MOOG INC
Form 10-Q/A
August 02, 2004

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

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended **March 31, 2004**

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: 1-5129

MOOG INC.

(Exact name of registrant as specified in its charter)

New York State (State or other jurisdiction of incorporation or organization)	16-0757636 (I.R.S. employer identification no.)
East Aurora, New York (Address of principal executive offices)	14052-0018 (Zip code)

Telephone number including area code: **(716) 652-2000**

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 check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No __

The number of shares outstanding of each class of common stock as of May 7, 2004 were:

Class A Common Stock, $1.00 par value	22,886,409 shares
Class B Common Stock, $1.00 par value	3,138,626 shares

EXPLANATORY NOTE

This amendment to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 filed with the Securities and Exchange Commission on May 13, 2004 is being filed to amend footnote 3 to the financial statements found in Item 1 of Part I of the Form 10-Q and the section entitled "Critical Accounting Policies" contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, which is Item 2 of Part I of the Form 10-Q. In accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, the complete text of Item 1 and Item 2, as amended, is included herein.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

MOOG INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)
(dollars in thousands)

	March 31, 2004	September 27, 2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 34,708	$ 77,491
Receivables	259,339	262,094
Inventories	191,617	170,578
Other current assets	46,506	42,036
TOTAL CURRENT ASSETS	532,170	552,199
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $296,144 and $277,624, respectively	248,562	208,169
GOODWILL, net	290,122	194,937
INTANGIBLE ASSETS, net	16,672	10,949
OTHER ASSETS	26,098	25,326
TOTAL ASSETS	$ 1,113,624	$ 991,580
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 885	$ 10,140
Current installments of long-term debt	18,777	15,607
Accounts payable	52,405	47,159
Accrued liabilities	106,478	98,952
Contract loss reserves	14,679	16,147
Customer advances	29,316	23,418
TOTAL CURRENT LIABILITIES	222,540	211,423
LONG-TERM SENIOR DEBT, excluding current installments	304,192	230,913
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	89,078	91,324
DEFERRED INCOME TAXES	35,282	31,953
OTHER LONG-TERM LIABILITIES	2,730	1,819
TOTAL LIABILITIES	653,822	567,432
SHAREHOLDERS' EQUITY		
Preferred stock	-	100
Common stock	30,490	30,488
Other shareholders' equity	429,312	393,560
TOTAL SHAREHOLDERS' EQUITY	459,802	424,148
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,113,624	$ 991,580

See accompanying Notes to Consolidated Condensed Financial Statements.

MOOG INC.
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Unaudited)
(dollars in thousands except per share data)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Net sales	$ 234,069	$ 190,048	$ 460,054	$ 369,731
Cost of sales	160,209	132,675	319,697	256,179
Gross profit	73,860	57,373	140,357	113,552
Research and development	7,498	7,871	14,266	15,297
Selling, general and administrative	42,702	30,323	80,433	59,880
Interest	2,834	5,409	6,019	10,783
Other	413	(241)	888	(198)
Earnings before income taxes	20,413	14,011	38,751	27,790
Income taxes	6,328	3,707	12,010	7,708
Net earnings	$ 14,085	$ 10,304	$ 26,741	$ 20,082
Net earnings per share				
Basic	$ .54	$ .45	$ 1.03	$ .88
Diluted	$ .53	$ .45	$ 1.01	$ .87
Average common shares outstanding				
Basic	25,985,428	22,767,554	25,929,617	22,750,151
Diluted	26,545,213	23,099,393	26,479,345	23,056,881

See accompanying Notes to Consolidated Condensed Financial Statements.

MOOG INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(dollars in thousands)

	Six Months Ended March 31, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 26,741	$ 20,082
Adjustments to reconcile net earnings		
to net cash provided by operating activities:		
Depreciation and amortization	17,934	14,153
Other	22,150	(19)
NET CASH PROVIDED BY OPERATING ACTIVITIES	66,825	34,216
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business	(152,019)	-
Purchase of property, plant and equipment	(13,496)	(15,080)
Other	49	70
NET CASH USED BY INVESTING ACTIVITIES	(165,466)	(15,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of notes payable	(10,086)	(959)
Net proceeds from (repayments of) revolving lines of credit	72,000	(43,000)
Proceeds from long-term debt	22,572	35,221
Payments on long-term debt	(30,977)	(6,365)
Other	848	645
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	54,357	(14,458)
Effect of exchange rate changes on cash	1,501	299
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,783)	5,047
Cash and cash equivalents at beginning of period	77,491	15,952
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 34,708	$ 20,999
CASH PAID FOR:		
Interest	$ 4,783	$ 11,379
Income taxes	1,499	3,053
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired under capital leases	$ 3,978	$ 426

See accompanying Notes to Consolidated Condensed Financial Statements.

