AMETEK INC/
Form 10-K
February 26, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

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 1-12981

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.)

1100 Cassatt Road

Berwyn, Pennsylvania **19312-1177**
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 Par Value (voting)	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $10.3 billion as of June 28, 2013, the last business day of the registrant s most recently completed second fiscal quarter.

The number of shares of the registrant s Common Stock outstanding as of January 31, 2014 was 245,067,108.

Documents Incorporated by Reference

Part III incorporates information by reference from the Proxy Statement for the Annual Meeting of Stockholders on May 8, 2014.

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AMETEK, Inc.

2013 Form 10-K Annual Report

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PART I

Item 1. Business

General Development of Business

AMETEK, Inc. (AMETEK or the Company) is incorporated in Delaware. Its predecessor was originally incorporated in Delaware in 1930 under the name American Machine and Metals, Inc. The Company maintains its principal executive offices in suburban Philadelphia at 1100 Cassatt Road, Berwyn, Pennsylvania, 19312. AMETEK is a leading global manufacturer of electronic instruments and electromechanical devices with operations in North America, Europe, Asia and South America. The Company is listed on the New York Stock Exchange (symbol: AME). The common stock of AMETEK is a component of the S&P 500 and the Russell 1000 Indices.

Website Access to Information

The Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available free of charge on the Company s website at www.ametek.com (in the Investors Financial News and Information section), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The Company has posted, free of charge, on the investor information portion of its website, its corporate governance guidelines, Board committee charters and codes of ethics. Those documents also are available in published form, free of charge, to any stockholder who requests them by writing to the Investor Relations Department at AMETEK, Inc., 1100 Cassatt Road, Berwyn, Pennsylvania, 19312.

Products and Services

The Company markets its products worldwide through two operating groups, the Electronic Instruments Group (EIG) and the Electromechanical Group (EMG). EIG provides monitoring, testing, calibration and display devices for the process, aerospace, power and industrial markets. EMG produces highly engineered electrical connectors for electronic applications; precision motion control solutions; specialty metals and alloys; and electric motors, blowers and heat exchangers. End markets include aerospace and defense, medical devices, factory automation, mass transit, petrochemical and other industrial markets. The Company continues to grow through strategic acquisitions focused on differentiated niche markets in instrumentation and electromechanical devices.

Competitive Strengths

Management believes that the Company has several significant competitive advantages that assist it in sustaining and enhancing its market positions. Its principal strengths include:

Significant Market Share. AMETEK maintains a significant share in many of its targeted niche markets because of its ability to produce and deliver high-quality products at competitive prices. In EIG, the Company maintains significant market positions in many niche segments within the process, aerospace, power and industrial instrumentation markets. In EMG, the Company maintains significant market positions in many niche segments, including aerospace and defense, precision motion control, factory automation and robotics, medical devices and mass transit.

Technological and Development Capabilities. AMETEK believes it has certain technological advantages over its competitors that allow it to develop innovative products and maintain leading market positions. Historically, the Company has grown by extending its technical expertise into the manufacture of customized products for its customers, as well as through strategic acquisitions. EIG competes primarily on

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the basis of product innovation in several highly specialized instrumentation markets, including process measurement, aerospace, power generation and distribution, heavy-vehicle dashboard and medical instrumentation. EMG s differentiated businesses focus on developing customized products for specialized applications in aerospace and defense, medical, factory automation and other industrial applications.

Efficient and Low-Cost Manufacturing Operations. EMG has manufacturing plants in Brazil, China, the Czech Republic, Malaysia, Mexico and Serbia to lower its costs and achieve strategic proximity to its customers, providing the opportunity to increase international sales and market share. Certain of the Company s electronic instrument businesses have relocated manufacturing operations to low-cost locales. Furthermore, strategic acquisitions and joint ventures in Europe, North America and Asia have resulted in additional cost savings and synergies through the consolidation of operations, supply chain, product lines and distribution channels, which benefits both operating groups.

Experienced Management Team. Another key component of AMETEK s success is the strength of its management team and its commitment to the performance of the Company. AMETEK s senior management has extensive experience, averaging approximately 26 years with the Company, and is financially committed to the Company s success through Company-established stock ownership guidelines and equity incentive programs.

