AMETEK INC/
Form 10-Q
August 04, 2011

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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, 2011

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.)

1100 Cassatt Road **P.O. Box 1764** **Berwyn, Pennsylvania**	**19312-1177**
(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 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 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 Rule 12b-2 of the Exchange Act.

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

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 July 28, 2011 was 161,478,317 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 June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net sales	**$ 758,834**	$ 591,941	**$ 1,476,617**	$ 1,148,603
Operating expenses:				
Cost of sales, excluding depreciation	**499,956**	395,499	**972,760**	771,223
Selling, general and administrative	**89,685**	69,849	**171,177**	137,392
Depreciation	**12,238**	10,998	**23,705**	21,947
Total operating expenses	**601,879**	476,346	**1,167,642**	930,562
Operating income	**156,955**	115,595	**308,975**	218,041
Other expenses:				
Interest expense	**(17,339)**	(16,730)	**(34,489)**	(33,484)
Other, net	**(2,381)**	(1,621)	**(3,866)**	(2,136)
Income before income taxes	**137,235**	97,244	**270,620**	182,421
Provision for income taxes	**43,091**	29,853	**86,041**	57,085
Net income	**$ 94,144**	$ 67,391	**$ 184,579**	$ 125,336
Basic earnings per share	**$ 0.59**	$ 0.43	**$ 1.15**	$ 0.79
Diluted earnings per share	**$ 0.58**	$ 0.42	**$ 1.14**	$ 0.78
Weighted average common shares outstanding:				
Basic shares	**160,406**	158,501	**160,067**	159,214
Diluted shares	**162,215**	160,003	**162,200**	160,679
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, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 196,593**	$ 163,208
Marketable securities	**6,517**	5,645
Receivables, less allowance for possible losses	**439,865**	399,913
Inventories	**364,317**	335,253
Deferred income taxes	**34,203**	27,106
Other current assets	**41,637**	43,367
Total current assets	**1,083,132**	974,492
Property, plant and equipment, net	**331,614**	318,126
Goodwill	**1,712,781**	1,573,645
Other intangibles, net of accumulated amortization	**826,720**	761,556
Investments and other assets	**200,527**	191,096
Total assets	**$ 4,154,774**	$ 3,818,915
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	**$ 127,713**	$ 97,152
Accounts payable	**266,709**	236,600
Income taxes payable	**32,154**	39,026
Accrued liabilities	**175,319**	178,081
Total current liabilities	**601,895**	550,859
Long-term debt	**1,083,284**	1,071,360
Deferred income taxes	**361,726**	311,466
Other long-term liabilities	**122,226**	110,026
Total liabilities	**2,169,131**	2,043,711
Stockholders equity:		
Common stock	**1,685**	1,681
Capital in excess of par value	**295,532**	263,290
Retained earnings	**1,921,008**	1,755,742
Accumulated other comprehensive loss	**(66,543)**	(91,958)

Treasury stock	**(166,039)**	(153,551)
Total stockholders equity	**1,985,643**	1,775,204
Total liabilities and stockholders equity	**$ 4,154,774**	$ 3,818,915

See accompanying notes.

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AMETEK, Inc.

Condensed Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2011	2010
Cash provided by (used for):		
Operating activities:		
Net income	**$ 184,579**	$ 125,336
Adjustments to reconcile net income to total operating activities:		
Depreciation and amortization	**41,260**	33,660
Deferred income tax expense	**4,995**	3,222
Share-based compensation expense	**14,275**	7,996
Net change in assets and liabilities, net of acquisitions	**(25,074)**	11,679
Pension contribution and other	**(1,240)**	(1,511)
Total operating activities	**218,795**	180,382
Investing activities:		
Additions to property, plant and equipment	**(20,559)**	(12,688)
Purchases of businesses, net of cash acquired	**(182,506)**	(92,653)
Other	**(2,959)**	4,020
Total investing activities	**(206,024)**	(101,321)
Financing activities:		
Net change in short-term borrowings	**30,561**	(2,949)
Reduction in long-term borrowings	**(627)**	
Repurchases of common stock	**(11,344)**	(78,609)
Cash dividends paid	**(19,165)**	(12,672)
Excess tax benefits from share-based payments	**8,849**	2,587
Proceeds from employee stock plans	**7,381**	4,933
Total financing activities	**15,655**	(86,710)
Effect of exchange rate changes on cash and cash equivalents	**4,959**	(7,914)
Increase (decrease) in cash and cash equivalents	**33,385**	(15,563)
Cash and cash equivalents:		
As of January 1	**163,208**	246,356

As of June 30	**$ 196,593**	$ 230,793

See accompanying notes.

