

METTLER TOLEDO INTERNATIONAL INC/  
Form 10-Q  
November 07, 2014  
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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, 2014, 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: 1-13595  
Mettler-Toledo International Inc.

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(Exact name of registrant as specified in its charter)

|  |   |
|--|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization)<br>1900 Polaris Parkway<br>Columbus, Ohio 43240<br>and<br>Im Langacher, P.O. Box MT-100<br>CH 8606 Greifensee, Switzerland | 13-3668641<br>(I.R.S Employer Identification No.) |
|--|---|

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(Address of principal executive offices)  
(Zip Code)

1-614-438-4511 and +41-44-944-22-11

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(Registrant's telephone number, including area code)

not applicable

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(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  No

Indicate by checkmark 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

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post such files). Yes  No

Indicate by checkmark 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.  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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 Registrant had 28,547,411 shares of Common Stock outstanding at September 30, 2014.

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METTLER-TOLEDO INTERNATIONAL INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## METTLER-TOLEDO INTERNATIONAL INC.

## INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Three months ended September 30, 2014 and 2013

(In thousands, except share data)

(unaudited)

|  | September 30,<br>2014 | September 30,<br>2013 |
|--|-----------------------|-----------------------|
| Net sales  |                       |                       |
| Products   | \$488,829             | \$462,532             |
| Service  | 140,271               | 129,155               |
| Total net sales  | 629,100               | 591,687               |
| Cost of sales  |                       |                       |
| Products   | 206,227               | 197,593               |
| Service  | 79,322                | 75,521                |
| Gross profit   | 343,551               | 318,573               |
| Research and development                                       | 30,352                | 29,046                |
| Selling, general and administrative                            | 186,499               | 173,446               |
| Amortization   | 7,198                 | 6,675                 |
| Interest expense   | 5,991                 | 5,557                 |
| Restructuring charges  | 1,050                 | 5,532                 |
| Other charges (income), net                                    | 625                   | 521                   |
| Earnings before taxes  | 111,836               | 97,796                |
| Provision for taxes  | 26,840                | 23,470                |
| Net earnings   | \$84,996              | \$74,326              |
| Basic earnings per common share:                               |                       |                       |
| Net earnings   | \$2.96                | \$2.49                |
| Weighted average number of common shares                       | 28,732,152            | 29,818,218            |
| Diluted earnings per common share:                             |                       |                       |
| Net earnings   | \$2.89                | \$2.43                |
| Weighted average number of common and common equivalent shares | 29,408,614            | 30,579,954            |
| Comprehensive income, net of tax (Note 8)                      | \$44,540              | \$102,532             |

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

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METTLER-TOLEDO INTERNATIONAL INC.  
 INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
 Nine months ended September 30, 2014 and 2013  
 (In thousands, except share data)  
 (unaudited)

|  | September 30,<br>2014 | September 30,<br>2013 |
|--|-----------------------|-----------------------|
| Net sales  |                       |                       |
| Products   | \$1,379,655           | \$1,314,998           |
| Service  | 408,900               | 379,722               |
| Total net sales  | 1,788,555             | 1,694,720             |
| Cost of sales  |                       |                       |
| Products   | 586,883               | 564,021               |
| Service  | 237,304               | 224,125               |
| Gross profit   | 964,368               | 906,574               |
| Research and development                                       | 91,974                | 85,749                |
| Selling, general and administrative                            | 541,793               | 512,905               |
| Amortization   | 21,575                | 17,604                |
| Interest expense   | 17,613                | 16,500                |
| Restructuring charges  | 4,447                 | 13,730                |
| Other charges (income), net                                    | 1,348                 | 2,281                 |
| Earnings before taxes  | 285,618               | 257,805               |
| Provision for taxes  | 68,549                | 61,873                |
| Net earnings   | \$217,069             | \$195,932             |
| Basic earnings per common share:                               |                       |                       |
| Net earnings   | \$7.47                | \$6.52                |
| Weighted average number of common shares                       | 29,056,663            | 30,063,021            |
| Diluted earnings per common share:                             |                       |                       |
| Net earnings   | \$7.30                | \$6.35                |
| Weighted average number of common and common equivalent shares | 29,747,321            | 30,836,160            |
| Comprehensive income, net of tax (Note 8)                      | \$176,076             | \$212,858             |

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

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INTERIM CONSOLIDATED BALANCE SHEETS

As of September 30, 2014 and December 31, 2013

(In thousands, except share data)

(unaudited)

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$126,311             | \$111,874            |
| Trade accounts receivable, less allowances of \$17,028 at September 30, 2014 and \$14,856 at December 31, 2013   | 410,900               | 466,703              |
| Inventories  | 219,714               | 210,414              |
| Current deferred tax assets, net   | 59,414                | 57,934               |
| Other current assets and prepaid expenses  | 56,573                | 67,062               |
| Total current assets   | 872,912               | 913,987              |
| Property, plant and equipment, net   | 512,091               | 514,438              |
| Goodwill   | 449,539               | 455,842              |
| Other intangible assets, net   | 111,214               | 114,418              |
| Non-current deferred tax assets, net   | 21,241                | 24,121               |
| Other non-current assets   | 140,458               | 130,013              |
| Total assets   | \$2,107,455           | \$2,152,819          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                       |                      |
| Current liabilities:   |                       |                      |
| Trade accounts payable   | \$129,172             | \$145,993            |
| Accrued and other liabilities  | 119,641               | 116,831              |
| Accrued compensation and related items   | 123,337               | 123,493              |
| Deferred revenue and customer prepayments  | 93,014                | 83,083               |
| Taxes payable  | 49,602                | 61,502               |
| Current deferred tax liabilities   | 16,093                | 16,219               |
| Short-term borrowings and current maturities of long-term debt   | 120,025               | 17,067               |
| Total current liabilities  | 650,884               | 564,188              |
| Long-term debt   | 365,007               | 395,960              |
| Non-current deferred tax liabilities   | 64,751                | 64,449               |
| Other non-current liabilities  | 177,873               | 193,170              |
| Total liabilities  | 1,258,515             | 1,217,767            |
| Commitments and contingencies (Note 14)  |                       |                      |
| Shareholders' equity:  |                       |                      |
| Preferred stock, \$0.01 par value per share; authorized 10,000,000 shares  | —                     | —                    |
| Common stock, \$0.01 par value per share; authorized 125,000,000 shares; issued 44,786,011 and 44,786,011 shares; outstanding 28,547,411 and 29,487,075 shares at September 30, 2014 and December 31, 2013, respectively | 448                   | 448                  |
| Additional paid-in capital   | 673,493               | 653,250              |
| Treasury stock at cost (16,238,600 shares at September 30, 2014 and 15,298,936 shares at December 31, 2013)  | (1,991,994            | ) (1,721,030         |
| Retained earnings  | 2,243,022             | 2,037,420            |
| Accumulated other comprehensive income (loss)  | (76,029               | ) (35,036            |
| Total shareholders' equity   | 848,940               | 935,052              |

|  |             |             |
|--|-------------|-------------|
| Total liabilities and shareholders' equity | \$2,107,455 | \$2,152,819 |
|--|-------------|-------------|

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

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## METTLER-TOLEDO INTERNATIONAL INC.

## INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nine months ended September 30, 2014 and twelve months ended December 31, 2013

(In thousands, except share data)

(unaudited)

|   | Common Stock |        | Additional      | Treasury      | Retained    | Accumulated                       |             |
|---|--------------|--------|-----------------|---------------|-------------|-----------------------------------|-------------|
|   | Shares       | Amount | Paid-in Capital | Stock         | Earnings    | Other Comprehensive Income (Loss) | Total       |
| Balance at December 31, 2012  | 30,410,006   | \$448  | \$638,705       | \$(1,463,924) | \$1,749,451 | \$(97,461)                        | ) \$827,219 |
| Exercise of stock options and restricted stock units                  | 398,646      | —      | —               | 37,870        | (18,125)    | —                                 | ) 19,745    |
| Repurchases of common stock   | (1,321,577)  | —      | —               | (294,976)     | —           | —                                 | ) (294,976) |
| Tax benefit resulting from exercise of certain employee stock options | —            | —      | 1,906           | —             | —           | —                                 | ) 1,906     |
| Share-based compensation  | —            | —      | 12,639          | —             | —           | —                                 | ) 12,639    |
| Net earnings  | —            | —      | —               | —             | 306,094     | —                                 | ) 306,094   |
| Other comprehensive income (loss), net of tax                         | —            | —      | —               | —             | —           | 62,425                            | ) 62,425    |
| Balance at December 31, 2013  | 29,487,075   | \$448  | \$653,250       | \$(1,721,030) | \$2,037,420 | \$(35,036)                        | ) \$935,052 |
| Exercise of stock options and restricted stock units                  | 246,551      | —      | —               | 25,512        | (11,467)    | —                                 | ) 14,045    |
| Repurchases of common stock   | (1,186,215)  | —      | —               | (296,476)     | —           | —                                 | ) (296,476) |
| Tax benefit resulting from exercise of certain employee stock options | —            | —      | 10,459          | —             | —           | —                                 | ) 10,459    |
| Share-based compensation  | —            | —      | 9,784           | —             | —           | —                                 | ) 9,784     |
| Net earnings  | —            | —      | —               | —             | 217,069     | —                                 | ) 217,069   |
| Other comprehensive income (loss), net of tax (Note 8)                | —            | —      | —               | —             | —           | (40,993)                          | ) (40,993)  |
| Balance at September 30, 2014   | 28,547,411   | \$448  | \$673,493       | \$(1,991,994) | \$2,243,022 | \$(76,029)                        | ) \$848,940 |