Business Strategy

AMETEK s objectives are to increase the Company s earnings and financial returns through a combination of operational and financial strategies. Those operational strategies include Operational Excellence, New Product Development, Global and Market Expansion, and Strategic Acquisitions. These strategies are designed to achieve double-digit annual percentage growth in earnings per share over the business cycle and a superior return on total capital. To support those operational objectives, financial initiatives have been, or may be, undertaken, including public and private debt or equity issuance, bank debt refinancing, local financing in certain foreign countries and share repurchases. AMETEK s commitment to earnings growth is reflected in its continued implementation of its new product development, global and market expansion, acquisition strategy and its operational excellence programs designed to achieve the Company s long-term, best-cost objectives.

AMETEK s Corporate Growth Plan consists of four key strategies:

Operational Excellence. Operational Excellence is AMETEK s cornerstone strategy for improving profit margins and strengthening the Company s competitive position across its businesses. Through its Operational Excellence strategy, the Company seeks to improve operating efficiency, reduce production costs and improve its market positions. AMETEK believes that Operational Excellence, which focuses on Six Sigma process improvements in factories, design for Six Sigma in new product development efforts, global sourcing, lean manufacturing and emphasizing team building and a participative management culture, has enabled the Company to improve operating efficiencies and product quality, increase customer satisfaction, and has yielded higher cash flow from operations, while lowering operating and administrative costs and shortening manufacturing cycle times. The strategy also has played a key role in achieving synergies from newly acquired companies.

New Product Development. New products are essential to AMETEK s long-term growth. As a result, AMETEK has consistently maintained its investment in new product development, and, in 2013, added to its highly differentiated product portfolio with a range of new products across each of its businesses. Recent introductions include:

- Spectro Analytical s SPECTROSCOUT portable elemental analyzer performs rapid, laboratory-class analysis in the field or at remote locations, making it an ideal tool for environmental and geological field work and highly accurate, onsite precious metal analysis;

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Programmable Power added two new Sorensen SG DC power supply products. The widely used, bench top units offer high-quality power and higher voltage ranges and are well suited for testing components for electric vehicles, solar energy systems and semiconductor equipment;

Rotron Nanos II/3 and Minimax vaneaxial fans weigh less than two ounces but deliver maximum airflow for spot cooling of tightly packaged electronic and optical equipment. The fans compact size and minimal weight make them ideal for portable equipment and other space-limited electronic applications;

Sensors and Fluid Management Systems advanced fuel gauging system and remote fuel display panel were selected by Bell Helicopter for the new 525 Relentless super medium helicopter because of their state-of-the-art design capabilities, accuracy and reliability;

Taylor Hobson s Sutronic® S-100 Series portable surface measurement testers were developed to meet the requirements of precision manufacturers for a durable shop-floor surface roughness tester and a high-accuracy, easy-to-use inspection room instrument;

ORTEC Products Group introduced the Detective SPM-16 spectroscopic portal monitor for screening trains, trucks and cargo containers for potentially harmful radioactive materials and PINS 3-CF chemical munitions identification system for identifying hazardous chemicals inside munitions and other containers;

Engineered Medical Components patented the design for its new low-noise electrocardiogram (ECG) cable, which exceeds current low-noise and electromagnetic interference standards. While the standards pertain specifically to ECG cables, they are commonly used to establish performance requirements for other medical device cables as well;

Process Instruments Thermox® WDG-V next-generation combustion analyzer reliably measures oxygen, combustibles and methane in process heaters, burners and boilers, maximizing fuel efficiency and lowering combustion emissions, while improving safety and process control;

Vision Research s Phantom® v2010 ultrahigh speed digital camera delivers more than 22,000 frames per second at full megapixel resolution, bringing a new level of performance to scientists, researchers, engineers and others who need to capture high-speed digital images;

Power Instruments broadened its offering of power measurement, alarm management and utility communications products with the DMS-3K alarm management system with remote monitoring and alarm capabilities and a portable version of its Platinum 2.5K multifunctional electrical fault recorder;

Solartron Metrology extended the capabilities of its Orbit® precision measurement system with two new non-contact laser gauging probes. These high-accuracy measurement devices are designed for high-precision manufacturing of ultrasensitive devices such as smart phones and tablet computers;

Floorcare and Specialty Motors incorporated an innovative fan design and advanced noise-dampening technology in a new 5.4-inch diameter vacuum motor that achieves lighter weight and quieter, more efficient operation for high-demand commercial floorcare appliances;

Precitech Nanoform® L1000 multi-axis machining system combines the latest advances in ultra-precision machining with productivity and design improvements for the production of optical lenses, mold inserts, mirrors and ultra precision mechanical components;

Precision Motion Control upgraded its MICROjammer® Series of high-performance compact variable speed blowers with the latest electronic controllers that permit greater functional control and increased end-user customization for such end uses as business machines, medical devices, and printing and other equipment; and

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C-COM 3AD 3-inch analog gauge is the most recent addition to Vehicular Instrumentation Systems industry-leading dashboard instrumentation system. The versatile, stand-alone gauge satisfies the requirements for a wide range of vehicles, including trucks, buses, RVs, and construction and agricultural equipment.

