AMETEK INC/
Form 10-Q
May 02, 2008

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

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number 1-12981
AMETEK, Inc.
(Exact Name of registrant as specified in its charter)

Delaware	**14-1682544**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
37 North Valley Road, Building 4 **P.O. Box 1764** **Paoli, Pennsylvania**	**19301-0801**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(610) 647-2121**

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

Indicate by check mark whether the registrant 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 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

The number of shares of the registrant s common stock outstanding as of the latest practicable date was: Common Stock, $0.01 Par Value, outstanding at April 30, 2008 was 106,691,780 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMETEK, Inc.
Consolidated Statement of Income
(In thousands, except per share amounts)
(Unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Net sales	**$ 611,197**	$ 505,283
Operating expenses:		
Cost of sales, excluding depreciation	**411,017**	343,344
Selling, general and administrative	**73,367**	62,053
Depreciation	**10,580**	9,962
Total operating expenses	**494,964**	415,359
Operating income	**116,233**	89,924
Other expenses:		
Interest expense	**(15,134)**	(10,909)
Other, net	**(697)**	(566)
Income before income taxes	**100,402**	78,449
Provision for income taxes	**34,045**	27,549
Net income	**$ 66,357**	$ 50,900
Basic earnings per share	**$ 0.63**	$ 0.48
Diluted earnings per share	**$ 0.62**	$ 0.48
Weighted average common shares outstanding:		
Basic shares	**105,942**	105,125
Diluted shares	**107,749**	106,881
Dividends declared and paid per share	**$ 0.06**	$ 0.06

See accompanying notes.

AMETEK, Inc.
Consolidated Balance Sheet
(In thousands)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 114,708**	$ 170,139
Marketable securities	**9,899**	10,842
Receivables, net	**430,178**	395,631
Inventories	**326,770**	301,679
Deferred income taxes	**15,225**	23,294
Other current assets	**54,118**	50,619
Total current assets	**950,898**	952,204
Property, plant and equipment, at cost	**847,254**	817,558
Less accumulated depreciation	**(539,887)**	(524,451)
	307,367	293,107
Goodwill	**1,122,745**	1,045,733
Other intangibles, net of accumulated amortization	**323,985**	312,349
Investments and other assets	**143,502**	142,307
Total assets	**$ 2,848,497**	$ 2,745,700
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	**$ 236,517**	$ 236,005
Accounts payable	**236,838**	206,170
Income taxes payable	**49,212**	28,437
Accrued liabilities	**170,136**	170,138
Total current liabilities	**692,703**	640,750
Long-term debt	**667,731**	666,953
Deferred income taxes	**127,081**	116,568
Other long-term liabilities	**81,000**	80,722
Stockholders equity:		
Common stock	**1,099**	1,097

Capital in excess of par value	**180,500**	174,450
Retained earnings	**1,159,082**	1,099,111
Accumulated other comprehensive income	**22,196**	5,370
Treasury stock	**(82,895)**	(39,321)
	1,279,982	1,240,707
Total liabilities and stockholders equity	**$ 2,848,497**	$ 2,745,700

See accompanying notes.

AMETEK, Inc.
Condensed Consolidated Statement of Cash Flows
(In thousands, except per share amounts)
(Unaudited)

	Three months ended March 31,	
	2008	**2007**
Cash provided by (used for):		
Operating activities:		
Net income	**$ 66,357**	$ 50,900
Adjustments to reconcile net income to total operating activities:		
Depreciation and amortization	**14,164**	12,153
Deferred income tax expense	**(2,045)**	(1,310)
Share-based compensation expense	**3,163**	4,636
Net change in assets and liabilities, net of acquisitions	**(3,654)**	(10,405)
Pension contribution and other	**(1,482)**	(1,127)
Total operating activities	**76,503**	54,847
Investing activities:		
Additions to property, plant and equipment	**(8,975)**	(8,496)
Purchases of businesses, net of cash acquired and other	**(72,499)**	79
Total investing activities	**(81,474)**	(8,417)
Financing activities:		
Net change in short-term borrowings	**23**	(35,455)
Reduction in long-term borrowings	**(6,882)**	
Repurchases of common stock	**(43,537)**	(2,881)
Cash dividends paid	**(6,319)**	(6,382)
Excess tax benefits from share-based payments	**739**	1,921
Proceeds from employee stock plans	**1,795**	4,271
Total financing activities	**(54,181)**	(38,526)
Effect of exchange rate changes on cash and cash equivalents	**3,721**	409
(Decrease) increase in cash and cash equivalents	**(55,431)**	8,313
Cash and cash equivalents:		
As of January 1	**170,139**	49,091
As of March 31	**$ 114,708**	$ 57,404

See accompanying notes.

