MOOG INC
Form 10-Q
February 09, 2010

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 **January 2, 2010**

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 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 o 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. (Check one):

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

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

The number of shares outstanding of each class of common stock as of February 4, 2010 was:

Class A common stock, $1.00 par value 41,230,317 shares

Class B common stock, $1.00 par value 4,143,661 shares

MOOG inc.
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

MOOG inc.
Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)	January 2, 2010	October 3, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 101,301	$ 81,493
Receivables	523,265	547,571
Inventories	465,691	484,261
Other current assets	102,000	97,073
TOTAL CURRENT ASSETS	1,192,257	1,210,398
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $456,873 and $445,426, respectively	477,823	481,726
GOODWILL	694,454	698,459
INTANGIBLE ASSETS, net	215,627	220,311
OTHER ASSETS	19,545	23,423
TOTAL ASSETS	$2,599,706	$2,634,317
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 16,460	$ 16,971
Current installments of long-term debt	1,458	1,541
Accounts payable	114,078	125,257
Customer advances	57,109	66,811
Contract loss reserves	43,850	50,190
Other accrued liabilities	182,657	185,491
TOTAL CURRENT LIABILITIES	415,612	446,261
LONG-TERM DEBT, excluding current installments		
Senior debt	409,588	435,944
Senior subordinated notes	378,626	378,630
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	222,033	225,747
DEFERRED INCOME TAXES	77,953	76,910
OTHER LONG-TERM LIABILITIES	5,036	5,792

TOTAL LIABILITIES	1,508,848	1,569,284
SHAREHOLDERS EQUITY		
Common stock	51,280	51,280
Other shareholders equity	1,039,578	1,013,753
TOTAL SHAREHOLDERS EQUITY	1,090,858	1,065,033
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$2,599,706	$2,634,317

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG inc.
Consolidated Condensed Statements of Earnings
(Unaudited)

(dollars in thousands, except per share data)	Three Months Ended January 2, 2010	Three Months Ended December 27, 2008
NET SALES	$ 495,178	$ 446,088
COST OF SALES	350,776	308,240
GROSS PROFIT	144,402	137,848
Research and development	23,882	25,130
Selling, general and administrative	78,127	69,199
Restructuring	1,819	
Interest	10,728	9,601
Equity in earnings of LTi and other	394	(2,455)
EARNINGS BEFORE INCOME TAXES	29,452	36,373
INCOME TAXES	7,891	6,103
NET EARNINGS	$ 21,561	$ 30,270
NET EARNINGS PER SHARE		
Basic	$ 0.48	$ 0.71
Diluted	$ 0.47	$ 0.70
AVERAGE COMMON SHARES OUTSTANDING		
Basic	45,323,349	42,607,289
Diluted	45,592,874	42,986,088

See accompanying Notes to Consolidated Condensed Financial Statements.

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

(dollars in thousands)	Three Months Ended January 2, 2010	December 27, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 21,561	$ 30,270
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	15,051	13,135
Amortization	7,551	3,830
Provisions for non-cash losses on contracts, inventories and receivables	7,550	12,814
Equity-based compensation expense	2,784	2,589
Other	(1,913)	(3,264)
Changes in assets and liabilities providing cash, excluding the effects of acquisitions:		
Receivables	23,093	25,974
Inventories	14,720	(23,966)
Accounts payable	(11,123)	22
Customer advances	(9,647)	1,068
Accrued expenses	(15,778)	(26,200)
Accrued income taxes	3,851	3,261
Other assets and liabilities	(1,635)	(6,984)
NET CASH PROVIDED BY OPERATING ACTIVITIES	56,065	32,549
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of acquired cash	(358)	(14,023)
Purchase of property, plant and equipment	(11,628)	(20,498)
Other	4	29
NET CASH USED BY INVESTING ACTIVITIES	(11,982)	(34,492)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments of) proceeds from notes payable	(279)	4,434
Net (repayments of) proceeds from revolving lines of credit	(22,968)	37,500
Payments on long-term debt	(1,747)	(287)
Excess tax benefits from equity-based payment arrangements	11	43
Other	1,153	(5,592)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(23,830)	36,098

Effect of exchange rate changes on cash	(445)	(2,552)
INCREASE IN CASH AND CASH EQUIVALENTS	19,808	31,603
Cash and cash equivalents at beginning of period	81,493	86,814
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 101,301	$ 118,417
CASH PAID FOR:		
Interest	$ 10,678	$ 10,657
Income taxes, net of refunds	3,669	4,012

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG inc.
Notes to Consolidated Condensed Financial Statements
Three Months Ended January 2, 2010
(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 the fair presentation of results for the interim period have been included. The results of operations for the three months ended January 2, 2010 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 October 3, 2009. All references to years in these financial statements are to fiscal years.