MOOG INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2004

(Unaudited)
(dollars in thousands, except per share data)

1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with generally accepted accounting principles and in the opinion of management contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of Moog Inc. as of March 31, 2004 and September 27, 2003 and the results of its operations for the three and six months ended March 31, 2004 and 2003 and its cash flows for the six months ended March 31, 2004 and 2003. The results of operations for the three and six months ended March 31, 2004 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended September 27, 2003. All references to years in these financial statements are to fiscal years.

2. Recent Accounting Pronouncements

As of December 31, 2003, the Company adopted FASB Interpretation No. 46 R, "Consolidation of Variable Interest Entities," revised in December 2003. The Company is the primary beneficiary of two variable interest entities and has accordingly consolidated these entities beginning December 31, 2003. The Company leases land and buildings from these variable interest entities that own the land and buildings and have the related debt. In the initial consolidation as of December 31, 2003, the Company recorded land and buildings, net of depreciation, of $13,526 and long-term debt, including current installments, of $9,279, reduced other assets by $4,252 and recorded other net liabilities of $32. The cumulative effect of this accounting change is a $37 pretax loss and is included in other expense as the amount is immaterial.

In December 2003, the FASB issued SFAS No. 132 R (revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement requires revisions to employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition provisions of SFAS No. 87 or SFAS No. 106. The interim period disclosure requirements were applied in the Company's second quarter of 2004 and the annual disclosure requirements will be effective for 2004.

3. Acquisition

On September 30, 2003, the beginning of the Company's 2004 fiscal year, the Company acquired the net assets of the Poly-Scientific division of Litton Systems, Inc., a subsidiary of Northrop Grumman Corporation. Operating results for this acquisition have been included in the consolidated financial statements since that date. The acquired business is a manufacturer of motion control and data transmission devices. Its principal products are electrical and fiber optic slip rings, brushless D.C. motors and electromechanical actuators. The acquisition complements the Company's business in the design and manufacture of components and subsystems used in high-performance motion control systems in addition to extending product applications into the medical market.

On the acquisition date, the Company paid $158,000 in cash for the net assets. In the second quarter, the Company received a net amount of $5,981 from the seller representing a purchase price adjustment in accordance with the asset purchase agreement, resulting in an adjusted purchase price of $152,019.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition. This preliminary purchase price allocation will be finalized during fiscal 2004 after the Company completes its review of current assets. The Company does not expect this review to have a material impact on the purchase price allocation.

Current Assets	$	37,719
Property, plant and equipment		23,983
Goodwill		93,760
Intangible assets		6,810
Total assets acquired		162,272
Total liabilities assumed		(10,253)
Net assets acquired	$	152,019

After consideration of all types of intangibles that are typically associated with an acquired business, including those referenced in SFAS 141, a portion of the purchase price was ascribed only to those applicable identifiable intangible assets that had value. Customer relationships were valued using the discounted cash flow projections from new customers considering that many of Poly-Scientific's customers were already customers of the Company. Backlog was valued using the projected operating profit for firm customer orders after return on requisite assets, which provides for an annual return on net working capital, fixed assets, and intangible assets needed to support production. Patents and engineering drawings were valued with consideration given to the fact that the intellectual property is not a predominant business driver using an estimate of costs, including royalties, that were otherwise avoided due to the acquisition of such intellectual property with the assets of the acquired business. Based on these valuations, the Company's management concluded that intangible assets other than goodwill had a value of $6,810, or 4% of the purchase price.

The acquired intangible assets are all being amortized and have a weighted-average useful life of eight years. Customer-related intangible assets, including customer relationships and backlog, are $5,150 and have a weighted-average useful life of eight years. Technology-related intangible assets, including engineering drawings, patents and patent applications, are $1,660 and have a weighted-average useful life of ten years.

The resulting goodwill was $93,760, or 62% of the purchase price, reflecting the strong forecasted operating margins and related cash flows of the acquired operations. These strong margins are attributed to the niche markets that Poly-Scientific serves, in addition to their operational excellence. The acquired business has become a separate reporting segment, Components, and the entire amount of goodwill is included in that segment. The goodwill from this acquisition is deductible over fifteen years for tax purposes.