AMETEK, Inc.
Notes to Consolidated Financial Statements
March 31, 2008
(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements are unaudited. The Company believes that all adjustments (which primarily consist of normal recurring accruals) necessary for a fair presentation of the consolidated financial position of the Company at March 31, 2008, and the consolidated results of its operations and its cash flows for the three months ended March 31, 2008 and 2007 have been included. Quarterly results of operations are not necessarily indicative of results for the full year. The accompanying financial statements should be read in conjunction with the financial statements and related notes presented in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission.

2. Recent Accounting Pronouncements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which provides a one year deferral of the effective date of SFAS 157 for non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities, including those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination. Therefore, the Company has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

At March 31, 2008, $11.5 million of the Company s cash and cash equivalents and $9.9 million of marketable securities are valued as level 1 investments. The Company held $8.4 million valued as level 2 investments in the investments and other assets line of the balance sheet. For the three months ended March 31, 2008, gains and losses on the investments noted above were not material.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). This statement significantly changes the financial accounting and reporting of business combination transactions in the Company s consolidated financial statements. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and prohibits early adoption. The Company is currently evaluating the impact of adopting SFAS 141R on our consolidated results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). This statement significantly changes the accounting for and reporting of noncontrolling (minority) interests in the Company s consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and prohibits early adoption. The Company is currently

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evaluating the impact of adopting SFAS 160 on our consolidated results of operations, financial position and cash flows.

3. Earnings Per Share

The calculation of basic earnings per share is based on the weighted average number of common shares considered outstanding during the periods. The calculation of diluted earnings per share reflects the effect of all potentially dilutive securities (principally outstanding common stock options and restricted stock grants). The number of weighted average shares used in the calculation of basic earnings per share and diluted earnings per share were as follows:

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Weighted average shares:		
Basic shares	**105,942**	105,125
Stock option and awards plans	**1,807**	1,756
Diluted shares	**107,749**	106,881

4. Acquisitions

The Company spent a total of approximately $74.9 million in cash, net of cash acquired, to acquire Motion Control Group (MCG), Drake Air (Drake) and Newage Testing Instruments (Newage) in February 2008. MCG is a leading global manufacturer of highly customized motors and motion control solutions for the medical, life sciences, industrial automation, semiconductor and aviation markets. MCG enhances our capability in providing precision motion technology solutions. Drake is a provider of heat-transfer repair services to the commercial aerospace industry and further expands our presence in the global aerospace maintenance, repair and overhaul (MRO) services industry. Newage is a technology line acquisition of hardness testing equipment used by the automotive, aerospace, oil exploration and defense industries. MCG and Drake are part of the Company s Electromechanical Group and Newage is a part of the Company s Electronic Instruments Group.

The acquisitions have been accounted for using the purchase method in accordance with SFAS No. 141, Business Combinations. Accordingly, the operating results of the above acquisitions have been included in the Company s consolidated results from the respective dates of acquisition.

The following table represents the tentative allocation of the aggregate purchase price for the net assets of the above acquisitions based on their estimated fair value:

	(In millions)
Property, plant and equipment	$ 4.4
Goodwill	$ 48.5
Other intangible assets	$ 13.9
Net working capital and other	$ 8.1
Total purchase price	$ 74.9

The amount allocated to goodwill is reflective of the benefits the Company expects to realize from the acquisitions as follows: The MCG acquisition is an excellent strategic fit with our highly differentiated technical motors business, sharing common markets, customers, distribution channels and motor platforms. The Drake

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acquisition further expands the Company s position in the third party aerospace MRO market. The Newage acquisition is an excellent fit with the products offered by our measurement and calibration technologies business and broadens the range of materials testing solutions we can provide and support through our global sales and service network.

