AMETEK INC/
Form DEF 14A
March 09, 2009

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to § 240.14a-12

AMETEK, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required

o $125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), 14a-6(i)(2) or Item 22(a)(2) of Schedule 14A.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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o Fee paid previously with preliminary materials

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notice of 2009
Annual Meeting
Proxy Statement
Annual Financial Information
and Review of Operations

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
Tuesday, April 21, 2009
3:00 p.m. Eastern Daylight Time
The New York Helmsley
212 East 42nd Street
Sutton Place Meeting Room
New York, NY 10017

Dear Fellow Stockholder:

On behalf of the Board of Directors, it is my pleasure to invite you to attend the 2009 Annual Meeting of Stockholders of AMETEK, Inc. At the Annual Meeting, you will be asked to:

1. Elect three Directors for a term of three years;
2. Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2009; and
3. Transact any other business properly brought before the Annual Meeting.

Only stockholders of record at the close of business on March 6, 2009 will be entitled to vote at the Annual Meeting.

Your vote is important. You can vote in one of four ways: (1) via the Internet, (2) by telephone using a toll-free number, (3) by marking, signing and dating your proxy card, and returning it promptly in the enclosed envelope, or (4) by casting your vote in person at the Annual Meeting. Directions to the New York Helmsley are located on the back cover of the Proxy Statement. Please refer to your proxy card for specific proxy voting instructions.

We have included the annual financial information relating to our business and operations in Appendix A to the Proxy Statement. We also have enclosed a Summary Annual Report.

We hope that you take advantage of the convenience and cost savings of voting by computer or by telephone. A sizable electronic response would significantly reduce return-postage fees.

Whether you expect to attend the meeting or not, we urge you to vote your shares via the Internet, by telephone or by mailing your proxy as soon as possible. Submitting your proxy now will not prevent you from voting your stock at the Annual Meeting if you want to, as your proxy is revocable at your option. We appreciate your interest in AMETEK.

Sincerely,

Frank S. Hermance
Chairman of the Board
and Chief Executive Officer

Paoli, Pennsylvania
Dated: March 13, 2009

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 21, 2009

The proxy statement and 2008 annual report of AMETEK, Inc. are available at:
http://phx.corporate-ir.net/phoenix.zhtml?c=104638&p=irol-reportsAnnual

Principal executive offices
37 North Valley Road Building 4
P.O. Box 1764
Paoli, Pennsylvania 19301-0801

PROXY STATEMENT

We are mailing this Proxy Statement and proxy card to our stockholders of record as of March 6, 2009 on or about March 13, 2009. The Board of Directors is soliciting proxies in connection with the election of Directors and other actions to be taken at the Annual Meeting of Stockholders and at any adjournment or postponement of that Meeting. The Board of Directors encourages you to read the Proxy Statement and to vote on the matters to be considered at the Annual Meeting.

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VOTING PROCEDURES

Your vote is very important. It is important that your views be represented whether or not you attend the Annual Meeting.

Who can vote? Stockholders of record as of the close of business on March 6, 2009 are entitled to vote. On that date 106,767,630 shares of our Common Stock were issued and outstanding and eligible to vote. Each share is entitled to one vote on each matter presented at the Annual Meeting.

How do I vote? You can vote your shares at the Annual Meeting if you are present in person or represented by proxy. You can designate the individuals named on the enclosed proxy card as your proxies by mailing a properly executed proxy card, via the Internet or by telephone. You may revoke your proxy at any time before the Annual Meeting by delivering written notice to the Corporate Secretary, by submitting a proxy card bearing a later date or by appearing in person and casting a ballot at the Annual Meeting.

To submit your proxy by mail, indicate your voting choices, sign and date your proxy card and return it in the postage-paid envelope provided. You may vote via the Internet or by telephone by following the instructions on your proxy card. Your Internet or telephone vote authorizes the persons named on the proxy card to vote your shares in the same manner as if you marked, signed and returned the proxy card to us.

If you hold your shares through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares.

What shares are represented by the proxy card? The proxy card represents all the shares registered in your name. If you participate in the AMETEK, Inc. Investors Choice Dividend Reinvestment & Direct Stock Purchase and Sale Plan, the card also represents any full shares held in your account. If you are an employee who owns AMETEK shares through an AMETEK employee savings plan and also hold shares in your own name, you will receive a single proxy card for the plan shares, which are attributable to the units that you hold in the plan, and the shares registered in your name. Your proxy card or proxy submitted through the Internet or by telephone will serve as voting instructions to the plan trustee.

How are shares voted? If you return a properly executed proxy card or submit voting instructions via the Internet or by telephone before voting at the Annual Meeting is closed, the individuals named as proxies on the enclosed proxy card will vote in accordance with the directions you provide. If you return a signed and dated proxy card but do not indicate how the shares are to be voted, those shares will be voted as recommended by the Board of Directors. A valid proxy card or a vote via the Internet or by telephone also authorizes the individuals named as proxies to vote your shares in their discretion on any other matters which, although not described in the Proxy Statement, are properly presented for action at the Annual Meeting.

