 | — | 204,772 |
| Other comprehensive income (loss), net of tax (Note 9) | — | — | — | — | — | (315) | (315) |
| Balance at June 30, 2018 | 25,213,828 | $ 448 | $755,374 | $(3,595,296) | $3,637,629 | $ (265,721) | $532,434 |

The accompanying notes are an integral part of these interim consolidated financial statements.

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METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended June 30, 2018 and 2017
(In thousands)
(unaudited)

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $204,772 | $194,046 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 18,606 | 15,919 |
| Amortization | 23,705 | 20,294 |
| Deferred tax benefit | (10,109) | (3,840) |
| Share-based compensation | 8,236 | 7,793 |
| Gain on facility sale | — | (3,394) |
| Other | (1,200) | 230 |
| Increase (decrease) in cash resulting from changes in: | | |
| Trade accounts receivable, net | 34,509 | 23,541 |
| Inventories | (19,959) | (21,164) |
| Other current assets | 844 | (235) |
| Trade accounts payable | 5,425 | (7,176) |
| Taxes payable | 1,268 | (9,058) |
| Accruals and other | (49,338) | (11,579) |
| Net cash provided by operating activities | 216,759 | 205,377 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property, plant and equipment | 4,530 | 10,209 |
| Purchase of property, plant and equipment | (61,586) | (48,529) |
| Acquisitions | (500) | (697) |
| Net hedging settlements on intercompany loans | 7,042 | (1,033) |
| Net cash used in investing activities | (50,514) | (40,050) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 603,180 | 672,921 |
| Repayments of borrowings | (502,524) | (615,162) |
| Proceeds from stock option exercises | 9,960 | 16,935 |
| Repurchases of common stock | (237,499) | (249,949) |
| Other financing activities | (1,635) | (7,205) |
| Net cash used in financing activities | (128,518) | (182,460) |
| Effect of exchange rate changes on cash and cash equivalents | (3,224) | 4,793 |
| Net increase (decrease) in cash and cash equivalents | 34,503 | (12,340) |
| Cash and cash equivalents: | | |
| Beginning of period | 148,687 | 158,674 |
| End of period | $183,190 | $146,334 |

The accompanying notes are an integral part of these interim consolidated financial statements.

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METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
At June 30, 2018 – Unaudited
(In thousands, except share data, unless otherwise stated)

1. BASIS OF PRESENTATION

Mettler-Toledo International Inc. ("Mettler-Toledo" or the "Company") is a leading global supplier of precision instruments and services. The Company manufactures weighing instruments for use in laboratory, industrial, packaging, logistics and food retailing applications. The Company also manufactures several related analytical instruments and provides automated chemistry solutions used in drug and chemical compound discovery and development. In addition, the Company manufactures metal detection and other end-of-line inspection systems used in production and packaging and provides solutions for use in certain process analytics applications. The Company's primary manufacturing facilities are located in China, Germany, Switzerland, the United Kingdom and the United States. The Company's principal executive offices are located in Columbus, Ohio and Greifensee, Switzerland.

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include all entities in which the Company has control, which are its wholly-owned subsidiaries. The interim consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The accompanying interim consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates. A discussion of the Company’s critical accounting policies is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

All intercompany transactions and balances have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents the Company’s best estimate of probable credit losses in its existing trade accounts receivable. The Company determines the allowance based upon a review of both specific accounts for collection and the age of the accounts receivable portfolio.

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METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
At June 30, 2018 – Unaudited (Continued)
(In thousands, except share data, unless otherwise stated)

Inventories
Inventories are valued at the lower of cost or net realizable value. Cost, which includes direct materials, labor and overhead, is generally determined using the first in, first out (FIFO) method. The estimated net realizable value is based on assumptions for future demand and related pricing. Adjustments to the cost basis of the Company's inventory are made for excess and obsolete items based on usage, orders and technological obsolescence. If actual market conditions are less favorable than those projected by management, reductions in the value of inventory may be required.
Inventories consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials and parts | $121,265 | $ 118,790 |
| Work-in-progress | 50,186 | 43,035 |
| Finished goods | 98,596 | 93,565 |
| | $270,047 | $ 255,390 |