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AMETEK, Inc.
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements are unaudited. AMETEK, Inc. (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, 2011, the consolidated results of its operations for the three and six months ended June 30, 2011 and 2010 and its cash flows for the six months ended June 30, 2011 and 2010 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, 2010 as filed with the Securities and Exchange Commission.

2. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06). ASU 2010-06 provides amendments that clarify existing disclosures and require new disclosures related to fair value measurements, providing greater disaggregated information on each class of assets and liabilities and more robust disclosures on transfers between levels 1 and 2, and activity in level 3 fair value measurements. The Company adopted the applicable provisions within ASU 2010-06 effective January 1, 2010. The Company adopted the level 3 disclosure requirements of ASU 2010-06 that are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years as of January 1, 2011. The adoption of ASU 2010-06 did not have a significant impact on the Company s fair value disclosures.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition Milestone Method* (ASU 2010-17). ASU 2010-17 establishes criteria for a milestone to be considered substantive and allows revenue recognition when the milestone is achieved in research or development arrangements. In addition, it requires disclosure of certain information with respect to arrangements that contain milestones. ASU 2010-17 was effective on January 1, 2011 for the Company and the adoption did not have a significant impact on the Company s consolidated results of operations, financial position or cash flows.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations* (ASU 2010-29). ASU 2010-29 addresses diversity in practice about the interpretation of the pro forma disclosure requirement for business combinations. ASU 2010-29 requires disclosure of pro forma revenue and earnings for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period for both the current and any comparable periods reported. The Company adopted the disclosure requirements of ASU 2010-29 effective January 1, 2011. See Note 8.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amendments result in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs). The Company is currently evaluating the impact of adopting the disclosure requirements of ASU 2011-04 that are effective for fiscal years beginning after December 15, 2011.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 requires that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income and the total of comprehensive income. These amendments do not change the items that must be reported in other comprehensive income. The Company is currently evaluating the impact of adopting ASU 2011-05 that is effective for fiscal years beginning after December 15, 2011.

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AMETEK, Inc.
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

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 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Weighted average shares:				
Basic shares	**160,406**	158,501	**160,067**	159,214
Equity-based compensation plans	**1,809**	1,502	**2,133**	1,465
Diluted shares	**162,215**	160,003	**162,200**	160,679

4. 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 June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Net income	**$ 94,144**	$ 67,391	**$ 184,579**	$ 125,336
Foreign currency translation adjustment	**6,534**	(26,833)	**21,030**	(55,940)
Foreign currency net investment hedge*	**652**	(3,153)	**4,347**	(7,546)
Other	**(68)**	(364)	**38**	(131)
Total comprehensive income	**$ 101,262**	$ 37,041	**$ 209,994**	$ 61,719

* Represents the net gains and losses on the Company s investment in certain foreign operations in excess of 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.

5. Fair Value Measurements

The Company utilizes a valuation hierarchy for disclosure of the inputs to the valuations 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 the Company s 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 June 30, 2011, $1.7 million of the Company s marketable securities are valued as level 1 investments. In addition, the Company held $4.8 million of marketable securities in an institutional diversified equity securities mutual fund. These securities are valued as level 2 investments. The marketable securities are shown as a separate line on the consolidated balance sheet. For the six months ended June 30, 2011, gains and losses on the investments noted above were not significant. No transfers between level 1 and level 2 investments occurred during the six months ended June 30, 2011.