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





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METTLER-TOLEDO INTERNATIONAL INC.  
 INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Nine months ended September 30, 2014 and 2013  
 (In thousands)  
 (unaudited)

|   | September 30,<br>2014 | September 30,<br>2013 |   |
|---|-----------------------|-----------------------|---|
| Cash flows from operating activities:   |                       |                       |   |
| Net earnings  | \$217,069             | \$195,932             |   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                       |                       |   |
| Depreciation  | 25,469                | 26,024                |   |
| Amortization  | 21,575                | 17,604                |   |
| Deferred tax benefit  | (6,102)               | (7,807)               | ) |
| Excess tax benefits from share-based payment arrangements                           | (10,459)              | (565)                 | ) |
| Share-based compensation  | 9,784                 | 8,988                 |   |
| Other   | 99                    | 407                   |   |
| Increase (decrease) in cash resulting from changes in:                              |                       |                       |   |
| Trade accounts receivable, net  | 43,313                | 33,841                |   |
| Inventories   | (18,024)              | (19,350)              | ) |
| Other current assets  | 9,714                 | (3,367)               | ) |
| Trade accounts payable  | (13,180)              | (23,814)              | ) |
| Taxes payable   | (9,391)               | 5,961                 | ) |
| Accruals and other  | 8,371                 | 3,561                 |   |
| Net cash provided by operating activities   | 278,238               | 237,415               |   |
| Cash flows from investing activities:   |                       |                       |   |
| Proceeds from sale of property, plant and equipment                                 | 433                   | 208                   |   |
| Purchase of property, plant and equipment   | (61,408)              | (57,000)              | ) |
| Acquisitions  | (3,385)               | (213)                 | ) |
| Net cash used in investing activities   | (64,360)              | (57,005)              | ) |
| Cash flows from financing activities:   |                       |                       |   |
| Proceeds from borrowings  | 512,977               | 382,105               |   |
| Repayments of borrowings  | (438,529)             | (369,012)             | ) |
| Proceeds from stock option exercises  | 14,045                | 15,990                |   |
| Repurchases of common stock   | (296,476)             | (217,413)             | ) |
| Excess tax benefits from share-based payment arrangements                           | 10,459                | 565                   |   |
| Debt issuance costs   | (941)                 | (281)                 | ) |
| Other financing activities  | 182                   | (1,569)               | ) |
| Net cash used in financing activities   | (198,283)             | (189,615)             | ) |
| Effect of exchange rate changes on cash and cash equivalents                        | (1,158)               | (275)                 | ) |
| Net increase (decrease) in cash and cash equivalents                                | 14,437                | (9,480)               | ) |
| Cash and cash equivalents:  |                       |                       |   |
| Beginning of period   | 111,874               | 101,702               |   |
| End of period   | \$126,311             | \$92,222              |   |

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



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METTLER-TOLEDO INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2014 – 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 Columbus, Ohio and Greifensee, Switzerland. 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 wholly-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 as of September 30, 2014 and for the three and nine month periods ended September 30, 2014 and 2013 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, 2013.

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 and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

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 and the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

All intercompany transactions and balances have been eliminated.

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

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.

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METTLER-TOLEDO INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2014 – Unaudited (Continued)

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

**Inventories**

Inventories are 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 the Company's inventory are made for excess and obsolete items based on 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.

Inventories consisted of the following:

|                         | September 30,<br>2014 | December 31,<br>2013 |
|-------------------------|-----------------------|----------------------|
| Raw materials and parts | \$99,949              | \$98,244             |
| Work-in-progress        | 41,120                | 38,061               |
| Finished goods          | 78,645                | 74,109               |
|                         | \$219,714             | \$210,414            |

**Goodwill and Other Intangible Assets**

Goodwill, representing the excess of purchase price over the net asset value of companies acquired, and indefinite-lived intangible assets are not amortized, but are reviewed for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The annual evaluation for goodwill and indefinite-lived intangible assets are generally based on an assessment of qualitative and quantitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount. Other intangible assets include indefinite-lived assets and assets subject to amortization. Where applicable, amortization is charged on a straight-line basis over the expected period of benefit. 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 in accordance with the provisions of ASC 805 "Business Combinations" and the continued accounting for previously recognized intangible assets and goodwill in accordance with the provisions of ASC 350 "Intangible - Goodwill and Other" and ASC 360 "Property, Plant and Equipment."

Other intangible assets consisted of the following:

|                               | September 30, 2014 |                             |                     | December 31, 2013 |                             |                     |
|-------------------------------|--------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
|                               | Gross<br>Amount    | Accumulated<br>Amortization | Intangibles,<br>Net | Gross<br>Amount   | Accumulated<br>Amortization | Intangibles,<br>Net |
| Customer relationships        | \$99,229           | \$(27,596)                  | \$71,633            | \$98,374          | \$(25,313)                  | \$73,061            |
| Proven technology and patents | 42,005             | (30,492)                    | 11,513              | 43,233            | (29,763)                    | 13,470              |
| Tradename (finite life)       | 4,192              | (1,759)                     | 2,433               | 4,300             | (1,619)                     | 2,681               |
| Tradename (indefinite life)   | 25,004             | —                           | 25,004              | 25,108            | —                           | 25,108              |
| Other                         | 1,582              | (951)                       | 631                 | 757               | (659)                       | 98                  |
|                               | \$172,012          | \$(60,798)                  | \$111,214           | \$171,772         | \$(57,354)                  | \$114,418           |

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METTLER-TOLEDO INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2014 – Unaudited (Continued)

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

The Company recognized amortization expense associated with the above intangible assets of \$1.6 million and \$1.5 million for the three months ended September 30, 2014 and 2013, respectively and \$4.8 million and \$4.4 million for the nine months ended September 30, 2014 and 2013, respectively. The annual aggregate amortization expense based on the current balance of other intangible assets is estimated at \$6.3 million for 2014, \$5.8 million for 2015, \$5.4 million for 2016, \$5.0 million for 2017, \$4.8 million for 2018 and \$4.4 million for 2019. Purchased intangible amortization was \$1.5 million, \$1.0 million after tax, and \$1.3 million, \$0.9 million after tax, for the three months ended September 30, 2014 and 2013, respectively and \$4.2 million, \$2.8 million after tax, and \$4.0 million, \$2.7 million after tax, for the nine months ended September 30, 2014 and 2013, respectively.

In addition to the above amortization, the Company recorded amortization expense associated with capitalized software of \$5.5 million and \$5.2 million for the three months ended September 30, 2014 and 2013, respectively and \$16.7 million and \$13.1 million for the nine months ended September 30, 2014 and 2013, respectively.

Revenue Recognition

Revenue is recognized when title to a product has transferred and any significant customer obligations have been fulfilled. Standard shipping terms are generally FOB shipping point in most countries and, accordingly, title and risk of loss transfers upon shipment. In countries where title cannot legally transfer before delivery, the Company defers revenue recognition until delivery has occurred. The Company generally maintains the right to accept or reject a product return in its terms and conditions and also maintains appropriate accruals for outstanding credits. Shipping and handling costs charged to customers are included in total net sales and the associated expense is recorded in cost of sales for all periods presented. Other than a few small software applications, the Company does not sell software products without the related hardware instrument as the software is embedded in the instrument. The Company's products typically require no significant production, modification or customization of the hardware or software that is essential to the functionality of the products. To the extent the Company's solutions have a post-shipment obligation, such as customer acceptance, revenue is deferred until the obligation has been completed. The Company defers product revenue where installation is required, unless such installation is deemed perfunctory. The Company also sometimes enters into certain arrangements that require the separate delivery of multiple goods and/or services. These deliverables are accounted for separately if the deliverables have standalone value and the performance of undelivered items is probable and within the Company's control. The allocation of revenue between the separate deliverables is typically based on the relative selling price at the time of the sale in accordance with a number of factors including service technician billing rates, time to install and geographic location.

Further, certain products are also sold through indirect distribution channels whereby the distributor assumes any further obligations to the customer upon title transfer. Revenue is recognized on these products upon transfer of title and risk of loss to its distributors. Distributor discounts are offset against revenue at the time such revenue is recognized.

Service revenue not under contract is recognized upon the completion of the service performed. Spare parts sold on a stand-alone basis are recognized upon title and risk of loss transfer which is generally at the time of shipment. Revenues from service contracts are recognized ratably over the contract period. These contracts represent an obligation to perform repair and other services including regulatory compliance qualification, calibration, certification and preventative maintenance on a customer's pre-defined equipment over the contract period. Service contracts are separately priced and payment is typically received from the customer at the beginning of the contract period.

Warranty

The Company generally offers one-year warranties on most of its products. Product warranties are recorded at the time revenue is recognized. While the Company engages in extensive product quality

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METTLER-TOLEDO INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2014 – Unaudited (Continued)

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

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 for the nine months ended September 30 are as follows:

|                                | September 30,<br>2014 | September 30,<br>2013 |
|--------------------------------|-----------------------|-----------------------|
| Balance at beginning of period | \$16,991              | \$16,295              |
| Accruals for warranties        | 14,737                | 14,246                |
| Foreign currency translation   | (409                  | ) 20                  |
| Payments / utilizations        | (15,278               | ) (14,354             |
| Balance at end of period       | \$16,041              | \$16,207              |

**Employee Termination Benefits**

In situations where contractual termination benefits exist, the Company records accruals for employee termination benefits when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. All other employee termination arrangements are recognized and measured at their fair value at the communication date unless the employee is required to render additional service beyond the legal notification period, in which case the liability is recognized ratably over the future service period.

**Share-Based Compensation**

The Company recognizes share-based compensation expense within selling, general and administrative in the consolidated statement of operations with a corresponding offset to additional paid-in capital in the consolidated balance sheet. The Company recorded \$3.3 million and \$9.8 million of share-based compensation expense for the three and nine months ended September 30, 2014, respectively, compared to \$3.1 million and \$9.0 million for the corresponding periods in 2013.