Goodwill and Other Intangible Assets
Goodwill, representing the excess of purchase price over the net asset value of companies acquired, and indefinite-lived intangible assets are not amortized, but are reviewed for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The annual evaluation for goodwill and indefinite-lived intangible assets are generally based on an assessment of qualitative and quantitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount.
Other intangible assets include indefinite-lived assets and assets subject to amortization. Where applicable, amortization is charged on a straight-line basis over the expected period of benefit. The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained by the Company in each reporting period. The Company assesses the initial acquisition of intangible assets in accordance with the provisions of ASC 805 "Business Combinations" and the continued accounting for previously recognized intangible assets and goodwill in accordance with the provisions of ASC 350 "Intangible - Goodwill and Other" and ASC 360 "Property, Plant and Equipment".
Other intangible assets consisted of the following:

| | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Intangibles, Net | Gross Amount | Accumulated Amortization | Intangibles, Net |
| Customer relationships | $197,817 | $ (45,864 ) | $ 151,953 | $198,527 | $ (41,794 ) | $ 156,733 |
| Proven technology and patents | 70,156 | (40,720 ) | 29,436 | 70,311 | (38,890 ) | 31,421 |
| Tradenames (finite life) | 4,494 | (2,817 ) | 1,677 | 4,518 | (2,807 ) | 1,711 |
| Tradenames (indefinite life) | 35,520 | — | 35,520 | 35,562 | — | 35,562 |
| Other | 3,631 | (2,359 ) | 1,272 | 3,490 | (2,199 ) | 1,291 |
| | $311,618 | $ (91,760 ) | $ 219,858 | $312,408 | $ (85,690 ) | $ 226,718 |

The Company recognized amortization expense associated with the above intangible assets of $3.5 million and $2.5 million for the three months ended June 30, 2018 and 2017, respectively and $7.1 million and $5.0 million for the six months ended June 30, 2018 and 2017, respectively. The annual aggregate amortization expense based on the current balance of other intangible assets is estimated at $14.0 million for 2018, $13.4 million for 2019, $13.1 million for 2020, $12.5 million for 2021, $12.0 million for 2022 and $11.8 million for 2023. Purchased intangible amortization was $3.3 million, $2.5 million after tax, and $2.3 million, $1.5 million after tax, for the three months ended June 30, 2018 and 2017, respectively and $6.7 million, $5.0 million after tax, and $4.6 million, $3.0 million after tax, for the six months ended June 30, 2018 and 2017, respectively.

In addition to the above amortization, the Company recorded amortization expense associated with capitalized software of $8.4 million and $7.7 million for the three months ended June 30, 2018 and 2017, respectively and $16.5 million and $15.2 million for the six months ended June 30, 2018 and 2017, respectively.

Revenue Recognition

Product revenue is recognized from contracts with customers when a customer has obtained control of a product. The Company considers control to have transferred upon shipping terms. To the extent the Company’s contracts have a separate performance obligation, revenue related to any post-shipment performance obligation is deferred until completed. Shipping and handling costs charged to customers are included in total net sales and the associated expense is a component of cost of sales. Certain products are also sold through indirect distribution channels whereby the distributor assumes any further obligations to the end customer. Revenue is recognized on these distributor arrangements upon transfer of control to the distributor. Contracts do not contain variable pricing arrangements that are retrospective, except for rebate programs. Rebates are estimated based on expected sales volumes and offset against revenue at the time such revenue is recognized. The Company generally maintains the right to accept or reject a product return in its terms and conditions and also maintains appropriate accruals for outstanding credits. The provisions for estimated returns and rebates are immaterial to the consolidated financial statements.

Certain of the Company’s arrangements include separate performance obligations, primarily related to installation. Such performance obligations are accounted for separately when the deliverables have stand-alone value and the satisfaction of the undelivered performance obligations is probable and within the Company's control. The allocation of revenue between the performance obligations is based on the observable standalone selling prices at the time of the sale in accordance with a number of factors including service technician billing rates, time to install and geographic location.

Software is generally not considered a distinct performance obligation with the exception of a few small software applications. The Company does not sell software products without the related hardware instrument as the software is embedded in the product. The Company’s products typically require no significant production, modification, or customization of the hardware or software that is essential to the functionality of the products.