Fair value of the institutional equity securities mutual fund was estimated using the net asset value of the Company s ownership interests in the fund s capital. The mutual fund seeks to provide long-term growth of capital by investing primarily in equity securities traded on U.S. exchanges and issued by large, established companies across many business sectors. There are no restrictions on the Company s ability to redeem these equity securities investments.

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AMETEK, Inc.
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

6. Hedging Activities

The Company has designated certain foreign-currency-denominated long-term borrowings as hedges of the net investment in certain foreign operations. These net investment hedges are the Company s British-pound-denominated long-term debt and Euro-denominated long-term debt, pertaining to certain European acquisitions whose functional currencies are either the British pound or the Euro. These acquisitions were financed by foreign-currency-denominated borrowings under the Company s revolving credit facility and subsequently refinanced with long-term private placement debt. These borrowings were designed to create net investment hedges in each of the foreign subsidiaries on their respective dates of acquisition. On the respective dates of acquisition, the Company designated the British pound- and Euro-denominated loans referred to above as hedging instruments to offset foreign exchange gains or losses on the net investment in the acquired business due to changes in the British pound and Euro exchange rates. These net investment hedges were evidenced by management s documentation supporting the contemporaneous hedge designation on the acquisition dates. Any gain or loss on the hedging instrument (the debt) following hedge designation is reported in accumulated other comprehensive income in the same manner as the translation adjustment on the investment based on changes in the spot rate, which is used to measure hedge effectiveness.

At June 30, 2011, the Company had $192.6 million of British-pound-denominated loans, which are designated as a hedge against the net investment in foreign subsidiaries acquired in 2008, 2006, 2004 and 2003. At June 30, 2011, the Company had $72.5 million of Euro-denominated loans, which were designated as a hedge against the net investment in a foreign subsidiary acquired in 2005. As a result of these British-pound- and Euro-denominated loans being designated and effective as net investment hedges, $11.1 million of currency remeasurement losses have been included in the foreign currency translation component of other comprehensive income at June 30, 2011.

7. Inventories

	June 30, 2011	**December 31, 2010**
	(In thousands)	
Finished goods and parts	**$ 58,328**	$ 46,953
Work in process	**70,603**	73,556
Raw materials and purchased parts	**235,386**	214,744
Total inventories	**$ 364,317**	$ 335,253

8. Acquisitions

The Company spent $183.0 million in cash, net of cash acquired, to acquire Avicenna Technology, Inc. (Avicenna) in April 2011 and Coining Holding Company (Coining) May 2011. Avicenna is a supplier of custom, fine-featured components used in the medical device industry. Coining is a leading supplier of custom-shaped metal preforms, microstampings and bonding wire solutions for interconnect applications in microelectronics packaging and assembly. Avicenna and Coining are part of AMETEK s Electromechanical Group.

The operating results of the above acquisitions have been included in the Company s consolidated results from the respective dates of acquisitions.

The following table represents the allocation of the aggregate purchase price for the net assets of the above acquisitions based on their estimated fair value at June 30, 2011 (in millions):

Property, plant and equipment	$ 14.5

Goodwill	117.7
Other intangible assets	73.2
Deferred income taxes	(37.8)
Net working capital and other	15.4
Total purchase price	$ 183.0

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

The amount allocated to goodwill is reflective of the benefits the Company expects to realize from the acquisitions as follows: Avicenna provides the Company with additional expertise in producing fine-featured catheter and other medical components for leads, guide wires and custom medical assemblies. Avicenna complements the Company s medical device market businesses and is an excellent fit with its Technical Services for Electronics (TSE) business, which was acquired in 2010. The combination of these two businesses positions AMETEK as the only medical interconnects provider with integrated capabilities for the catheter, cardiac and neurostimulation markets. Coining is a global leader in custom-shaped preforms, microstampings and wire used for joining electronic circuitry, packaging microelectronics and providing thermal protection and electric conductivity for a wide range of electronic devices. Coining s products are used in highly engineered applications for the RF/microwave, photonics, medical, aerospace and defense, and general electronics industries. Coining is an excellent fit with the engineered materials, interconnects and packaging businesses. The Company expects approximately $17.4 million of the goodwill recorded in connection with 2011 acquisitions will be tax deductible in future years.