**Research and Development**

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

**3. FINANCIAL INSTRUMENTS**

As more fully described below, the Company enters into certain interest rate swap agreements in order to manage its exposure to changes in interest rates. The amount of the Company's fixed obligation interest payments may change based upon the expiration dates of its interest rate swap agreements and the level and composition of its debt. The Company also enters into certain foreign currency forward contracts to limit the Company's exposure to currency fluctuations on the respective hedged items. The Company does not use derivative financial instruments for trading purposes. For additional disclosures on the fair value of financial instruments, also see Note 4 to the interim consolidated financial statements.

**Cash Flow Hedges**

The Company has an interest rate swap agreement, designated as a cash flow hedge. The agreement changes the floating rate LIBOR-based interest payments associated with \$100 million in

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borrowings under the Company's credit agreement to a fixed obligation of 3.24% beginning October 2010 ("Interest rate swaps - October 2010").

In June 2013, the Company entered into a forward starting interest rate swap agreement, designated as a cash flow hedge. The agreement which will change the floating rate LIBOR-based interest payments associated with \$50 million in forecasted borrowings under the Company's credit agreement to a fixed obligation of 2.52% beginning in October 2015 ("Interest rate swaps - October 2015").

In July 2012, the Company began entering into foreign currency forward contracts, designated as cash flow hedges, to hedge certain forecasted intercompany sales denominated in euro with its Swiss-based businesses. The notional amount of foreign currency forward contracts outstanding at September 30, 2014 and December 31, 2013 was \$83.6 million and \$78.2 million, respectively.

Through September 30, 2014 no hedge ineffectiveness has occurred in relation to these cash flow hedges.

The fair value of the cash flow hedges as of September 30, 2014 and December 31, 2013 are recorded gross in the consolidated balance sheet as follows:

|   | Balance Sheet Location           | Fair Value at      |                   |
|---|----------------------------------|--------------------|-------------------|
|   |                                  | September 30, 2014 | December 31, 2013 |
| Derivative designated as cash flow hedging instruments: |                                  |                    |                   |
| Interest rate swaps - October 2010                      | Non-current (liabilities)/assets | \$(3,218 )         | \$(5,312 )        |
| Interest rate swaps - October 2015                      | Non-current (liabilities)/assets | (314 )             | 1,269 )           |
| Foreign currency forward contracts:                     | Other current assets             | 607                | 268               |
|   | Accrued and other liabilities    | —                  | (103 )            |

The effects of the derivative instruments designated as cash flow hedges on the consolidated statements of operations for the three months ended September 30, 2014 and 2013 are as follows:

|  | Location of Derivative Gain (Loss) in Earnings | Before Tax |          | After Tax |          |
|--|--|------------|----------|-----------|----------|
|  |  | 2014       | 2013     | 2014      | 2013     |
| Recognized in other comprehensive income (loss):             |  |            |          |           |          |
| Interest rate swaps - October 2010                           |  | \$—        | \$(281 ) | \$—       | \$(173 ) |
| Interest rate swaps - October 2015                           |  | —          | (198 )   | —         | (122 )   |
| Foreign currency forward contracts                           |  | 493        | (229 )   | 392       | (182 )   |
| Effective portion of gain (loss) reclassified into earnings: |  |            |          |           |          |
| Interest rate swaps - October 2010                           | Interest expense                               | \$(787 )   | \$(777 ) | \$(484 )  | \$(478 ) |
| Foreign currency forward contracts                           | Cost of sales                                  | 247        | (486 )   | 197       | (386 )   |



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The effects of the derivative instruments designated as cash flow hedges on the consolidated statements of operations for the nine months ended September 30, 2014 and 2013 are as follows:

|  |                             | Before Tax  |             | After Tax   |             |
|--|-----------------------------|-------------|-------------|-------------|-------------|
|  |                             | 2014        | 2013        | 2014        | 2013        |
| Recognized in other comprehensive income (loss): |                             |             |             |             |             |
| Interest rate swaps - October 2010               |                             | \$ (239 )   | \$ (123 )   | \$ (147 )   | \$ (76 )    |
| Interest rate swaps - October 2015               |                             | (1,582 )    | 717         | (973 )      | 441         |
| Foreign currency forward contracts               |                             | 887         | (1,579 )    | 705         | (1,255 )    |
|  | Location of Derivative Gain |             | Before Tax  |             | After Tax   |
|  | (Loss) in Earnings          |             | 2014        | 2013        | 2014        |
| Effective portion of gain (loss)                 |                             |             |             |             |             |
| reclassified into earnings:                      |                             |             |             |             |             |
| Interest rate swaps - October 2010               | Interest expense            | \$ (2,333 ) | \$ (2,299 ) | \$ (1,435 ) | \$ (1,414 ) |
| Foreign currency forward contracts               | Cost of sales               | 453         | (1,517 )    | 360         | (1,206 )    |

A derivative loss of \$3.0 million, \$1.9 million after tax, based upon interest rates and a derivative gain of \$0.6 million, \$0.5 million after tax, based upon foreign currency rates at September 30, 2014, are expected to be reclassified from other comprehensive income (loss) to earnings in the next twelve months.

Other Derivatives

The Company enters into foreign currency forward contracts in order to economically hedge short-term intercompany balances largely denominated in Swiss franc and other major European currencies with its foreign businesses. In accordance with U.S. GAAP, these contracts are considered “derivatives not designated as hedging instruments.” Gains or losses on these instruments are reported in current earnings. At September 30, 2014 and December 31, 2013, these contracts had a notional value of \$210.4 million and \$180.3 million, respectively.

The fair value of the foreign currency forward contracts as of September 30, 2014 and December 31, 2013 are as follows:

|                           |  | Fair Value at      |                   |
|---------------------------|--|--------------------|-------------------|
|                           |  | September 30, 2014 | December 31, 2013 |
| Balance sheet location:   |  |                    |                   |
| Other current assets      |  | \$ 690             | \$ 719            |
| Other current liabilities |  | (1,006 )           | (355 )            |

The effects of the foreign currency forward contracts on the consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 are as follows:

|   | 2014        | 2013     |
|---|-------------|----------|
| Gain (loss) recognized in other charges (income), net |             |          |
| Three months ended                                    | \$ (2,048 ) | \$ 1,418 |
| Nine months ended                                     | (2,983 )    | 727      |



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4. FAIR VALUE MEASUREMENTS

At September 30, 2014 and December 31, 2013, the Company had derivative assets totaling \$1.3 million and \$2.3 million, respectively, and derivative liabilities totaling \$4.5 million and \$5.8 million, respectively. The fair values of the interest rate swap agreement, foreign currency forward contracts designated as cash flow hedges and foreign currency forward contracts that economically hedge short-term intercompany balances are estimated based upon inputs from 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. In addition, the Company uses an internally developed model to perform testing on the valuations received from brokers. The Company has also considered both its own credit risk and counterparty credit risk in determining fair value and determined these adjustments were insignificant at September 30, 2014 and December 31, 2013.

At September 30, 2014 and December 31, 2013, the Company had \$18.1 million and \$16.9 million of cash equivalents, respectively, the fair value of which is determined through quoted and corroborated prices in active markets. The fair value of cash equivalents approximates cost.

The difference between the fair value and carrying value of the Company's long-term debt is not material and is classified in Level 2 and Level 3 of the fair value hierarchy. The fair value of the Company's debt is estimated based on either similar issues or other inputs derived from available market information, including interest rates, term of debt and creditworthiness.

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement consists of observable and unobservable inputs that reflect the assumptions that a market participant would use in pricing an asset or liability.

A fair value hierarchy has been established that categorizes these inputs into three levels:

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

Level 2: Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3: Unobservable inputs

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The following table presents for each of these hierarchy levels, the Company's assets and liabilities that are measured at fair value on a recurring basis at September 30, 2014 and December 31, 2013:

|  | September 30, 2014 |            |                 |            | December 31, 2013 |            |                 |            |
|--|--------------------|------------|-----------------|------------|-------------------|------------|-----------------|------------|
|  | Total              | Level 1    | Level 2         | Level 3    | Total             | Level 1    | Level 2         | Level 3    |
| <b>Assets:</b>   |                    |            |                 |            |                   |            |                 |            |
| Cash equivalents   | \$18,118           | \$—        | \$18,118        | \$—        | \$16,868          | \$—        | \$16,868        | \$—        |
| Interest rate swap agreement   |                    | —          | —               | —          | 1,269             | —          | 1,269           | —          |
| Foreign currency forwards contracts designed as cash flow hedges         | 607                | —          | 607             | —          | 268               | —          | 268             | —          |
| Foreign currency forward contracts not designated as hedging instruments | 690                | —          | 690             | —          | 719               | —          | 719             | —          |
| <b>Total</b>   | <b>\$19,415</b>    | <b>\$—</b> | <b>\$19,415</b> | <b>\$—</b> | <b>\$19,124</b>   | <b>\$—</b> | <b>\$19,124</b> | <b>\$—</b> |
| <b>Liabilities:</b>  |                    |            |                 |            |                   |            |                 |            |
| Interest rate swap agreement   | \$3,532            | \$—        | \$3,532         | \$—        | \$5,312           | \$—        | \$5,312         | \$—        |
| Foreign currency forwards contracts designed as cash flow hedges         | —                  | —          | —               | —          | 103               | —          | 103             | —          |
| Foreign currency forward contracts not designated as hedging instruments | 1,006              | —          | 1,006           | —          | 355               | —          | 355             | —          |
| <b>Total</b>   | <b>\$4,538</b>     | <b>\$—</b> | <b>\$4,538</b>  | <b>\$—</b> | <b>\$5,770</b>    | <b>\$—</b> | <b>\$5,770</b>  | <b>\$—</b> |

**5. INCOME TAXES**

The provision for taxes for both the three and nine month periods ended September 30, 2014 is based upon the Company's projected annual effective rate of 24%.