If your shares are held by a broker, bank or other holder of record, please refer to the instructions it provides for voting your shares. If you want to vote those shares in person at the Annual Meeting, you must bring a signed proxy from the broker, bank or other holder of record giving you the right to vote the shares.

If you are an employee who owns AMETEK shares through an AMETEK employee savings plan and you do not return a proxy card or otherwise give voting instructions for the plan shares, the trustee will vote those shares in the same proportion as the shares for which the trustee receives voting instructions from other participants in that plan. Your proxy voting instructions must be received by April 16, 2009 to enable the savings plan trustee to tabulate the vote of the plan shares prior to the Annual Meeting.

How many votes are required? A majority of the shares of our outstanding Common Stock entitled to vote at the Meeting must be represented in person or by proxy in order to have a quorum present at the Annual Meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a bank, broker or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for the particular proposal and has not received instructions from the beneficial owner. If a quorum is not present, the Annual Meeting will be rescheduled for a later date.

Directors are elected by a plurality of the votes cast. This means that the three candidates for election as Directors receiving the highest number of votes will be elected to serve until the Annual Meeting in 2012. The ratification of the appointment of Ernst & Young LLP requires the affirmative vote of the holders of a majority of eligible shares present at the Annual Meeting, in person or by proxy, and voting on the matter. Abstentions and broker non-votes are not counted as votes for or against this proposal.

Who will tabulate the vote? Our transfer agent, American Stock Transfer & Trust Company, will tally the vote, which will be certified by independent inspectors of election.

Is my vote confidential? It is our policy to maintain the confidentiality of proxy cards, ballots and voting tabulations that identify individual stockholders, except where disclosure is mandated by law and in other limited circumstances.

Who is the proxy solicitor? We have retained Georgeson, Inc. to assist in the distribution of proxy materials and solicitation of votes. We will pay Georgeson, Inc. a fee of $7,500, plus reimbursement of reasonable out-of-pocket expenses.

CORPORATE GOVERNANCE

In accordance with the Delaware General Corporation Law and our Certificate of Incorporation and Bylaws, our business and affairs are managed under the direction of the Board of Directors. We provide information to the Directors about our business through, among other things, operating, financial and other reports, as well as other documents presented at meetings of the Board of Directors and Committees of the Board.

Our Board of Directors currently consists of eight members. They are Sheldon S. Gordon, Frank S. Hermance, Charles D. Klein, Steven W. Kohlhagen, James R. Malone, David P. Steinmann, Elizabeth R. Varet and Dennis K. Williams. The biographies of the continuing Directors and Director nominees appear on page 11. The Board is divided into three classes with staggered terms of three years each, so that the term of one class expires at each Annual Meeting of Stockholders. The Board has nominated the three current Class III Directors, Mr. Malone, Ms. Varet and Mr. Williams, to serve as Class III Directors until the 2012 Annual Meeting.

Corporate Governance Guidelines and Codes of Ethics. The Board of Directors has adopted Corporate Governance Guidelines that address the practices of the Board and specify criteria to assist the Board in determining Director independence. These criteria supplement the listing standards of the New York Stock Exchange and the regulations of the Securities and Exchange Commission. Our Code of Ethics and Business Conduct sets forth rules of conduct that apply to all of our Directors, officers and employees. We also have adopted a separate Code of Ethical Conduct for our Chief Executive Officer and senior financial officers. The Guidelines and Codes are available on our Web site at **www.ametek.com/investors** as well as in printed form, free of charge to any stockholder who requests them, by writing or telephoning the Investor Relations Department, AMETEK, Inc., 37 North Valley Road Building 4, P.O. Box 1764, Paoli, PA 19301-0801 (Telephone Number: 1-800-473-1286). The Board of Directors and our management do not intend to grant any waivers of the provisions of either Code. In the unlikely event a waiver for a Director or an executive officer occurs, the action will be disclosed promptly at our Web site address provided above. If the Guidelines or the Codes are amended, the revised versions also will be posted on our Web site.

Meetings of the Board. Our Board of Directors has five regularly scheduled meetings each year. Special meetings are held as necessary. In addition, management and the Directors frequently communicate informally on a variety of topics, including suggestions for Board or Committee agenda items, recent developments and other matters of interest to the Directors.

The independent Directors meet in executive session at least once a year outside of the presence of any management Directors and other members of our management. The presiding Director at the executive sessions rotates annually among the chairpersons of the Corporate Governance/Nominating Committee, the Compensation Committee and the Audit Committee. The presiding Director at the executive sessions for 2009 is Mr. Klein, the chairperson of the Compensation Committee. During executive sessions, the Directors may consider such matters as they deem appropriate. Following each executive session, the results of the deliberations and any recommendations are communicated to the full Board of Directors.

Directors are expected to attend all meetings of the Board and each Committee on which they serve and are expected to attend the Annual Meeting of Stockholders. Our Board met in person a total of four times and one time by telephone in 2008. Each of the Directors attended at least 75% of the meetings of the Board and the Committees to which the Director was assigned. Six of the eight Directors attended the 2008 Annual Meeting of Stockholders.

