

AMETEK INC/
Form 10-Q
November 04, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

**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 1-12981

AMETEK, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

14-1682544

(I.R.S. Employer
Identification No.)

37 North Valley Road, Building 4

P.O. Box 1764

Paoli, Pennsylvania

(Address of principal executive offices)

19301-0801

(Zip Code)

Registrant's telephone number, including area code: **(610) 647-2121**

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 No

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 No

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(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 No

The number of shares of the registrant's common stock outstanding as of the latest practicable date was: Common Stock, \$0.01 Par Value, outstanding at October 28, 2010 was 106,699,856 shares.

AMETEK, Inc.
Form 10-Q
Table of Contents

| | Page |
|---|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Consolidated Statement of Income for the three and nine months ended September 30, 2010 and 2009</u> | 3 |
| <u>Consolidated Balance Sheet at September 30, 2010 and December 31, 2009</u> | 4 |
| <u>Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2010 and 2009</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16 |
| <u>Item 4. Controls and Procedures</u> | 22 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 6. Exhibits</u> | 23 |
| <u>SIGNATURES</u> | 24 |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |
| <u>EX-32.2</u> | |
| <u>EX-101 INSTANCE DOCUMENT</u> | |
| <u>EX-101 SCHEMA DOCUMENT</u> | |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u> | |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u> | |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u> | |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u> | |

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

AMETEK, Inc.
Consolidated Statement of Income
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|--------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 644,374 | \$ 497,060 | \$ 1,792,977 | \$ 1,574,855 |
| Operating expenses: | | | | |
| Cost of sales, excluding depreciation | 429,075 | 344,658 | 1,200,298 | 1,076,879 |
| Selling, general and administrative | 75,869 | 63,858 | 213,261 | 189,405 |
| Depreciation | 10,837 | 11,069 | 32,784 | 31,714 |
| Total operating expenses | 515,781 | 419,585 | 1,446,343 | 1,297,998 |
| Operating income | 128,593 | 77,475 | 346,634 | 276,857 |
| Other expenses: | | | | |
| Interest expense | (17,057) | (17,380) | (50,541) | (52,076) |
| Other, net | (2,721) | (702) | (4,857) | (1,726) |
| Income before income taxes | 108,815 | 59,393 | 291,236 | 223,055 |
| Provision for income taxes | 31,458 | 16,375 | 88,543 | 69,169 |
| Net income | \$ 77,357 | \$ 43,018 | \$ 202,693 | \$ 153,886 |
| Basic earnings per share | \$ 0.73 | \$ 0.40 | \$ 1.91 | \$ 1.44 |
| Diluted earnings per share | \$ 0.72 | \$ 0.40 | \$ 1.89 | \$ 1.43 |
| Weighted average common shares outstanding: | | | | |
| Basic shares | 105,763 | 106,862 | 106,016 | 106,663 |
| Diluted shares | 107,148 | 107,748 | 107,129 | 107,675 |
| Dividends declared and paid per share | \$ 0.06 | \$ 0.06 | \$ 0.18 | \$ 0.18 |

See accompanying notes.

Table of Contents

AMETEK, Inc.
Consolidated Balance Sheet
(In thousands)

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 135,017 | \$ 246,356 |
| Marketable securities | 5,176 | 4,994 |
| Receivables, less allowance for possible losses | 390,113 | 331,383 |
| Inventories | 332,431 | 311,542 |
| Deferred income taxes | 20,735 | 30,669 |
| Other current assets | 47,465 | 44,486 |
| Total current assets | 930,937 | 969,430 |
| Property, plant and equipment, net | 304,181 | 310,053 |
| Goodwill | 1,489,574 | 1,277,291 |
| Other intangibles, net of accumulated amortization | 690,360 | 521,888 |
| Investments and other assets | 164,253 | 167,370 |
| Total assets | \$ 3,579,305 | \$ 3,246,032 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Short-term borrowings and current portion of long-term debt | \$ 32,351 | \$ 85,801 |
| Accounts payable | 227,567 | 191,779 |
| Income taxes payable | 32,552 | 13,345 |
| Accrued liabilities | 170,869 | 133,357 |
| Total current liabilities | 463,339 | 424,282 |
| Long-term debt | 1,074,671 | 955,880 |
| Deferred income taxes | 278,755 | 206,354 |
| Other long-term liabilities | 94,436 | 92,492 |
| Total liabilities | 1,911,201 | 1,679,008 |
| Stockholders equity: | | |
| Common stock | 1,115 | 1,110 |
| Capital in excess of par value | 240,469 | 224,057 |
| Retained earnings | 1,684,140 | 1,500,471 |
| Accumulated other comprehensive loss | (104,058) | (75,281) |
| Treasury stock | (153,562) | (83,333) |

| | | |
|--|---------------------|--------------|
| Total stockholders' equity | 1,668,104 | 1,567,024 |
| Total liabilities and stockholders' equity | \$ 3,579,305 | \$ 3,246,032 |

See accompanying notes.

4

Table of Contents

AMETEK, Inc.
Condensed Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

| | Nine Months Ended September 30, | |
|--|--|--------------|
| | 2010 | 2009 |
| Cash provided by (used for): | | |
| Operating activities: | | |
| Net income | \$ 202,693 | \$ 153,886 |
| Adjustments to reconcile net income to total operating activities: | | |
| Depreciation and amortization | 52,113 | 48,316 |
| Deferred income tax expense | 4,436 | 36 |
| Share-based compensation expense | 12,347 | 9,807 |
| Net change in assets and liabilities, net of acquisitions | 25,140 | 63,360 |
| Pension contribution | (2,195) | (19,890) |
| Other | 140 | 432 |
| Total operating activities | 294,674 | 255,947 |
| Investing activities: | | |
| Additions to property, plant and equipment | (22,446) | (21,469) |
| Purchases of businesses, net of cash acquired | (373,653) | (41,194) |
| Other | 3,766 | (1,550) |
| Total investing activities | (392,333) | (64,213) |
| Financing activities: | | |
| Net change in short-term borrowings | 27,059 | (13,356) |
| Additional long-term borrowings | 125,120 | 1,466 |
| Reduction in long-term borrowings | (78,200) | (63,964) |
| Repurchases of common stock | (78,609) | |
| Cash dividends paid | (19,003) | (19,162) |
| Excess tax benefits from share-based payments | 3,549 | 3,750 |
| Proceeds from employee stock plans and other | 8,287 | 9,494 |
| Total financing activities | (11,797) | (81,772) |
| Effect of exchange rate changes on cash and cash equivalents | (1,883) | 4,021 |
| (Decrease) increase in cash and cash equivalents | (111,339) | 113,983 |
| Cash and cash equivalents: | | |
| As of January 1 | 246,356 | 86,980 |

As of September 30

\$ 135,017

\$ 200,963

See accompanying notes.

