MOOG INC
Form 10-Q
February 05, 2008

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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 December 29, 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 February 1, 2008 was:

Class A common stock, $1.00 par value	38,511,902 shares
Class B common stock, $1.00 par value	4,088,134 shares

MOOG INC.
QUARTERLY REPORT ON FORM 10-Q
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

MOOG INC.
Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)	December 29, 2007	September 29, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 83,152	$ 83,856
Receivables	465,188	431,978
Inventories	378,237	359,250
Other current assets	65,638	61,767
TOTAL CURRENT ASSETS	992,215	936,851
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $374,183 and $361,120, respectively	402,236	386,813
GOODWILL	548,642	538,433
INTANGIBLE ASSETS, net	81,923	81,916
OTHER ASSETS	60,146	62,166
TOTAL ASSETS	$ 2,085,162	$ 2,006,179
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 817	$ 3,354
Current installments of long-term debt	2,544	2,537
Accounts payable	121,927	113,942
Customer advances	32,935	34,224
Contract loss reserves	10,970	12,362
Other accrued liabilities	150,613	153,809
TOTAL CURRENT LIABILITIES	319,806	320,228
LONG-TERM DEBT, excluding current installments		
Senior debt	456,848	411,543
Senior subordinated notes	200,085	200,089
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	115,980	113,354
DEFERRED INCOME TAXES	79,296	80,419
OTHER LONG-TERM LIABILITIES	4,208	3,334
TOTAL LIABILITIES	1,176,223	1,128,967
SHAREHOLDERS EQUITY		
Common stock	48,605	48,605
Other shareholders equity	860,334	828,607

TOTAL SHAREHOLDERS EQUITY	908,939	877,212
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,085,162	$ 2,006,179

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 December 29, 2007	Three Months Ended December 30, 2006
NET SALES	$ 446,407	$ 355,981
COST OF SALES	298,777	235,299
GROSS PROFIT	147,630	120,682
Research and development	24,092	22,238
Selling, general and administrative	71,282	56,746
Interest	9,712	5,685
Other	114	611
EARNINGS BEFORE INCOME TAXES	42,430	35,402
INCOME TAXES	14,755	11,338
NET EARNINGS	$ 27,675	$ 24,064
NET EARNINGS PER SHARE		
Basic	$ .65	$ .57
Diluted	.64	.56
AVERAGE COMMON SHARES OUTSTANDING		
Basic	42,485,328	42,317,680
Diluted	43,258,660	43,016,743

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 December 29, 2007	Three Months Ended December 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 27,675	$ 24,064
Adjustments to reconcile net earnings to net cash (used) provided by operating activities:		
Depreciation	11,359	9,529
Amortization	3,980	2,461
Provisions for non-cash losses on contracts, inventories and receivables	4,594	9,518
Stock compensation expense	1,628	1,602
Other	(154)	(1,325)
Changes in assets and liabilities (using) providing cash, excluding the effects of acquisitions:		
Receivables	(30,476)	(1,570)
Inventories	(18,022)	(20,503)
Customer advances	(1,499)	10,227
Other assets and liabilities	(2,759)	(11,361)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(3,674)	22,642
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of acquired cash	(9,085)	(3,153)
Purchase of property, plant and equipment	(25,091)	(24,911)
Other	(1,298)	17
NET CASH USED BY INVESTING ACTIVITIES	(35,474)	(28,047)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments of) proceeds from notes payable	(2,585)	5,366
Net proceeds from revolving lines of credit	42,295	24,000
Payments on long-term debt	(270)	(25,866)
Excess tax benefits from share-based payment arrangements	586	142
Other	(3,196)	782
NET CASH PROVIDED BY FINANCING ACTIVITIES	36,830	4,424
Effect of exchange rate changes on cash	1,614	1,335
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(704)	354
Cash and cash equivalents at beginning of period	83,856	57,821

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 83,152	$ 58,175
CASH PAID FOR:		
Interest	$ 7,299	$ 2,203
Income taxes	8,117	6,765

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG INC.
Notes to Consolidated Condensed Financial Statements
Three Months Ended December 29, 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 months ended December 29, 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 29, 2007. 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.

On November 20, 2007, we acquired PRIZM Advanced Communication Electronincs Inc. The purchase price, net of cash acquired, was $12,000, which was financed with credit facility borrowings and issuance of $3,000 of unsecured notes to the sellers payable on March 31, 2009. PRIZM specializes in the design of fiber optic and wireless video and data multiplexers used in commercial and military subsea markets for oil and gas exploration, terrestrial robots and remote sensing applications. This acquisition is included in our Components segment.