Independence. The Board of Directors has affirmatively determined that each of the current Non-Management Directors, Sheldon S. Gordon, Charles D. Klein, Steven W. Kohlhagen, James R. Malone, David P. Steinmann, Elizabeth R. Varet and Dennis K. Williams, has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us) and, therefore, is an independent Director within the meaning of the New York Stock Exchange rules. The Board has further determined that each member of the Audit, Compensation and Corporate Governance/Nominating Committees is independent within the meaning of the New York Stock Exchange rules. The members of the Audit Committee also satisfy Securities and Exchange Commission regulatory independence requirements for audit committee members.

The Board has established the following standards to assist it in determining Director independence: A Director will not be deemed independent if: (i) within the previous three years or currently, (a) the Director has been employed by us; (b) someone in the Director s immediate family has been employed by us as an executive officer; or (c) the Director or someone in her/his immediate family has been employed as an executive officer of another entity that concurrently has or had as a member of its compensation committee of the board of directors any of our present executive officers; (ii) (a) the director is a current partner or employee of a firm that is the Company s internal or external auditor; (b) someone in the director s immediate family is a current partner of such a firm; (c) someone in the director s immediate family is a current employee of such a firm and personally works on the Company s audit; or (d) the director or someone in the director s immediate family is a former partner or employee of such a firm and personally worked on the Company s audit within the last three years; (iii) the Director received, or someone in the Director s immediate family received, during any twelve-month period within the last three years, more than $120,000 in direct compensation from us, other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) and, in the case of an immediate family member, other than compensation for service as our employee (other than an executive officer).

The following commercial or charitable relationships will not be considered material relationships: (i) if the Director is a current employee or holder of more than ten percent of the equity of, or someone in her/his immediate family is a current executive officer or holder of more than ten percent of the equity of, another company that has made payments to, or received payments from us for property or services in an amount which, in any of the last three fiscal years of the other company, does not exceed $1 million or two percent of the other company s consolidated gross revenues, whichever is greater, or (ii) if the Director is a current executive officer of a charitable organization, and we made charitable contributions to the charitable organization in any of the charitable organization s last three fiscal years that do not exceed $1 million or two percent of the charitable organization s consolidated gross revenues, whichever is greater. For the purposes of these categorical standards, the terms immediate family member and executive officer have the meanings set forth in the New York Stock Exchange s corporate governance rules.

All independent Directors satisfied these categorical standards.

In considering the independence of the Non-Management Directors, the Board considered some relationships that it concluded did not impair the Director s independence. The Board considered that Mr. Klein, Mr. Steinmann and Ms. Varet may be deemed to have a relationship with an entity that purchases motors from us.

Communication with Non-Management Directors and Audit Committee. Stockholders and other parties who wish to communicate with the Non-Management Directors may do so by calling 1-877-263-8357 (in the United States and Canada) or 1-610-889-5271. If you prefer to communicate in writing, address your correspondence to the Corporate Secretary Department, Attention: Non-Management Directors, AMETEK, Inc., 37 North Valley Road Building 4, P.O. Box 1764, Paoli, PA 19301-0801.

You may address complaints regarding accounting, internal accounting controls or auditing matters to the Audit Committee by calling
1-866-531-3079 (Domestic English only) or 1-866-551-8006 (International Other Languages).

Committees of the Board. Our Board Committees include Audit, Compensation, Corporate Governance/Nominating, Pension Investment and Executive. The charters of the Audit, Compensation and Corporate Governance/Nominating Committees are available on our Web site at **www.ametek.com/investors** as well as in printed form, free of charge to any stockholder who requests them, by writing or telephoning the Investor Relations Department, AMETEK, Inc., 37 North Valley Road Building 4, P.O. Box 1764, Paoli, PA 19301-0801 (Telephone Number: 1-800-473-1286). Each of the Audit, Compensation and Corporate Governance/Nominating Committees conducts an annual assessment to assist it in evaluating whether, among other things, it has sufficient information, resources and time to fulfill its obligations and whether it is performing its obligations effectively. Each Committee may retain advisors to assist it in carrying out its responsibilities.

The Audit Committee has the sole authority to retain, compensate, terminate, oversee and evaluate our independent auditors. In addition, the Audit Committee is responsible for:

- review and approval in advance of all audit and lawfully permitted non-audit services performed by the independent auditors;
- review and discussion with management and the independent auditors regarding the annual audited financial statements and quarterly financial statements included in our Securities and Exchange Commission filings and quarterly sales and earnings announcements;
- oversight of our compliance with legal and regulatory requirements;
- review of the performance of our internal audit function;
- meeting separately with the independent auditors and our internal auditors as often as deemed necessary or appropriate by the Committee; and
- review of major issues regarding accounting principles, financial statement presentation and the adequacy of internal controls.

The Committee met eight times during 2008. The Board of Directors has determined that Sheldon S. Gordon is an audit committee financial expert within the meaning of the Securities and Exchange Commission s regulations. The members of the Committee are Sheldon S. Gordon Chairperson, Steven W. Kohlhagen and James R. Malone. Mr. Kohlhagen currently serves on the audit committees of boards of directors of ten related, publicly traded Merrill Lynch closed-end investment companies (all of which have identical board compositions and committee structures). After its review and consideration of Mr. Kohlhagen s simultaneous service on the audit committees of the Merrill Lynch closed-end investment companies, the Board has determined that Mr. Kohlhagen s simultaneous service on those audit committees does not impair his ability to serve effectively on our Audit Committee.

