METTLER TOLEDO INTERNATIONAL INC/
Form 10-Q
April 25, 2008

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, 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 1-13595
Mettler-Toledo International Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-3668641
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

Im Langacher, P.O. Box MT-100
CH 8606 Greifensee, Switzerland
and
1900 Polaris Parkway
Columbus, Ohio 43240

(Address of principal executive offices)
(Zip Code)
+41-44-944-22-11 and 1-614-438-4511

(Registrant s telephone number, including area code)
not applicable

(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	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

The Registrant had 34,733,815 shares of Common Stock outstanding at March 31, 2008.

METTLER-TOLEDO INTERNATIONAL INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. **Financial Statements**

METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
Three months ended March 31, 2008 and 2007
(In thousands, except share data)
(unaudited)

	March 31, 2008	March 31, 2007
Net sales		
Products	$ 335,937	$ 294,393
Service	103,018	93,371
Total net sales	438,955	387,764
Cost of sales		
Products	151,168	134,806
Service	66,635	61,479
Gross profit	221,152	191,479
Research and development	24,254	21,336
Selling, general and administrative	138,602	121,436
Amortization	2,405	2,925
Interest expense	5,849	4,460
Other charges (income), net	1,675	(362)
Earnings before taxes	48,367	41,684
Provision for taxes	10,088	11,254
Net earnings	$ 38,279	$ 30,430
Basic earnings per common share:		
Net earnings	$ 1.09	$ 0.80
Weighted average number of common shares	35,119,322	38,065,483
Diluted earnings per common share:		
Net earnings	$ 1.06	$ 0.78
Weighted average number of common and common equivalent shares	35,993,750	38,931,681

The accompanying notes are an integral part of these interim consolidated financial statements.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED BALANCE SHEETS
As of March 31, 2008 and December 31, 2007
(In thousands, except share data)
(unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 80,684	$ 81,222
Trade accounts receivable, less allowances of $9,670 at March 31, 2008 and $8,804 at December 31, 2007	342,867	354,596
Inventory	199,872	173,725
Current deferred tax assets, net	37,910	37,643
Other current assets and prepaid expenses	48,638	36,023
Total current assets	709,971	683,209
Property, plant and equipment, net	256,259	249,605
Goodwill	447,931	440,767
Other intangible assets, net	99,802	100,020
Non-current deferred tax assets, net	67,160	65,129
Other non-current assets	157,245	139,484
Total assets	$ 1,738,368	$ 1,678,214
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 106,175	$ 127,109
Accrued and other liabilities	73,684	73,661
Accrued compensation and related items	92,236	130,140
Deferred revenue and customer prepayments	78,758	52,703
Taxes payable	49,295	42,438
Current deferred tax liabilities	7,786	10,152
Short-term borrowings	19,694	11,570
Total current liabilities	427,628	447,773
Long-term debt	471,855	385,072
Non-current deferred tax liabilities	107,372	101,500
Other non-current liabilities	172,505	162,583
Total liabilities	1,179,360	1,096,928
Commitments and contingencies (Note 10)		
Shareholders equity:		

Preferred stock, $0.01 par value per share; authorized 10,000,000 shares; issued 0		
Common stock, $0.01 par value per share; authorized 125,000,000 shares; issued 44,786,011 and 44,786,011 shares; outstanding 34,733,815 and 35,638,483 shares at March 31, 2008 and December 31, 2007, respectively	448	448
Additional paid-in capital	551,106	548,378
Treasury stock at cost (10,052,196 shares at March 31, 2008 and 9,147,528 shares at December 31, 2007)	(754,598)	(662,393)
Retained earnings	689,841	652,236
Accumulated other comprehensive income (loss)	72,211	42,617
Total shareholders equity	559,008	581,286
Total liabilities and shareholders equity	$ 1,738,368	$ 1,678,214

The accompanying notes are an integral part of these interim consolidated financial statements.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)
Three months ended March 31, 2008 and twelve months ended December 31, 2007
(In thousands, except share data)
(unaudited)