The Company is in the process of conducting third party valuations of certain tangible and intangible assets acquired, as well as preparing restructuring plans for certain acquisitions. Adjustments to the allocation of purchase price will be recorded within the purchase price allocation period of up to twelve months subsequent to the dates of acquisition. Therefore, the allocation of the purchase price is subject to revision.

Had the above acquisitions and the 2007 acquisitions of Seacon Phoenix in April 2007, Advanced Industries, B&S Aircraft and Hamilton Precision Metals in June 2007, Cameca SAS in August 2007, the Repair & Overhaul Division of Umeco plc in November 2007 and California Instruments in December 2007 been made at the beginning of 2007, pro forma net sales, net income and diluted earnings per share would have been as follows:

	Three Months Ended March 31, 2007 (In thousands)
Net sales	$ 569.9
Net income	$ 54.5
Diluted earnings per share	$ 0.51

Acquisitions Subsequent to March 31, 2008

In April 2008, the Company acquired Reading Alloys, a privately held, niche specialty metals producer for approximately $90 million in cash. Reading Alloys is a global leader in specialty titanium master alloys and highly engineered metal powders used in the aerospace, medical implant, military and electronics markets. Reading Alloys titanium powders expand our position in customized titanium products, adding to our capabilities in strip and foil products used in medical devices, electronic components and aerospace instruments. In addition, Reading Alloys metal powder production techniques complement our existing gas and water atomization capabilities. Reading Alloys is part of AMETEK s Electromechanical Group.

5. Goodwill

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

	EIG	EMG (In millions)	Total
Balance at December 31, 2007	**$ 622.0**	**$ 423.7**	**$ 1,045.7**
Goodwill acquired during the period	13.3	35.2	48.5
Purchase price allocation adjustments and other*	8.4	6.2	14.6
Foreign currency translation adjustments	12.8	1.1	13.9
Balance at March 31, 2008	**$ 656.5**	**$ 466.2**	**$ 1,122.7**

* Purchase price allocation adjustments reflect final purchase price

allocations and revisions to certain preliminary allocations for recent acquisitions, which include reclassifications between goodwill and other intangible assets.

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6. Inventories

The components of inventories were as follows:

	March 31, 2008	December 31, 2007
	(In thousands)	
Finished goods and parts	**$ 54,709**	$ 52,206
Work in process	**93,716**	86,858
Raw materials and purchased parts	**178,345**	162,615
Total inventories	**$ 326,770**	$ 301,679

7. Comprehensive Income

Comprehensive income includes all changes in stockholders equity during a period except those resulting from investments by and distributions to stockholders. The components of comprehensive income were as follows:

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Net income	**$ 66,357**	$ 50,900
Foreign currency translation adjustment	**15,188**	768
Foreign currency net investment hedge*	**2,192**	715
Other	**(554)**	(4)
Total comprehensive income	**$ 83,183**	$ 52,379

* Represents the net gains and losses from the non-derivative foreign-currency-denominated long-term debt. These debt instruments were designated as hedging instruments to offset foreign exchange gains or losses on the net investment in certain foreign operations.

8. Share-Based Compensation

Under the terms of the Company s stockholder approved share-based plans, incentive and non-qualified stock options and restricted stock awards have been, and may be, issued to the Company s officers, management-level employees and members of its Board of Directors. Employee and non-employee director stock options generally vest at a rate of 25% per year, beginning one year from the date of the grant and restricted stock awards generally have a four-year cliff vesting. Options primarily have a maximum contractual term of seven years. At March 31, 2008, 8.6 million shares of Company common stock were reserved for issuance under the Company s share-based plans, including 3.7 million shares for stock options outstanding.

The Company issues previously unissued shares when options are exercised, and shares are issued from treasury stock upon the award of restricted stock.

For grants under any of the Company s plans that are subject to graded vesting over a service period, the Company recognizes expense on a straight-line basis over the requisite service period for the entire award.