The Compensation Committee is responsible for, among other things:

- establishment and periodic review of our compensation philosophy and the adequacy of the compensation plans for our officers and other employees;
- establishment of compensation arrangements and incentive goals for officers and administration of compensation plans;
- review of the performance of officers, award of incentive compensation and adjustment of compensation arrangements as appropriate based on performance;
- review and monitoring of management development and succession plans; and
- periodic review of the compensation of non-employee Directors.

The Committee met six times during 2008. The members of the Committee are Charles D. Klein Chairperson, James R. Malone and Elizabeth R. Varet. In carrying out its duties, the Compensation Committee makes compensation decisions for approximately 40 officers, including all executive officers. The Compensation Committee charter does not provide for delegation of the Committee s duties and responsibilities. The charter provides that, in setting compensation for the Chief Executive Officer, the Committee will review and evaluate the Chief Executive Officer s performance and leadership, taking into account the views of other members of the Board. The charter further provides that, with the participation of the Chief Executive Officer, the Committee evaluates the performance of other officers and determines compensation for these officers. In this regard, Compensation Committee meetings are regularly attended by the Chief Executive Officer. The Chief Executive Officer does not participate in the determination of his compensation. The Compensation Committee has authority under the charter to retain and set compensation for compensation consultants and other advisors.

Towers Perrin is engaged by our management to serve as our compensation consultant. We ask Towers Perrin to provide comparative data regarding compensation levels for seasoned managers who have job functions and responsibilities that are similar to those of our senior managers. Specifically, we ask Towers Perrin to compare our senior managers compensation to the 50th percentile of compensation for similarly positioned senior managers in a general industry group (consisting of over 350 companies that have chosen to participate in a Towers Perrin survey). Based on this data, our human resources department develops summaries for the Compensation Committee, indicating competitive compensation levels for our senior managers that would correspond to the 50th percentile, thereby assisting the Compensation Committee in its evaluation of our most senior managers compensation. See Compensation Discussion and Analysis 2008 Compensation Determination of Competitive Compensation for further information. In addition, Towers Perrin provides companywide benefits consulting.

The Corporate Governance/Nominating Committee is responsible for, among other things:

- selection of nominees for election as Directors, subject to ratification by the Board;
- recommendation of a Director to serve as Chairperson of the Board;
- recommendation to the Board of the responsibilities of Board Committees and each Committee s membership;
- oversight of the annual evaluation of the Board and the Audit and Compensation Committees; and
- review and assessment of the adequacy of our Corporate Governance Guidelines.

The Committee met four times during 2008. The members of the Committee are James R. Malone Chairperson, Charles D. Klein, David P. Steinmann and Dennis K. Williams.

The Pension Investment Committee reviews the administration of our retirement plans, including compliance, investment manager and trustee performance, and the results of independent audits of the plans. The Committee met five times during 2008. The members of the Committee are Steven W. Kohlhagen Chairperson, Sheldon S. Gordon and David P. Steinmann.

The Executive Committee has limited powers to act on behalf of the Board whenever the Board is not in session. The Committee met two times during 2008. The members of the Committee are Frank S. Hermance Chairperson, Charles D. Klein, Elizabeth R. Varet and Dennis K. Williams.

Consideration of Director Candidates. The Corporate Governance/Nominating Committee considers candidates for Board membership. The charter of the Corporate Governance/Nominating Committee requires that the Committee consider and recommend to the Board the appropriate size, function and composition of the Board, so that the Board as a whole collectively possesses a broad range of skills, industry and other knowledge, and business and other experience useful for the effective oversight of our business. The Board also seeks members from diverse backgrounds who have a reputation for integrity. In addition, Directors should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated, and be selected based upon contributions that they can make to the Company. The Committee considers all of these qualities when nominating candidates for Director.

Stockholders can recommend qualified candidates for Director by writing to the Corporate Secretary, AMETEK, Inc., 37 North Valley Road Building 4, P.O. Box 1764, Paoli, PA 19301-0801. Stockholder submissions must include the following information: (1) the name of the candidate and the information about the individual that would be required to be included in a proxy statement under the rules of the Securities and Exchange Commission; (2) information about the relationship between the candidate and the recommending shareholder; (3) the consent of the candidate to serve as a Director; and (4) proof of the number of shares of our Common Stock that the recommending stockholder owns and the length of time that the shares have been owned. To enable consideration of a candidate in connection with the 2010 Annual Meeting, a stockholder must submit materials relating to the recommended candidate no later than November 13, 2009. In considering any candidate proposed by a stockholder, the Corporate Governance/Nominating Committee will reach a conclusion based on the criteria described above in the same manner as for other candidates. The Corporate Governance/Nominating Committee also may seek additional information regarding the candidate. After full consideration by the Corporate Governance/Nominating Committee, the stockholder proponent will be notified of the decision of the Committee.

Director Compensation. Standard compensation arrangements for Directors in 2008 are described below.

