AMETEK INC/
Form 10-Q
August 03, 2007

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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 June 30, 2007

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 issuer s common stock outstanding as of the latest practicable date was: Common Stock, $0.01 Par Value, outstanding at July 31, 2007 was 107,040,801 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMETEK, Inc.
CONSOLIDATED STATEMENT OF INCOME (Unaudited)
(In thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net sales	$ 519,468	$ 450,585	$ 1,024,751	$ 874,452
Expenses:				
Cost of sales, excluding depreciation	350,237	308,308	693,581	601,076
Selling, general and administrative	62,854	53,315	124,907	104,127
Depreciation	9,767	9,863	19,729	19,349
Total expenses	422,858	371,486	838,217	724,552
Operating income	96,610	79,099	186,534	149,900
Other expenses:				
Interest expense	(10,998)	(10,301)	(21,907)	(20,389)
Other, net	(1,537)	(589)	(2,103)	(1,326)
Income before income taxes	84,075	68,209	162,524	128,185
Provision for income taxes	26,062	21,741	53,611	41,459
Net income	$ 58,013	$ 46,468	$ 108,913	$ 86,726
Basic earnings per share	$ 0.55	$ 0.44	$ 1.03	$ 0.83
Diluted earnings per share	$ 0.54	$ 0.43	$ 1.02	$ 0.81
Average common shares outstanding:				
Basic shares	105,665	105,128	105,395	104,983
Diluted shares	107,433	106,849	107,157	106,767
Dividends declared and paid per share	$ 0.06	$ 0.04	$ 0.12	$ 0.08

See accompanying notes.

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AMETEK, Inc.
CONSOLIDATED BALANCE SHEET
(In thousands)

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 76,316	$ 49,091
Marketable securities	10,374	9,129
Receivables, less allowance for possible losses	367,322	328,762
Inventories	265,469	236,783
Deferred income taxes	25,066	26,523
Other current assets	34,381	33,775
Total current assets	778,928	684,063
Property, plant and equipment, at cost	761,138	749,822
Less accumulated depreciation	(494,959)	(491,814)
	266,179	258,008
Goodwill	922,016	881,433
Other intangibles, net of accumulated amortization	253,110	199,728
Investments and other assets	106,114	107,644
Total assets	$ 2,326,347	$ 2,130,876
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 184,498	$ 163,608
Accounts payable	170,891	160,614
Accruals	175,768	156,678
Total current liabilities	531,157	480,900
Long-term debt	526,057	518,267
Deferred income taxes	88,376	65,081
Other long-term liabilities	96,482	99,956
Stockholders equity:		
Common stock	1,094	1,085

Capital in excess of par value	161,806	134,001
Retained earnings	992,603	902,379
Accumulated other comprehensive losses	(30,946)	(33,552)
Treasury stock	(40,282)	(37,241)
	1,084,275	966,672
Total liabilities and stockholders equity	$ 2,326,347	$ 2,130,876

See accompanying notes.

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AMETEK, Inc.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
(In thousands)

	Six months ended June 30, 2007	Six months ended June 30, 2006
Cash provided by (used for):		
Operating activities:		
Net income	$ 108,913	$ 86,726
Adjustments to reconcile net income to total operating activities:		
Depreciation and amortization	24,357	22,405
Deferred income taxes	(6,002)	119
Share-based compensation expense	8,052	6,042
Net change in assets and liabilities	(16,020)	(4,071)
Pension contribution	(1,282)	(10,000)
Other	1,911	499
Total operating activities	119,929	101,720
Investing activities:		
Additions to property, plant and equipment	(17,150)	(12,800)
Purchases of businesses and other	(100,363)	(114,189)
Total investing activities	(117,513)	(126,989)
Financing activities:		
Net change in short-term borrowings	21,407	24,741
Additional long-term borrowings		29,507
Reduction in long-term borrowings		(17,468)
Repurchases of common stock	(2,881)	(5,467)
Cash dividends paid	(12,791)	(8,428)
Excess tax benefits from share-based payments	6,237	3,020
Proceeds from stock options	11,665	6,132
Total financing activities	23,637	32,037
Effect of exchange rate changes on cash and cash equivalents	1,172	2,198
Increase in cash and cash equivalents	27,225	8,966
Cash and cash equivalents:		
As of January 1	49,091	35,545

As of June 30	$ 76,316	$ 44,511

See accompanying notes.