On September 12, 2007, we acquired QuickSet International, Inc. The purchase price, net of cash acquired, was $41,108, which was financed with credit facility borrowings. QuickSet is a manufacturer of precision positioning systems and pan and tilt mechanisms. QuickSet s products are used to position surveillance cameras, thermal imagers, sensors and communication antennae for military, homeland defense and commercial surveillance for securing national borders, commercial ports, strategic missile silos and military protection systems. This acquisition is principally included as part of our Space and Defense Controls segment and will contribute to growth in our defense controls market and accelerate our business development in homeland defense. Annual sales for the twelve months preceding the acquisition were approximately $22,000. During 2008, we completed our purchase price allocation for the acquisition and, as a result, goodwill increased by $2,294 and intangible assets decreased by $2,081.

On September 6, 2007, we acquired Techtron, a commercial slip ring manufacturer, for $5,600 in cash. This acquisition is included as part of our Components segment.

On May 3, 2007, we acquired Thermal Control Products Inc. The purchase price, net of cash acquired, was $6,887. We paid $4,037 in cash, which was financed with credit facility borrowings, and issued unsecured notes to the sellers payable over three years with a discounted present value of $2,850. Thermal Control Products specializes in the design, prototype and manufacture of electronic cooling and air moving systems for the automotive, telecommunications, server and electronic storage markets and is included as part of our Components segment.

On March 16, 2007, we acquired ZEVEX International, Inc. The purchase price, net of cash acquired, was $82,457, 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, long-term care facilities, 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. Annual sales for the twelve months preceding the acquisition were approximately $43,000.

In the first quarter of 2007, we acquired a ball screw manufacturer. The adjusted purchase price was $2,567 paid in cash and $2,935 in assumed debt.

Our purchase price allocations are substantially complete with the exception of PRIZM s purchase price allocation, which is based on preliminary estimates of fair values of assets acquired and liabilities assumed.

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.

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On January 9, 2008, shareholders approved the 2008 Stock Appreciation Rights Plan. The 2008 Stock Appreciation Rights Plan authorizes the issuance of 2,000,000 stock appreciation rights (SARs), which represent the right to receive shares of Class A common stock. Under the terms of the plan, the SARs are non-qualified for U.S. Federal income taxes. The exercise price of the SARs, determined by a committee of the Board of Directors, may not be less than the fair value of the Class A common stock on the grant date. The number of shares received upon exercise of SARs is equal in value to the difference between the fair market value of the Class A common stock on the exercise date and the exercise price of the SAR. SARs 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 vest in equal annual increments over a five-year period from the date of grant.

Note 4 Inventories

	December 29, 2007	September 29, 2007
Raw materials and purchased parts	$ 138,375	$ 121,622
Work in progress	188,062	183,810
Finished goods	51,800	53,818
Total	$ 378,237	$ 359,250

Note 5 Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the three months ended December 29, 2007 are as follows:

	Balance as of September 29, 2007	Current Year Acquisitions	Adjustment To Prior Year Acquisitions	Foreign Currency Translation	Balance as of December 29, 2007
Aircraft Controls	$ 103,898	$	$	$ 34	$ 103,932
Space and Defense Controls	67,546		2,157		69,703
Industrial Systems	101,465		137	1,555	103,157
Components	153,442	5,539	192	269	159,442
Medical Devices	112,082		326		112,408
Total	$ 538,433	$ 5,539	$ 2,812	$ 1,858	$ 548,642

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 $3,709 for the three months ended December 29, 2007 and $2,118 for the three months ended December 30, 2006, respectively. Based on acquired intangible assets recorded at December 29, 2007, amortization is expected to be $13,595 in 2008, $12,116 in 2009, $11,983 in 2010, $11,752 in

2011 and $11,128 in 2012. The gross carrying amount and accumulated amortization for major categories of acquired intangible assets are as follows:

	December 29, 2007		September 29, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	$ 66,861	$ (17,674)	$ 64,556	$ (15,181)
Technology-related	30,297	(7,523)	30,560	(6,482)
Marketing-related	15,158	(7,395)	15,229	(7,031)
Artistic-related	25	(15)	25	(15)
Acquired intangible assets	$ 112,341	$ (32,607)	$ 110,370	$ (28,709)

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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	
	December 29, 2007	December 30, 2006
Warranty accrual at beginning of period	$ 7,123	$ 5,968
Warranties issued during current period	1,772	1,578
Reductions for settling warranties	(1,087)	(1,617)
Foreign currency translation	91	117
Warranty accrual at end of period	$ 7,899	$ 6,046

Note 7 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 $16,775. 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 December 29, 2007, the fair value of the foreign currency forwards was a $1,199 liability, which was included in other accrued liabilities. At September 29, 2007, the fair value of the foreign currency forwards was a $1,047 liability, 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. During the first quarter of 2008, we entered into interest rate swaps with notional amounts totaling $60,000 effectively converting that amount of variable-rate debt to fixed-rate debt. Based on the applicable margin at December 29, 2007, the interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 5.7% through their maturities. These interest rate swaps mature in the first quarter of 2009, at which time the interest will revert back to variable rates based on LIBOR plus the applicable margin. Activity in Accumulated Other Comprehensive Income (AOCI) related to derivatives held by us during the first three months of 2008 is summarized below:

	Pre-Tax Amount	Income Tax	After-Tax Amount
Accumulated gain at September 29, 2007	$	$	$
Net decrease in fair value of derivatives	(629)	242	(387)
Net reclassification from AOCI into earnings	(53)	21	(32)
Accumulated loss at December 29, 2007	$ (682)	$ 263	$ (419)

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. The interest rate swaps entered into during 2008 qualify for the shortcut method and, accordingly, we do not have any ineffectiveness during the term of the swaps. Ineffectiveness was not material in the first three months of 2007. At

December 29, 2007, the fair value of interest rate swaps was a $629 liability, which is included in other accrued liabilities and other long-term liabilities.

Note 8 Employee Benefit Plans

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

	Three Months Ended	
	December 29, 2007	December 30, 2006
Service cost	$ 4,115	$ 3,750
Interest cost	5,859	5,205
Expected return on plan assets	(7,453)	(6,373)
Amortization of prior service cost	265	279
Amortization of actuarial loss	690	1,133
Pension expense for defined benefit plans	3,476	3,994
Pension expense for defined contribution plans	359	290
Total pension expense for U.S. plans	$ 3,835	$ 4,284

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

	Three Months Ended	
	December 29, 2007	December 30, 2006
Service cost	$ 969	$ 915
Interest cost	1,434	1,206
Expected return on plan assets	(915)	(706)
Amortization of prior service credit	(9)	(9)
Amortization of actuarial loss	84	204
Pension expense for defined benefit plans	1,563	1,610
Pension expense for defined contribution plans	441	355
Total pension expense for non-U.S. plans	$ 2,004	$ 1,965

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

	Three Months Ended	
	December 29, 2007	December 30, 2006
Service cost	$ 107	$ 100
Interest cost	312	301
Amortization of transition obligation	98	98
Amortization of prior service cost	72	72
Amortization of actuarial loss	112	131

Net periodic post-retirement benefit cost	$ 701	$ 702

During the three months ended December 29, 2007, we made contributions to our defined benefit pension plans of $164 to the U.S. plans and $1,253 to the non-U.S. plans. We presently don t anticipate contributing any additional amounts to the U.S. plans but do anticipate contributing $3,600 to the non-U.S. plans in 2008 for a total of approximately $5,000.

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Note 9 Shareholders Equity

The changes in shareholders equity for the three months ended December 29, 2007 are summarized as follows:

		Number of Shares	
	Amount	Class A Common Stock	Class B Common Stock
COMMON STOCK			
Beginning of period	$ 48,605	40,739,556	7,865,157
Conversion of Class B to Class A		3,000	(3,000)
End of period	48,605	40,742,556	7,862,157
ADDITIONAL PAID-IN CAPITAL			
Beginning of period	301,778		
Stock compensation expense	1,628		
Issuance of Treasury shares at more than cost	2,257		
Income tax effect of equity based compensation	618		
Adjustment to market SECT	1,433		
End of period	307,714		
RETAINED EARNINGS			
Beginning of period	570,063		
Net earnings	27,675		
Adjustment for adoption of FIN 48	(546)		
End of period	597,192		
TREASURY STOCK			
Beginning of period	(39,873)	(2,411,825)	(3,305,971)
Treasury stock issued	848	159,013	
Treasury stock purchased	(1,722)	(38,275)	
End of period	(40,747)	(2,291,087)	(3,305,971)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)			
Beginning of period	(15,928)		(361,836)
Purchases of stock from SSOP	(4,579)		(101,137)
Adjustment to market SECT	(1,433)		
End of period	(21,940)		(462,973)

ACCUMULATED OTHER COMPREHENSIVE INCOME			
Beginning of period	12,567		
Foreign currency translation adjustment	5,967		
Increase in accumulated loss on derivatives	(419)		
End of period	18,115		
TOTAL SHAREHOLDERS EQUITY	$ 908,939	38,451,469	4,093,213

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Note 10 Stock Employee Compensation Trust

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for employee stock plans and benefit programs, including the Moog Inc. Savings and Stock Ownership Plan (SSOP). The shares in the SECT are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreement governing the SECT, the SECT trustee votes all shares held by the SECT on all matters submitted to shareholders.

Note 11 Earnings per Share

Basic and diluted weighted-average shares outstanding are as follows:

	Three Months Ended December 29, 2007	December 30, 2006
Weighted-average shares outstanding Basic	42,485,328	42,317,680
Dilutive effect of stock options	773,332	699,063
Weighted-average shares outstanding Diluted	43,258,660	43,016,743

Note 12 Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended December 29, 2007	December 30, 2006
Net earnings	$ 27,675	$ 24,064