**6. DEBT**

Debt consisted of the following at September 30, 2014:

|   | September 30, 2014 |                                    |                  |
|---|--------------------|------------------------------------|------------------|
|   | U.S. Dollar        | Other Principal Trading Currencies | Total            |
| 6.30% \$100 million Senior Notes due June 25, 2015      | \$100,000          | \$—                                | \$100,000        |
| 3.67% \$50 million Senior Notes due December 17, 2022   | 50,000             | —                                  | 50,000           |
| 4.10% \$50 million Senior Notes due September 19, 2023  | 50,000             | —                                  | 50,000           |
| 3.84% \$125 million Senior Notes due September 19, 2024 | 125,000            | —                                  | 125,000          |
| Credit agreement  | 103,937            | 36,070                             | 140,007          |
| Other local arrangements                                | 429                | 19,596                             | 20,025           |
| <b>Total debt</b>                                       | <b>429,366</b>     | <b>55,666</b>                      | <b>485,032</b>   |
| Less: current portion                                   | (100,429)          | (19,596)                           | (120,025)        |
| <b>Total long-term debt</b>                             | <b>\$328,937</b>   | <b>\$36,070</b>                    | <b>\$365,007</b> |



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As of September 30, 2014, the Company had \$655.6 million of availability remaining under its Credit Agreement. The Company was in compliance with its covenants at September 30, 2014.

In June 2014, the Company entered into an agreement to issue and sell \$250 million of ten-year Senior Notes in a private placement. The Company issued \$125 million with a fixed interest rate of 3.84% ("3.84% Senior Notes") in September 2014 and will issue an additional \$125 million with a fixed interest rate of 4.24% ("4.24% Senior Notes") in June 2015. The Senior Notes are senior unsecured obligations of the Company.

Issuance costs approximating \$0.9 million will be amortized to interest expense over the ten year term of the Senior Notes.

**7. SHARE REPURCHASE PROGRAM AND TREASURY STOCK**

The Company has a \$3 billion share repurchase program, of which there were \$595.9 million of remaining common shares authorized to be repurchased under the program at September 30, 2014. We expect that the authorization will be utilized over the next few years. The share repurchases are expected to be funded from cash balances, borrowings and cash generated from operating activities. Repurchases will be made through open market transactions, and the amount and timing of purchases will depend on business and market conditions, the stock price, trading restrictions, the level of acquisition activity and other factors.

The Company has purchased 22.6 million shares since the inception of the program through September 30, 2014. During the nine months ended September 30, 2014 and 2013, the Company spent \$296.5 million and \$217.4 million on the repurchase of 1,186,215 shares and 1,004,398 shares at an average price per share of \$249.91 and \$216.44, respectively. The Company also reissued 246,551 shares and 280,691 shares held in treasury for the exercise of stock options and restricted stock units during the nine months ended September 30, 2014 and 2013, respectively.

**8. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table presents changes in accumulated other comprehensive income by component for the nine months ended September 30, 2014 and 2013:

|   | Currency<br>Translation<br>Adjustment,<br>Net of Tax | Net Unrealized<br>Gain (Loss) on<br>Cash Flow<br>Hedging<br>Arrangements,<br>Net of Tax | Pension and<br>Post-Retirement<br>Benefit Related<br>Items,<br>Net of Tax | Total      |
|---|--|---|---|------------|
| Balance at December 31, 2013  | \$77,915   | \$(2,433)   | \$(110,518)   | \$(35,036) |
| Other comprehensive income (loss), net of tax:                                    |  |   |   |            |
| Unrealized gains (losses) on cash flow hedging arrangements                       | —  | (445)   | —   | (445)      |
| Foreign currency translation adjustment   | (47,483)   | 30  | 4,644   | (42,809)   |
| Amounts recognized from accumulated other comprehensive income (loss), net of tax | —  | 1,075   | 1,186   | 2,261      |
| Net change in other comprehensive income (loss), net of tax                       | (47,483)   | 660   | 5,830   | (40,993)   |
| Balance at September 30, 2014   | \$30,432   | \$(1,773)   | \$(104,688)   | \$(76,029) |



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|  | Currency<br>Translation<br>Adjustment,<br>Net of Tax | Net Unrealized<br>Gain (Loss) on<br>Cash Flow<br>Hedging<br>Arrangements,<br>Net of Tax | Pension and<br>Post-Retirement<br>Benefit Related<br>Items,<br>Net of Tax | Total         |
|--|--|---|---|---------------|
| Balance at December 31, 2012   | \$56,012   | \$(5,438  | ) \$(148,035  | ) \$(97,461 ) |
| Other comprehensive income (loss), net of tax:                                       |  |   |   |               |
| Unrealized gains (losses) on cash flow hedging<br>arrangements                       | —  | (924  | ) —   | (924 )        |
| Foreign currency translation adjustment  | 9,911  | 34  | (266  | ) 9,679       |
| Amounts recognized from accumulated other<br>comprehensive income (loss), net of tax | —  | 2,620   | 5,551   | 8,171         |
| Net change in other comprehensive income (loss), net<br>of tax                       | 9,911  | 1,730   | 5,285   | 16,926        |
| Balance at September 30, 2013  | \$65,923   | \$(3,708  | ) \$(142,750  | ) \$(80,535 ) |

The following table presents amounts recognized from accumulated other comprehensive income (loss) for the three and nine month periods ended September 30:

|   | Three months ended September 30, |       | Location of Amounts<br>Recognized in<br>Earnings |
|---|----------------------------------|-------|--|
|   | 2014                             | 2013  |  |
| Effective portion of losses on cash flow hedging<br>arrangements: |                                  |       |  |
| Interest rate swap agreements                                     | \$787                            | \$777 | Interest expense                                 |
| Foreign currency forward contracts                                | (247                             | ) 486 | Cost of sales - products                         |
| Total before taxes  | 540                              | 1,263 |  |
| Provision for taxes   | 253                              | 399   | Provision for taxes                              |
| Total, net of taxes   | \$287                            | \$864 |  |

Recognition of defined benefit pension and  
post-retirement items:

|  |       |         |                     |
|--|-------|---------|---------------------|
| Recognition of actuarial losses, plan amendments and<br>prior service cost, before taxes | \$719 | \$2,571 | (a)                 |
| Provision for taxes  | 313   | 907     | Provision for taxes |
| Total, net of taxes  | \$406 | \$1,664 |                     |

(a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and post-retirement cost. See Note 10 for additional details for the three and nine months ended September 30, 2014 and 2013.



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|   | Nine months ended September 30, |         | Location of Amounts<br>Recognized in<br>Earnings |
|---|---------------------------------|---------|--|
|   | 2014                            | 2013    |  |
| Effective portion of losses on cash flow hedging arrangements:                        |                                 |         |  |
| Interest rate swap agreements   | \$2,333                         | \$2,299 | Interest expense                                 |
| Foreign currency forward contracts  | (453                            | ) 1,517 | Cost of sales - products                         |
| Total before taxes  | 1,880                           | 3,816   |  |
| Provision for taxes   | 805                             | 1,196   | Provision for taxes                              |
| Total, net of taxes   | \$1,075                         | \$2,620 |  |
| Recognition of defined benefit pension and post-retirement items:                     |                                 |         |  |
| Recognition of actuarial losses, plan amendments and prior service cost, before taxes | \$2,131                         | \$7,707 | (a)  |
| Provision for taxes   | 945                             | 2,156   | Provision for taxes                              |
| Total, net of taxes   | \$1,186                         | \$5,551 |  |

(a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and post-retirement cost. See Note 10 for additional details for the three and nine months ended September 30, 2014 and 2013.

Comprehensive income (loss), net of tax consisted of the following as of September 30:

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | 2014               | 2013      | 2014              | 2013      |
| Net earnings                                  | \$84,996           | \$74,326  | \$217,069         | \$195,932 |
| Other comprehensive income (loss), net of tax | (40,456            | ) 28,206  | (40,993           | ) 16,926  |
| Comprehensive income, net of tax              | \$44,540           | \$102,532 | \$176,076         | \$212,858 |

**9. EARNINGS PER COMMON SHARE**

In accordance with the treasury stock method, the Company has included the following common equivalent shares in the calculation of diluted weighted average number of common shares outstanding for the three and nine month periods ended September 30, solely relating to outstanding stock options and restricted stock units:

|                    | 2014    | 2013    |
|--------------------|---------|---------|
| Three months ended | 676,462 | 761,736 |
| Nine months ended  | 690,658 | 773,139 |

Outstanding options and restricted stock units to purchase or receive 105,570 and 135,858 shares of common stock for the three and nine month periods ended September 30, 2014, respectively have been excluded from the calculation of diluted weighted average number of common and common equivalent shares as such options and restricted stock units would be anti-dilutive. For the three and nine month periods ended September 30, 2013, there were no anti-dilutive outstanding options or restricted stock units.