Global and Market Expansion. AMETEK s largest presence outside the United States is in Europe, where it has operations in the United Kingdom, Germany, Denmark, Italy, the Czech Republic, Serbia, Romania, France, Austria, Switzerland and the Netherlands. These operations provide design, engineering and manufacturing capability, product-line breadth, enhanced European distribution channels, and low-cost production. AMETEK has grown sales in Latin America and Asia by building and expanding manufacturing facilities in Reynosa, Mexico: Sao Paulo, Brazil; and Shanghai, China. It also continues to achieve geographic and market expansion in Asia through an increased sales, service and marketing presence in China, India, Japan, Korea, Malaysia, Middle East, Russia, Singapore and Taiwan as well as joint ventures in China, Japan and Taiwan.

Strategic Acquisitions and Alliances. The Company continues to pursue strategic acquisitions, both domestically and internationally, to expand and strengthen its product lines, improve its market share positions and increase earnings through sales growth and operational efficiencies at the acquired businesses. Since the beginning of 2009, through December 31, 2013, the Company has completed 24 acquisitions with annualized sales totaling approximately $1.1 billion, including three acquisitions in 2013 (see Recent Acquisitions). Through these and prior acquisitions, the Company s management team has gained considerable experience in successfully acquiring and integrating new businesses. The Company intends to continue to pursue this acquisition strategy.

2013 OVERVIEW

Operating Performance

In 2013, AMETEK achieved sales of $3.6 billion, an increase of 7.8% from 2012 and established records for orders, net sales, operating income, operating income margins, net income, diluted earnings per share and operating cash flow.

Recent Acquisitions

The Company spent $414.3 million in cash, net of cash acquired, for three business acquisitions in 2013.

In August 2013, the Company acquired Controls Southeast (CSI), a leader in custom-engineered, thermal management solutions used to maintain temperature control of liquid and gas in a broad range of demanding industrial process applications. CSI is part of EIG.

In October 2013, the Company acquired Creaform, Inc., a leading developer and manufacturer of innovative portable 3D measurement technologies and a provider of 3D engineering services. Creaform is part of EIG.

In December 2013, the Company acquired Powervar, Inc., a leading provider of power management systems and uninterruptible power supply systems. Powervar is part of EIG.

Financial Information About Reportable Segments, Foreign Operations and Export Sales

Information with respect to reportable segments and geographic areas is set forth in Note 15 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

The Company s international sales increased 16.2% to $1,984.5 million in 2013. The increase in international sales resulted from recent acquisitions and includes the effect of foreign currency translation. The

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Company experienced increases in export sales of products manufactured in the United States, as well as increased sales from overseas operations. International sales represented 55.2% of consolidated net sales in 2013 compared with 51.2% in 2012.

Description of Business

The products and markets of each reportable segment are described below:

EIG

EIG applies its specialized market focus and technology to the manufacture of instruments used for testing, monitoring, calibration and display by the process, aerospace, power and industrial markets. EIG s growth is based on the four strategies outlined in AMETEK s Corporate Growth Plan. EIG designs products that in many instances, are significantly different from or technologically better than competing products. It has reduced costs by implementing operational improvements, achieving acquisition synergies, improving supply chain management practices, moving production to low-cost locales and reducing headcount. EIG is among the leaders in many of the specialized markets it serves, including airframe and aircraft engine sensors; process and analytical instruments; electric power generation, distribution and transmission instruments; and heavy-vehicle instrument panels. It has joint venture operations in China, Japan and Taiwan. In 2013, 58% of EIG s net sales was to customers outside the United States.

At December 31, 2013, EIG employed approximately 7,500 people, of whom approximately 1,400 were covered by collective bargaining agreements. EIG had 64 operating facilities: 42 in the United States, seven in the United Kingdom, six in Germany, two each in Canada and France, and one each in Austria, China, Denmark, Mexico and Switzerland at December 31, 2013. EIG also shares operating facilities with EMG in Brazil, China and Mexico.