The following summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company with those of the acquired business for the three and six months ended March 31, 2003 as if the acquisition took place at the beginning of the fiscal year. The pro forma consolidated results include the impact of adjustments, including amortization of intangibles, increased interest expense on acquisition debt, additional shares of common stock outstanding and related income tax effects, among others. Pro forma net earnings for the six months ended March 31, 2003 also include $1,087 of expense related to the step-up inventory, all of which was assumed to be incurred in the first quarter following the acquisition as inventory turns over in one quarter.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004 (as reported)	2003 (pro forma)	2004 (as reported)	2003 (pro forma)
Net sales	$ 234,069	$ 223,769	$ 460,054	$ 436,167
Net earnings	14,085	12,480	26,741	22,919
Basic earnings per share	$ .54	$ .48	$ 1.03	$ .89
Diluted earnings per share	$ .53	$ .48	$ 1.01	$ .88

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the three and six months ended March 31, 2003. In addition, they are not intended to be a projection of future results.

4. Stock-Based Compensation

The Company accounts for stock options under the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25. The exercise price equals the market price of the underlying common shares on the date of grant and, therefore, no compensation expense is recognized. The following table illustrates the effect on net earnings and earnings per share as if the fair value method had been applied to all outstanding awards in each period.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Net earnings, as reported	$ 14,085	$ 10,304	$ 26,741	$ 20,082
Less stock based employee compensation expense determined under fair value method	(252)	(447)	(448)	(885)
Net earnings, pro forma	$ 13,833	$ 9,857	$ 26,293	$ 19,197
Earnings per share:				
Basic, as reported	$ .54	$ .45	$ 1.03	$ .88
Basic, pro forma	$ .53	$ .43	$ 1.01	$ .84
Diluted, as reported	$ .53	$ .45	$ 1.01	$ .87
Diluted, pro forma	$ .52	$ .43	$ .99	$ .83

5. Inventories

Inventories consist of:

	March 31, 2004	September 27, 2003
Raw materials and purchased parts	$ 63,531	$ 53,163
Work in process	95,998	82,537
Finished goods	32,088	34,878
	$ 191,617	$ 170,578

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended March 31, 2004 are as follows:

	Aircraft Controls	Space Controls	Industrial Controls	Components	Total
Balance at September 27, 2003	$ 102,817	$ 36,664	$ 55,456	$ -	$ 194,937
Acquisition	-	-	-	93,760	93,760
Foreign currency translation	-	-	1,425	-	1,425
Balance at March 31, 2004	$ 102,817	$ 36,664	$ 56,881	$ 93,760	$ 290,122

All acquired intangible assets other than goodwill are being amortized. The weighted-average amortization period is eight years for customer-related intangible assets, nine years for marketing-related intangible assets and ten years for technology-related and artistic-related intangible assets. In total, these intangible assets have a weighted-average life of nine years. Marketing-related intangible assets primarily consist of non-compete agreements. Technology-related intangible assets include patents, unpatented technology, software and trade secrets. Customer-related intangible assets primarily consist of customer relationships. Amortization of acquired intangible assets was $576 and $1,140 for the three and six months ended March 31, 2004, respectively, and was $236 and $477 for the three and six months ended March 31, 2003, respectively. Based on acquired intangible assets recorded at March 31, 2004, amortization is expected to be $2,279 in 2004, $1,651 in 2005, $1,400 in 2006, $1,111 in 2007 and $1,058 in 2008. The gross carrying amount and accumulated amortization for major categories of acquired intangible assets are as follows:

	March 31, 2004		September 27, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Marketing-related	$ 6,164	$ (3,728)	$ 6,102	$ (3,335)
Customer-related	5,854	(837)	681	(213)
Technology-related	3,038	(428)	1,348	(263)
Artistic-related	25	(6)	25	(5)
	$ 15,081	$ (4,999)	$ 8,156	$ (3,816)

7. Product Warranties

In the ordinary course of business, the Company warrants its products against defect in design, materials and workmanship typically over periods ranging from twelve to thirty-six months. On a quarterly basis, the Company determines warranty reserves needed by assessing exposures by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized below:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Warranty accrual at beginning of period	$ 3,521	$ 1,464	$ 2,292	$ 1,337
Additions from acquisition	-	-	827	-
Warranties issued during period	815	804	1,654	1,540
Adjustments to pre-existing warranties	-	-	230	-
Reductions for settling warranties	(812)	(841)	(1,607)	(1,507)
Foreign currency translation	(12)	27	116	84
Warranty accrual at end of period	$ 3,512	$ 1,454	$ 3,512	$ 1,454