The Company is in the process of conducting third-party valuations of certain tangible and intangible assets acquired. Adjustments to the allocation of purchase price will be recorded when this information is finalized. Therefore, the allocation of the purchase price is subject to revision.

At June 30, 2011, purchase price allocated to other intangible assets of $73.2 million consists of $18.3 million of indefinite-lived intangible trademarks and trade names, which are not subject to amortization. The remaining $54.9 million of other intangible assets consist of $46.9 million of customer relationships, which are being amortized over a period of 20 years and $8.0 million of purchased technology, which are being amortized over a period of 15 years. Amortization expense for each of the next five years for the 2011 acquisitions listed above is expected to approximate $2.9 million per year.

The 2011 acquisitions noted above had an immaterial impact on reported net sales, net income and diluted earnings per share for the three and six months ended June 30, 2011. Had the 2011 acquisitions been made at the beginning of 2011 or 2010, unaudited pro forma net sales, net income and diluted earnings per share for the three and six months ended June 30, 2011 and 2010, respectively, would not have been materially different than the amounts reported.

Pro forma results are not necessarily indicative of the results that would have occurred if the acquisitions had been completed at the beginning of 2011 or 2010.

9. Goodwill

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

	Electronic Instruments Group	**Electro-mechanical Group**	**Total**
		(In millions)	
Balance at December 31, 2010	$ 864.4	$ 709.2	$ 1,573.6
Goodwill acquired		**117.7**	**117.7**
Purchase price allocation adjustments and other	**2.4**	**(0.7)**	**1.7**
Foreign currency translation adjustments	**15.0**	**4.8**	**19.8**
Balance at June 30, 2011	**$ 881.8**	**$ 831.0**	**$ 1,712.8**

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AMETEK, Inc.
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

10. Income Taxes

At June 30, 2011, the Company had gross unrecognized tax benefits of $26.4 million, of which $21.7 million, if recognized, would impact the effective tax rate.

The following is a reconciliation of the liability for uncertain tax positions (in millions):

Balance at December 31, 2010	$ 22.8
Additions for tax positions	**4.7**
Reductions for tax positions	**(1.1)**
Balance at June 30, 2011	**$ 26.4**

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 and six months ended June 30, 2011 and 2010 were not significant.

11. Financial Instruments

The estimated fair values of the Company s financial instruments are compared below to the recorded amounts at June 30, 2011 and December 31, 2010. Cash, cash equivalents and marketable securities are recorded at fair value at June 30, 2011 and December 31, 2010 in the accompanying consolidated balance sheet.

	Asset (Liability)			
	June 30, 2011		**December 31, 2010**	
	Recorded Amount	**Fair Value**	**Recorded Amount**	**Fair Value**
	(In thousands)			
Short-term borrowings	**$ (125,000)**	**$ (125,000)**	$ (95,904)	$ (95,904)
Long-term debt (including current portion)	**(1,085,997)**	**(1,203,935)**	(1,072,608)	(1,176,399)

The fair value of short-term borrowings approximates the carrying value. The Company s long-term debt is all privately held with no public market for this debt, therefore, the fair value of long-term debt was computed based on comparable current market data for similar debt instruments.

AMETEK, Inc.
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

12. Share-Based Compensation

The fair value of each stock 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 periods indicated:

	Six Months Ended June 30, 2011	Year Ended December 31, 2010
Expected volatility	**26.4%**	25.6%
Expected term (years)	**5.0**	5.0
Risk-free interest rate	**1.96%**	2.48%
Expected dividend yield	**0.54%**	0.54%
Black-Scholes-Merton fair value per stock option granted	**$ 11.34**	$ 7.56

Expected volatility is based on the historical volatility of the Company s stock. The Company used historical exercise data to estimate the stock options expected term, which represents the period of time that the stock options granted are expected to be outstanding. Management anticipates that the future stock option holding periods will be similar to the historical stock option holding periods. The risk-free interest rate for periods within the contractual life of the stock 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 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Stock option expense	$			