Process and Analytical Instrumentation Markets and Products

Process and analytical instrumentation sales represented 70% of EIG s 2013 net sales. These include process analyzers; emission monitors; spectrometers, elemental and surface analysis instruments; level, pressure and temperature sensors and transmitters; radiation measurement devices; level measurement devices; precision pumping systems; force-materials and force-testing instruments; and contact and non-contact metrology products. EIG s focus is on the process industries, including oil, gas and petrochemical refining, power generation, pharmaceutical manufacture, specialty gas production, water and waste treatment, natural gas distribution and semiconductor manufacturing. AMETEK s analytical instruments also are used for precision measurement in a number of other applications, including radiation detection, trace element and materials analysis, nanotechnology research, ultra precision manufacturing and test and measurement applications.

Creaform, acquired in October 2013, is a leading developer and manufacturer of innovative portable 3D measurement technologies and a provider of 3D engineering services. Creaform broadens AMETEK s position in the metrology market.

CSI, acquired in August 2013, is a leader in custom-engineered, thermal management solutions used to maintain temperature control of liquid and gas in a broad range of demanding industrial process applications. CSI broadens AMETEK s position in the process and analytical instrumentation markets.

Crystal Engineering, acquired in December 2012, has high-end pressure measurement technology and manufactures high-end portable digital pressure calibrators and digital test gauges that fit well with AMETEK s JOFRA® temperature and pressure calibrators. Crystal Engineering strengthens the Company s technology and product offering in the calibration instruments market.

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Sunpower, Inc., acquired in December 2012, designs and develops high reliability cryocoolers and externally heated Stirling cycle engines. Sunpower s cryogenic cooling technology provides a critical enabling technology for use in the Company s ORTEC Detective® family of portable radiation identifiers.

Micro-Poise Measurement Systems (Micro-Poise), acquired in October 2012, has a large installed equipment base at many of the world s leading tire manufacturers and is the only industry supplier of all key test and measurement techniques with products that offer best-in-class accuracy, repeatability and cycle times. Micro-Poise broadens the Company s position in the materials test and measurement equipment market and makes AMETEK a leader in this growing industry segment.

O Brien Corporation, acquired in January 2012, has products and solutions which are used in critical applications in process industries worldwide. O Brien s product lines are both highly differentiated and highly complementary to AMETEK s process instruments businesses. Combined with the Company s analytical instrument solutions, AMETEK now can offer its customers a complete solution for most of their process analysis needs.

Power and Industrial Instrumentation Markets and Products

Power and industrial instrumentation sales represented 21% of EIG s 2013 net sales. AMETEK s power businesses provide analytical instruments, uninterruptible power supply systems and programmable power supplies used in a wide variety of industrial settings. EIG is a leader in the design and manufacture of power measurement and recording instrumentation used by the electric power and manufacturing industries. Those products include power transducers and meters, event and transient recorders, annunciators and alarm monitoring systems used to measure, monitor and record variables in the transmission and distribution of electric power.

Powervar, acquired in December 2013, is a leader in highly engineered and customized products designed to deliver reliable, high-quality power to critical applications. Powervar adds to AMETEK s position in power systems and instruments and provides access to attractive new market segments in medical and life sciences.

EIG designs and manufactures uninterruptible power supply systems for the process and power generation industries. EIG also manufactures sensor systems for land-based gas turbines and for boilers and burners used by the utility, petrochemical, process and marine industries worldwide.

EIG is a leader in programmable AC and DC power sources with growth opportunities in the highly attractive electronic test and measurement equipment market.

Aerospace Instrumentation Markets and Products

Aerospace instrumentation sales represented 9% of EIG s 2013 net sales. AMETEK s aerospace products are designed to customer specifications and are manufactured to stringent operational and reliability requirements. Its aerospace business operates in specialized markets, where its products have a technological and/or cost advantage. Acquisitions have complemented and expanded EIG s core sensor and transducer product line, used in a wide range of aerospace applications.

Aerospace products include airborne data systems; turbine engine temperature measurement products; vibration-monitoring systems; indicators; displays; fuel and fluid measurement products; sensors; switches; cable harnesses; and transducers. EIG serves all segments of commercial aerospace, including helicopters, business jets, commuter aircraft and commercial airliners, as well as the military market.

Among its more significant competitive advantages are EIG s 50-plus years of experience as an aerospace supplier and its long-standing customer relationships with global commercial aircraft Original Equipment Manufacturers (OEMs). Its customers are the leading producers of airframes and jet engines and other aerospace system integrators. It also serves the commercial aerospace aftermarket with spare part sales and repair and overhaul services.

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Customers

EIG is not dependent on any single customer such that the loss of that customer would have a material adverse effect on EIG s operations. Approximately 8% of EIG s 2013 net sales was made to its five largest customers.