5

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements are unaudited. AMETEK, Inc. (the Company) believes that all adjustments (which primarily consist of normal recurring accruals) necessary for a fair presentation of the consolidated financial position of the Company at September 30, 2010, the consolidated results of its operations for the three and nine months ended September 30, 2010 and 2009 and its cash flows for the nine months ended September 30, 2010 and 2009 have been included. Quarterly results of operations are not necessarily indicative of results for the full year. The accompanying financial statements should be read in conjunction with the financial statements and related notes presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission (SEC).

2. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06). ASU 2010-06 provides amendments that clarify existing disclosures and require new disclosures related to fair value measurements providing greater disaggregated information on each class of assets and liabilities and more robust disclosures on transfers between levels 1 and 2 and activity in level 3 fair value measurements. The Company adopted the applicable provisions within ASU 2010-06 effective January 1, 2010. See Note 3. The Company is currently evaluating the impact of adopting the level 3 disclosures of ASU 2010-06 that are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events* (ASU 2010-09). ASU 2010-09 removes the requirement for an SEC filer to disclose a date in both the issued and revised financial statements for which the Company evaluated events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASU 2010-09 was effective as of February 2010.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition - Milestone Method* (ASU 2010-17). ASU 2010-17 establishes criteria for a milestone to be considered substantive and allows revenue recognition when the milestone is achieved in research or development arrangements. In addition, it requires disclosure of certain information with respect to arrangements that contain milestones. ASU 2010-17 is effective for the Company prospectively beginning January 1, 2011. The Company has evaluated ASU 2010-17 and does not expect its adoption will have a significant impact on the Company's consolidated results of operations, financial position and cash flows.

3. Fair Value Measurement

The Company utilizes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

At September 30, 2010, \$1.0 million of the Company's cash and cash equivalents and marketable securities are valued as level 1 investments. In addition, the Company held \$4.2 million of marketable securities in an institutional diversified equity securities mutual fund, which are valued as level 2 investments. The Company also held \$7.7 million of investments in fixed-income securities valued as level 2 investments. The marketable securities are shown as a separate line on the consolidated balance sheet. The fixed-income securities are included in the investments and other assets line of the consolidated balance sheet. For the nine months ended September 30, 2010, gains and losses on the investments noted above were not significant. No transfers between level 1 and level 2 investments occurred in the nine months ended September 30, 2010.

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

Fair value of the institutional equity securities mutual fund was estimated using the net asset value of the Company's ownership interests in the fund's capital. The mutual fund seeks to provide long-term growth of capital by investing primarily in equity securities traded on U.S. exchanges and issued by large, established companies across many business sectors. Fair value of the fixed-income securities was estimated using observable market inputs and the securities are primarily corporate debt instruments and U.S. Government securities. There are no restrictions on the Company's ability to redeem these equity and fixed-income securities investments.

4. Hedging Activities

The Company has designated certain foreign-currency-denominated long-term debt as hedges of the net investment in certain foreign operations. These net investment hedges are the Company's British-pound-denominated long-term debt and Euro-denominated long-term debt, pertaining to certain European acquisitions whose functional currencies are either the British pound or the Euro. These acquisitions were financed by foreign-currency-denominated borrowings under the Company's revolving credit facility and subsequently refinanced with long-term private placement debt. These borrowings were designed to create net investment hedges in each of the foreign subsidiaries on their respective dates of acquisition. On the respective dates of acquisition, the Company designated the British pound- and Euro-denominated loans referred to above as hedging instruments to offset foreign exchange gains or losses on the net investment in the acquired business due to changes in the British pound and Euro exchange rates. These net investment hedges were evidenced by management's documentation supporting the contemporaneous hedge designation on the acquisition dates. Any gain or loss on the hedging instrument following hedge designation (the debt), is reported in accumulated other comprehensive income in the same manner as the translation adjustment on the investment based on changes in the spot rate, which is used to measure hedge effectiveness.

At September 30, 2010, the Company had \$188.5 million of British pound-denominated loans, which are designated as a hedge against the net investment in foreign subsidiaries acquired in 2008, 2006, 2004 and 2003. At September 30, 2010, the Company had \$68.2 million of Euro-denominated loans, which were designated as a hedge against the net investment in a foreign subsidiary acquired in 2005. As a result of these British pound- and Euro-denominated loans being designated and effective as net investment hedges, \$7.2 million of currency remeasurement gains have been included in the foreign currency translation component of other comprehensive income at September 30, 2010.

5. Earnings Per Share

The calculation of basic earnings per share is based on the weighted average number of common shares considered outstanding during the periods. The calculation of diluted earnings per share reflects the effect of all potentially dilutive securities (principally outstanding common stock options and restricted stock grants). The number of weighted average shares used in the calculation of basic earnings per share and diluted earnings per share were as follows:

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Weighted average shares: | | | | |
| Basic shares | 105,763 | 106,862 | 106,016 | 106,663 |
| Stock option and awards plans | 1,385 | 886 | 1,113 | 1,012 |
| Diluted shares | 107,148 | 107,748 | 107,129 | 107,675 |

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

6. Fourth Quarter of 2008 Restructuring Charges and Asset Write-Downs

During the fourth quarter of 2008, the Company recorded pre-tax charges totaling \$40.0 million, which had the effect of reducing net income by \$27.3 million (\$0.25 per diluted share). These charges include restructuring costs for employee reductions and facility closures (\$32.6 million), as well as asset write-downs (\$7.4 million). The charges included \$30.1 million for severance costs for more than 10% of the Company's workforce and \$1.5 million for lease termination costs associated with the closure of certain facilities. Of the \$40.0 million in charges, \$32.9 million of the restructuring charges and asset write-downs were recorded in cost of sales and \$7.1 million of the restructuring charges and asset write-downs were recorded in Selling, general and administrative expenses. The restructuring charges and asset write-downs were reported in 2008 segment operating income as follows: \$20.4 million in Electronic Instruments Group (EIG), \$19.4 million in Electromechanical Group (EMG) and \$0.2 million in Corporate administrative and other expenses. The restructuring costs for employee reductions and facility closures relate to plans established by the Company in 2008 as part of cost reduction initiatives that were broadly implemented across the Company's various businesses during fiscal 2009. The restructuring costs resulted from the consolidation of manufacturing facilities, the migration of production to low cost locales and a general reduction in workforce in response to lower levels of expected sales volumes in certain of the Company's businesses.