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AMETEK, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
(Unaudited)

Note 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 June 30, 2007, and the consolidated results of its operations for the three- and six-month periods ended June 30, 2007 and 2006 and its cash flows for the six month periods ended June 30, 2007 and 2006 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, 2006 as filed with the Securities and Exchange Commission.

Note 2 Recent Accounting Pronouncements

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 creates a single model to address accounting for uncertainty in tax positions, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of adopting FIN 48 resulted in a non-cash reduction of $5.9 million to the January 1, 2007 opening balance of retained earnings (See Note 9).

Effective January 1, 2007, the Company adopted Emerging Issues Task Force (EITF) Issue No. 06-5, *Accounting for Purchases of Life Insurance- Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4* (EITF 06-5). EITF 06-5 provides guidance in determining the amount to be realized under certain insurance contracts and the related disclosures. Adoption of EITF 06-5 did not have any effect on the Company s consolidated results of operations, financial position and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (FAS 159) which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to elect to measure certain assets and liabilities at fair value at specified election dates. The Company is currently evaluating the impact of adopting FAS 159 on our financial statements.

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Note 3 Earnings Per Share

The calculation of basic earnings per share for the three- and six-month periods ended June 30, 2007 and 2006 is based on the average number of common shares considered outstanding during the periods. The calculation of diluted earnings per share for such periods reflects the effect of all potentially dilutive securities (outstanding common stock options and restricted stock grants). The following table presents the number of shares used in the calculation of basic earnings per share and diluted earnings per share:

	Weighted average shares (In thousands)			
	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Basic shares	105,665	105,128	105,395	104,983
Share-based award plans	1,768	1,721	1,762	1,784
Diluted shares	107,433	106,849	107,157	106,767

Note 4 Acquisitions

The Company spent $100.3 million for four new businesses acquired in the second quarter of 2007, which includes the acquisition of Seacon Phoenix (Seacon) in April 2007 and Advanced Industries, Inc. (Advanced) , B&S Aircraft Parts and Accessories (B&S) and Hamilton Precision Metals (Hamilton) in June 2007. Seacon provides undersea electrical interconnect subsystems to the global submarine market. Seacon is a part of the Company s Electromechanical Group. Advanced manufactures starter generators, brush and brushless motors, vane-axial centrifugal blowers for cabin ventilation, and linear actuators for the business jet, light jet, and helicopter markets. Advanced is a part of the Company s Electronic Instruments Group. B&S provides third party maintenance, repair and operation (MRO) services, primarily for starter generators and hydraulic and fuel system components, for a variety of business aircraft and helicopter applications. B&S is a part of the Company s Electronic Instruments Group. Hamilton produces highly differentiated niche specialty metals used in medical implant devices and surgical instruments, electronic components and measurement devices for aerospace and other industrial markets. Hamilton is a part of the Company s Electromechanical Group. The four businesses acquired have annualized sales of approximately $70 million.

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	$ 7.1
Goodwill	42.0
Other intangible assets	30.7
Net working capital and other	20.5
Total purchase price	$ 100.3

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The amount allocated to goodwill is reflective of the benefits the Company expects to realize from the acquisitions as follows: The Seacon acquisition is an excellent strategic fit with the Company s engineered materials, interconnects and packaging business and extends the Company s reach into new defense markets. The Advanced acquisition complements the Company s AMPHION product line of power management products for the aerospace industry and broadens our product offering in the power management subsystem market. The B&S acquisition further expands the Company s position in the third party aerospace MRO market. The Hamilton acquisition is a strategic fit with our engineered materials, interconnects and packaging business and has strong positions in growing specialty metals niche markets within the aerospace and other industrial markets. The Company expects approximately $5.5 million of goodwill recorded on the 2007 acquisitions will be deductible in future years for tax purposes.

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 been made at the beginning of 2007, net sales, net income and diluted earnings per share for the three- and six-month periods ended June 30, 2007 would not have been materially different than the amounts reported.

