MOOG INC
Form 10-Q
May 08, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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: 1-5129

MOOG INC.

(Exact name of registrant as specified in its charter)

New York State	**16-0757636**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
East Aurora, New York	**14052-0018**
(Address of Principal Executive Offices)	(Zip Code)

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

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 outstanding of each class of common stock as of May 4, 2007 was:

Class A common stock, $1.00 par value 38,292,981 shares

Class B common stock, $1.00 par value 4,181,650 shares

MOOG INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

MOOG INC.
Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)	March 31, 2007	September 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 46,453	$ 57,821
Receivables	372,567	333,492
Inventories	328,022	282,720
Other current assets	63,341	54,068
TOTAL CURRENT ASSETS	810,383	728,101
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $338,497 and $320,036, respectively	354,933	310,011
GOODWILL	503,120	450,971
INTANGIBLE ASSETS, net	72,582	49,922
OTHER ASSETS	66,859	68,649
TOTAL ASSETS	$ 1,807,877	$ 1,607,654
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 15,741	$ 17,119
Current installments of long-term debt	2,109	1,982
Accounts payable	111,744	99,677
Customer advances	35,308	32,148
Contract loss reserves	16,514	15,089
Other accrued liabilities	140,100	141,591
TOTAL CURRENT LIABILITIES	321,516	307,606
LONG-TERM DEBT, excluding current installments		
Senior debt	269,951	167,350
Senior subordinated notes	200,098	200,107
DEFERRED INCOME TAXES	96,404	83,587
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	90,929	83,299
OTHER LONG-TERM LIABILITIES	2,997	2,849
TOTAL LIABILITIES	981,895	844,798
SHAREHOLDERS EQUITY		
Common stock	48,605	48,605

Other shareholders equity	777,377	714,251
TOTAL SHAREHOLDERS EQUITY	825,982	762,856
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,807,877	$ 1,607,654

See accompanying Notes to Consolidated Condensed Financial Statements.

3

Table of Contents

MOOG INC.
Consolidated Condensed Statements of Earnings
(Unaudited)

(dollars in thousands, except per share data)	Three Months Ended March 31, 2007	Three Months Ended April 1, 2006	Six Months Ended March 31, 2007	Six Months Ended April 1, 2006
NET SALES	$ 384,914	$ 322,109	$ 740,895	$ 632,280
COST OF SALES	256,425	218,211	491,724	427,785
GROSS PROFIT	128,489	103,898	249,171	204,495
Research and development	25,655	15,980	47,893	29,587
Selling, general and administrative	60,749	51,382	117,495	104,942
Interest	6,382	4,877	12,067	10,497
Other	(535)	311	76	638
EARNINGS BEFORE INCOME TAXES	36,238	31,348	71,640	58,831
INCOME TAXES	11,751	9,886	23,089	20,572
NET EARNINGS	$ 24,487	$ 21,462	$ 48,551	$ 38,259
NET EARNINGS PER SHARE				
Basic	$ .58	$ .54	$ 1.15	$ .97
Diluted	.57	.53	1.13	.96
AVERAGE COMMON SHARES OUTSTANDING				
Basic	42,421,490	40,014,206	42,369,585	39,314,682
Diluted	43,102,869	40,723,532	43,059,806	40,005,871

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

MOOG INC.
Consolidated Condensed Statements of Cash Flows
(Unaudited)

(dollars in thousands)	Six Months Ended March 31, 2007	Six Months Ended April 1, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 48,551	$ 38,259
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	19,374	17,595
Amortization	4,930	4,422
Stock compensation expense	2,200	2,487
Other	(49,385)	(36,590)
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,670	26,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of acquired cash	(85,453)	(24,190)
Purchase of property, plant and equipment	(52,853)	(37,154)
Other	1,117	4,133
NET CASH USED BY INVESTING ACTIVITIES	(137,189)	(57,211)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (repayments of) notes payable	(1,610)	18
Net proceeds from (repayments of) revolving lines of credit	124,000	(40,400)
Proceeds from long-term debt	498	455
Payments on long-term debt	(27,100)	(8,063)
Proceeds from issuance of class A common stock, net of issuance costs		84,588
Excess tax benefits from share-based payment arrangements	901	1,246
Other	1,771	1,612
NET CASH PROVIDED BY FINANCING ACTIVITIES	98,460	39,456
Effect of exchange rate changes on cash	1,691	67
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,368)	8,485
Cash and cash equivalents at beginning of period	57,821	33,750
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 46,453	$ 42,235
CASH PAID FOR:		
Interest	$ 11,556	$ 10,425