The following table provides a rollforward of the remaining accruals established in the fourth quarter of 2008 for restructuring charges and asset write-downs:

| | Severance | Restructuring Facility Closures | Total |
|--|----------------------|--|---------------|
| | (In millions) | | |
| Restructuring accruals at December 31, 2009 | \$ 12.2 | \$ 1.0 | \$ 13.2 |
| Utilization | (3.9) | (0.5) | (4.4) |
| Foreign currency translation and other | (0.5) | | (0.5) |
| Restructuring accruals at September 30, 2010 | \$ 7.8 | \$ 0.5 | \$ 8.3 |

7. Acquisitions

The Company spent \$373.7 million in cash, net of cash acquired, to acquire Technical Services for Electronics (TSE) in June 2010, Haydon Enterprises in July 2010, as well as the small acquisitions of Sterling Ultra Precision in January 2010, Imago Scientific Instruments in April 2010 and American Reliance's Power Division in August 2010. Haydon Enterprises is a leader in linear actuators and lead screw assemblies for the medical, industrial equipment, aerospace, analytical instrument, computer peripheral and semiconductor industries. TSE is a manufacturer of engineered interconnect solutions for the medical device industry. Haydon Enterprises and TSE are part of EMG.

The operating results of the above acquisitions have been included in the Company's consolidated results from the date of acquisition.

The following table represents the allocation of the aggregate purchase price for the net assets of the above acquisitions based on their estimated fair value (in millions):

| | |
|-------------------------------|---------|
| Property, plant and equipment | \$ 11.2 |
| Goodwill | 224.4 |
| Other intangible assets | 195.7 |
| Net working capital and other | (57.6) |

Total purchase price

\$ 373.7

8

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

The amount allocated to goodwill is reflective of the benefits the Company expects to realize from the acquisitions as follows: Haydon Enterprises' product line complements the Company's highly differentiated technical motor business, which shares common markets, customers and distribution channels, and places AMETEK in a unique position as the premiere industry provider of high-end linear and rotary motion control solutions. TSE expands the Company's position in the medical device market and is an excellent fit with the HCC division, which manufactures highly engineered electronic interconnects and microelectronic packages for sophisticated electronic applications. The Company expects approximately \$15.8 million of the goodwill recorded on 2010 acquisitions will be tax deductible in future years.

Other intangible assets of \$195.7 million consists of \$58.1 million of indefinite-lived intangible trademarks and trade names, which are not subject to amortization. The remaining \$137.6 million of other intangible assets consists of \$113.2 million of customer relationships, which are being amortized over a period of 20 years and \$24.4 million of purchased technology, which are being amortized over a period of 12 to 16 years. Amortization expense for each of the next five years for the 2010 acquisitions listed above is expected to approximate \$7.7 million per year.

Had the above acquisitions been made at the beginning of 2010, unaudited pro forma net sales, net income and diluted earnings per share for the three and nine months ended September 30, 2010 would not have been materially different than the amounts reported.

Had the above acquisitions and the 2009 acquisitions of High Standard Aviation in January 2009, a small acquisition of two businesses in India, Unispec Marketing Pvt. Ltd. and Thelsha Technical Services Pvt. Ltd., in September 2009 and Ameron Global in December 2009 been made at the beginning of 2009, unaudited pro forma net sales, net income and diluted earnings per share for the three and nine months ended September 30, 2009 would not have been materially different than the amounts reported.

Pro forma results are not necessarily indicative of the results that would have occurred if the acquisitions had been completed at the beginning of 2009.

8. Goodwill

The changes in the carrying amounts of goodwill by segment were as follows:

| | EIG | EMG | Total |
|---|-----------------|----------------------|-------------------|
| | | (In millions) | |
| Balance at December 31, 2009 | \$ 746.9 | \$ 530.4 | \$ 1,277.3 |
| Goodwill acquired during the year | 16.2 | 208.2 | 224.4 |
| Purchase price allocation adjustments and other | 25.8 | (24.1) | 1.7 |
| Foreign currency translation adjustments | (9.9) | (3.9) | (13.8) |
| Balance at September 30, 2010 | \$ 779.0 | \$ 710.6 | \$ 1,489.6 |

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

9. Inventories

| | September 30, 2010 | December 31, 2009 |
|-----------------------------------|-----------------------------------|----------------------------------|
| | (In thousands) | |
| Finished goods and parts | \$ 49,646 | \$ 46,777 |
| Work in process | 77,449 | 65,752 |
| Raw materials and purchased parts | 205,336 | 199,013 |
| Total inventories | \$ 332,431 | \$ 311,542 |

10. Debt

In the third quarter of 2010, the Company paid in full a 50 million British pound (\$78.2 million) 5.96% senior note. In September 2010, the Company issued an 80 million British pound (\$125.7 million at September 30, 2010) 4.68% senior note due in September 2020. The 80 million British pound senior note is subject to certain customary covenants, including financial covenants that, among other things, require the Company to maintain certain debt-to-EBITDA (income before interest, income taxes, depreciation and amortization) and interest coverage ratios. The Company was in compliance with all covenants at September 30, 2010.

11. Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by and distributions to stockholders. The components of comprehensive income were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Net income | \$ 77,357 | \$ 43,018 | \$ 202,693 | \$ 153,886 |
| Foreign currency translation adjustment | 29,432 | 13,062 | (26,508) | 33,118 |
| Foreign currency net investment hedge* | 5,100 | 15 | (2,446) | 4,165 |
| Other | 308 | 416 | 177 | 652 |
| Total comprehensive income | \$ 112,197 | \$ 56,511 | \$ 173,916 | \$ 191,821 |

* Represents the net gains and losses on the Company's investment in certain foreign operations in excess of the net gains and losses from the non-derivative foreign-currency-denominated long-term debt. These debt instruments were designated as hedging instruments to offset

foreign exchange gains or losses on the net investment in certain foreign operations.