Had the above acquisitions and the acquisition of Pulsar, Pittman, Land Instruments, Precitech and Southern Aeroparts, which were acquired in February, May, June, November and December 2006, respectively, been made at the beginning of 2006, pro forma net sales, net income, and diluted earnings per share for the three- and six-month periods ended June 30, 2006, would have been as follows:

	(In millions, except per share)	
	Three months ended June 30, 2006	Six months ended June 30, 2006
Net sales	$488.9	$ 961.0
Net income	$ 48.0	$ 90.0
Diluted earnings per share	$ 0.45	$ 0.84

Pro forma results are not necessarily indicative of the results that would have occurred if the acquisitions had been completed at the beginning of 2006.

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Note 5 Goodwill

The changes in the carrying amounts of goodwill by segment as of June 30, 2007 and December 31, 2006, were as follows:

	(In millions)		
	EIG	EMG	Total
Balance at December 31, 2006	$ 531.7	$ 349.7	$ 881.4
Goodwill acquired during the period	5.6	36.4	42.0
Purchase price allocation adjustments and other*	(5.6)	(3.2)	(8.8)
Foreign currency translation adjustments	5.8	1.6	7.4
Balance at June 30, 2007	$ 537.5	$ 384.5	$ 922.0

* 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.

Note 6 Inventories

The components of inventory stated primarily at lower of last in, first out (LIFO), cost or market are:

	(In thousands)	
	June 30, 2007	December 31, 2006
Finished goods and parts	$ 49,984	$ 46,148
Work in process	59,724	56,502
Raw materials and purchased parts	155,761	134,133
Total	$ 265,469	$ 236,783

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Note 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 following table presents comprehensive income for the three- and six-month periods ended June 30, 2007 and 2006:

	(In thousands)			
	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net Income	$ 58,013	$ 46,468	$ 108,913	$ 86,726
Foreign currency translation adjustment	(721)	3,848	47	5,970
Foreign currency net investment hedge*	1,403	3,995	2,118	5,272
Other	445	(154)	441	70
Total comprehensive income	$ 59,140	$ 54,157	$ 111,519	$ 98,038

* Represents the net gains from 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.

Note 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, other management-level employees and its Board of Directors. Employees and non-employee director stock options generally vest over a four-year service period. Restricted stock awards generally cliff-vest at the end of a four year service period. Options primarily have a maximum contractual term of 7 years. At June 30, 2007, 9.1 million shares of common stock were reserved for issuance under the Company s share-based plans, including 4.2 million 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, we recognize 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 option pricing model. The following weighted average assumptions were used in the Black-Scholes model to estimate the fair values of options granted during the periods indicated:

	Six Months Ended June 30, 2007	Year ended December 31, 2006
Expected stock volatility	22.5%	24.4%
Expected life of the options (years)	4.7	4.8
Risk-free interest rate	4.50%	4.71%
Expected dividend yield	0.66%	0.50%

Expected volatilities are based on historical volatility of the Company s stock. The Company used historical exercise data to estimate the options expected term, which represents the period of time that the options granted are expected to be outstanding. Management anticipates the future option holding periods to be similar to the historical option holding periods. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect 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 for the three- and six- months ended June 30, 2007 and 2006 was as follows:

	(In thousands)			
	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Stock option expense	$ 1,737	$ 1,362	$ 3,148	$ 2,775
Restricted stock expense *	1,679	1,754	4,904	3,267
Total pretax expense	3,416	3,116	8,052	6,042
Related tax benefit	(960)	(781)	(2,260)	(1,547)
Reduction of net income	$ 2,456	$ 2,335	$ 5,792	$ 4,495
Reduction of earnings per share:				
Basic *	$ 0.02	$ 0.02	$ 0.05	$ 0.04
Diluted *	$ 0.02	$ 0.02	$ 0.05	$ 0.04

* The six months ended June 30, 2007 results reflect the accelerated

vesting of a restricted stock grant in the first quarter of 2007. See discussion on page 12.

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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 and is included in segment operating income and as a corporate item for business segment reporting.

A summary of the Company s stock option activity and related information for its option plans for the six months ended June 30, 2007 was as follows:

	Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at beginning of period	4,511	$ 18.28	
Granted	665	36.41	
Exercised	(907)	12.78	
Forfeited	(38)	26.80	