- Fees Non-employee Directors received an annual fee of $45,000, except for the Chairmen of the Compensation, Corporate Governance/Nominating and Pension Investment Committees, who received an annual fee of $50,000, and the Chairman of the Audit Committee, who received an annual fee of $65,000. In addition, non-employee Directors received $3,750 for each of the four in person meetings of the Board of Directors they attended. There were no additional fees for attendance at the Board meeting held by telephone or Committee meetings.

- Restricted Stock On April 23, 2008, under our 2002 Stock Incentive Plan, each non-employee Director received a restricted stock award of 1,000 shares of our Common Stock. These restricted shares vest on the earliest to occur of:

  - the closing price of our Common Stock on any five consecutive trading days equaling or exceeding $97.20,

  - the death or disability of the Director,

  - the Director s termination of service as a member of AMETEK s Board of Directors in connection with a change of control,

the fourth anniversary of the date of grant, namely April 23, 2012, provided the Director has served continuously through that date, or

the Director s retirement from service as a member of the Board of Directors at or after age 55 and the completion of at least 10 years of service with us, in which case only a pro rata portion of the shares becomes non-forfeitable and transferable, based upon the time that has elapsed since the date of grant.

Options On April 23, 2008, under our 2002 Stock Incentive Plan, each non-employee Director received an option to purchase 3,630 shares of our Common Stock, at an exercise price equal to the closing price of AMETEK s Common Stock, as reported on the New York Stock Exchange consolidated tape on that date. Stock options become exercisable as to the underlying shares in four equal annual installments beginning one year after the date of grant.

The following table provides information regarding Director compensation in 2008, which reflects the standard compensation described above and certain other payments. The table does not include compensation for reimbursement of travel expenses related to attending Board, Committee and AMETEK business meetings, and approved educational seminars. In addition, the table does not address compensation for Mr. Hermance, which is addressed under Executive Compensation beginning on page 13. Mr. Hermance does not receive additional compensation for serving as a Director.

DIRECTOR COMPENSATION 2008

Name	*Fees Earned or Paid in Cash*	*Stock Awards (1)*	*Option Awards (2)*	*Non-Equity Incentive Plan Compensation*	*Change in Pension Value and Nonqualified Deferred Compensation Earnings*	*All Other Compensation*	*Total*
Sheldon S. Gordon	$80,000	$41,852	$34,775		$127,400		$284,027
Charles D. Klein	65,000	41,852	34,775		138,600		280,227
Steven W. Kohlhagen	65,000	29,327	24,826				119,153
James R. Malone	65,000	41,852	34,775		148,600		290,227
David P. Steinmann	60,000	41,852	34,775		156,600		293,227
Elizabeth R. Varet	60,000	41,852	34,775		153,000		289,627
Dennis K. Williams	60,000	29,327	27,298				116,625

(1) The amounts shown for stock awards relate to restricted shares granted under our 2002 Stock Incentive Plan. These amounts are equal to the dollar amounts recognized in 2008 with respect to the

Directors stock awards for financial reporting purposes, in accordance with Statement of Financial Accounting Standards No. 123(R), which we refer to below as SFAS 123(R), but without giving effect to estimated forfeitures. The grant date fair value of stock awards granted to each Director in 2008, computed in accordance with SFAS 123(R), was $48,600. The assumptions used in determining the amounts in this column are set forth in note 9 to our consolidated financial statements on page 41 of Appendix A to this proxy statement. At December 31, 2008, Messrs. Gordon, Klein, Kohlhagen, Malone, Steinmann and Williams and Ms. Varet each held 3,430 restricted shares.

On May 16, 2008, the price-related event for accelerated vesting of the restricted stock granted on April 27, 2005 occurred. The total value realized on vesting is equal to (1) the closing price per share of our Common Stock on May 16, 2008 ($52.98) multiplied by the number of shares acquired on vesting, minus the par value per share paid by the Director, (2) the dividends accrued since the date of award, and (3) the interest accrued on these dividends.

(2) The amounts shown for option awards relate to stock options granted under our 2002 Stock Incentive Plan. These amounts are equal to the dollar amounts recognized in 2008 with respect to the Directors option awards for financial reporting purposes, computed in accordance with SFAS 123(R), but without giving effect to estimated forfeitures. The assumptions used in determining the amounts in this column are set forth in note 9 to our consolidated financial statements on page 41 of Appendix A to this proxy statement. The grant date fair value of option awards granted to each Director in 2008, computed in accordance with SFAS 123(R), was $34,775. At December 31, 2008, Messrs. Gordon, Klein and Malone and Ms. Varet each held options to purchase 20,665 shares of our Common Stock, Mr. Steinmann held

options to purchase 13,803 shares of our Common Stock and Messrs. Kohlhagen and Williams each held options to purchase 11,515 shares of our Common Stock.

Directors who first became members of the Board of Directors prior to January 1, 1997 participate in a retirement plan for Directors. Under this plan, each non-employee Director who has provided at least three years of service to us as a Director receives an annual retirement benefit equal to 100% of that Director s highest annual rate of cash compensation during the Director s service with the Board. Mr. Steinmann and Ms. Varet have accrued an annual retirement benefit of $60,000. Messrs. Klein and Malone have accrued an annual retirement benefit of $65,000. Mr. Gordon has accrued an annual retirement benefit of $80,000.