12. Share-Based Compensation

The fair value of each stock option grant is estimated on the date of grant using a Black-Scholes-Merton option pricing model. The following weighted average assumptions were used in the Black-Scholes-Merton model to estimate the fair values of stock options granted during the period indicated:

| | Nine Months Ended September 30, 2010 | Year Ended December 31, 2009 |
|--|---|---|
| Expected stock volatility | 25.6% | 25.8% |
| Expected life (years) | 5.0 | 4.9 |
| Risk-free interest rate | 2.48% | 1.89% |
| Expected dividend yield | 0.54% | 0.73% |
| Black-Scholes-Merton fair value per stock option granted | \$ 11.36 | \$ 7.80 |

10

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

Expected stock volatility is based on the historical volatility of the Company's stock. The Company used historical exercise data to estimate the stock options' expected life, which represents the period of time that the stock options granted are expected to be outstanding. Management anticipates that the future stock option holding periods will be similar to the historical stock option holding periods. The risk-free interest rate for periods within the contractual life of the stock option is based on the U.S. Treasury yield curve at the time of grant. Compensation expense recognized for all share-based awards is net of estimated forfeitures. The Company's estimated forfeiture rates are based on its historical experience.

Total share-based compensation expense was as follows:

| | Three Months Ended | | Nine Months Ended | |
|--------------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Stock option expense | \$ 1,869 | \$ 1,528 | \$ 5,722 | \$ 4,661 |
| Restricted stock expense | 2,482 | 2,006 | 6,625 | 5,146 |
| Total pre-tax expense | 4,351 | 3,534 | 12,347 | 9,807 |
| Related tax benefit | (1,315) | (1,141) | (3,636) | (3,069) |
| Reduction of net income | \$ 3,036 | \$ 2,393 | \$ 8,711 | \$ 6,738 |

Pre-tax share-based compensation expense is included in either cost of sales, or selling, general and administrative expenses, depending on where the recipient's cash compensation is reported.

The following is a summary of the Company's stock option activity and related information:

| | Shares | Weighted | Weighted | Aggregate |
|-----------------------------------|-------------------|-----------------|--------------------|------------------|
| | (In | Average | Average | Intrinsic |
| | thousands) | Exercise | Remaining | Value |
| | | Price | Contractual | (In |
| | | | Life | millions) |
| | | | (Years) | |
| Outstanding at December 31, 2009 | 4,406 | \$ 31.56 | | |
| Granted | 809 | 44.07 | | |
| Exercised | (505) | 19.16 | | |
| Forfeited | (69) | 37.17 | | |
| Expired | (10) | 48.02 | | |
| Outstanding at September 30, 2010 | 4,631 | \$ 34.98 | 4.1 | \$ 59.8 |
| Exercisable at September 30, 2010 | 2,427 | \$ 30.95 | 2.8 | \$ 41.1 |

The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2010 was \$11.8 million. The total fair value of stock options vested during the nine months ended September 30, 2010 was \$6.7 million.

As of September 30, 2010, there was approximately \$16.0 million of expected future pre-tax compensation expense related to the 2.2 million nonvested stock options outstanding, which is expected to be recognized over a weighted average period of approximately two years.

For the nine months ended September 30, 2010, the Company granted 0.3 million shares of restricted stock with a weighted average fair value of \$43.52 per share. The total fair value of the 0.2 million shares of restricted stock that vested was \$5.3 million during the nine months ended September 30, 2010. At September 30, 2010, 1.0 million nonvested restricted shares were outstanding. As of September 30, 2010, there was approximately \$23.5 million of expected future pre-tax compensation expense related to the nonvested restricted shares, which is expected to be recognized over a weighted average period of approximately two years.

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

13. Income Taxes

At September 30, 2010, the Company had gross unrecognized tax benefits of \$23.6 million, of which \$18.5 million, if recognized, would impact the effective tax rate.

The following is a reconciliation of the liability for uncertain tax positions (in millions):

| | |
|-------------------------------|----------------|
| Balance at December 31, 2009 | \$ 26.5 |
| Additions for tax positions | 4.0 |
| Reductions for tax positions | (6.9) |
| Balance at September 30, 2010 | \$ 23.6 |

The Company recognizes interest and penalties accrued related to uncertain tax positions in income tax expense. The amounts recognized in income tax expense for interest and penalties during the three and nine months ended September 30, 2010 and 2009 were not significant.

14. Retirement and Pension Plans

The components of net periodic pension benefit expense were as follows:

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Defined benefit plans: | | | | |
| Service cost | \$ 568 | \$ 1,108 | \$ 2,911 | \$ 3,374 |
| Interest cost | 7,157 | 7,161 | 20,817 | 21,115 |
| Expected return on plan assets | (11,147) | (9,013) | (31,444) | (26,715) |
| Amortization of net actuarial loss and other | 1,302 | 3,323 | 5,289 | 9,967 |
| Pension (income) expense | (2,120) | 2,579 | (2,427) | 7,741 |
| Other plans: | | | | |
| Defined contribution plans | 3,122 | 2,908 | 9,273 | 9,682 |
| Foreign plans and other | 1,035 | 1,066 | 3,140 | 3,091 |
| Total other plans | 4,157 | 3,974 | 12,413 | 12,773 |
| Total net pension expense | \$ 2,037 | \$ 6,553 | \$ 9,986 | \$ 20,514 |

For the nine months ended September 30, 2010 and 2009, contributions to our defined benefit pension plans were \$2.2 million and \$19.9 million, respectively.

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

15. Financial Instruments

The estimated fair values of the Company's financial instruments are compared below to the recorded amounts at September 30, 2010 and December 31, 2009. Cash, cash equivalents and marketable securities are recorded at fair value at September 30, 2010 and December 31, 2009 in the accompanying consolidated balance sheet.

| | September 30, 2010 | | December 31, 2009 | |
|--|--------------------|-------------|--------------------|-------------|
| | Recorded Amount | Fair Value | Recorded Amount | Fair Value |
| | (In thousands) | | | |
| Fixed-income investments | \$ 7,650 | \$ 7,650 | \$ 8,883 | \$ 8,883 |
| Short-term borrowings | (31,121) | (31,121) | (4,076) | (4,076) |
| Long-term debt (including current portion) | (1,075,901) | (1,215,970) | (1,037,605) | (1,084,877) |

The fair value of fixed-income investments is based on quoted market prices. The fair value of short-term borrowings approximates the carrying value. The Company's long-term debt is all privately-held with no public market for this debt, therefore, the fair value of long-term debt was computed based on comparable current market data for similar debt instruments.

16. Product Warranties

The Company provides limited warranties in connection with the sale of its products. The warranty periods for products sold vary widely among the Company's operations, but for the most part do not exceed one year. The Company calculates its warranty expense provision based on past warranty experience and adjustments are made periodically to reflect actual warranty expenses.