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. Under purchase accounting, we record assets and liabilities at fair value on the balance sheet. All of the following acquisitions, with the exception of LTi REEnergy GmbH, resulted in goodwill being recorded as a result of the respective purchase price allocations.

On September 25, 2009, we acquired the flight control actuation business of GE Aviation Systems, with operations in Wolverhampton, U.K. The purchase price, net of cash acquired, was $90,786, which was initially financed with funds available under our revolving credit facility. The Wolverhampton flight controls business designs and manufactures primary and secondary flight control actuation for a number of commercial and military programs, including high-lift actuation systems for the Boeing 777 and 787 and the Airbus A330 and A380. Sales for the 2008 calendar year were approximately $100,000. This acquisition is included in our Aircraft Controls segment.

On June 4, 2008, we acquired a 40% ownership in LTi REEnergy GmbH, with operations in Germany and China, for cash of $28,288. LTi REEnergy specializes in the design and manufacture of servo controllers as well as complete drive systems for electric rotor blade controls for wind turbines. We accounted for this investment using the equity method of accounting with our net investment reflected in other assets on the balance sheet. On June 1, 2009, we acquired the remaining 60% of LTi REEnergy and began to consolidate 100% of the operating results from that date forward. The total purchase price, net of cash acquired, was $72,022. We financed the purchase price with available cash on hand of $12,834, issuance of a $13,451 unsecured note due to the seller in February 2010, $17,449 of assumed debt and the $28,288 cash paid for the 40% investment in 2008. Sales for the twelve months preceding the acquisition of the remaining 60% ownership were approximately $140,000. This acquisition is included in our Industrial Systems segment.

On March 2, 2009, we acquired Fernau Avionics Limited, a UK-based company. The purchase price, net of cash acquired, was $45,787, which was financed with credit facility borrowings. Fernau Avionics is a leading supplier of ground-based air navigation systems for military, naval and civil aviation. This acquisition complements our present navigation aids business in the U.S. Sales for the 2008 calendar year were approximately $22,500. This acquisition is included in our Aircraft Controls segment.

On February 13, 2009, we acquired Videolarm Inc., based in Decatur, Georgia. The purchase price, net of cash acquired, was $44,853, which was financed with credit facility borrowings. Videolarm produces products for surveillance systems including integrated cameras, vandal resistant protective housings and networked solutions. Sales for the 2008 calendar year were approximately $19,500. This acquisition is included in our Space and Defense Controls segment.

On January 30, 2009, we acquired 70% of the stock of Insensys Ltd., a UK-based company. On April 30, 2009, we acquired the remaining 30%. The purchase price, net of cash acquired, was $23,558 and was financed with available cash on hand. Insensys is a supplier of pitch control and rotor blade monitoring systems for wind turbines. Sales for the 2008 calendar year were approximately $8,000. This acquisition is included in our Industrial Systems segment.

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On January 23, 2009, we acquired Ethox International, based in Buffalo, New York. The purchase price, net of cash acquired, was $15,131, which was financed with credit facility borrowings plus $6,814 of assumed debt. Ethox produces proprietary medical devices and is engaged in contract manufacturing of disposables for medical device companies. Ethox also provides microbiology, toxicology and sterilization services. Sales for the 2008 calendar year were approximately $27,000. This acquisition is included in our Medical Devices segment.

On December 30, 2008, we acquired Aitecs Medical UAB, a Lithuanian-based manufacturer of syringe-style infusion therapy pumps. The purchase price, net of cash acquired, was $21,379, which was financed with credit facility borrowings. Aitecs has a product portfolio that includes pumps for general hospital use, operating rooms and patient controlled analgesia. Sales for the twelve months preceding the acquisition were approximately $9,000. This acquisition is included in our Medical Devices segment.