EMG

EMG is among the leaders in many of the specialized markets it serves, including highly engineered electrical connectors and electronics packaging used to protect sensitive electronic devices in aerospace, defense, medical and industrial applications, and advanced technical motor and motion control products used in electronic data storage, medical devices, office and business equipment, factory automation and robotics and other applications. EMG also provides high-purity powdered metals, strip and foil, specialty clad metals and metal matrix composites. EMG blowers and heat exchangers provide electronic cooling and environmental control for the aerospace and defense industries. Its motors are widely used in commercial appliances, fitness equipment, food and beverage machines, hydraulic pumps, industrial blowers and vacuum cleaners. Additionally, it operates a global network of aviation maintenance, repair and overhaul (MRO) facilities. EMG designs products that, in many instances, are significantly different from or technologically better than competing products. It has reduced costs by implementing operational improvements, achieving acquisition synergies, improving supply chain management, moving production to low-cost locales and reducing headcount. In 2013, 51% of EMG s net sales was to customers outside the United States.

At December 31, 2013, EMG employed approximately 6,900 people, of whom approximately 1,800 were covered by collective bargaining agreements. EMG had 65 operating facilities: 37 in the United States, ten in the United Kingdom, three each in China and France, two each in the Czech Republic, Germany, Italy and Mexico and one each in Brazil, Malaysia, Serbia and Taiwan at December 31, 2013.

Differentiated Businesses

Differentiated businesses account for an increasing proportion of EMG s overall sales base. Differentiated businesses sales represented 85% of EMG s net sales in 2013 and are comprised of the technical motors and systems sales and the engineered materials, interconnects and packaging sales.

Technical Motors and Systems Markets and Products

Technical motors and systems sales represented 54% of EMG s 2013 net sales. Technical motors and systems consists of brushless motors, blowers and pumps, heat exchangers, as well as other electromechanical systems. These products are used in aerospace and defense, semiconductor equipment, computer equipment, mass transit vehicles, medical equipment, power, and industrial applications.

EMG also produces motor-blower systems and heat exchangers used for thermal management and other applications on a wide variety of military and commercial aircraft and military ground vehicles.

EMG also serves the commercial and military aerospace third-party MRO market. These services are provided on a global basis with facilities in the United States, Europe and Asia.

Aero Components International (ACI), acquired in December 2012, repairs and overhauls fuel, hydraulic, pneumatic, power generation and heat exchanger components and is one of the few independent aviation repair shops with fuel system repair capabilities. Avtech Avionics and Instruments (Avtech), acquired in December 2012, is in the repair and maintenance of next generation and legacy avionics and instruments. The acquisitions of ACI and Avtech represent a further expansion of AMETEK s global aerospace MRO capabilities.

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Dunkermotoren GmbH, acquired in May 2012, is a global leader in highly engineered advanced motion control solutions for niche applications. Dunkermotoren expands the Company s leadership position in niche rotary and linear motion applications.

Engineered Materials, Interconnects and Packaging Markets and Products

Engineered materials, interconnects and packaging sales represented 31% of EMG s 2013 net sales. AMETEK is a leader in highly engineered electrical connectors and electronics packaging used to protect sensitive devices and mission-critical electronics. Its electrical connectors, terminals and headers are specifically designed for harsh environments and highly customized applications. AMETEK also is an innovator and market leader in specialized metal powder, strip, wire and bonded products used in automotive, appliance, medical and surgical, aerospace, telecommunications, marine and general industrial applications.

Floorcare and Specialty Motor Markets and Products

Floorcare and specialty motor sales represented 15% of EMG s 2013 net sales. Its specialty motors and motor-blowers are used in a wide range of products, such as floorcare products, ranging from hand-held, canister and upright vacuums to central vacuums for residential use to commercial floorcare equipment; household and personal care appliances; fitness equipment; electric materials handling vehicles; and sewing machines. Additionally, its products are used in outdoor power equipment, such as electric chain saws, leaf blowers, string trimmers and power washers.

Customers

EMG is not dependent on any single customer such that the loss of that customer would have a material adverse effect on EMG s operations. Approximately 8% of EMG s 2013 net sales was made to its five largest customers.

Marketing

The Company s marketing efforts generally are organized and carried out at the division level. EIG makes use of distributors and sales representatives in marketing its products, as well as direct sales in most of its more technically sophisticated products. Within aerospace, its specialized customer base of aircraft and jet engine manufacturers is served primarily by direct sales engineers. Given the technical nature of many of its products, as well as its significant worldwide market share, EMG conducts much of its domestic and international marketing activities through a direct sales force and makes some use of sales representatives and distributors both in the United States and in other countries.