Changes in accrued product warranty obligation were as follows:

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2010 | 2009 |
| | (In thousands) | |
| Balance at the beginning of the period | \$ 16,035 | \$ 16,068 |
| Accruals for warranties issued during the period | 8,227 | 6,586 |
| Settlements made during the period | (6,984) | (8,443) |
| Warranty accruals related to new businesses and other | 400 | 1,861 |
| Balance at the end of the period | \$ 17,678 | \$ 16,072 |

Certain settlements of warranties made during the period were for specific nonrecurring warranty obligations. Product warranty obligations are reported as current liabilities in the consolidated balance sheet.

17. Reportable Segments

The Company has two reportable segments, the Electronic Instruments Group and the Electromechanical Group. The Company manages, evaluates and aggregates its operating segments for segment reporting purposes primarily on the basis of product type, production processes, distribution methods and management organizations.

At September 30, 2010, there were no significant changes in identifiable assets of reportable segments from the amounts disclosed at December 31, 2009, other than those described in the acquisitions footnote (Note 7), nor were there any significant changes in the basis of segmentation or in the measurement of segment operating results.

Operating information relating to the Company's reportable segments for the three and nine months ended September 30, 2010 and 2009 can be found in the table within Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report.

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

18. Contingencies

Asbestos Litigation

The Company (including its subsidiaries) has been named as a defendant, along with many other companies, in a number of asbestos-related lawsuits. Many of these lawsuits either relate to businesses which were acquired by the Company and do not involve products which were manufactured or sold by the Company or relate to previously owned businesses of the Company which are under new ownership. In connection with many of these lawsuits, the sellers or new owners of such businesses, as the case may be, have agreed to indemnify the Company against these claims (the Indemnified Claims). The Indemnified Claims have been tendered to, and are being defended by, such sellers and new owners. These sellers and new owners have met their obligations, in all respects, and the Company does not have any reason to believe such parties would fail to fulfill their obligations in the future; however, one of these companies filed for bankruptcy liquidation in 2007. To date, no judgments have been rendered against the Company as a result of any asbestos-related lawsuit. The Company believes it has strong defenses to the claims being asserted and intends to continue to vigorously defend itself in these matters.

Environmental Matters

Certain historic processes in the manufacture of products have resulted in environmentally hazardous waste by-products as defined by federal and state laws and regulations. While these waste products were handled in compliance with regulations existing at that time, at September 30, 2010, the Company is named a Potentially Responsible Party (PRP) at 16 non-AMETEK-owned former waste disposal or treatment sites (the non-owned sites). The Company is identified as a de minimis party in 14 of these sites based on the low volume of waste attributed to the Company relative to the amounts attributed to other named PRPs. In ten of these sites, the Company has reached a tentative agreement on the cost of the de minimis settlement to satisfy its obligation and is awaiting executed agreements. The tentatively agreed-to settlement amounts are fully reserved. In the other four sites, the Company is continuing to investigate the accuracy of the alleged volume attributed to the Company as estimated by the parties primarily responsible for remedial activity at the sites to establish an appropriate settlement amount. In the two remaining sites where the Company is a non-de minimis PRP, the Company is participating in the investigation and/or related required remediation as part of a PRP Group and reserves have been established sufficient to satisfy the Company's expected obligation. The Company historically has resolved these issues within established reserve levels and reasonably expects this result will continue. In addition to these non-owned sites, the Company has an ongoing practice of providing reserves for probable remediation activities at certain of its current or previously owned manufacturing locations (the owned sites). For claims and proceedings against the Company with respect to other environmental matters, reserves are established once the Company has determined that a loss is probable and estimable. This estimate is refined as the Company moves through the various stages of investigation, risk assessment, feasibility study and corrective action processes. In certain instances, the Company has developed a range of estimates for such costs and has recorded a liability based on the low end of the range. It is reasonably possible that the actual cost of remediation of the individual sites could vary from the current estimates and the amounts accrued in the consolidated financial statements; however, the amounts of such variances are not expected to result in a material change to the consolidated financial statements. In estimating the Company's liability for remediation, the Company also considers the likely proportionate share of the anticipated remediation expense and the ability of the other PRPs to fulfill their obligations.

Table of Contents

AMETEK, Inc.
Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited)

Total environmental reserves at September 30, 2010 and December 31, 2009 were \$31.0 million and \$27.0 million, respectively, for non-owned and owned sites. In 2010, the Company recorded \$5.3 million in reserves, related primarily to reserves associated with a 2010 business acquisition. These reserves relate to the estimated costs to remediate known environmental issues at an owned site associated with the acquired business. Additionally, the Company spent \$1.3 million on environmental matters in 2010. The Company's reserves for environmental liabilities at September 30, 2010 and December 31, 2009 include reserves of \$18.5 million and \$19.2 million, respectively, for an owned site acquired in connection with the fiscal 2005 acquisition of HCC Industries (HCC). The Company is the designated performing party for the performance of remedial activities for one of several operating units making up a large Superfund site in the San Gabriel Valley of California. The Company has obtained indemnifications and other financial assurances from the former owners of HCC related to the costs of the required remedial activities. At September 30, 2010, the Company had \$13.6 million in receivables related to HCC for probable recoveries from third-party escrow funds and other committed third-party funds to support the required remediation. Also, the Company is indemnified by HCC's former owners for approximately \$19.0 million of additional costs.

The Company has agreements with other former owners of certain of its acquired businesses, as well as new owners of previously owned businesses. Under certain of the agreements, the former or new owners retained, or assumed and agreed to indemnify the Company against, certain environmental and other liabilities under certain circumstances. The Company and some of these other parties also carry insurance coverage for some environmental matters. To date, these parties have met their obligations in all material respects; however, one of these companies filed for bankruptcy liquidation in 2007, as discussed further in the following paragraph.

In August 2009, the Company agreed to a Stipulation and Settlement Agreement with the San Diego Regional Water Quality Control Board regarding the 2008 Notice of Administrative Civil Liability related to a former subsidiary which became a separate company in 1988 and filed for bankruptcy liquidation in 2007, whereby the Company paid and deferred minor penalties, which were covered by previously established reserves.

The Company believes it has established reserves which are sufficient to perform all known responsibilities under existing claims and consent orders. The Company has no reason to believe that other third parties would fail to perform their obligations in the future. In the opinion of management, based upon presently available information and past experience related to such matters, an adequate provision for probable costs has been made and the ultimate cost resulting from these actions is not expected to materially affect the consolidated results of operations, financial position or cash flows of the Company.