Income taxes	19,425	9,823

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

MOOG INC.
Notes to Consolidated Condensed Financial Statements
Six Months Ended March 31, 2007
(Unaudited)
(dollars in thousands, except per share data)

Note 1 Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for fair presentation of results for the interim period have been included. The results of operations for the three and six months ended March 31, 2007 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the fiscal year ended September 30, 2006. All references to years in these financial statements are to fiscal years.

Our fiscal year ends on the Saturday in September or October that is closest to September 30. Our financial statements will include 52 weeks in 2007 and included 53 weeks in 2006. Our financial statements include 13 weeks for the three months ended March 31, 2007 and April 1, 2006, and 26 weeks for the six months ended March 31, 2007 compared to 27 weeks for the six months ended April 1, 2006. While this may have an impact on the comparability of the reported financial results, the impact cannot be determined.

Note 2 Acquisitions

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition.

On March 16, 2007, we acquired ZEVEX International, Inc. The purchase price, net of cash acquired, was $82,282, which was financed with credit facility borrowings, and $1,796 in assumed debt. ZEVEX manufactures and distributes a line of ambulatory pumps, stationary pumps and disposable sets that are used in the delivery of enteral nutrition for hospital, nursing home, neonatal and patient home use. ZEVEX also designs, develops and manufactures surgical tools and sensors and provides engineered solutions for the medical marketplace. This acquisition further expands our participation in medical markets.

In the first quarter of 2007, we acquired a ball screw manufacturer. The adjusted purchase price was $2,565 paid in cash and $2,935 in assumed debt. We also paid a $63 purchase price adjustment related to the 2005 acquisition of FCS Control Systems, increasing goodwill by $63.

On August 24, 2006, we acquired McKinley Medical by issuing 445,725 shares of Moog Class A common stock valued at $14,993 and $550 in cash, of which $543 was paid in the first quarter of 2007. McKinley Medical designs, assembles and distributes disposable pumps and accessories used principally to administer therapeutic drugs for chemotherapy and antibiotic applications, and post-operative medication for pain management. This acquisition expands our participation in medical markets.

On April 7, 2006, we acquired Curlin Medical and affiliated companies. The adjusted purchase price was $77,056, which was financed with credit facility borrowings of $65,056 and a $12,000 53-week unsecured note held by the sellers, which was paid on April 9, 2007. Curlin Medical is a manufacturer of infusion pumps that provide controlled delivery of therapeutic drugs to patients. This acquisition formed our newest segment, Medical Devices, and expands our participation in medical markets.

On November 23, 2005, we acquired Flo-Tork Inc. The adjusted purchase price was $25,739, which was financed with credit facility borrowings. Flo-Tork is a leading designer and manufacturer of hydraulic and pneumatic rotary actuators and specialized cylinders for niche military and industrial applications. This acquisition not only expands our reach within Industrial Controls, but also provides new opportunities for naval applications within Space and Defense Controls.

Our purchase price allocations for the ball screw manufacturer, McKinley Medical and ZEVEX International, Inc. are based on preliminary estimates of fair values of assets acquired and liabilities assumed. The estimates for McKinley Medical are substantially complete with the exception of other current assets.

Note 3 Stock-Based Compensation

We have stock option plans that authorize the issuance of options for shares of Class A common stock to directors, officers and key employees. Stock option grants are designed to reward long-term contributions to Moog and provide incentives for recipients to remain with Moog. The 2003 Stock Option Plan authorizes the issuance of options for 1,350,000 shares of Class A common stock. The 1998 Stock Option Plan authorizes the issuance of options for 2,025,000 shares of Class A common stock. Under the terms of the plans, options may be either incentive or non-qualified. The exercise price, determined by a committee of the Board of Directors, may not be less than the fair market value of the Class A common stock on the grant date. Options become exercisable over periods not exceeding ten years.