	Common Stock		Additional Paid-in	Treasury	Retained	Accumulated Other Comprehensive Income	
	Shares	Amount	Capital	Stock	Earnings	(Loss)	Total
Balance at December 31, 2006	38,430,124	$ 448	$ 528,863	$ (374,819)	$ 493,691	$ (17,321)	$ 630,862
Exercise of stock options and restricted stock units	593,090			37,025	(15,851)		21,174
Repurchases of common stock	(3,384,731)			(324,599)			(324,599)
Tax benefit resulting from exercise of certain employee stock options			11,373				11,373
Share-based compensation			8,142				8,142
Adoption of FIN 48					(4,111)		(4,111)
Comprehensive income:							
Net earnings					178,507		178,507
Change in currency translation adjustment						27,941	27,941
Pension adjustment, net of tax						31,997	31,997
Comprehensive income							238,445
Balance at December 31, 2007	35,638,483	$ 448	$ 548,378	$ (662,393)	$ 652,236	$ 42,617	$ 581,286
Balance at December 31, 2007	35,638,483	$ 448	$ 548,378	$ (662,393)	$ 652,236	$ 42,617	$ 581,286
Exercise of stock options and	32,760			2,245	(1,026)		1,219

restricted stock units							
Other treasury stock issuances	16,760			1,149	352		1,501
Repurchases of common stock	(954,188)			(95,599)			(95,599)
Tax benefit resulting from exercise of certain employee stock options			202				202
Share-based compensation			2,526				2,526
Comprehensive income:							
Net earnings					38,279		38,279
Change in currency translation adjustment						29,512	29,512
Pension adjustment, net of tax						82	82
Comprehensive income							67,873
Balance at March 31, 2008	34,733,815	$ 448	$ 551,106	$ (754,598)	$ 689,841	$ 72,211	$ 559,008

The accompanying notes are an integral part of these interim consolidated financial statements.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Three months ended March 31, 2008 and 2007
(In thousands)
(unaudited)

	March 31, 2008	March 31, 2007
Cash flows from operating activities:		
Net earnings	$ 38,279	$ 30,430
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	7,304	6,454
Amortization	2,405	2,925
Deferred taxes	(451)	(2,375)
Excess tax benefits from share-based payment arrangements	(219)	(2,455)
Share-based compensation	2,526	2,081
(Gain) loss from sale of property, plant and equipment	(2,699)	5
Other	(377)	
Increase (decrease) in cash resulting from changes in:		
Trade accounts receivable, net	27,602	18,199
Inventory	(14,270)	(10,857)
Other current assets	(10,090)	(7,464)
Trade accounts payable	(26,087)	(6,007)
Taxes payable	2,462	14,249
Accruals and other	(18,154)	(12,882)
Net cash provided by operating activities	8,231	32,303
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	12,476	206
Purchase of property, plant and equipment	(7,379)	(7,857)
Net cash provided by (used in) investing activities	5,097	(7,651)
Cash flows from financing activities:		
Proceeds from borrowings	124,032	3,792
Repayments of borrowings	(44,722)	(17,306)
Proceeds from stock option exercises	1,219	6,023
Repurchases of common stock	(98,611)	(76,939)
Excess tax benefits from share-based payment arrangements	219	2,455
Net cash used in financing activities	(17,863)	(81,975)
Effect of exchange rate changes on cash and cash equivalents	3,997	1,584

Net decrease in cash and cash equivalents	(538)	(55,739)
Cash and cash equivalents:		
Beginning of period	81,222	151,269
End of period	$ 80,684	$ 95,530

The accompanying notes are an integral part of these interim consolidated financial statements.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT MARCH 31, 2008 Unaudited

(In thousands, except share data, unless otherwise stated)

1. BASIS OF PRESENTATION

Mettler-Toledo International Inc. (Mettler-Toledo or the Company) is a leading global supplier of precision instruments and services. The Company manufactures weighing instruments for use in laboratory, industrial, packaging, logistics and food retailing applications. The Company also manufactures several related analytical instruments and provides automated chemistry solutions used in drug and chemical compound discovery and development. In addition, the Company manufactures metal detection and other end-of-line inspection systems used in production and packaging and provides solutions for use in certain process analytics applications. The Company s primary manufacturing facilities are located in China, Germany, Switzerland, the United Kingdom and the United States. The Company s principal executive offices are located in Greifensee, Switzerland and Columbus, Ohio.

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include all entities in which the Company has control, which are its majority owned subsidiaries. The interim consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

The accompanying interim consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates. A discussion of the Company s critical accounting policies is included in Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

All intercompany transactions and balances have been eliminated.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT MARCH 31, 2008 Unaudited (Continued)
(In thousands, except share data, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents the Company s best estimate of probable credit losses in its existing trade accounts receivable. The Company determines the allowance based upon a review of both specific accounts for collection and the age of the accounts receivable portfolio.

Inventory

Inventory is valued at the lower of cost or net realizable value. Cost, which includes direct materials, labor and overhead, is generally determined using the first in, first out (FIFO) method. The estimated net realizable value is based on assumptions for future demand and related pricing. Adjustments to the cost basis of our inventory are made for excess and obsolete items based on forecasted usage, orders and technological obsolescence. If actual market conditions are less favorable than those projected by management, reductions in the value of inventory may be required.