Directors who first became members of the Board of Directors prior to July 22, 2004 participate in our Death Benefit Program for Directors. Messrs. Gordon, Klein, Malone and Steinmann and Ms. Varet participate in this program. Under this program, each non-employee Director has an individual agreement that pays the Director (or the Director s beneficiary in the event of the Director s death) an annual amount equal to 100% of that Director s highest annual rate of cash compensation during the Director s service with the Board. The payments are made for 10 years beginning at the earlier of (a) the Director s being retired and having attained age 70 or (b) the Director s death. The program is funded by individual life insurance policies that we purchased on the lives of the Directors. In addition, non-employee Directors who first became members of the Board of Directors prior to July 27, 2005 have a group term life insurance benefit of $50,000. We retain the right to terminate any of the individual agreements under certain circumstances.

Mandatory Retirement. The retirement policy for our Board of Directors prohibits a Director from standing for re-election following his or her 75th birthday.

Certain Relationships and Related Transactions. Mr. Hermance s son is employed by us in a non-executive officer capacity as a Divisional Vice President and received total compensation, as such amount is calculated for the named executive officers in the Summary Compensation Table on page 21, of approximately $250,000 in 2008.

Under our written Related Party Transactions Policy, transactions that would require disclosure under SEC regulations must be approved in advance by the Audit Committee. Applicable SEC regulations generally require disclosure of all transactions since the beginning of a corporation s last fiscal year, or any currently proposed transaction, exceeding $120,000 in which the corporation or any of its subsidiaries is participating and in which any of the following related persons had, or will have, a direct or indirect material interest: (1) any of the corporation s directors, director nominees, or executive officers, (2) any beneficial owner of more than 5% of the corporation s common stock and (3) any member of the immediate family of any of the foregoing persons. The term immediate family includes a person s spouse, parents, stepparents, children, stepchildren, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, and any person (other than a tenant or employee) sharing the same household as the person.

Prior to entering into a transaction covered by the policy, the person proposing to enter into the transaction must provide a notice to our Vice President Corporate Compliance and Auditing, who must promptly forward the notice to the Chairman of the Audit Committee. Following such inquiry as the Audit Committee deems appropriate, the transaction is permissible if the Audit Committee finds that, notwithstanding the involvement of a related person, there is an appropriate business reason to approve the transaction.

The transaction described above was ratified by the Audit Committee under the policy.

ADVANCE NOTICE PROCEDURES

In accordance with our By-Laws, stockholders must give us notice relating to nominations for Director or proposed business to be considered at our 2010 Annual Meeting of Stockholders no earlier than January 20, 2010 nor later than February 19, 2010. These requirements do not affect the deadline for submitting stockholder proposals for inclusion in the proxy statement or for recommending candidates for consideration by the Corporate Governance/Nominating Committee, nor do they apply to questions a stockholder may wish to ask at the Annual Meeting. Stockholders may request a copy of the By-Law provisions discussed above from the Corporate Secretary, AMETEK, Inc., 37 North Valley Road Building 4, P.O. Box 1764, Paoli, PA 19301-0801.

STOCKHOLDER PROPOSALS FOR THE 2010 PROXY STATEMENT

To be considered for inclusion in the proxy statement for the 2010 Annual Meeting of Stockholders, stockholder proposals must be received at our executive offices no later than November 13, 2009.

REPORT OF THE AUDIT COMMITTEE

The responsibilities of the Audit Committee are set forth in its charter, which is accessible on AMETEK s Web site at **www.ametek.com/investors.** Among other things, the charter charges the Committee with the responsibility for reviewing AMETEK s audited financial statements and the financial reporting process. In fulfilling its oversight responsibilities, the Committee reviewed with management and Ernst & Young LLP, AMETEK s independent registered public accounting firm, the audited financial statements contained in AMETEK s 2008 Annual Report on Form 10-K and included in Appendix A to this Proxy Statement. The Committee discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended.

In addition, the Committee received the written disclosures and letter from Ernst & Young LLP required by the Public Company Accounting Oversight Board Rule 3526, *Communication with Audit Committees Concerning Independence*, and has discussed with Ernst & Young LLP its independence.

The Committee discussed with AMETEK s internal auditors and Ernst & Young LLP the overall scope and plans for their respective audits. The Committee met with the internal auditors and Ernst & Young LLP, with and without management present, to discuss the results of their examinations, their evaluations of AMETEK s disclosure control process and internal control over financial reporting, and the overall quality of AMETEK s financial reporting. The Committee held eight meetings during the fiscal year ended December 31, 2008, which included telephone meetings prior to quarterly earnings announcements.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board approved, the inclusion of the audited financial statements in AMETEK s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, for filing with the Securities and Exchange Commission.