Service revenue not under contract is recognized upon the completion of the service performed. Revenue from spare parts sold on a stand-alone basis is recognized when control is transferred to the customer, which is generally at the time of shipment or delivery. Revenue from service contracts is recognized ratably over the contract period using a time-based method. These contracts represent an obligation to perform repair and other services including regulatory compliance qualification, calibration, certification, and preventative maintenance on a customer’s pre-defined equipment over the contract period.

Warranty

The Company generally offers one-year warranties on most of its products. Product warranties are recorded at the time revenue is recognized. While the Company engages in extensive product quality programs and processes, its warranty obligations are affected by product failure rates, material usage and service costs incurred in correcting a product failure.

Employee Termination Benefits

In situations where contractual termination benefits exist, the Company records accruals for employee termination benefits when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. All other employee termination arrangements are recognized and measured at their fair value at the communication date unless the employee is required to render additional service beyond the legal notification period, in which case the liability is recognized ratably over the future service period.

Share-Based Compensation

The Company recognizes share-based compensation expense within selling, general and administrative in the consolidated statements of operations and other comprehensive income with a corresponding offset to additional paid-in capital in the consolidated balance sheet. The Company recorded $3.9 million and $8.2 million of share-based compensation expense for the three and six months ended June 30, 2018, respectively, compared to $3.9 million and $7.8 million for the corresponding periods in 2017.

Research and Development

Research and development costs primarily consist of salaries, consulting and other costs. The Company expenses these costs as incurred.

Recent Accounting Pronouncements

On January 1, 2018 the Company retrospectively implemented ASU 2017-7 to ASC 715 "Compensation - Retirement Benefits," which requires the Company to report the non-service cost components of net periodic benefit cost (pension cost) in other charges (income), net. These amounts were previously reported in selling, general, and administrative, cost of sales and research and development in the consolidated statement of operations. Nonservice pension benefits were $1.5 million and $1.1 million for the three months ended June 30, 2018 and 2017, respectively, and $3.1 million and $1.9 million and for the six months ended June 30, 2018 and 2017, respectively.

In February 2016, the FASB issued ASU 2016-02 to ASC 842 "Leases." The accounting guidance primarily requires lessees to recognize most leases on their balance sheet as a right to use asset and a lease liability, with the exception of short term leases. A lessee will continue to recognize lease expense on a straight-line basis for leases classified as operating leases. The guidance becomes effective for fiscal years beginning after December 15, 2018. The Company's primary leasing arrangements are related to leased facilities and vehicle fleet leases. The Company is currently evaluating the impact of this guidance.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income". The accounting update provided entities with guidance on how to reclassify certain stranded tax effects from accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act, which was a tax bill enacted by the U.S. government in December 2017. The new guidance is effective for the year beginning January 1, 2019 and the Company is still evaluating the impact on the financial statements.

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METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
At June 30, 2018 – Unaudited (Continued)
(In thousands, except share data, unless otherwise stated)

3. REVENUE
On January 1, 2018, the Company adopted ASC 606 "Revenue from Contracts with Customers" and all the related amendments using the modified retrospective method, whereby the adoption does not impact any prior periods. The effect of adopting the new standard did not require any cumulative effect adjustment to retained earnings as of January 1, 2018. There was no impact to our consolidated statements of operations, balance sheet, or statement of cash flows as of and for the period ended June 30, 2018.
The Company disaggregates revenue from contracts with customers by product, service, timing of revenue recognition and geography. A summary by the Company’s reportable segments follows for the three and six months ended June 30, 2018:

| Three months ended June 30, 2018 | U.S. Operations | Swiss Operations | Western European Operations | Chinese Operations | Other Operations | Total |
|---|---|---|---|---|---|---|
| Product Revenue | $ 191,511 | $ 25,163 | $ 124,336 | $ 119,709 | $ 101,757 | $562,476 |
| Service Revenue: | | | | | | |
| Point in time | 49,985 | 4,919 | 33,081 | 10,885 | 24,969 | 123,839 |
| Over time | 9,978 | 2,072 | 16,355 | 2,678 | 4,598 | 35,681 |
| Total | $ 251,474 | $ 32,154 | $ 173,772 | $ 133,272 | $ 131,324 | $721,996 |