On October 8, 2008, we acquired Berkeley Process Control, Inc., based in Richmond, California. The purchase price, net of cash acquired, was $14,036, which was financed with credit facility borrowings. Berkeley manufactures motion control software and hardware that automates the precise handling of semiconductor wafers and enhances the speed, quality and safety of welding in the oil and gas market and in nuclear fuel canisters. Sales for the twelve months preceding the acquisition were approximately $6,300. This acquisition is included in our Industrial Systems segment.

Our purchase price allocations are substantially complete with the exception of the Wolverhampton flight controls business and LTi REEnergy. Wolverhampton s purchase price allocation is based on preliminary estimates of fair values of assets acquired and liabilities assumed. LTi REEnergy s purchase price allocation is substantially complete with the exception of other current liabilities.

Note 3 Inventories

	January 2, 2010	October 3, 2009
Raw materials and purchased parts	$202,511	$206,414
Work in progress	203,512	214,021
Finished goods	59,668	63,826
Total	$465,691	$484,261

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Note 4 Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the three months ended January 2, 2010 are as follows:

	Balance as of October 3, 2009	Adjustment To Prior Year Acquisitions	Foreign Currency Translation	Balance as of January 2, 2010
Aircraft Controls	$180,694	$(4,165)	$ 359	$176,888
Space and Defense Controls	106,802			106,802
Industrial Systems	124,155		(689)	123,466
Components	159,359		712	160,071
Medical Devices	127,449		(222)	127,227
Total	$698,459	$(4,165)	$ 160	$694,454

The components of acquired intangible assets are as follows:

		January 2, 2010		October 3, 2009	
	Weighted Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	10	$141,707	$(38,418)	$142,555	$(34,748)
Program-related	18	64,123	(2,473)	61,599	(1,475)
Technology-related	9	50,739	(17,417)	50,698	(15,955)
Marketing-related	9	22,668	(10,678)	22,616	(10,109)
Contract-related	3	3,312	(276)	3,000	
Artistic-related	10	25	(20)	25	(20)
Acquired intangible assets	11	$282,574	$(69,282)	$280,493	$(62,307)

All acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Program-related intangible assets consist of long-term programs. Technology-related intangible assets primarily consist of technology, patents, intellectual property and engineering drawings. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements. Contract-related intangible assets consist of favorable operating lease terms.

Amortization of acquired intangible assets was $7,108 for the three months ended January 2, 2010 and $3,441 for the three months ended December 27, 2008. Based on acquired intangible assets recorded at January 2, 2010, amortization is expected to be $27,770 in 2010, $26,472 in 2011, $25,556 in 2012, $21,914 in 2013 and $19,724 in 2014.

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Note 5 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	
	January 2, 2010	December 27, 2008
Warranty accrual at beginning of period	$14,675	$10,015
Additions from acquisitions		83
Warranties issued during current period	1,734	1,927
Adjustments to pre-existing warranties	(98)	649
Reductions for settling warranties	(2,512)	(1,531)
Foreign currency translation	(50)	(239)
Warranty accrual at end of period	$13,749	$10,904

Note 6 Derivative Financial Instruments

We principally use derivative financial instruments to manage interest rate risk associated with long-term debt and foreign exchange risk related to foreign operations and foreign currency transactions. We enter into derivative financial instruments with a number of major financial institutions to minimize counterparty credit risk.

Derivatives designated as hedging instruments

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At January 2, 2010, we had interest rate swaps with notional amounts totaling $65,000. The interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 3.8%, including the applicable margin of 225 basis points as of January 2, 2010. The interest will revert back to variable rates based on LIBOR plus the applicable margin upon their maturities in 2012.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments and, to a much lesser extent, receipts. To mitigate exposure in movements between various currencies, primarily the British pound, Philippine peso and euro, we had outstanding foreign currency forwards with notional amounts of $30,368 at January 2, 2010. These contracts mature at various times through the second quarter of 2011.

These interest rate swaps and foreign currency forwards are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in 2010 or 2009.