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## 10. NET PERIODIC BENEFIT COST

Net periodic pension cost for the Company's defined benefit pension plans and U.S. post-retirement medical plan includes the following components for the three months ended September 30:

|  | U.S. Pension Benefits |          | Non-U.S. Pension Benefits |          | Other U.S. Post-retirement Benefits |         | Total     |           |
|--|-----------------------|----------|---------------------------|----------|-------------------------------------|---------|-----------|-----------|
|  | 2014                  | 2013     | 2014                      | 2013     | 2014                                | 2013    | 2014      | 2013      |
| Service cost, net                              | \$223                 | \$123    | \$3,856                   | \$4,364  | \$43                                | \$54    | \$4,122   | \$4,541   |
| Interest cost on projected benefit obligations | 1,599                 | 1,439    | 5,380                     | 4,864    | 60                                  | 101     | 7,039     | 6,404     |
| Expected return on plan assets                 | (2,137 )              | (1,788 ) | (9,372 )                  | (8,650 ) | —                                   | —       | (11,509 ) | (10,438 ) |
| Recognition of prior service cost              | —                     | —        | (1,009 )                  | (991 )   | (195 )                              | 22      | (1,204 )  | (969 )    |
| Recognition of actuarial losses/(gains)        | 1,200                 | 1,945    | 1,082                     | 1,842    | (359 )                              | (247 )  | 1,923     | 3,540     |
| Net periodic pension cost/(credit)             | \$885                 | \$1,719  | \$(63 )                   | \$1,429  | \$(451 )                            | \$(70 ) | \$371     | \$3,078   |

Net periodic pension cost for the Company's defined benefit pension plans and U.S. post-retirement medical plan includes the following components for the nine months ended September 30:

|  | U.S. Pension Benefits |          | Non-U.S. Pension Benefits |           | Other U.S. Post-retirement Benefits |          | Total     |           |
|--|-----------------------|----------|---------------------------|-----------|-------------------------------------|----------|-----------|-----------|
|  | 2014                  | 2013     | 2014                      | 2013      | 2014                                | 2013     | 2014      | 2013      |
| Service cost, net                              | \$669                 | \$370    | \$11,741                  | \$12,991  | \$129                               | \$162    | \$12,539  | \$13,523  |
| Interest cost on projected benefit obligations | 4,797                 | 4,316    | 16,383                    | 14,569    | 180                                 | 303      | 21,360    | 19,188    |
| Expected return on plan assets                 | (6,411 )              | (5,365 ) | (28,512 )                 | (25,912 ) | —                                   | —        | (34,923 ) | (31,277 ) |
| Recognition of prior service cost              | —                     | —        | (3,079 )                  | (2,965 )  | (585 )                              | 65       | (3,664 )  | (2,900 )  |
| Recognition of actuarial losses/(gains)        | 3,600                 | 5,837    | 3,272                     | 5,511     | (1,077 )                            | (741 )   | 5,795     | 10,607    |
| Net periodic pension cost/(credit)             | \$2,655               | \$5,158  | \$(195 )                  | \$4,194   | \$(1,353 )                          | \$(211 ) | \$1,107   | \$9,141   |

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, the Company expects to make employer contributions of approximately \$21.8 million to its non-U.S. pension plans and employer contributions of approximately \$0.5 million to its U.S. post-retirement medical plan during the year ended December 31, 2014. These estimates may change based upon several factors, including fluctuations in currency exchange rates, actual returns on plan assets and changes in legal requirements.

## 11. RESTRUCTURING CHARGES

For the three and nine months ended September 30, 2014, we have incurred \$1.1 million and \$4.4 million, respectively of restructuring expenses which primarily comprised employee-related costs. Liabilities related to restructuring activities are included in accrued and other liabilities in the consolidated balance sheet.



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A rollforward of the Company's accrual for restructuring activities for the nine months ended September 30, 2014 is as follows:

|                               | Employee<br>Related | Other  | Total    |
|-------------------------------|---------------------|--------|----------|
| Balance at December 31, 2013  | \$13,054            | \$131  | \$13,185 |
| Restructuring charges         | 3,907               | 540    | 4,447    |
| Cash payments and utilization | (7,413              | ) (564 | ) (7,977 |
| Impact of foreign currency    | (653                | ) —    | (653     |
| Balance at September 30, 2014 | \$8,895             | \$107  | \$9,002  |

## 12. OTHER CHARGES (INCOME), NET

Other charges (income), net consists primarily of interest income, (gains) losses from foreign currency transactions and other items.

## 13. SEGMENT REPORTING

As disclosed in Note 18 to the Company's consolidated financial statements for the year ended December 31, 2013, the Company has determined there are five reportable segments: U.S. Operations, Swiss Operations, Western European Operations, Chinese Operations and Other.

The Company evaluates segment performance based on Segment Profit (gross profit less research and development and selling, general and administrative expenses, before amortization, interest expense, restructuring charges, other charges (income), net and taxes).

The following tables show the operations of the Company's operating segments:

|  | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Segment<br>Profit | As of<br>September 30,<br>2014<br>Goodwill |
|--|---------------------------------------|-----------------------------------|--------------------|-------------------|--|
| For the three months ended<br>September 30, 2014 |                                       |                                   |                    |                   |  |
| U.S. Operations                                  | \$195,827                             | \$20,058                          | \$215,885          | \$34,769          | \$308,112                                  |
| Swiss Operations                                 | 35,375                                | 112,544                           | 147,919            | 40,286            | 22,748                                     |
| Western European Operations                      | 174,502                               | 32,076                            | 206,578            | 29,691            | 103,844                                    |
| Chinese Operations                               | 107,907                               | 41,416                            | 149,323            | 35,983            | 741  |
| Other (a)  | 115,489                               | 1,864                             | 117,353            | 13,148            | 14,094                                     |
| Eliminations and Corporate (b)                   | —                                     | (207,958                          | ) (207,958         | ) (27,177         | ) —  |
| Total  | \$629,100                             | \$—                               | \$629,100          | \$126,700         | \$449,539                                  |

(a) Other includes reporting units in Eastern Europe, Latin America, Southeast Asia and other countries.

(b) Eliminations and Corporate includes the elimination of inter-segment transactions and certain corporate expenses and intercompany investments, which are not included in the Company's operating segments.

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METTLER-TOLEDO INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2014 – Unaudited (Continued)

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

| For the nine months ended      | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Segment<br>Profit |  |
|--------------------------------|---------------------------------------|-----------------------------------|--------------------|-------------------|--|
| September 30, 2014             |                                       |                                   |                    |                   |  |
| U.S. Operations                | \$553,177                             | \$61,969                          | \$615,146          | \$93,187          |  |
| Swiss Operations               | 101,172                               | 328,932                           | 430,104            | 113,011           |  |
| Western European Operations    | 505,935                               | 88,950                            | 594,885            | 74,252            |  |
| Chinese Operations             | 299,450                               | 114,358                           | 413,808            | 93,279            |  |
| Other (a)                      | 328,821                               | 4,946                             | 333,767            | 33,236            |  |
| Eliminations and Corporate (b) | —                                     | (599,155 )                        | (599,155 )         | (76,364 )         |  |
| Total                          | \$1,788,555                           | \$—                               | \$1,788,555        | \$330,601         |  |

  

| For the three months ended     | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Segment<br>Profit | As of<br>September 30,<br>2013<br>Goodwill |
|--------------------------------|---------------------------------------|-----------------------------------|--------------------|-------------------|--|
| September 30, 2013             |                                       |                                   |                    |                   |  |
| U.S. Operations                | \$181,224                             | \$21,775                          | \$202,999          | \$32,810          | \$307,933                                  |
| Swiss Operations               | 33,003                                | 107,856                           | 140,859            | 34,445            | 23,745                                     |
| Western European Operations    | 165,174                               | 26,869                            | 192,043            | 26,128            | 106,192                                    |
| Chinese Operations             | 104,549                               | 42,145                            | 146,694            | 32,965            | 741  |
| Other (a)                      | 107,737                               | 1,302                             | 109,039            | 11,885            | 13,488                                     |
| Eliminations and Corporate (b) | —                                     | (199,947 )                        | (199,947 )         | (22,152 )         | —  |
| Total                          | \$591,687                             | \$—                               | \$591,687          | \$116,081         | \$452,099                                  |

  

| For the nine months ended      | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Segment<br>Profit |  |
|--------------------------------|---------------------------------------|-----------------------------------|--------------------|-------------------|--|
| September 30, 2013             |                                       |                                   |                    |                   |  |
| U.S. Operations                | \$526,239                             | \$57,817                          | \$584,056          | \$90,806          |  |
| Swiss Operations               | 94,864                                | 308,498                           | 403,362            | 104,705           |  |
| Western European Operations    | 467,691                               | 81,909                            | 549,600            | 67,783            |  |
| Chinese Operations             | 293,047                               | 110,290                           | 403,337            | 86,987            |  |
| Other (a)                      | 312,879                               | 4,231                             | 317,110            | 30,803            |  |
| Eliminations and Corporate (b) | —                                     | (562,745 )                        | (562,745 )         | (73,164 )         |  |
| Total                          | \$1,694,720                           | \$—                               | \$1,694,720        | \$307,920         |  |

(a) Other includes reporting units in Eastern Europe, Latin America, Southeast Asia and other countries.

(b) Eliminations and Corporate includes the elimination of inter-segment transactions and certain corporate expenses and intercompany investments, which are not included in the Company's operating segments.

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METTLER-TOLEDO INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2014 – Unaudited (Continued)

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

A reconciliation of earnings before taxes to segment profit for the three and nine month periods ended September 30 follows:

|                             | Three Months Ended |           | Nine Months Ended |           |
|-----------------------------|--------------------|-----------|-------------------|-----------|
|                             | 2014               | 2013      | 2014              | 2013      |
| Earnings before taxes       | \$111,836          | \$97,796  | \$285,618         | \$257,805 |
| Amortization                | 7,198              | 6,675     | 21,575            | 17,604    |
| Interest expense            | 5,991              | 5,557     | 17,613            | 16,500    |
| Restructuring charges       | 1,050              | 5,532     | 4,447             | 13,730    |
| Other charges (income), net | 625                | 521       | 1,348             | 2,281     |
| Segment profit              | \$126,700          | \$116,081 | \$330,601         | \$307,920 |

During the three months ended September 30, 2014, restructuring charges of \$1.1 million were recognized, of which \$0.1 million, \$0.4 million, \$0.1 million and \$0.5 million related to the Company's U.S., Western European, Chinese, and Other Operations, respectively. Restructuring charges of \$5.5 million were recognized during the three months ended September 30, 2013, of which \$0.8 million, \$1.9 million, \$2.1 million, and \$0.7 million related to the Company's U.S., Swiss, Western European, and Chinese Operations, respectively. Restructuring charges of \$4.4 million were recognized during the nine months ended September 30, 2014, of which \$1.7 million, \$0.6 million, \$1.0 million, \$0.4 million, and \$0.7 million related to the Company's U.S., Swiss, Western European, Chinese, and Other Operations, respectively. Restructuring charges of \$13.7 million were recognized during the nine months ended September 30, 2013, of which \$1.3 million, \$7.2 million, \$3.4 million, \$1.5 million and \$0.3 million related to the Company's U.S., Swiss, Western European, Chinese and Other Operations, respectively.