8. Derivative Financial Instruments

The Company uses derivative financial instruments to manage the risk associated with changes in interest rates that affect the amount of future interest payments. At March 31, 2004, the Company had outstanding interest rate swaps with a $180,000 notional amount, effectively converting that amount of variable-rate debt to fixed-rate debt. Of the $180,000 notional amount, $90,000 matures in the second quarter of 2005, $55,000 matures in the second quarter of 2006 and $35,000 matures in the first quarter of 2007. Based on the applicable margin at March 31, 2004, the interest rate swaps effectively convert these amounts of variable-rate debt to fixed-rate debt at 3.8%, 4.3% and 4.1%, respectively, through their maturities, at which time the interest will revert back to variable rates based on LIBOR plus the applicable margin.

Activity in Accumulated Other Comprehensive Loss (AOCL) related to derivatives held by the Company during the first six months of fiscal 2004 is summarized below:

	Before-Tax Amount	Income Tax	After-Tax Amount
Balance at September 27, 2003	$ (1,610)	$ 614	$ (996)
Net decrease in fair value of derivatives	(952)	365	(587)
Net reclassification from AOCL into earnings	1,013	(390)	623
Balance at March 31, 2004	$ (1,549)	589	(960)

To the extent that the interest rate swaps are not perfectly effective in offsetting the change in the value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first six months of 2004 or 2003. The fair value of derivatives, most of which is included in accrued liabilities and other long-term liabilities, was a net liability of $1,882 at March 31, 2004 and $1,956 at September 27, 2003.

9. Employee Benefit Plans

Net periodic benefit costs for U.S. pension plans consist of:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Service cost	$ 2,866	$ 2,082	$ 5,710	$ 4,163
Interest cost	4,000	3,766	8,000	7,532
Expected return on plan assets	(4,600)	(3,780)	(9,200)	(7,561)
Amortization of prior service cost	262	269	524	538
Amortization of actuarial loss	383	57	765	116
Pension expense for defined benefit plans	2,911	2,394	5,799	4,788
Pension expense for defined contribution plans	160	134	364	301
Total pension expense for U.S. plans	$ 3,071	$ 2,528	$ 6,163	$ 5,089

Net periodic benefit costs for non-U.S. pension plans consist of:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Service cost	$ 526	$ 417	$ 1,023	$ 822
Interest cost	787	650	1,535	1,277
Expected return on plan assets	(313)	(220)	(606)	(439)
Amortization of prior service cost	7	5	15	10
Amortization of transition obligation	27	43	52	82
Amortization of actuarial loss	195	199	379	401
Pension expense for defined benefit plans	1,229	1,094	2,398	2,153
Pension expense for defined contribution plans	260	251	457	503
Total pension expense for non-U.S. plans	$ 1,489	$ 1,345	$ 2,855	$ 2,656

Net periodic benefit costs for the postretirement benefit plan consist of:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Service cost	$ 55	$ 53	$ 110	$ 106
Interest cost	265	257	530	514
Amortization of transition obligation	98	98	195	195
Amortization of prior service cost	72	72	145	145
Amortization of actuarial loss	65	41	130	82
Net periodic postretirement benefit cost	$ 555	$ 521	$ 1,110	$ 1,042

During the six months ended March 31, 2004, the Company made contributions to its defined benefit pension plans of $20,300. The Company presently anticipates contributing an additional $8,800 to fund its pension plans in 2004 for a total of $29,100.

10. Shareholders' Equity

The changes in shareholders' equity for the six months ended March 31, 2004 are summarized as follows:

			Number of Shares	
			Class A	Class B
		Preferred	Common	Common
	Amount	Shares	Stock	Stock
PREFERRED STOCK				
Beginning of period	$ 100	100,000		
Conversion of Preferred Stock				
to Class A Common Stock	(100)	(100,000)		
End of period	-	-		
COMMON STOCK				
Beginning of period	30,488		25,045,857	5,442,468
Conversion of Class B to Class A	-		99,675	(99,675)
Cancellation of fractional shares in stock split	-		(549)	(186)
Adjustment for activity after record				
date of stock split	2		2,802	-
End of period	30,490		25,147,785	5,342,607
ADDITIONAL PAID-IN CAPITAL				
Beginning of period	196,184			
Issuance of Treasury shares at more than cost	1,713			
Conversion of Preferred Stock to				
Class A Common Stock	15			
Cancellation of fractional shares in stock split	(16)			
Adjustment for activity after record				
date of stock split	(3)			
End of period	197,893			
RETAINED EARNINGS				
Beginning of period	265,706			