Respectfully submitted,

The Audit Committee:

Sheldon S. Gordon, Chairperson

Steven W. Kohlhagen

James R. Malone

Dated: March 13, 2009

ELECTION OF DIRECTORS
(Proposal 1 on Proxy Card)

The nominees for election at this year s Annual Meeting are James R. Malone, Elizabeth R. Varet and Dennis K. Williams. Messrs. Malone and Williams and Ms. Varet have been nominated to serve as Class III Directors and, if elected, will serve until the Annual Meeting in 2012.

All proxies received will be voted for the election of the nominees unless the stockholder submitting the proxy gives other instructions. Nominees will be elected by holders of a plurality of shares represented either in person or by proxy at the Annual Meeting and entitled to vote. If any nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such other person as the Board may nominate, unless the Board determines to reduce the number of Directors.

The Directors biographies are set forth on page 11.

Your Board of Directors Recommends a Vote FOR Each of the Nominees.

RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Proposal 2 on Proxy Card)

The Audit Committee has appointed the firm of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009. Ernst & Young LLP and its predecessor has served continuously as our independent auditors since our incorporation in 1930. Although action by stockholders on this matter is not required, the Audit Committee believes that it is appropriate to seek stockholder ratification of this appointment, and the Audit Committee may reconsider the appointment if the stockholders do not ratify it.

Fees billed to us by Ernst & Young LLP for services rendered in 2008 and 2007 totaled $4,887,000 and $4,562,000 respectively, and consisted of the following:

	2008	2007
Audit fees	$ 4,764,000	$ 4,451,000
Audit-related fees	62,000	80,000
Tax fees	59,000	24,000
All other fees	2,000	7,000
Total	$ 4,887,000	$ 4,562,000

Audit fees includes amounts for statutory audits and attestation services related to our internal control over financial reporting for compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

The amounts shown for Audit-related fees include fees for audits of employee benefit plans.

The amounts shown for Tax fees relate to federal and state tax advice, acquisition tax planning, assistance with international tax compliance and international tax consulting.

The amounts shown for All other fees primarily relate to online accounting research subscriptions.

The affirmative vote of the holders of a majority of eligible shares present at the Annual Meeting, in person or by proxy, and voting on the matter is required to ratify the appointment of Ernst & Young LLP.

Representatives of Ernst & Young LLP will be present at the Annual Meeting. They will have an opportunity to make a statement if they desire and will be available to respond to appropriate questions.

Your Board of Directors Recommends a Vote FOR Ratification.

THE BOARD OF DIRECTORS

Unless we indicate otherwise, each Director has maintained the principal occupation described below for more than five years.

Class III: Nominees for election at this Annual Meeting for terms expiring in 2012:

JAMES R. MALONE Director since 1994	Founder and Managing Partner of Qorval LLC. President and Chief Executive Officer (from June 2005 to September 2005) and Chairman (from August 2005 to September 2005) of Cenveo, Inc. A Director of Regions Financial Corporation. Age 66.
ELIZABETH R. VARET Director since 1987	A Managing Director of American Securities Management L.P. and chairman of the corporate general partner of several affiliated entities. Age 65.
DENNIS K. WILLIAMS Director since 2006	Retired. President and Chief Executive Officer (from May 2000 to March 2005) and Chairman of the Board (from May 2000 to April 2006) of IDEX Corporation. A Director of Owens-Illinois, Inc. and Actuant Corporation. Age 63.

Class I: Directors whose terms continue until 2010:

CHARLES D. KLEIN Director since 1980	A Managing Director of American Securities Capital Partners, LLC and an executive officer of several affiliated entities. Age 70.
STEVEN W. KOHLHAGEN Director since 2006	Retired financial executive. A Director of the IQ Investment Advisors family of Merrill Lynch funds. Age 61.

Class II: Directors whose terms continue until 2011:

SHELDON S. GORDON Director since 1989	Chairman of Union Bancaire Privée International Holdings, Inc. and affiliated entities. A Director of Union Bancaire Privée and Gulfmark Offshore, Inc. Age 73.
FRANK S. HERMANCE Director since 1999	Chairman of the Board and Chief Executive Officer of AMETEK. A Director of IDEX Corporation. Age 60.
DAVID P. STEINMANN Director since 1993	A Managing Director of American Securities Management L.P. and an executive officer of several affiliated entities. Age 67.

EXECUTIVE OFFICERS

Officers are appointed by the Board of Directors to serve for the ensuing year and until their successors have been elected and qualified. Information about our executive officers as of March 6, 2009 is shown below:

Name	Age	Present Position with AMETEK
Frank S. Hermance	60	Chairman of the Board and Chief Executive Officer
John J. Molinelli	62	Executive Vice President Chief Financial Officer
Timothy N. Jones	52	President Electromechanical Group
John W. Hardin	44	President Electronic Instruments
David A. Zapico	44	President Electronic Instruments
Robert R. Mandos, Jr.	50	Senior Vice President and Comptroller

Frank S. Hermance s employment history with us and the other directorship that he currently holds are described under the section The Board of Directors on page 11. Mr. Hermance has 18 years of service with us.

John J. Molinelli was elected Executive Vice President Chief Financial Officer effective April 22, 1998. Mr. Molinelli has 40 years of service with us.