## 14. CONTINGENCIES

The Company is party to various legal proceedings, including certain environmental matters, incidental to the normal course of business. Management does not expect that any of such proceedings, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Unaudited Interim Consolidated Financial Statements included herein.

## General

Our interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

Local currency changes exclude the effect of currency exchange rate fluctuations. Local currency amounts are determined by translating current and previous year consolidated financial information at an index utilizing historical currency exchange rates. We believe local currency information provides a helpful assessment of business performance and a useful measure of results between periods. We do not, nor do we suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. We present non-GAAP financial measures in reporting our financial results to provide investors with an additional analytical tool to evaluate our operating results.

## Results of Operations – Consolidated

The following tables set forth certain items from our interim consolidated statements of operations for the three and nine month periods ended September 30, 2014 and 2013 (amounts in thousands).

|                                     | Three months ended September 30, |       |             |       | Nine months ended September 30, |       |             |       |
|-------------------------------------|----------------------------------|-------|-------------|-------|---------------------------------|-------|-------------|-------|
|                                     | 2014                             |       | 2013        |       | 2014                            |       | 2013        |       |
|                                     | (unaudited)                      | %     | (unaudited) | %     | (unaudited)                     | %     | (unaudited) | %     |
| Net sales                           | \$629,100                        | 100.0 | \$591,687   | 100.0 | \$1,788,555                     | 100.0 | \$1,694,720 | 100.0 |
| Cost of sales                       | 285,549                          | 45.4  | 273,114     | 46.2  | 824,187                         | 46.1  | 788,146     | 46.5  |
| Gross profit                        | 343,551                          | 54.6  | 318,573     | 53.8  | 964,368                         | 53.9  | 906,574     | 53.5  |
| Research and development            | 30,352                           | 4.8   | 29,046      | 4.9   | 91,974                          | 5.1   | 85,749      | 5.1   |
| Selling, general and administrative | 186,499                          | 29.6  | 173,446     | 29.3  | 541,793                         | 30.3  | 512,905     | 30.3  |
| Amortization                        | 7,198                            | 1.1   | 6,675       | 1.1   | 21,575                          | 1.2   | 17,604      | 1.0   |
| Interest expense                    | 5,991                            | 1.0   | 5,557       | 0.9   | 17,613                          | 1.0   | 16,500      | 1.0   |
| Restructuring charges               | 1,050                            | 0.2   | 5,532       | 0.9   | 4,447                           | 0.2   | 13,730      | 0.8   |
| Other charges (income), net         | 625                              | 0.1   | 521         | 0.1   | 1,348                           | 0.1   | 2,281       | 0.1   |
| Earnings before taxes               | 111,836                          | 17.8  | 97,796      | 16.6  | 285,618                         | 16.0  | 257,805     | 15.2  |
| Provision for taxes                 | 26,840                           | 4.3   | 23,470      | 4.0   | 68,549                          | 3.9   | 61,873      | 3.6   |
| Net earnings                        | \$84,996                         | 13.5  | \$74,326    | 12.6  | \$217,069                       | 12.1  | \$195,932   | 11.6  |

## Net sales

Net sales were \$629.1 million and \$591.7 million for the three months ended September 30, 2014 and 2013, respectively, and \$1.789 billion and \$1.695 billion for the nine months ended September 30, 2014 and 2013. This represents an increase of 6% in U.S. dollars for both the three and nine months ended September 30, 2014. Excluding the effect of currency exchange rate fluctuations, or in local currencies, net sales increased 6% and 5% for the three and nine months ended September 30, 2014, as compared to prior year comparable periods. Market conditions improved during the nine months ended September 30, 2014. However, global market conditions remain uncertain, especially in emerging markets and Europe, and we continue to be cautious regarding our sales growth outlook.

Net sales by geographic destination for the three months ended September 30, 2014 in U.S. dollars and local currencies increased in the Americas 7% and 7%, in Europe 5% and 4% and in Asia/Rest of World 8% and 7%, respectively. Our net sales by geographic destination for the nine months ended September 30, 2014 in U.S. dollars and local currencies increased 5% and 5% in the Americas, increased in Europe 8% and 5% and in Asia/Rest of World 3% and 4%, respectively. Net sales in local currency for Asia/Rest of World for the nine months ended September 30, 2014 were reduced by approximately 1% due to the exit of certain industrial-related businesses in China. A discussion of sales by operating segment is included below.

As described in Note 18 to our consolidated financial statements for the year ended December 31, 2013, our net sales comprise product sales of precision instruments and related services. Service revenues are primarily derived from repair and other services, including regulatory compliance qualification, calibration, certification, preventative maintenance and spare parts.

Net sales of products increased 6% in U.S. dollars and 5% in local currencies for the three months ended September 30, 2014 and increased 5% in U.S. dollars and 4% local currencies for the nine months ended September 30, 2014, compared to the corresponding periods in 2013. Service revenue (including spare parts) increased by 9% in U.S. dollars and 8% in local currencies for the three months ended September 30, 2014 and increased in 8% in U.S. dollars and 7% in local currencies for the nine months ended September 30, 2014, compared to the corresponding periods in 2013.

Net sales of our laboratory-related products, which represented approximately 46% of our total net sales increased 6% in both U.S. dollars and local currencies for the three months ended September 30, 2014 and 7% and 6% in U.S. dollars and local currencies for the nine months ended September 30, 2014. The increase in net sales of our laboratory-related products for the three and nine months ended September 30, 2014 is principally driven by increased volume and favorable price realization in most categories.

Net sales of our industrial-related products, which represented approximately 45% of our total net sales increased 7% in both U.S. dollars and local currency for the three months ended September 30, 2014, and 5% and 4% in U.S. dollars and local currencies for the nine months ended September 30, 2014, respectively, compared to the corresponding prior year periods. The increase in net sales of our industrial-related products includes increased volume in most product categories, particularly in product inspection. The nine months ended September 30, 2014 results were offset in part by the exit of certain industrial-related businesses in China, which decreased industrial-related sales in local currency 1%. Overall Chinese market conditions for our industrial products remain weak. Growth in China can be expected to be volatile and the timing of recovery is uncertain.

Net sales in our food retailing products, which represented approximately 9% of our total net sales, increased 1% in U.S. dollars and were flat in local currency for the three months ended September 30, 2014, and increased 3% and 2% in U.S. dollars and local currency for the nine months ended September 30, 2014, compared to the corresponding prior year periods. The increase in net sales in local currencies of our food retailing products for the nine months ended September 30, 2014 is driven by strong project activity in Europe, offset in part by reduced sales in the Americas due to a difficult prior year comparison.

#### Gross profit

Gross profit as a percentage of net sales was 54.6% and 53.8% for the three months ended September 30, 2014 and 2013, respectively, and 53.9% and 53.5% for the nine months ended September 30, 2014 and 2013, respectively.

Gross profit as a percentage of net sales for products was 57.8% and 57.3% for the three months ended September 30, 2014 and 2013, respectively, and 57.5% and 57.1% for the nine months ended September 30, 2014 and 2013, respectively.



Gross profit as a percentage of net sales for services (including spare parts) was 43.5% and 41.5% for the three months ended September 30, 2014 and 2013, respectively, and 42.0% and 41.0% for the nine months ended September 30, 2014 and 2013, respectively.

The increase in gross profit as a percentage of net sales for the three and nine months ended September 30, 2014, includes increased price realization and reduced material costs, offset in part by unfavorable business mix and currency.

Research and development and selling, general and administrative expenses

Research and development expenses as a percentage of net sales was 4.8% and 4.9% for the three months ended September 30, 2014 and 2013, respectively, and 5.1% in both nine months ended September 30, 2014 and 2013.

Research and development expenses increased 4% and 3% in U.S. dollars and local currency for the three months ended September 30, 2014, and 7% and 5% in U.S. dollars and local currencies for the nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013, relating to the timing of research and development project activity.

Selling, general and administrative expenses as a percentage of net sales were 29.6% and 29.3% for the three months ended September 30, 2014 and 2013, respectively, and were 30.3% for both the nine months ended September 30, 2014 and 2013. Selling, general and administrative expenses increased 8% and 7% in U.S. dollars and in local currencies for the three months ended September 30, 2014, respectively, and increased 6% and 4% in U.S. dollars and in local currencies for the nine months ended September 30, 2014, compared to the corresponding periods in 2013.

The increase includes higher cash incentive compensation and increased investments in our field sales organization as compared to the prior year, partially offset by lower employee benefit costs.

Amortization, interest expense, other charges (income), net and taxes

Amortization expense was \$7.2 million and \$6.7 million for the three months ended September 30, 2014 and 2013, respectively, and \$21.6 million and \$17.6 million for the nine months ended September 30, 2014 and 2013, respectively. The increase in amortization expense is primarily related to recent investment in information technology, including the Company's Blue Ocean program.