Stock compensation expense recognized is based on share-based payment awards that are ultimately expected to vest. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest one year from the date of grant, options granted to officers vest on various schedules and options granted to key employees are graded vested over a five-year period from the date of grant.

Table of Contents

Note 4 Inventories

	March 31, 2007	September 30, 2006
Raw materials and purchased parts	$ 114,471	$ 101,974
Work in progress	174,627	134,492
Finished goods	38,924	46,254
Total	$ 328,022	$ 282,720

Note 5 Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended March 31, 2007 are as follows:

	Balance as of September 30, 2006	Current Year Acquisitions	Adjustment To Prior Year Acquisitions	Foreign Currency Translation	Balance as of March 31, 2007
Aircraft Controls	$ 103,826	$	$	$ 54	$ 103,880
Space and Defense Controls	49,806				49,806
Industrial Controls	91,116	2,057	63	2,956	96,192
Components	142,740			(712)	142,028
Medical Devices	63,483	47,032	699		111,214
Total	$ 450,971	$ 49,089	$ 762	$ 2,298	$ 503,120

All acquired intangible assets other than goodwill are being amortized. The weighted-average amortization period is eight years for customer-related, technology-related and marketing-related intangible assets and ten years for artistic-related intangible assets. In total, these intangible assets have a weighted-average life of eight years. Customer-related intangible assets primarily consist of customer relationships. Technology-related intangible assets primarily consist of technology, patents, intellectual property and engineering drawings. Marketing-related intangible assets primarily consist of trademarks, tradenames and non-compete agreements.

Amortization of acquired intangible assets was $2,184 and $4,302 for the three and six months ended March 31, 2007 and was $1,900 and $3,327 for the three and six months ended April 1, 2006, respectively. Based on acquired intangible assets recorded at March 31, 2007, amortization is expected to be $10,306 in 2007, $10,339 in 2008, $9,662 in 2009, $9,599 in 2010 and $9,374 in 2011. The gross carrying amount and accumulated amortization for major categories of acquired intangible assets are as follows:

	March 31, 2007		September 30, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	$ 52,981	$ (10,805)	$ 32,084	$ (8,468)
Technology-related	26,475	(4,538)	23,829	(2,867)
Marketing-related	13,255	(6,374)	9,629	(5,906)

Artistic-related	25	(14)	25	(12)
Acquired intangible assets	$ 92,736	$ (21,731)	$ 65,567	$ (17,253)

Note 6 Product Warranties

In the ordinary course of business, we warrant our products against defects in design, materials and workmanship typically over periods ranging from twelve to thirty-six months. We determine warranty reserves needed by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Warranty accrual at beginning of period	$ 6,046	$ 4,625	$ 5,968	$ 4,733
Additions from acquisitions	159		159	
Warranties issued during current period	2,017	2,110	3,595	3,327
Reductions for settling warranties	(1,517)	(1,406)	(3,134)	(2,690)
Foreign currency translation	15	35	132	(6)
Warranty accrual at end of period	$ 6,720	$ 5,364	$ 6,720	$ 5,364

Note 7 Credit Facility

On October 25, 2006, we amended our U.S. credit facility. Previously our credit facility consisted of a $75,000 term loan and a $315,000 million revolver. Our new revolving credit facility, which matures on October 25, 2011, increased our borrowing capacity to $600,000. The credit facility is secured by substantially all of our U.S. assets. The loan agreement contains various covenants, which, among others, specify minimum consolidated net worth and interest coverage and maximum leverage and capital expenditures. Interest on outstanding credit facility borrowings is based on LIBOR, plus the applicable margin, which was 100 basis points at March 31, 2007 and will increase to 125 basis points during the third quarter of 2007 as a result of our acquisition of ZEVEX.

Note 8 Derivative Financial Instruments

We have foreign currency exposure on intercompany loans that are denominated in a foreign currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the statements of earnings. To minimize the foreign currency exposure, we have foreign currency forwards with a notional amount of $21,872. The foreign currency forwards are recorded in the balance sheet at fair value and resulting gains or losses are recorded in the statements of earnings, generally offsetting the gains or losses from the adjustments on the intercompany loans. At March 31, 2007, the fair value of the foreign currency forwards was a $55 net asset, most of which was included in other current assets. At September 30, 2006, the fair value of the foreign currency forwards was a $521 liability, most of which was included in other accrued liabilities.