Competition

In general, most of the Company s markets are highly competitive. The principal elements of competition for the Company s products are product technology, distribution, quality, service and price.

In the markets served by EIG, the Company believes that it ranks among the leading producers of certain analytical measuring and control instruments. It also is a leader in the U.S. heavy-vehicle instrumentation and power instrument markets and one of the leading instrument and sensor suppliers to the commercial aviation market. Competition remains strong and can intensify for certain EIG products. In the process and analytical instruments market, numerous companies in each specialized market compete on the basis of product quality, performance and innovation. The aerospace and power instruments businesses have a number of diversified competitors, which vary depending on the specific market niche.

EMG s differentiated businesses have competition from a limited number of companies in each of their markets. Competition is generally based on product innovation, performance and price. There also is competition from alternative materials and processes. In its floorcare and specialty motor businesses, EMG has limited

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domestic competition in the U.S. while competition is strong from Asian motor manufacturers that serve both the U.S. and the European floorcare and specialty motor markets where AMETEK has a smaller market position. There is potential competition from vertically integrated manufacturers of floorcare products that produce their own motor-blowers. Many of these manufacturers would also be potential EMG customers if they decided to outsource their motor production.

Availability of Raw Materials

The Company s reportable segments obtain raw materials and supplies from a variety of sources and generally from more than one supplier. However, for EMG, certain items, including various base metals and certain steel components, are available only from a limited number of suppliers. The Company believes its sources and supplies of raw materials are adequate for its needs.

Backlog and Seasonal Variations of Business

The Company s backlog of unfilled orders by reportable segment was as follows at December 31:

	2013	2012	2011
		(In millions)	
Electronic Instruments	**$ 550.6**	$ 526.5	$ 437.5
Electromechanical	**589.4**	585.8	473.9
Total	**$ 1,140.0**	$ 1,112.3	$ 911.4

The higher backlog at December 31, 2013 was due to the acquired backlog of 2013 acquisitions.

Of the total backlog of unfilled orders at December 31, 2013, approximately 89% is expected to be shipped by December 31, 2014. The Company believes that neither its business as a whole, nor either of its reportable segments, is subject to significant seasonal variations, although certain individual operations experience some seasonal variability.

Research, Development and Engineering

The Company is committed to research, development and engineering activities that are designed to identify and develop potential new and improved products or enhance existing products. Research, development and engineering costs before customer reimbursement were $178.7 million, $154.8 million and $137.6 million in 2013, 2012 and 2011, respectively. Customer reimbursements in 2013, 2012 and 2011 were $9.2 million, $5.0 million and $6.1 million, respectively. These amounts included net Company-funded research and development expenses of $93.9 million, $84.9 million and $78.0 million in 2013, 2012 and 2011, respectively. All such expenditures were directed toward the development of new products and processes and the improvement of existing products and processes.

Environmental Matters

Information with respect to environmental matters is set forth in the section of Management s Discussion and Analysis of Financial Condition and Results of Operations entitled Environmental Matters and in Note 13 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Patents, Licenses and Trademarks

The Company owns numerous unexpired U.S. and foreign patents, including counterparts of its more important U.S. patents, in the major industrial countries of the world. The Company is a licensor or licensee under patent agreements of various types and its products are marketed under various registered and unregistered

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U.S. and foreign trademarks and trade names. However, the Company does not consider any single patent or trademark, or any group thereof, essential either to its business as a whole or to either of its reportable segments. The annual royalties received or paid under license agreements are not significant to either of its reportable segments or to the Company s overall operations.

Employees

At December 31, 2013, the Company employed approximately 14,500 people in its EIG, EMG and corporate operations, of whom approximately 3,200 employees were covered by collective bargaining agreements. The Company has two collective bargaining agreements that will expire in 2014, which cover less than 100 employees. The Company expects no material adverse effects from the pending labor contract negotiations.

Working Capital Practices

The Company does not have extraordinary working capital requirements in either of its reportable segments. Customers generally are billed at normal trade terms, which may include extended payment provisions. Inventories are closely controlled and maintained at levels related to production cycles and are responsive to the normal delivery requirements of customers.

Item 1A. Risk Factors

You should consider carefully the following risk factors and all other information contained in this Annual Report on Form 10-K and the documents we incorporate by reference in this Annual Report on Form 10-K. Any of the following risks could materially and adversely affect our business, financial condition, results of operations and cash flows.

A prolonged downturn in the aerospace and defense, process instrumentation or power markets could adversely affect our business.