19. Subsequent Event

On November 2, 2010, the Company's Board of Directors declared a three-for-two split of the Company's common stock. The stock split will result in the issuance of one additional share for every two shares owned as of the record date. The stock split is payable on December 21, 2010, to stockholders of record at the close of business on December 10, 2010. Additionally, the Board of Directors approved a 50% increase in the quarterly cash dividend rate on the Company's common stock to \$0.09 per common share from \$0.06 per common share on a pre-split basis. All share and per share information included in this report is presented on a pre-split basis. All financial reports issued following the December 10, 2010 record date will be prepared on a post-split basis.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations**

The following table sets forth net sales and income by reportable segment and on a consolidated basis:

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | | |
| Net sales(1): | | | | |
| Electronic Instruments | \$ 337,715 | \$ 271,843 | \$ 946,274 | \$ 860,569 |
| Electromechanical | 306,659 | 225,217 | 846,703 | 714,286 |
| Consolidated net sales | \$ 644,374 | \$ 497,060 | \$ 1,792,977 | \$ 1,574,855 |
| Operating income and income before income taxes: | | | | |
| Segment operating income(2): | | | | |
| Electronic Instruments | \$ 83,004 | \$ 47,877 | \$ 225,790 | \$ 176,790 |
| Electromechanical | 55,849 | 38,217 | 151,475 | 125,900 |
| Total segment operating income | 138,853 | 86,094 | 377,265 | 302,690 |
| Corporate administrative and other expenses | (10,260) | (8,619) | (30,631) | (25,833) |
| Consolidated operating income | 128,593 | 77,475 | 346,634 | 276,857 |
| Interest and other expenses, net | (19,778) | (18,082) | (55,398) | (53,802) |
| Consolidated income before income taxes | \$ 108,815 | \$ 59,393 | \$ 291,236 | \$ 223,055 |

(1) After elimination of intra- and intersegment sales, which are not significant in amount.

(2) Segment operating income represents sales less all direct costs and expenses (including certain administrative and other

expenses)
applicable to
each segment,
but does not
include interest
expense.

Results of operations for the third quarter of 2010 compared with the third quarter of 2009

For the third quarter of 2010, the Company posted strong sales and established records for operating income, operating income margins, net income, diluted earnings per share and operating cash flow. The Company achieved these results from strong internal growth in both its Electronic Instruments and Electromechanical Groups, as well as contributions from the acquisitions of Ameron Global in December 2009, Technical Services for Electronics (TSE) in June 2010 and Haydon Enterprises in July 2010, as well as the small acquisitions of Sterling Ultra Precision in January 2010, Imago Scientific Instruments in April 2010 and American Reliance's Power Division in August 2010. In the fourth quarter of 2009, the Company began to experience increased order rates with continued strength in 2010. The Company experienced increased orders, sales and profitability in the third quarter of 2010 when compared with the third quarter of 2009, and expects operating results for the fourth quarter of 2010 to show further strength compared to the fourth quarter of 2009.

Net sales for the third quarter of 2010 were \$644.4 million, an increase of \$147.3 million or 29.6% when compared with net sales of \$497.1 million for the third quarter of 2009. The increase in net sales was primarily attributable to higher order rates, as well as the impact of the acquisitions mentioned above. The net sales increase for the third quarter of 2010 was driven by strong internal sales growth of approximately 24%, which excludes a 2% unfavorable effect of foreign currency translation. The acquisitions mentioned above contributed the remainder of the net sales increase.

Total international sales for the third quarter of 2010 were \$301.2 million or 46.7% of consolidated net sales, an increase of \$58.8 million or 24.3% when compared with international sales of \$242.4 million or 48.8% of consolidated net sales for the third quarter of 2009. The \$58.8 million increase in international sales resulted from higher international order rates driven by the Company's net sales increase mentioned above, as well as continued expansion into Asia and includes the effect of foreign currency translation. The Company maintains a strong international sales presence in Europe and Asia by both reportable segments.

Table of Contents**Results of Operations (continued)**

Segment operating income for the third quarter of 2010 was \$138.9 million, an increase of \$52.8 million or 61.3% when compared with segment operating income of \$86.1 million for the third quarter of 2009. Segment operating income, as a percentage of sales, increased to 21.5% for the third quarter of 2010 from 17.3% for the third quarter of 2009. The increase in segment operating income and segment operating margins resulted primarily from the leveraged impact of the Company's net sales increase noted above, as well as the benefits of the Company's lower cost structure through Operational Excellence initiatives.

Selling, general and administrative (SG&A) expenses for the third quarter of 2010 were \$75.9 million, an increase of \$12.0 million or 18.8% when compared with \$63.9 million for the third quarter of 2009, which primarily resulted from a higher level of sales activities. As a percentage of sales, SG&A expenses were 11.8% for the third quarter of 2010, compared with 12.8% for the third quarter of 2009. Selling expense increased \$10.4 million or 18.8% over the third quarter of 2009, which was lower than the Company's internal sales growth of approximately 24%. Selling expenses, as a percentage of sales, decreased to 10.2% for the third quarter of 2010, compared with 11.1% for the third quarter of 2009.

Corporate administrative expenses for the third quarter of 2010 were \$10.2 million, an increase of \$1.6 million or 18.6% when compared with \$8.6 million for the third quarter of 2009. As a percentage of sales, corporate administrative expenses were 1.5% for the third quarter of 2010, compared with 1.7% for the third quarter of 2009. The increase in corporate administrative expenses was primarily driven by higher compensation related expenses.

Consolidated operating income was \$128.6 million or 20.0% of sales for the third quarter of 2010, an increase of \$51.1 million or 65.9% when compared with \$77.5 million or 15.6% of sales for the third quarter of 2009.

Other expenses, net were \$2.7 million for the third quarter of 2010, an increase of \$2.0 million when compared with \$0.7 million for the third quarter of 2009. The increase was primarily driven by acquisition related expenses in the third quarter of 2010.

The effective tax rate for the third quarter of 2010 was 28.9% compared with 27.6% for the third quarter of 2009. The effective tax rate for third quarter of 2010 primarily reflects the benefits obtained from international tax planning initiatives. The effective tax rate for third quarter of 2009 primarily reflects the impact of state income tax planning initiatives.

Net income for the third quarter of 2010 was \$77.4 million, an increase of \$34.4 million or 80.0% when compared with \$43.0 million for the third quarter of 2009. Diluted earnings per share for the third quarter of 2010 was \$0.72, an increase of \$0.32 or 80.0% when compared with \$0.40 per diluted share for the third quarter of 2009.