Interest expense was \$6.0 million and \$5.6 million for the three months ended September 30, 2014 and 2013, respectively, and \$17.6 million and \$16.5 million for the nine months ended September 30, 2014 and 2013, respectively. The increase in interest expense for the three and nine months periods ended September 30, 2014 is primarily a result of an increase in average borrowings.

Other charges (income), net consist primarily of (gains) losses from foreign currency balances, interest income and other items.

The provision for taxes is based upon using our projected annual effective tax rate of 24% for the three and nine months periods ended September 30, 2014 and 2013. Our consolidated income tax rate is lower than the U.S. statutory rate primarily because of benefits from lower-taxed non-U.S. operations. The most significant of these lower-taxed operations are in Switzerland and China.

#### Results of Operations – by Operating Segment

The following is a discussion of the financial results of our operating segments. We currently have five reportable segments: U.S. Operations, Swiss Operations, Western European Operations, Chinese Operations and Other. A more detailed description of these segments is outlined in Note 18 to our consolidated financial statements for the year ended December 31, 2013.

## U.S. Operations (amounts in thousands)

|                                 | Three months ended September 30, |           |   | Nine months ended September 30, |           |   |   |
|---------------------------------|----------------------------------|-----------|---|---------------------------------|-----------|---|---|
|                                 | 2014                             | 2013      | % | 2014                            | 2013      | % | % |
| Total net sales                 | \$215,885                        | \$202,999 | 6 | % \$615,146                     | \$584,056 | 5 | % |
| Net sales to external customers | \$195,827                        | \$181,224 | 8 | % \$553,177                     | \$526,239 | 5 | % |
| Segment profit                  | \$34,769                         | \$32,810  | 6 | % \$93,187                      | \$90,806  | 3 | % |

Total net sales increased 6% and 5% for the three and nine months ended September 30, 2014 compared with the corresponding periods in 2013. Net sales to external customers increased 8% and 5% for the three and nine months ended September 30, 2014, respectively. The increase in total net sales and net sales to external customers for the three months ended September 30, 2014 reflects strong growth in most of our laboratory-related products and product inspection, due to increased sales volume and favorable price realization, offset in part by reduced sales in food retailing which faced a difficult prior year comparison.

Segment profit increased \$2.0 million and \$2.4 million for the three and nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013. The increase in segment profit for the three months ended September 30, 2014 primarily related to increased sales, offset in part by increased cash incentive expense.

## Swiss Operations (amounts in thousands)

|                                 | Three months ended September 30, |           |                 | Nine months ended September 30, |           |                 |   |
|---------------------------------|----------------------------------|-----------|-----------------|---------------------------------|-----------|-----------------|---|
|                                 | 2014                             | 2013      | % <sup>1)</sup> | 2014                            | 2013      | % <sup>1)</sup> | % |
| Total net sales                 | \$147,919                        | \$140,859 | 5               | % \$430,104                     | \$403,362 | 7               | % |
| Net sales to external customers | \$35,375                         | \$33,003  | 7               | % \$101,172                     | \$94,864  | 7               | % |
| Segment profit                  | \$40,286                         | \$34,445  | 17              | % \$113,011                     | \$104,705 | 8               | % |

1) Represents U.S. dollar growth for net sales and segment profit.

Total net sales increased 5% in U.S. dollars and 3% in local currency for the three months ended September 30, 2014, respectively, compared to the corresponding periods in 2013, and 7% in U.S. dollars and 3% in local currency for the nine months ended September 30, 2014. Net sales to external customers increased 7% in U.S. dollars and 5% in local currency for the three months ended September 30, 2014 and 7% in U.S. dollars and 3% in local currency for the nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013. The increase in local currency net sales to external customers for the three month periods ended September 30, 2014 includes strong volume growth in analytical instruments, as well as a solid growth in core-industrial products.

Segment profit increased \$5.8 million and \$8.3 million for the three and nine month periods ended September 30, 2014, respectively, compared to the corresponding periods in 2013. Segment profit includes the impact of increased sales, partially offset by unfavorable currency, increased cash incentive compensation and research and development activities.

## Western European Operations (amounts in thousands)

|                                 | Three months ended September 30, |           |                 | Nine months ended September 30, |           |                 |   |
|---------------------------------|----------------------------------|-----------|-----------------|---------------------------------|-----------|-----------------|---|
|                                 | 2014                             | 2013      | % <sup>1)</sup> | 2014                            | 2013      | % <sup>1)</sup> |   |
| Total net sales                 | \$206,578                        | \$192,043 | 8               | % \$594,885                     | \$549,600 | 8               | % |
| Net sales to external customers | \$174,502                        | \$165,174 | 6               | % \$505,935                     | \$467,691 | 8               | % |
| Segment profit                  | \$29,691                         | \$26,128  | 14              | % \$74,252                      | \$67,783  | 10              | % |

1)Represents U.S. dollar growth for net sales and segment profit.

Total net sales increased 8% in U.S. dollars and 6% in local currency for the three months ended September 30, 2014 and 8% in U.S. dollars and 5% in local currency for the nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013. Net sales to external customers increased 6% in U.S. dollars and 5% in local currency for the three months ended September 30, 2014, and 8% in U.S. dollars and 5% in local currency for the nine months ended September 30, 2014, compared to the corresponding periods in 2013. Total net sales and net sales to external customers for the three and nine months ended September 30, 2014 includes volume increases and favorable price realization across most product categories. Product inspection sales growth was also particularly strong during the three months ended September 30, 2014.

Segment profit increased \$3.6 million and \$6.5 million for the three and nine month periods ended September 30, 2014, respectively, compared to the corresponding periods in 2013 primarily due to increased sales, offset in part by increased sales and marketing investments and higher cash incentive expense.

## Chinese Operations (amounts in thousands)

|                                 | Three months ended September 30, |           |                 | Nine months ended September 30, |           |                 |   |
|---------------------------------|----------------------------------|-----------|-----------------|---------------------------------|-----------|-----------------|---|
|                                 | 2014                             | 2013      | % <sup>1)</sup> | 2014                            | 2013      | % <sup>1)</sup> |   |
| Total net sales                 | \$149,323                        | \$146,694 | 2               | % \$413,808                     | \$403,337 | 3               | % |
| Net sales to external customers | \$107,907                        | \$104,549 | 3               | % \$299,450                     | \$293,047 | 2               | % |
| Segment profit                  | \$35,983                         | \$32,965  | 9               | % \$93,279                      | \$86,987  | 7               | % |

1)Represents U.S. dollar growth for net sales and segment profit.

Total net sales increased 2% in both U.S. dollars and local currency for the three months ended September 30, 2014 and increased 3% and 2% in U.S. dollars and local currency for the nine months ended September 30, 2014, compared to the corresponding periods in 2013. Net sales to external customers increased 3% in both U.S. dollars and local currency for the three months ended September 30, 2014 and increased 2% and 1% in U.S. dollars and local currency during the nine months ended September 30, 2014, compared to the corresponding periods in 2013. The increase in net sales to external customers during the three months ended September 30, 2014 reflects increased sales in most product categories, particularly laboratory-related products. The exit of certain industrial-related businesses decreased local currency sales 1% and 2%, respectively, for the three and nine months ended September 30, 2014, which has resulted in a decline in sales of our core-industrial products for the nine months ended September 30, 2014. Overall Chinese market conditions for our industrial products remain weak. Growth in China can be expected to be volatile and the timing of a recovery is uncertain.

Segment profit increased \$3.0 million and \$6.3 million for the three and nine month periods ended September 30, 2014, respectively, compared to the corresponding periods in 2013. The increase in segment profit for the three and nine months ended September 30, 2014 includes increased sales, favorable business mix and increased price realization.

Other (amounts in thousands)

|                                 | Three months ended September 30, |            |                 | Nine months ended September 30, |            |                 |   |
|---------------------------------|----------------------------------|------------|-----------------|---------------------------------|------------|-----------------|---|
|                                 | 2014                             | 2013       | % <sup>1)</sup> | 2014                            | 2013       | % <sup>1)</sup> |   |
| Total net sales                 | \$ 117,353                       | \$ 109,039 | 8               | % \$ 333,767                    | \$ 317,110 | 5               | % |
| Net sales to external customers | \$ 115,489                       | \$ 107,737 | 7               | % \$ 328,821                    | \$ 312,879 | 5               | % |
| Segment profit                  | \$ 13,148                        | \$ 11,885  | 11              | % \$ 33,236                     | \$ 30,803  | 8               | % |

1) Represents U.S. dollar growth (decline) for net sales and segment profit.

Total net sales increased 8% in U.S. dollars and 7% in local currencies for the three months ended September 30, 2014 and 5% in U.S. dollars and 8% in local currencies for the nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013. Net sales to external customers increased 7% in both U.S. dollars and local currencies for three months ended September 30, 2014 the 5% and 8% in local currencies for the nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013. The increase in total net sales and net sales to external customers for the three and nine months ended reflects increased sales volume in most product categories, particularly product inspection.

Segment profit increased \$1.3 million and \$2.4 million for the three and nine months ended September 30, 2014, respectively, compared to the corresponding periods in 2013. The increase in segment profit includes sales volume growth and favorable price realization, partially offset by unfavorable currency and increased sales and marketing investments.

#### Liquidity and Capital Resources

Liquidity is our ability to generate sufficient cash flows from operating activities to meet our obligations and commitments. In addition, liquidity includes the ability to obtain appropriate financing. Currently, our financing requirements are primarily driven by working capital requirements, capital expenditures, share repurchases and acquisitions.

Cash provided by operating activities totaled \$278.2 million during the nine months ended September 30, 2014, compared to \$237.4 million in the corresponding period in 2013. The increase in 2014 is primarily due to the timing of working capital, including accounts receivable, offset in part by the timing of tax and higher cash incentive payments.