We use derivative financial instruments to manage the risk associated with changes in interest rates associated with long-term debt that affect the amount of future interest payments under our U.S. credit facility. At September 30, 2006, we had outstanding interest rate swaps with a $35,000 notional amount, effectively converting that amount of variable-rate debt to fixed-rate debt. The $35,000 notional amount matured in the first quarter of 2007. Activity in Accumulated Other Comprehensive Income (AOCI) related to derivatives held by us during the first six months of 2007 is summarized below:

	Pre-Tax Amount	Income Tax	After-Tax Amount
Accumulated gain at September 30, 2006	$ 139	$ (53)	$ 86
Net increase in fair value of derivatives	2	(1)	1
Net reclassification from AOCI into earnings	(141)	54	(87)

Accumulated gain at March 31, 2007	$	$	$

To the extent that the interest rate swaps are not perfectly effective in offsetting the change in the value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first six months of 2007 or 2006. At September 30, 2006, the fair value of interest rate swaps was $273, which is included in other current assets.

Table of Contents

Note 9 Employee Benefit Plans

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

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Service cost	$ 3,764	$ 4,050	$ 7,514	$ 8,000
Interest cost	5,207	4,688	10,412	9,375
Expected return on plan assets	(6,373)	(5,525)	(12,746)	(10,850)
Amortization of prior service cost	279	272	558	545
Amortization of actuarial loss	1,133	2,143	2,266	4,285
Pension expense for defined benefit plans	4,010	5,628	8,004	11,355
Pension expense for defined contribution plans	339	280	629	539
Total pension expense for U.S. plans	$ 4,349	$ 5,908	$ 8,633	$ 11,894

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

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Service cost	$ 928	$ 894	$ 1,843	$ 1,767
Interest cost	1,227	1,016	2,433	2,003
Expected return on plan assets	(718)	(561)	(1,424)	(1,117)
Amortization of prior service credit	(9)	(10)	(18)	(19)
Amortization of actuarial loss	207	278	411	553
Pension expense for defined benefit plans	1,635	1,617	3,245	3,187
Pension expense for defined contribution plans	425	339	781	556
Total pension expense for non-U.S. plans	$ 2,060	$ 1,956	$ 4,026	$ 3,743

Net periodic benefit costs for the post-retirement health care benefit plan consist of:

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Service cost	$ 101	$ 87	$ 201	$ 175
Interest cost	301	240	602	480
Amortization of transition obligation	99	97	197	195
Amortization of prior service cost	71	73	143	145
Amortization of actuarial loss	129	95	260	190

Net periodic post-retirement benefit cost	$ 701	$ 592	$ 1,403	$ 1,185

During the six months ended March 31, 2007, we made contributions to our defined benefit pension plans of $6,068 to the U.S. plans and $1,878 to the non-U.S. plans. We presently anticipate contributing an additional $9,000 to the U.S. plans and $2,000 to the non-U.S. plans in 2007 for a total of approximately $19,000.

Table of Contents

Note 10 Shareholders Equity

The changes in shareholders equity for the six months ended March 31, 2007 are summarized as follows:

	Amount	Number of Shares Class A Common Stock	Number of Shares Class B Common Stock
COMMON STOCK			
Beginning of period	$ 48,605	40,670,529	7,934,184
Conversion of Class B to Class A		32,974	(32,974)
End of period	48,605	40,703,503	7,901,210
ADDITIONAL PAID-IN CAPITAL			
Beginning of period	292,565		
Stock compensation expense	2,200		
Issuance of Treasury shares at more than cost	828		
Adjustment to market SECT and other	3,502		
End of period	299,095		
RETAINED EARNINGS			
Beginning of period	469,127		
Net earnings	48,551		
End of period	517,678		
TREASURY STOCK			
Beginning of period	(40,354)	(2,584,243)	(3,305,971)
Treasury stock issued	793	148,790	
Treasury stock purchased	(338)	(8,695)	
End of period	(39,899)	(2,444,148)	(3,305,971)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)			
Beginning of period	(14,652)		(418,628)
Sale of stock to SSOP Plan	781		20,200
Purchases of stock	(276)		(7,608)