Table of Contents**Results of Operations (continued)****Segment Results**

Electronic Instruments (EIG) sales totaled \$337.7 million for the third quarter of 2010, an increase of \$65.9 million or 24.2% when compared with \$271.8 million for the third quarter of 2009. The sales increase was due to internal growth of approximately 26%, excluding an unfavorable 2% effect of foreign currency translation, driven primarily by EIG's process, power and industrial businesses.

EIG's operating income was \$83.0 million for the third quarter of 2010, an increase of \$35.1 million or 73.3% when compared with \$47.9 million for the third quarter of 2009. EIG's operating margins were 24.6% of sales for the third quarter of 2010 compared with 17.6% of sales for the third quarter of 2009. The increase in segment operating income and operating margins was driven by the leveraged impact of the Group's increase in sales noted above, as well as the benefit of the Group's lower cost structure through Operational Excellence initiatives.

Electromechanical (EMG) sales totaled \$306.7 million for the third quarter of 2010, an increase of \$81.5 million or 36.2% from \$225.2 million for the third quarter of 2009. The sales increase was due to internal growth of approximately 21%, excluding an unfavorable 1% effect of foreign currency translation. The acquisitions of Ameron Global, TSE and Haydon Enterprises primarily accounted for the remainder of the sales increase.

EMG's operating income was \$55.8 million for the third quarter of 2010, an increase of \$17.6 million or 46.1% when compared with \$38.2 million for the third quarter of 2009. EMG's operating margins were 18.2% of sales for the third quarter of 2010 compared with 17.0% of sales for the third quarter of 2009. EMG's increase in operating income and operating margins was primarily due to the leveraged impact of the Group's higher sales, which includes the acquisitions mentioned above.

Results of operations for the first nine months of 2010 compared with the first nine months of 2009

Net sales for the first nine months of 2010 were \$1,793.0 million, an increase of \$218.1 million or 13.8% when compared with net sales of \$1,574.9 million for the first nine months of 2009. The increase in net sales was primarily attributable to higher order rates, as well as the impact of the acquisitions of Ameron Global in December 2009, TSE in June 2010 and Haydon Enterprises in July 2010. The net sales increase for the first nine months of 2010 was driven by strong internal sales growth of approximately 11%, with no impact from foreign currency translation, led by the Company's differentiated businesses. The acquisitions mentioned above contributed the remainder of the net sales increase.

Total international sales for the first nine months of 2010 were \$871.5 million or 48.6% of consolidated net sales, an increase of \$99.3 million or 12.9% when compared with international sales of \$772.2 million or 49.0% of consolidated net sales for the first nine months of 2009. The \$99.3 million increase in international sales resulted from higher international order rates driven by the Company's net sales increase mentioned above, as well as continued expansion into Asia and includes the effect of foreign currency translation. The Company maintains a strong international sales presence in Europe and Asia by both reportable segments.

New orders for the first nine months of 2010 were \$1,930.5 million, an increase of \$479.2 million or 33.0% when compared with \$1,451.3 million for the first nine months of 2009. Throughout most of 2009, the Company experienced lower order rates primarily as a result of the global economic recession, which began in late 2008 and continued through most of 2009. However, order rates stabilized in the third quarter of 2009 and began to increase in the fourth quarter of 2009. For the first nine months of 2010, internal order growth was 28%, which excludes a 1% unfavorable effect of foreign currency translation, was driven by both the Company's differentiated and cost driven businesses, with the acquisitions mentioned above accounting for the remainder of the increase. As a result, the Company's backlog of unfilled orders at September 30, 2010 was \$786.0 million, an increase of \$137.6 million or 21.2% when compared with \$648.4 million at December 31, 2009. The increase in backlog was due to the higher order levels and the acquired backlog of the acquisitions mentioned above.

Table of Contents**Results of Operations (continued)**

Segment operating income for the first nine months of 2010 was \$377.3 million, an increase of \$74.6 million or 24.6% when compared with segment operating income of \$302.7 million for the first nine months of 2009. Segment operating income, as a percentage of sales, increased to 21.0% for the first nine months of 2010 from 19.2% for the first nine months of 2009. The increase in segment operating income and segment operating margins resulted primarily from the leveraged impact of the Company's net sales increase noted above, as well as the benefits of the Company's lower cost structure through Operational Excellence initiatives.

SG&A expenses for the first nine months of 2010 were \$213.3 million, an increase of \$23.9 million or 12.6% when compared with \$189.4 million for the first nine months of 2009. As a percentage of sales, SG&A expenses were 11.9% for the first nine months of 2010, compared with 12.0% for the first nine months of 2009. Selling expense increased \$19.1 million or 11.7% over the first nine months of 2009, which is in line with internal sales growth. Selling expenses, as a percentage of sales, decreased to 10.2% for the first nine months of 2010, compared with 10.4% for the first nine months of 2009.

Corporate administrative expenses for the first nine months of 2010 were \$30.4 million, an increase of \$4.7 million or 18.3% when compared with \$25.7 million for the first nine months of 2009. As a percentage of sales, corporate administrative expenses were 1.7% for the first nine months of 2010, compared with 1.6% for the first nine months of 2009. The increase in corporate administrative expenses was primarily driven by higher compensation related expenses, as well as other costs necessary to grow the business.

Consolidated operating income was \$346.6 million or 19.3% of sales for the first nine months of 2010, an increase of \$69.7 million or 25.2% when compared with \$276.9 million or 17.6% of sales for the first nine months of 2009.

Interest expense was \$50.5 million for the first nine months of 2010, a decrease of \$1.6 million or 3.1% when compared with \$52.1 million for the first nine months of 2009. The decrease was primarily due to the impact of the repayment of 40 million British-pound-denominated debt under the revolver in the second quarter of 2009.

Other expenses, net were \$4.9 million for the first nine months of 2010, an increase of \$3.2 million when compared with \$1.7 million for the first nine months of 2009. The increase was primarily driven by acquisition related expenses in the second and third quarter of 2010.

The effective tax rate for the first nine months of 2010 was 30.4% compared with 31.0% for the first nine months of 2009. The lower effective tax rate for the first nine months of 2010 primarily reflects the impact of settlements of income tax examinations and the benefits obtained from international and state income tax planning initiatives.

Net income for the first nine months of 2010 was \$202.7 million, an increase of \$48.8 million or 31.7% when compared with \$153.9 million for the first nine months of 2009. Diluted earnings per share for the first nine months of 2010 was \$1.89, an increase of \$0.46 or 32.2% when compared with \$1.43 per diluted share for the first nine months of 2009.