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The fair value of each option grant is estimated on the date of grant using a Black-Scholes-Merton option pricing model. The following weighted average assumptions were used in the Black-Scholes-Merton model to estimate the fair values of options granted during the period indicated:

	Year Ended December 31, 2007
Expected stock volatility	22.4%
Expected life of the options (years)	4.7
Risk-free interest rate	4.53%
Expected dividend yield	0.66%
Black-Scholes-Merton fair value per option granted	$ 9.58

Expected stock volatility is based on the historical volatility of the Company s stock. The Company used historical exercise data to estimate the options expected life, which represents the period of time that the options granted are expected to be outstanding. Management anticipates that the future option holding periods will be similar to the historical option holding periods. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant. Compensation expense recognized for all share-based awards is net of estimated forfeitures. The Company s estimated forfeiture rates are based on its historical experience.

Total share-based compensation expense recognized under SFAS 123R was as follows:

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Stock option expense	**$ 1,427**	$ 1,411
Restricted stock expense*	**1,736**	3,225
Total pretax expense	**3,163**	4,636
Related tax benefit	**(816)**	(1,300)
Reduction of net income	**$ 2,347**	$ 3,336
Reduction of earnings per share:		
Basic	**$ 0.02**	$ 0.03
Diluted	**$ 0.02**	$ 0.03

* 2007 reflects the accelerated vesting of a restricted stock grant. See

discussion on
page 11.

Pretax share-based compensation expense is included in either cost of sales, or selling, general and administrative expenses, depending on where the recipient s cash compensation is reported.

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A summary of the Company s stock option activity and related information for the three months ended March 31, 2008 were as follows:

	Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In millions)
Outstanding at beginning of year	3,806	$ 23.05		
Granted				
Exercised	(105)	17.46		
Forfeited	(5)	32.84		
Outstanding at end of period	3,696	$ 23.20	3.7	$ 76.6
Exercisable at end of period	2,028	$ 16.95	2.7	$ 54.7

The aggregate intrinsic value of options exercised during the three months ended March 31, 2008 was $2.7 million. The total fair value of the stock options vested during the three months ended March 31, 2008 was not significant.

The fair value of restricted shares under the Company s restricted stock arrangement is determined by the product of the number of shares granted and the grant date market price of the Company s common stock. Upon the grant of restricted stock, the fair value of the restricted shares (unearned compensation) at the date of grant is charged as a reduction of capital in excess of par value in the Company s consolidated balance sheet and is amortized to expense on a straight-line basis over the vesting period, which is the same as the calculated derived service period as determined on the grant date. Restricted stock awards are also subject to accelerated vesting due to certain events, including doubling of the grant price of the Company s common stock as of the close of business during any five consecutive trading days. On February 20, 2007, the May 18, 2004 grant of 264,195 shares of restricted stock vested under an accelerated vesting provision. The charge to income due to the accelerated vesting of these shares did not have a material impact on our earnings in the first quarter of 2007. At March 31, 2008, the Company had 1.1 million shares of restricted stock outstanding.

9. Income Taxes

The Company adopted the provisions of FIN 48, *Accounting for the Uncertainty in Income Taxes*, on January 1, 2007. As a result of the adoption of FIN 48, the Company recognized a $4.7 million increase in liabilities associated with unrecognized tax benefits, including interest and penalties of $2.4 million, a decrease of $1.2 million in goodwill related to a previous business combination, and a $5.9 million charge to the January 1, 2007, opening balance of retained earnings.

At March 31, 2008 and December 31, 2007, the Company had gross unrecognized tax benefits of $22.7 million of which $21.6 million, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties accrued related to uncertain tax positions in income tax expense. The amounts recognized in income tax expense for interest and penalties during the three months ended March 31, 2008 and 2007 were not significant.

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AMETEK, Inc.
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March 31, 2008
(Unaudited)

10. Retirement and Pension Plans

Total net pension expense was as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(In thousands)	
Defined benefit plans:		
Service cost	**$ 1,556**	$ 1,693
Interest cost	**7,266**	6,894
Expected return on plan assets	**(10,526)**	(9,769)
Amortization of net actuarial (gain) loss and prior service costs	**(70)**	162
SFAS 87 income	**(1,774)**	(1,020)
Other plans:		
Defined contribution plans	**3,416**	2,846
Foreign plans and other	**1,272**	851
Total other plans	**4,688**	