| Six months ended June 30, 2018 | U.S. Operations | Swiss Operations | Western European Operations | Chinese Operations | Other Operations | Total |
|---|---|---|---|---|---|---|
| Product Revenue | $ 364,012 | $ 50,728 | $ 241,268 | $ 224,002 | $ 193,412 | $1,073,422 |
| Service Revenue: | | | | | | |
| Point in time | 97,605 | 9,748 | 62,966 | 18,012 | 49,208 | 237,539 |
| Over time | 19,602 | 4,143 | 34,910 | 5,188 | 8,013 | 71,856 |
| Total | $ 481,219 | $ 64,619 | $ 339,144 | $ 247,202 | $ 250,633 | $1,382,817 |

A summary of revenue by major geographic destination for the three and six months ended June 30 follows:

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| Americas | $274,328 | $526,607 |
| Europe | 220,718 | 426,558 |
| Asia / Rest of World | 226,950 | 429,652 |
| Total | $721,996 | $1,382,817 |

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METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
At June 30, 2018 – Unaudited (Continued)
(In thousands, except share data, unless otherwise stated)

The Company's global revenue mix by product category is laboratory (51% of sales), industrial (41% of sales) and retail (8% of sales). The Company's product revenue by reportable segment is proportionately similar to the Company's global mix except the Company's Swiss Operations is largely comprised of laboratory products while the Company's Chinese Operations has a slightly higher percentage of industrial products. A summary of the Company's revenue by product category for the three and six months ended June 30, 2018 is as follows:

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| Laboratory | $361,726 | $706,885 |
| Industrial | 305,277 | 567,933 |
| Retail | 54,993 | 107,999 |
| Total | $721,996 | $1,382,817 |

The payment terms in the Company's contracts with customers do not exceed one year and therefore contracts do not contain a significant financing component. In most cases, after appropriate credit evaluations, payments are due in arrears and are recognized as receivables. Unbilled revenue is recorded when performance obligations have been satisfied, but the Company does not have right to receive payment. Unbilled revenue as of June 30, 2018 was $16.7 million and is included within accounts receivable. Deferred revenue and customer prepayments are recorded when cash payments are received or due in advance of the performance obligation being satisfied. Deferred revenue primarily includes prepaid service contracts, as well as deferred installation.

Changes in the components of deferred revenue and customer prepayments during the period are as follows:

| | Deferred Revenue and Customer Pre-payments |
|---|---|
| Beginning balances as of December 31, 2017 | $ 107,166 |
| Customer pre-payments/deferred revenue | 282,446 |
| Revenue recognized | (260,280) |
| Foreign currency translation | (2,497) |
| Ending balance as of June 30, 2018 | $ 126,835 |

The Company generally expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within selling, general, and administrative expenses. The Company has not disclosed the value of unsatisfied performance obligations other than customer prepayments and deferred revenue above as most contracts have an expected length of one year or less and amounts greater than one year are immaterial.

4. FINANCIAL INSTRUMENTS

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. The Company enters into certain interest rate swap agreements in order to manage its exposure to changes in interest rates. The amount of the Company's fixed obligation interest payments may change based upon the expiration dates of its interest rate swap agreements and the level and composition of its debt. The Company also enters into certain foreign currency forward contracts to limit the Company's exposure to currency fluctuations on the respective hedged items. As also mentioned in Note 7, the Company has designated its euro denominated debt as a hedge of a portion of its net investment in euro-denominated foreign operations. For additional disclosures on the fair value of financial instruments, see Note 5 to the interim consolidated financial statements.

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Cash Flow Hedges

In June 2017, the Company entered into a cross currency swap arrangement designated as a cash flow hedge. The agreement converts $100 million of borrowings under the Company's credit facility into synthetic Swiss franc debt which allows the Company to effectively change the floating rate LIBOR-based interest payment to a fixed Swiss franc income of 0.01%. The swap began in June 2017 and matures in June 2019.

The Company has an interest rate swap agreement designated as a cash flow hedge. The agreement is a swap which has the effect of changing the floating rate LIBOR-based interest payments associated with $50 million of borrowings under the Company’s credit facility to a fixed obligation of 2.52%. The swap began in October 2015 and matures in October 2020.