Capital expenditures are made primarily for investments in information systems and technology, machinery, equipment and the purchase and expansion of facilities. Our capital expenditures totaled \$61.4 million for the nine months ended September 30, 2014 compared to \$57.0 million in the corresponding period in 2013.

We plan to repatriate earnings from China, Switzerland, Germany, the United Kingdom and certain other countries in future years and expect the only additional cost associated with the repatriation of such earnings outside the United States will be withholding taxes. All other undistributed earnings are considered to be permanently reinvested. As of September 30, 2014, we have an immaterial amount of cash and cash equivalents outside the United States where undistributed earnings are considered permanently reinvested. Accordingly, we believe the tax impact associated with repatriating our undistributed foreign earnings will not have a material effect on our liquidity.

## Senior Notes and Credit Facility Agreement

Our debt consisted of the following at September 30, 2014:

|   | September 30, 2014 |  |            |
|---|--------------------|--|------------|
|   | U.S. Dollar        | Other Principal<br>Trading<br>Currencies | Total      |
| 6.30% \$100 million Senior Notes due June 25, 2015      | \$ 100,000         | \$—                                      | \$ 100,000 |
| 3.67% \$50 million Senior Notes due December 17, 2022   | 50,000             | —  | 50,000     |
| 4.10% \$50 million Senior Notes due September 19, 2023  | 50,000             | —  | 50,000     |
| 3.84% \$125 million Senior Notes due September 19, 2024 | 125,000            | —  | 125,000    |
| Credit agreement  | 103,937            | 36,070                                   | 140,007    |
| Other local arrangements                                | 429                | 19,596                                   | 20,025     |
| Total debt  | 429,366            | 55,666                                   | 485,032    |
| Less: current portion                                   | (100,429 )         | (19,596 )                                | (120,025 ) |
| Total long-term debt                                    | \$328,937          | \$36,070                                 | \$365,007  |

As of September 30, 2014, approximately \$655.6 million was available under our credit agreement. Changes in exchange rates between the currencies in which we generate cash flows and the currencies in which our borrowings are denominated affect our liquidity. In addition, because we borrow in a variety of currencies, our debt balances fluctuate due to changes in exchange rates.

We currently believe that cash flow from operating activities, together with liquidity available under our credit facility and local working capital facilities, will be sufficient to fund currently anticipated working capital needs and capital spending requirements for at least the foreseeable future.

In June 2014, we entered into an agreement to issue and sell \$250 million of ten-year Senior Notes in a private placement. We issued \$125 million with a fixed interest rate of 3.84% ("3.84% Senior Notes") in September 2014 and we will issue \$125 million with a fixed interest rate of 4.24% ("4.24% Senior Notes") in September 2015.

Issuance costs approximating \$0.9 million will be amortized to interest expense over the ten year term of the Senior Notes.

We continue to explore potential acquisitions. In connection with any acquisitions, we may incur additional indebtedness.

## Share Repurchase Program

We have a \$3 billion share repurchase program, of which there were \$595.9 million of remaining common shares authorized to be repurchased under the program at September 30, 2014. We expect that the authorization will be utilized over the next few years. The share repurchases are expected to be funded from cash balances, borrowings and cash generated from operating activities. Repurchases will be made through open market transactions, and the amount and timing of purchases will depend on business and market conditions, the stock price, trading restrictions, the level of acquisition activity and other factors.

We have purchased 22.6 million shares since the inception of the program through September 30, 2014. During the nine months ended September 30, 2014 and 2013, we spent \$296.5 million and \$217.4 million on the repurchase of 1,186,215 shares and 1,004,398 shares at an average price per share of \$249.91 and \$216.44, respectively. We also reissued 246,551 shares and 280,691 shares held in treasury for the exercise of stock options and restricted stock units during the nine months ended September 30, 2014 and 2013, respectively.



### Effect of Currency on Results of Operations

Our earnings are affected by changing exchange rates. We are most sensitive to changes in the exchange rates between the Swiss franc, euro, and U.S. dollar. We have more Swiss franc expenses than we do Swiss franc sales because we develop and manufacture products in Switzerland that we sell globally, and have a number of corporate functions located in Switzerland. When the Swiss franc strengthens against our other trading currencies, particularly the U.S. dollar and euro, our earnings go down. We also have significantly more sales in the euro than we do expenses. When the euro weakens against the U.S. dollar and Swiss franc, our earnings also go down.

A few factors help us manage these exchange rate risks. In September 2011, the Swiss National Bank established an exchange rate floor of 1.20 Swiss francs per euro. The floor has effectively stopped the strengthening of the Swiss franc beyond the 1.20 level. We do not know how long the Swiss National Bank will maintain this exchange rate floor. Additionally, in the third quarter of 2012, we entered into foreign currency forward contracts that reduce approximately 75% of our exposure from the Swiss franc strengthening against the euro. The forward contracts expire in October 2015. Absent these forward exchange contracts, we estimate a 1% strengthening of the Swiss franc against the euro would reduce our earnings before tax by approximately \$1.2 million annually. The impact on our earnings before tax of the Swiss franc strengthening 1% against the U.S. dollar would reduce our earnings before tax by approximately \$1.6 million annually.

We also conduct business in many geographies throughout the world, including Asia Pacific, the United Kingdom, Eastern Europe, Latin America and Canada. Fluctuations in these currency exchange rates against the U.S. dollar can also affect our operating results. The most significant of these currency exposures is the Chinese Renminbi. The impact on our earnings before tax of the Chinese Renminbi weakening 1% against the U.S. dollar is a loss of approximately \$0.7 million annually. In addition to the effects of exchange rate movements on operating profits, our debt levels can fluctuate due to changes in exchange rates, particularly between the U.S. dollar and the Swiss franc. Based on our outstanding debt at September 30, 2014, we estimate that a 10% weakening of the U.S. dollar against the currencies in which our debt is denominated would result in an increase of approximately \$6.2 million in the reported U.S. dollar value of the debt.

### Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, to ASC 606 "Revenue from Contracts with Customers." ASU 2014-09 provides authoritative guidance clarifying the principles for recognizing revenue and developing a common revenue standard for U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Additionally, the guidance requires improved disclosure to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. The guidance becomes effective for the Company for the year beginning January 1, 2017. The Company is currently evaluating the impact the adoption of this guidance will have on the consolidated results of operations, financial position and disclosures.

In January 2014, the Company adopted ASU 2013-11 "Income Taxes." The amendment provided further guidance to the balance sheet presentation of unrecognized tax benefit when a net operating loss or similar tax loss carryforwards, or a tax credit carryforward exists. The adoption of this guidance did not have a material impact to the Company's consolidated results of operations or financial position.

#### Forward-Looking Statements Disclaimer

You should not rely on forward-looking statements to predict our actual results. Our actual results or performance may be materially different than reflected in forward-looking statements because of various risks and uncertainties. You can identify forward-looking statements by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential” or “continue”.

We make forward-looking statements about future events or our future financial performance, including earnings and sales growth, earnings per share, strategic plans and contingency plans, growth opportunities or economic downturns, our ability to respond to changes in market conditions, planned research and development efforts and product introductions, adequacy of facilities, access to and the costs of raw materials, shipping and supplier costs, gross margins, customer demand, our competitive position, capital expenditures, cash flow, tax-related matters, compliance with laws, and effects of acquisitions.

Our forward-looking statements may not be accurate or complete, and we do not intend to update or revise them in light of actual results. New risks also periodically arise. Please consider the risks and factors that could cause our results to differ materially from what is described in our forward-looking statements. See in particular “Factors Affecting Our Future Operating Results” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2013 Annual Report on Form 10-K.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2014, there was no material change in the information provided under Item 7A in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

#### Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer, Principal Financial Officer and the Principal Accounting Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer, Principal Financial Officer, and Principal Accounting Officer, have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

Item 1. Legal Proceedings. None

Item 1A. Risk Factors.

For the nine months ended September 30, 2014 there were no material changes from risk factors disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

|                                 | (a)                                 | (b)                                | (c)   | (d)  |
|---------------------------------|-------------------------------------|------------------------------------|---|--|
|                                 | Total Number of<br>Shares Purchased | Average Price<br>Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Program | Approximate Dollar<br>Value (in<br>thousands) of<br>Shares that may yet<br>be Purchased under<br>the Program |
| July 1 to July 31, 2014         | 137,305                             | \$255.32                           | 137,305   | \$673,340  |
| August 1 to August 31, 2014     | 147,087                             | \$263.20                           | 147,087   | \$634,624  |
| September to September 31, 2014 | 144,449                             | \$268.06                           | 144,449   | \$595,900  |
| Total                           | 428,841                             | \$262.31                           | 428,841   | \$595,900  |

We have a share repurchase program, of which there is \$595.9 million remaining to repurchase common shares as of September 30, 2014. We have purchased 22.6 million shares since the inception of the program through September 30, 2014.

During the nine months ended September 30, 2014 and 2013, we spent \$296.5 million and \$217.4 million on the repurchase of 1,186,215 and 1,004,398 shares at an average price per share of \$249.91 and \$216.44, respectively. We also reissued 246,551 shares and 280,691 shares held in treasury for the exercise of stock options and restricted stock units for the nine months ended September 30, 2014 and 2013, respectively.

Item 3. Defaults Upon Senior Securities. None

Item 5. Other information. None

Item 6. Exhibits. See Exhibit Index below.

SIGNATURE

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.

Date: November 7, 2014

Mettler-Toledo International Inc.

By: /s/ Shawn P. Vadala

Shawn P. Vadala

Chief Financial Officer Principal

Accounting Officer

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EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
| 31.1*       | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002  |
| 31.2*       | Certification of the Executive Vice President Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002 |
| 31.3*       | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002  |
| 32*         | Certification 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  |

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\* Filed herewith