Several of the industries in which we operate are cyclical in nature and therefore are affected by factors beyond our control. A prolonged downturn in the aerospace and defense, process instrumentation or power markets could have an adverse effect on our business, financial condition and results of operations.

Our growth strategy includes strategic acquisitions. We may not be able to consummate future acquisitions or successfully integrate recent and future acquisitions.

A portion of our growth has been attributed to acquisitions of strategic businesses. Since the beginning of 2009, through December 31, 2013, we have completed 24 acquisitions. We plan to continue making strategic acquisitions to enhance our global market position and broaden our product offerings. Although we have been successful with our acquisition strategy in the past, our ability to successfully effectuate acquisitions will be dependent upon a number of factors, including:

Our ability to identify acceptable acquisition candidates;

The impact of increased competition for acquisitions, which may increase acquisition costs and affect our ability to consummate acquisitions on favorable terms and may result in us assuming a greater portion of the seller s liabilities;

Successfully integrating acquired businesses, including integrating the financial, technological and management processes, procedures and controls of the acquired businesses with those of our existing operations;

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Adequate financing for acquisitions being available on terms acceptable to us;

U.S. and foreign competition laws and regulations affecting our ability to make certain acquisitions;

Unexpected losses of key employees, customers and suppliers of acquired businesses;

Mitigating assumed, contingent and unknown liabilities; and

Challenges in managing the increased scope, geographic diversity and complexity of our operations.

The process of integrating acquired businesses into our existing operations may result in unforeseen operating difficulties and may require additional financial resources and attention from management that would otherwise be available for the ongoing development or expansion of our existing operations. Furthermore, even if successfully integrated, the acquired business may not achieve the results we expected or produce expected benefits in the time frame planned. Failure to continue with our acquisition strategy and the successful integration of acquired businesses could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may experience unanticipated start-up expenses and production delays in opening new facilities or product line transfers.

Certain of our businesses are relocating or have recently relocated manufacturing operations to low-cost locales. Unanticipated start-up expenses and production delays in opening new facilities or completing product line transfers, as well as possible underutilization of our existing facilities, could result in production inefficiencies, which would adversely affect our business and operations.

Our substantial international sales and operations are subject to customary risks associated with international operations.

International sales for 2013 and 2012 represented 55.2% and 51.2% of our consolidated net sales, respectively. As a result of our growth strategy, we anticipate that the percentage of sales outside the United States will increase in the future. Approximately half of our international sales are of products manufactured outside the United States. We have manufacturing operations in 15 countries outside the United States, with significant operations in China, the Czech Republic and Mexico. A prolonged disruption of our ability to obtain a supply of goods from these countries could have a material adverse effect on our operations. International operations are subject to the customary risks of operating in an international environment, including:

Potential imposition of trade or foreign exchange restrictions;

Overlap of different tax structures;

Unexpected changes in regulatory requirements;

Changes in tariffs and trade barriers;

Fluctuations in foreign currency exchange rates, including changes in the relative value of currencies in the countries where we operate, subjecting us to exchange rate exposures;

Restrictions on currency repatriation;

General economic conditions;

Unstable political situations;

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Nationalization of assets; and

Compliance with a wide variety of international and U.S. laws and regulatory requirements.

Our international sales and operations may be adversely impacted by compliance with export laws.

We are required to comply with various import, export, export control and economic sanctions laws, which may affect our transactions with certain customers, business partners and other persons, including in certain cases dealings with or between our employees and subsidiaries. In certain circumstances, export control and economic sanctions regulations may prohibit the export of certain products, services and technologies and in other circumstances, we may be required to obtain an export license before exporting a controlled item. In addition, failure to comply with any of these regulations could result in civil and criminal, monetary and non-monetary penalties, disruptions to our business, limitations on our ability to import and export products and services and damage to our reputation.

Any inability to hire, train and retain a sufficient number of skilled officers and other employees could impede our ability to compete successfully.

If we cannot hire, train and retain a sufficient number of qualified employees, we may not be able to effectively integrate acquired businesses and realize anticipated results from those businesses, manage our expanding international operations and otherwise profitably grow our business. Even if we do hire and retain a sufficient number of employees, the expense necessary to attract and motivate these officers and employees may adversely affect our results of operations.

If we are unable to develop new products on a timely basis, it could adversely affect our business and prospects.