Activity in Accumulated Other Comprehensive Income (Loss) (AOCI) related to these derivatives during the first three months of 2010 is summarized below:

	Pre-tax Amount	Income Tax	After-Tax Amount

Balance at October 3, 2009	$ (262)	$ 73	$(189)
Net decrease in fair value of derivatives	1,283	(401)	882
Net reclassification from AOCI into earnings	(132)	16	(116)
Accumulated gain at January 2, 2010	$ 889	$(312)	$ 577

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Activity and classification of derivatives for the three months ended January 2, 2010 are as follows:

	Classification of net gain (loss) recognized in earnings	Net reclassification from AOCI into earnings (effective portion)	Net deferral in AOCI of derivatives (effective portion)
Interest rate swaps	Interest expense	$ (327)	$ 161
Foreign currency forwards	Cost of sales	459	1,122
Net gain		$ 132	$ 1,283

Derivatives not designated as hedging instruments

We also have foreign currency exposure on intercompany balances 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 statement of earnings. To minimize foreign currency exposure, we had foreign currency forwards with notional amounts of $118,872 at January 2, 2010. 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. We recorded a net loss of $2,572 for the three months ended January 2, 2010 on the foreign currency forwards which are included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances.

Summary of derivatives

The fair value and classification of derivatives on the consolidated balance sheet as of January 2, 2010 is summarized as follows:

	Other current assets	Other assets	Other accrued liabilities	Other long-term liabilities
Derivatives designated as hedging instruments:				
Foreign currency forwards	$ 640	$15	$ 77	$75
Interest rate swaps	95	60	33	
	$ 735	$75	$ 110	$75
Derivatives not designated as hedging instruments:				
Foreign currency forwards	$2,284	$	$1,506	$

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Note 7 Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.

The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis as of January 2, 2010:

	Classification	Level 1	Level 2	Level 3	Total
Foreign currency forwards	Other current assets	$	$ 2,924	$	$ 2,924
Foreign currency forwards	Other assets		15		15
Foreign currency forwards	Other accrued liabilities		(1,583)		(1,583)
Foreign currency forwards	Other long-term liabilities		(75)		(75)
Interest rate swaps	Other current assets		95		95
Interest rate swaps	Other assets		60		60
Interest rate swaps	Other accrued liabilities		(33)		(33)
Net fair value		$	$ 1,403	$	$ 1,403

Our only financial instrument for which the carrying value at times differs from its fair value is long-term debt. At January 2, 2010, the fair value of long-term debt was $773,577 compared to its carrying value of $789,672. The fair value of long-term debt was estimated based on quoted market prices.

Note 8 Restructuring

We have initiated restructuring plans to better align our cost structure with lower sales activity associated with the global recession. The restructuring actions taken have or will result in workforce reductions, primarily in the U.S., the Philippines and Europe.

Restructuring expense by segment for the three months ended January 2, 2010 is as follows:

	Severance
Aircraft Controls	$1,192
Industrial Systems	394
Components	239
Medical Devices	(6)
Total	$1,819

Restructuring expense related to these actions was $15,067 in 2009. We anticipate additional amounts in 2010, primarily in Aircraft Controls and Industrial Systems. Payments related to these severance benefits are expected to be paid in full by the end of 2010. We are continuing to evaluate additional restructuring plans.

Restructuring activity for the quarter ended January 2, 2010 is as follows:

	Severance
Balance at beginning of period	$14,332
Charged to expense	2,062
Adjustments for prior accruals	(243)
Cash payments	(2,088)
Foreign currency translation	(122)
Balance at end of period	$13,941

Note 9 Employee Benefit Plans

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

	Three Months Ended	
	January 2, 2010	December 27, 2008
Service cost	$ 4,680	$ 3,494
Interest cost	6,767	6,382
Expected return on plan assets	(8,836)	(7,981)
Amortization of prior service cost	50	74
Amortization of actuarial loss	1,237	211
Pension expense for defined benefit plans	3,898	2,180
Pension expense for defined contribution plans	1,728	1,354
Total pension expense for U.S. plans	$ 5,626	$ 3,534

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

	Three Months Ended	
	January 2, 2010	December 27, 2008
Service cost	$ 818	$ 885
Interest cost	1,563	1,425
Expected return on plan assets	(944)	(871)
Amortization of prior service credit	(14)	(12)
Amortization of actuarial loss	133	118
Pension expense for defined benefit plans	1,556	1,545
Pension expense for defined contribution plans	1,430	412
Total pension expense for non-U.S. plans	$ 2,986	$ 1,957

During the three months ended January 2, 2010, we made contributions to our defined benefit pension plans of $6,000 to the U.S. plans and $1,032 to the non-U.S. plans. We anticipate contributing an additional $18,125 to the U.S. plans and $3,145 to the non-U.S. plans for a total of $28,302 in 2010.

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