Inventory consisted of the following:

	March 31, 2008	December 31, 2007
Raw materials and parts	$ 93,698	$ 90,778
Work-in-progress	27,722	21,067
Finished goods	78,452	61,880
	$ 199,872	$ 173,725

Other Intangible Assets

Other intangible assets include indefinite lived assets and definite lived assets which are subject to amortization. Where applicable, amortization is charged on a straight-line basis over the expected period to be benefited. The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained by the Company in each reporting period. The Company assesses the initial acquisition of intangible assets and the continued accounting for previously recognized intangible assets and goodwill in accordance with SFAS No. 142 Goodwill and Other Intangible Assets and SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT MARCH 31, 2008 Unaudited (Continued)
(In thousands, except share data, unless otherwise stated)

Other intangible assets consist of the following:

	March 31, 2008		December 31, 2007	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer relationships	$ 74,020	$ (12,005)	$ 73,946	$ (11,363)
Proven technology and patents	33,150	(18,920)	32,079	(18,077)
Tradename (finite life)	1,803	(680)	1,655	(654)
Tradename (indefinite life)	22,434		22,434	
	$ 131,407	$ (31,605)	$ 130,114	$ (30,094)

The annual aggregate amortization expense based on the current balance of other intangible assets is estimated at $4.6 million for 2008, $4.7 million for 2009 and 2010, $4.5 million for 2011 and $4.1 million for 2012. The Company had amortization expense associated with the above intangible assets of $1.2 million and $1.1 million for the three months ended March 31, 2008 and 2007, respectively.

In addition to the above amortization, the Company had amortization expense associated with capitalized software of $1.2 million and $1.8 million for the three months ended March 31, 2008 and 2007, respectively.

Warranty

The Company generally offers one-year warranties on most of its products. Product warranties are recorded at the time revenue is recognized for certain product shipments. While the Company engages in extensive product quality programs and processes, its warranty obligation is affected by product failure rates, material usage and service costs incurred in correcting a product failure.

The Company s accrual for product warranties is included in accrued and other liabilities in the consolidated balance sheets. Changes to the Company s accrual for product warranties are as follows:

	March 31, 2008	March 31, 2007
Balance at beginning of period	$ 12,949	$ 10,977
Accruals for warranties	4,161	3,187
Foreign currency translation	364	221
Payments / utilizations	(3,769)	(3,323)
Balance at end of period	$ 13,705	$ 11,062

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT MARCH 31, 2008 Unaudited (Continued)
(In thousands, except share data, unless otherwise stated)

Share-Based Compensation

The Company applies the modified prospective method under SFAS 123R and Staff Accounting Bulletin (SAB) 107, Share-Based Payments. The Company recognizes compensation expense in selling, general and administrative expense in the consolidated statement of operations with a corresponding offset to additional paid-in capital in the consolidated balance sheet. The Company had $2.5 million and $2.1 million of share-based compensation expense for the three months ended March 31, 2008 and 2007, respectively.

During the three months ended March 31, 2008, the Company granted 213,850 performance-based options with a grant-date fair value of $32.20. Compensation expense will be recognized over the five year vesting provisions based upon the probability of the performance condition being met.

Research and Development

Research and development costs primarily consist of salaries, consulting and other costs. The Company expenses these costs as incurred.

Fair Value Measurements

On January 1, 2008, the Company adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, (SFAS 157) except as it relates to nonfinancial assets pursuant to FSP 157-b as described below. SFAS 157 clarifies how companies are required to use a fair value measure for recognition and disclosure by establishing a common definition of fair value, a framework for measuring fair value, and expanding disclosures about fair value measurements. The adoption of SFAS 157 did not have a material impact on the Company s consolidated results of operations or financial position.

As of March 31, 2008, the Company has derivative assets totaling $1.6 million and derivative liabilities totaling $0.1 million. These derivative assets and liabilities consist of foreign currency forward exchange contracts and an interest rate swap agreement. The forward exchange contracts economically hedge short-term intercompany balances with the Company s foreign businesses. The interest rate swap agreement changes the Company s fixed interest obligation associated with $30 million of Senior Notes into a floating rate, and is accounted for as a fair value hedge. Changes in the fair values of these derivative assets and liabilities were insignificant to the Company s consolidated results of operations and financial position for the three month period ended March 31, 2008.

The fair values of these instruments are estimated based upon current valuation information obtained from dealer quotes, and priced with observable market assumptions and appropriate valuation adjustments for credit risk. The Company has evaluated the valuation methodologies used to develop the fair values by dealers in order to determine whether such valuations are representative of an exit price in the Company s principal market. The Company has also considered both its own credit risk and counterparty credit risk in determining fair value and determined these adjustments were insignificant for the three month period ended March 31, 2008.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT MARCH 31, 2008 Unaudited (Continued)