In March 2015, the Company entered into a forward-starting interest rate swap agreement. The agreement is a swap which has the effect of changing the floating rate LIBOR-based interest payments associated with $100 million of borrowings under the Company's credit agreement to a fixed obligation of 2.25% beginning in February 2017 and matures in February 2022.

The Company's cash flow hedges are recorded gross at fair value in the consolidated balance sheet at June 30, 2018 and December 31, 2017, respectively, and disclosed in Note 5 to the consolidated financial statements. Amounts reclassified into other comprehensive income and the effective portions of the cash flow hedges are further disclosed in Note 9 to the consolidated financial statements. A derivative gain of $3.1 million based upon interest rates and foreign currency rates at June 30, 2018, is expected to be reclassified from other comprehensive income (loss) to earnings in the next twelve months. Through June 30, 2018, no hedge ineffectiveness has occurred in relation to the cash flow hedges.

Other Derivatives

The Company enters into foreign currency forward contracts in order to economically hedge short-term trade and non-trade intercompany balances largely denominated in Swiss franc, other major European currencies, and the Chinese Renminbi with its foreign businesses. In accordance with U.S. GAAP, these contracts are considered “derivatives not designated as hedging instruments.” Gains or losses on these instruments are reported in current earnings. The foreign currency forward contracts are recorded at fair value in the consolidated balance sheet at June 30, 2018 and December 31, 2017, respectively, and disclosed in Note 5. The Company recognized in other charges (income), a net loss of $1.5 million and a net gain of $0.1 million during the three months ended June 30, 2018 and 2017, respectively, and a net gain of $4.2 million and $1.9 million during the six months ended June 30, 2018 and 2017, respectively. The gains and losses are primarily offset by the underlying transaction gains and losses on the related intercompany balances. At June 30, 2018 and December 31, 2017, these contracts had a notional value of $407.1 million and $394.8 million, respectively.

5. FAIR VALUE MEASUREMENTS

At June 30, 2018 and December 31, 2017, the Company had derivative assets totaling $4.5 million and $1.9 million in both periods, respectively, and derivative liabilities totaling $2.7 million and $2.4 million, respectively. The fair values of the interest rate swap agreements, foreign currency forward contracts designated as cash flow hedges and foreign currency forward contracts that economically hedge short-term intercompany balances are estimated based upon inputs from current valuation information obtained from dealer quotes and priced with observable market assumptions and appropriate valuation adjustments for credit risk. The Company has evaluated the valuation methodologies used to develop the fair values by dealers in order to determine whether such valuations are representative of an exit price in the Company’s principal market. In addition, the Company uses an internally developed model to perform testing on the valuations received from brokers. The Company has also considered both its own credit risk

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and counterparty credit risk in determining fair value and determined these adjustments were insignificant at June 30, 2018 and December 31, 2017.

At June 30, 2018 and December 31, 2017, the Company had $13.4 million and $5.6 million of cash equivalents, respectively, the fair value of which is determined through quoted and corroborated prices in active markets. The fair value of cash equivalents approximates cost.

The fair value of the Company's fixed interest rate debt was estimated using Level 2 inputs, primarily discounted cash flow models, based on estimated current rates offered for similar debt under current market conditions for the Company. The fair value of the Company's debt exceeds the carrying value by approximately $0.5 million as of June 30, 2018.

The fair value of the contingent consideration obligation of $30.9 million relating to the Biotix acquisition as of June 30, 2018 is based on the Company's forecast of future results. The fair value measurements are based on significant inputs not observable in the market and thus represent a Level 3 measurement.

Under U.S. GAAP, fair value is defined as 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. A fair value measurement consists of observable and unobservable inputs that reflect the assumptions that a market participant would use in pricing an asset or liability.

A fair value hierarchy has been established that categorizes these inputs into three levels:

Level 1: Quoted prices in active markets for identical assets and liabilities

Level 2: Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3: Unobservable inputs

The following table presents for each of these hierarchy levels, the Company’s assets and liabilities that are measured at fair value on a recurring basis at June 30, 2018 and December 31, 2017:

| June 30, 2018 | | | | December 31, 2017 | |
|---|---|---|---|---|---|
| Total | Level 1 | Level 2 | Level 3 | Total | Level 1 |