MOOG INC
Form 10-Q
May 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 March 29, 2008

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, 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 May 1, 2008 was:

Class A common stock, $1.00 par value 38,555,172 shares

Class B common stock, $1.00 par value 4,064,657 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)	March 29, 2008	September 29, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 92,706	$ 83,856
Receivables	485,236	431,978
Inventories	409,053	359,250
Other current assets	70,914	61,767
TOTAL CURRENT ASSETS	1,057,909	936,851
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $392,470 and $361,120, respectively	417,225	386,813
GOODWILL	554,761	538,433
INTANGIBLE ASSETS, net	79,293	81,916
OTHER ASSETS	38,309	62,166
TOTAL ASSETS	$ 2,147,497	$ 2,006,179
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 1,653	$ 3,354
Current installments of long-term debt	2,568	2,537
Accounts payable	128,903	113,942
Customer advances	31,295	34,224
Contract loss reserves	15,064	12,362
Other accrued liabilities	165,265	153,809
TOTAL CURRENT LIABILITIES	344,748	320,228
LONG-TERM DEBT, excluding current installments		
Senior debt	461,395	411,543
Senior subordinated notes	200,081	200,089
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	142,443	113,354
DEFERRED INCOME TAXES	63,042	80,419
OTHER LONG-TERM LIABILITIES	5,067	3,334
TOTAL LIABILITIES	1,216,776	1,128,967
SHAREHOLDERS EQUITY		
Common stock	48,605	48,605
Other shareholders equity	882,116	828,607

TOTAL SHAREHOLDERS EQUITY	930,721	877,212
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,147,497	$ 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 March 29, 2008	Three Months Ended March 31, 2007	Six Months Ended March 29, 2008	Six Months Ended March 31, 2007
NET SALES	$ 468,838	$ 384,914	$ 915,245	$ 740,895
COST OF SALES	319,203	256,425	617,980	491,724
GROSS PROFIT	149,635	128,489	297,265	249,171
Research and development	26,076	25,655	50,168	47,893
Selling, general and administrative	72,939	60,749	144,221	117,495
Interest	9,223	6,382	18,935	12,067
Other	(1,131)	(535)	(1,017)	76
EARNINGS BEFORE INCOME TAXES	42,528	36,238	84,958	71,640
INCOME TAXES	13,900	11,751	28,655	23,089
NET EARNINGS	$ 28,628	$ 24,487	$ 56,303	$ 48,551
NET EARNINGS PER SHARE				
Basic	$ .67	$ .58	$ 1.32	1.15
Diluted	.66	.57	1.30	1.13
AVERAGE COMMON SHARES OUTSTANDING				
Basic	42,601,255	42,421,490	42,543,291	42,369,585
Diluted	43,242,298	43,102,869	43,250,479	43,059,806

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Six Months Ended	
(dollars in thousands)	March 29, 2008	March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 56,303	$ 48,551
Adjustments to reconcile net earnings to net cash (used) provided by operating activities:		
Depreciation	22,976	19,374
Amortization	7,746	4,930
Provisions for non-cash losses on contracts, inventories and receivables	14,298	12,594
Equity-based compensation expense	2,310	2,200
Other	(262)	(1,198)
Changes in assets and liabilities (using) providing cash, excluding the effects of acquisitions:		
Receivables	(44,105)	(26,103)
Inventories	(48,206)	(38,344)
Customer advances	(3,712)	2,912
Other assets and liabilities	10,268	754
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,616	25,670
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of acquired cash	(9,101)	(85,453)
Purchase of property, plant and equipment	(46,222)	(52,853)
Other	(1,243)	1,117
NET CASH USED BY INVESTING ACTIVITIES	(56,566)	(137,189)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of notes payable	(1,878)	(1,610)
Net proceeds from revolving lines of credit	47,000	124,000
Proceeds from long-term debt		498
Payments on long-term debt	(948)	(27,100)
Excess tax benefits from share-based payment arrangements	811	901
Other	(3,339)	1,771
NET CASH PROVIDED BY FINANCING ACTIVITIES	41,646	98,460
Effect of exchange rate changes on cash	6,154	1,691

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,850	(11,368)
Cash and cash equivalents at beginning of period	83,856	57,821
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 92,706	$ 46,453
CASH PAID FOR:		
Interest	$ 20,774	$ 11,556
Income taxes, net of refunds	19,531	19,425

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG INC.
Notes to Consolidated Condensed Financial Statements
Six Months Ended March 29, 2008
(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 and six months ended March 29, 2008 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 Electronics 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 $41,109, 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 security. 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 $2,295 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 $82,473, 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 Equity-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. The term of a SAR may not exceed ten years from the date of grant.