Table of Contents

Results of Operations (continued)

Segment Results

Electronic Instruments (EIG) sales totaled \$946.3 million for the first nine months of 2010, an increase of \$85.7 million or 10.0% when compared with \$860.6 million for the first nine months of 2009. The sales increase was due to internal growth driven primarily by EIG's power and process businesses.

EIG's operating income was \$225.8 million for the first nine months of 2010, an increase of \$49.0 million or 27.7% when compared with \$176.8 million for the first nine months of 2009. EIG's operating margins were 23.9% of sales for the first nine months of 2010 compared with 20.5% of sales for the first nine months of 2009. The increase in segment operating income and operating margins was driven by the leveraged impact of the Group's increase in sales noted above, as well as the benefit of the Group's lower cost structure through Operational Excellence initiatives.

Electromechanical (EMG) sales totaled \$846.7 million for the first nine months of 2010, an increase of \$132.4 million or 18.5% from \$714.3 million for the first nine months of 2009. The sales increase was due to internal growth of approximately 12%, with no impact from foreign currency translation. The acquisitions of Ameron Global, TSE and Haydon Enterprises primarily accounted for the remainder of the sales increase.

EMG's operating income was \$151.5 million for the first nine months of 2010, an increase of \$25.6 million or 20.3% when compared with \$125.9 million for the first nine months of 2009. EMG's operating margins were 17.9% of sales for the first nine months of 2010 compared with 17.6% of sales for the first nine months of 2009. EMG's increase in operating income and operating margins was primarily due to the leveraged impact of the Group's higher sales, which includes the acquisitions mentioned above.

Table of Contents**Financial Condition*****Liquidity and Capital Resources***

Cash provided by operating activities totaled \$294.7 million for the first nine months of 2010, an increase of \$38.8 million or 15.2% when compared with \$255.9 million for the first nine months of 2009. The increase in cash provided by operating activities was primarily due to the \$48.8 million increase in net income and a \$17.7 million reduction in defined benefit pension contributions paid period over period. The increase in cash provided by operating activities was partially offset by higher overall operating working capital levels necessary to grow the Company's businesses. Free cash flow (cash flow from operating activities less capital expenditures) was \$272.2 million for the first nine months of 2010, compared with \$234.5 million for the same period in 2009. EBITDA (earnings before interest, income taxes, depreciation and amortization) was \$393.3 million for the first nine months of 2010, compared with \$322.7 million for the first nine months of 2009. Free cash flow and EBITDA are presented because the Company is aware that they are measures used by third parties in evaluating the Company.

Cash used for investing activities totaled \$392.3 million for the first nine months of 2010, compared with \$64.2 million for the first nine months of 2009. For the first nine months of 2010, the Company paid \$373.7 million for five business acquisitions, net of cash received, compared with \$41.2 million paid for two business acquisitions, net of cash received, for the first nine months of 2009. Additions to property, plant and equipment totaled \$22.4 million for the first nine months of 2010, compared with \$21.5 million for the first nine months of 2009.

Cash used for financing activities totaled \$11.8 million for the first nine months of 2010, compared with \$81.8 million for the first nine months of 2009. The change in financing cash flow was primarily the result of \$78.6 million used for repurchases of 2.0 million shares of the Company's common stock for the first nine months of 2010. No shares were repurchased for the first nine months of 2009. On January 28, 2010, the Board of Directors authorized an increase of \$75 million in the authorization for the repurchase of its common stock. This increase was added to the \$68.5 million that remained available at December 31, 2009 from existing authorizations approved in 2008, for a total of \$143.5 million available for repurchases of the Company's common stock. At September 30, 2010, \$64.9 million was available under the current Board authorization for future share repurchases. For the first nine months of 2010, net total borrowings increased by \$74.0 million, compared with a net total borrowings decrease of \$75.9 million for the first nine months of 2009.

In the third quarter of 2010, the Company paid in full a 50 million British pound (\$78.2 million) 5.96% senior note. In September 2010, the Company issued an 80 million British pound (\$125.7 million at September 30, 2010) 4.68% senior note due in September 2020.

At September 30, 2010, total debt outstanding was \$1,107.0 million, compared with \$1,041.7 million at December 31, 2009, with no significant maturities until 2012. The debt-to-capital ratio was 39.9% at both September 30, 2010 and December 31, 2009. The net debt-to-capital ratio (total debt less cash and cash equivalents divided by the sum of net debt and stockholders' equity) was 36.8% at September 30, 2010, compared with 33.7% at December 31, 2009. The net debt-to-capital ratio is presented because the Company is aware that this measure is used by third parties in evaluating the Company.

As a result of all of the Company's cash flow activities for the first nine months of 2010, cash and cash equivalents at September 30, 2010 totaled \$135.0 million, compared with \$246.4 million at December 31, 2009. Additionally, the Company is in compliance with all of its debt covenants, which includes its financial covenants, for all of its debt agreements. The Company believes it has sufficient cash-generating capabilities from domestic and unrestricted foreign sources, available credit facilities and access to long-term capital funds to enable it to meet its operating needs and contractual obligations in the foreseeable future.

Table of Contents

Forward-Looking Information

Information contained in this discussion, other than historical information, is considered forward-looking statements and is subject to various factors and uncertainties that may cause actual results to differ significantly from expectations. These factors and uncertainties include general economic conditions affecting the industries the Company serves; changes in the competitive environment or the effects of competition in the Company's markets; risks associated with international sales and operations; the Company's ability to consummate and successfully integrate future acquisitions; the Company's ability to successfully develop new products, open new facilities or transfer product lines; the price and availability of raw materials; compliance with government regulations, including environmental regulations; and the ability to maintain adequate liquidity and financing sources. A detailed discussion of these and other factors that may affect the Company's future results is contained in AMETEK's filings with the Securities and Exchange Commission, including its most recent reports on Form 10-K, 10-Q and 8-K. AMETEK disclaims any intention or obligation to update or revise any forward-looking statements, unless required by the securities laws to do so.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management in a timely manner. The Company's principal executive officer and principal financial officer evaluated the effectiveness of the system of disclosure controls and procedures as of September 30, 2010. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in all material respects as of September 30, 2010.

Such evaluation did not identify any change in the Company's internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 6. Exhibits

| Exhibit Number | Description |
|---------------------------|--|
| 31.1 | Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMETEK, Inc.

(Registrant)

By: /s/ Robert R. Mandos, Jr.

Robert R. Mandos, Jr.

Senior Vice President and Comptroller

(Principal Accounting Officer)

November 4, 2010

24