We believe that our future success depends, in part, on our ability to develop, on a timely basis, technologically advanced products that meet or exceed appropriate industry standards. Although we believe we have certain technological and other advantages over our competitors, maintaining such advantages will require us to continue investing in research and development and sales and marketing. There can be no assurance that we will have sufficient resources to make such investments, that we will be able to make the technological advances necessary to maintain such competitive advantages or that we can recover major research and development expenses. We are not currently aware of any emerging standards or new products which could render our existing products obsolete, although there can be no assurance that this will not occur or that we will be able to develop and successfully market new products.

A shortage of, or price increases for, our raw materials could increase our operating costs.

We have multiple sources of supply for our major raw material requirements and we are not dependent on any one supplier; however, certain items, including base metals and certain steel components, are available only from a limited number of suppliers and are subject to commodity market fluctuations. Shortages in raw materials or price increases therefore could affect the prices we charge, our operating costs and our competitive position, which could adversely affect our business, financial condition, results of operations and cash flows.

Certain environmental risks may cause us to be liable for costs associated with hazardous or toxic substance clean-up which may adversely affect our financial condition.

Our businesses, operations and facilities are subject to a number of federal, state, local and foreign environmental and occupational health and safety laws and regulations concerning, among other things, air emissions, discharges to waters and the use, manufacturing, generation, handling, storage, transportation and disposal of hazardous substances and wastes. Environmental risks are inherent in many of our manufacturing operations. Certain laws provide that a current or previous owner or operator of property may be liable for the

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costs of investigating, removing and remediating hazardous materials at such property, regardless of whether the owner or operator knew of, or was responsible for, the presence of such hazardous materials. In addition, the Comprehensive Environmental Response, Compensation and Liability Act generally imposes joint and several liability for clean-up costs, without regard to fault, on parties contributing hazardous substances to sites designated for clean-up under the Act. We have been named a potentially responsible party at several sites, which are the subject of government-mandated clean-ups. As the result of our ownership and operation of facilities that use, manufacture, store, handle and dispose of various hazardous materials, we may incur substantial costs for investigation, removal, remediation and capital expenditures related to compliance with environmental laws. While it is not possible to precisely quantify the potential financial impact of pending environmental matters, based on our experience to date, we believe that the outcome of these matters is not likely to have a material adverse effect on our financial position or future results of operations. In addition, new laws and regulations, new classification of hazardous materials, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that future environmental liabilities will not occur or that environmental damages due to prior or present practices will not result in future liabilities.

We are subject to numerous governmental regulations, which may be burdensome or lead to significant costs.

Our operations are subject to numerous federal, state, local and foreign governmental laws and regulations. In addition, existing laws and regulations may be revised or reinterpreted and new laws and regulations, including with respect to climate change, may be adopted or become applicable to us or customers for our products. We cannot predict the form any such new laws or regulations will take or the impact any of these laws and regulations will have on our business or operations.

We may be required to defend lawsuits or pay damages in connection with alleged or actual harm caused by our products.

We face an inherent business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in harm to others or to property. For example, our operations expose us to potential liabilities for personal injury or death as a result of the failure of, for instance, an aircraft component that has been designed, manufactured or serviced by us. We may incur a significant liability if product liability lawsuits against us are successful. While we believe our current general liability and product liability insurance is adequate to protect us from future claims, we cannot assure that coverage will be adequate to cover all claims that may arise. Additionally, we may not be able to maintain insurance coverage in the future at an acceptable cost. Any liability not covered by insurance or for which third-party indemnification is not available could have a material adverse effect on our business, financial condition and results of operations.

We operate in highly competitive industries, which may adversely affect our results of operations or ability to expand our business.

Our markets are highly competitive. We compete, domestically and internationally, with individual producers, as well as with vertically integrated manufacturers, some of which have resources greater than we do. The principal elements of competition for our products are product technology, quality, service, distribution and price. EMG s competition in specialty metal products stems from alternative materials and processes. In the markets served by EIG, although we believe EIG is a market leader, competition is strong and could intensify. In the aerospace and heavy-vehicle markets served by EIG, a limited number of companies compete on the basis of product quality, performance and innovation. Our competitors may develop new or improve existing products that are superior to our products or may adapt more readily to new technologies or changing requirements of our customers. There can be no assurance that our business will not be adversely affected by increased competition in the markets in which it operates or that our products will be able to compete successfully with those of our competitors.

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Restrictions contained in our revolving credit facility and other debt agreements may limit our ability to incur additional indebtedness.

Our existing revolving credit facility and other debt agreements contain restrictive covenants, including restrictions on our ability to incur indebtedness. These restrictions could limit our ability to effectuate future acquisitions or restrict our financial flexibility.

We are subject to possible insolvency of financial counterparties.