Equity-based compensation expense 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

	March 29, 2008	September 29, 2007
Raw materials and purchased parts	$ 148,608	$ 121,622
Work in progress	203,795	183,810
Finished goods	56,650	53,818
Total	$ 409,053	$ 359,250

Note 5 Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended March 29, 2008 are as follows:

	Balance as of September 29, 2007	Current Year Acquisitions	Adjustment To Prior Year Acquisitions	Foreign Currency Translation	Balance as of March 29, 2008
Aircraft Controls	$ 103,898	$	$	$ 116	$ 104,014
Space and Defense Controls	67,546		2,157		69,703
Industrial Systems	101,465		138	6,064	107,667
Components	153,442	8,132	197	(864)	160,907
Medical Devices	112,082		388		112,470
Total	$ 538,433	$ 8,132	$ 2,880	$ 5,316	$ 554,761

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 $3,480 and $7,189 for the three and six months ended March 29, 2008 and was $2,184 and $4,302 for the three and six months ended March 31, 2007, respectively. Based on acquired intangible assets recorded at March 29, 2008, amortization is expected to be $13,777 in 2008, $12,395 in 2009, $12,255 in 2010, $12,017 in 2011 and $11,378 in 2012. The gross carrying amount and accumulated amortization for major categories of acquired intangible assets are as follows:

	March 29, 2008		September 29, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	$ 67,433	$ (20,038)	$ 64,556	$ (15,181)
Technology-related	32,620	(8,667)	30,560	(6,482)
Marketing-related	15,236	(7,801)	15,229	(7,031)
Artistic-related	25	(16)	25	(15)
Acquired intangible assets	$ 115,314	$ (36,522)	$ 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		Six Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Warranty accrual at beginning of period	$ 7,899	$ 6,046	$ 7,123	$ 5,968
Additions from acquisitions	100	159	100	159
Warranties issued during current period	1,987	2,017	3,799	3,595
Reductions for settling warranties	(1,202)	(1,517)	(2,329)	(3,134)
Foreign currency translation	329	15	420	132
Warranty accrual at end of period	$ 9,113	$ 6,720	$ 9,113	$ 6,720

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 notional amounts of $13,231. 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 29, 2008, the fair value of the foreign currency forwards was a $544 asset, which was included in other current assets. 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 six months of 2008, we entered into interest rate swaps with notional amounts totaling $75,000. Based on the applicable margin at March 29, 2008, the interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 5.6% through their maturities in 2010, 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 six 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	(2,115)	814	(1,301)
Net reclassification from AOCI into earnings	16	(6)	10
Accumulated loss at March 29, 2008	$ (2,099)	$ 808	$ (1,291)

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 2008 or 2007. At March 29, 2008, the fair value of interest rate swaps was a $2,200 liability, which is included in other accrued liabilities and other long-term liabilities.

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Note 8 Employee Benefit Plans

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

	Three Months Ended		Six Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Service cost	$ 4,114	$ 3,764	$ 8,229	$ 7,514
Interest cost	5,860	5,207	11,719	10,412
Expected return on plan assets	(7,452)	(6,373)	(14,905)	(12,746)
Amortization of prior service cost	265	279	530	558
Amortization of actuarial loss	689	1,133	1,379	2,266
Curtailment loss	70		70	
Pension expense for defined benefit plans	3,546	4,010	7,022	8,004
Pension expense for defined contribution plans	369	339	728	629
Total pension expense for U.S. plans	$ 3,915	$ 4,349	$ 7,750	$ 8,633

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

	Three Months Ended		Six Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Service cost	$ 995	$ 928	$ 1,964	$ 1,843
Interest cost	1,456	1,227	2,890	2,433
Expected return on plan assets	(915)	(718)	(1,830)	(1,424)
Amortization of prior service credit	(10)	(9)	(19)	(18)
Amortization of actuarial loss	82	207	166	411
Pension expense for defined benefit plans	1,608	1,635	3,171	3,245
Pension expense for defined contribution plans	470	425	911	781
Total pension expense for non-U.S. plans	$ 2,078	$ 2,060	$ 4,082	$ 4,026

During the six months ended March 29, 2008, we made contributions to our defined benefit pension plans of $164 to the U.S. plans and $2,850 to the non-U.S. plans. We presently don t anticipate contributing any additional amounts to the U.S. plans but do anticipate contributing $2,700 to the non-U.S. plans in 2008 for a total of approximately $5,700.

Effective April 1, 2008, our U.S. defined benefit pension plan was amended to freeze enrollment of new entrants. All new employees hired on or after January 1, 2008 are not eligible to participate in the pension plan and, instead, we will make contributions for those employees to an employee-directed investment fund in the Moog Inc. Retirement Savings Plan (RSP), formerly known as the Moog Inc. Savings and Stock Ownership Plan (SSOP). The Company s contributions are based on a percentage of the employee s eligible compensation and age. These contributions are in addition to the employer match.

We gave all current employees participating in the pension plan as of January 1, 2008 the option to either remain in the pension plan and continue to accrue benefits or to elect to stop accruing future benefits in the pension plan as of

April 1, 2008 and instead receive the new Company contribution in the RSP. The employee elections became effective April 1, 2008.

As a result of the employee elections, there was an 18% reduction in expected future service to be considered in calculating future benefits under the pension plan. We recognized a $70 curtailment loss in the second quarter of 2008 and remeasured both our obligation and plan assets. The curtailment and remeasurement reduced other assets by $21,845, increased long-term pension and retirement obligations by $23,657 and resulted in an other comprehensive loss of $27,936, net of deferred taxes of $17,496, due to a decrease in the funded status of the U.S defined benefit pension plan as of March 29, 2008.

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

	Three Months Ended		Six Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Service cost	$ 107	$ 101	$ 214	$ 201
Interest cost	312	301	624	602
Amortization of transition obligation	99	99	197	197
Amortization of prior service cost	71	71	143	143
Amortization of actuarial loss	112	129	224	260
Net periodic post-retirement benefit cost	$ 701	$ 701	$ 1,402	$ 1,403

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Note 9 Shareholders Equity

The changes in shareholders equity for the six months ended March 29, 2008 are summarized as follows:

		Number of Shares	
	Amount	Class A Common Stock	Class B Common Stock
COMMON STOCK			