Timothy N. Jones was elected President Electromechanical Group effective February 1, 2006. Previously he served as Vice President and General Manager of our Process and Analytical Instruments Division from October 1999 to January 2006. Mr. Jones has 29 years of service with us.

John W. Hardin was elected President Electronic Instruments effective July 23, 2008. Previously he served as Senior Vice President and General Manager of the Aerospace and Defense Division from October 2004 to July 2008. He served as Vice President and General Manager of the Aerospace and Defense Division from October 2003 to October 2004. Mr. Hardin has 10 years of service with us. Mr. Hardin succeeded Robert W. Chlebek who retired on December 31, 2008.

David A. Zapico was elected President Electronic Instruments effective October 1, 2003. Previously he served as Vice President and General Manager of our Aerospace and Defense Division from July 1999 to October 2003. Mr. Zapico has 19 years of service with us.

Robert R. Mandos, Jr. was elected Senior Vice President effective October 1, 2004. Previously he served as Vice President from April 1998 until September 2004. He has served as our Comptroller since April 1996. Mr. Mandos has 27 years of service with us.

EXECUTIVE COMPENSATION
COMPENSATION DISCUSSION AND ANALYSIS

Introduction

In this Compensation Discussion and Analysis, we address the compensation paid or awarded to our executive officers listed in the Summary Compensation Table that immediately follows this discussion. We refer to these executive officers as our named executive officers.

2008 Compensation

Compensation Objectives

The compensation paid or awarded to our named executive officers for 2008 was designed to meet the following objectives:

- Provide compensation that is competitive with compensation for other companies executive officers who provide comparable services, taking into account the size of our company or operating group, as applicable. We refer to this objective as competitive compensation.

- Create a compensation structure under which a meaningful portion of total compensation is based on achievement of performance goals. We refer to this objective as performance incentives.

- Encourage the aggregation and maintenance of meaningful equity ownership, and alignment of executive and stockholder interests. We refer to this objective as stakeholder incentives.

- Provide an incentive for long-term continued employment with us. We refer to this objective as retention incentives.

We fashioned various components of our 2008 compensation payments and awards to meet these objectives as follows:

Type of Compensation	Objectives Addressed
Salary	Competitive Compensation
Short-Term Incentive Awards, Restricted Stock Awards and Stock Option Grants	Competitive Compensation, Performance Incentives, Stakeholder Incentives and Retention Incentives

Determination of Competitive Compensation

In assessing competitive compensation, we referenced data provided to us by our independent compensation consultant, Towers Perrin. We use the 50th percentile of the Towers Perrin general industry group (a collection of over 350 companies who have chosen to participate in the Towers Perrin survey) as a reference point. Our approach provides us reference information, allowing us to compete effectively in the marketplace for top talent, while providing us the flexibility to respond to our changing business conditions and the performance of each individual.

We used the following process to determine a reference point for the compensation for each named executive officer in 2008:

- We provided to the compensation consultant a detailed description of the responsibilities for each named executive officer.

- The compensation consultant employed its standard methodology to provide reference compensation levels for comparable executives. Comparable executives are seasoned executives having similar responsibilities. The competitive compensation information was based on general industry data derived principally from the compensation consultant s executive compensation database. The data was size-adjusted to reflect the estimated revenues of our company and the relevant operating groups. The compensation consultant advised us that it used general industry data rather than data relating only to electronics and electronic component companies because

general industry data provides a much larger sampling of companies.

In considering the data provided by the compensation consultant, we believe that compensation is competitive if it is within a range of 20 percent above or 20 percent below the compensation reference points at the 50th percentile for comparable executives. We believe that variations within or outside this range typically occur due to differences in experience, responsibilities and performance.

Salaries

The salary amounts set forth in the Summary Compensation Table for 2008 reflect salary decisions made by the Compensation Committee of our Board of Directors in 2007 and 2008. Salary adjustments for Messrs. Hermance, Chlebek and Jones were effective on January 1, so that salary determinations made in 2007 affected their salaries for all of 2008. Salary adjustments for Messrs. Molinelli, Zapico and Hardin were effective on July 1, so that Compensation Committee determinations in 2007 and 2008 affected their salaries for the annual periods beginning on July 1, 2007 and July 1, 2008, respectively.

As a result of the salary adjustments approved in 2008, all named executive officers salaries were within the competitive compensation guideline of 20 percent above or below salaries for comparable executives at the 50th percentile. The process utilized in 2007 to establish salaries for the named executive officers was similar to the process used in 2008, but was based on earlier data prepared by the compensation consultant.

Short-Term Incentive Program

The principal objective of our short-term incentive program is to provide a performance incentive. We set performance targets such that total cash compensation will be within 20 percent above or below the total cash compensation guideline at the 50th percentile for comparable executives. However, larger variations, both positive and negative, may result based on actual performance.

Under our short-term incentive program, we selected performance measures that, in some instances, differed among the named executive officers. These differences reflect the differing responsibilities of the executives. We also established targets for each performance measure.

The target goal for each non-discretionary measure in 2008 was derived from our 2008 budget. Consistent with past practice, the Compensation Committee can make adjustments on a case-by-case basis, such as for EPS and group operating income, as described below.

Diluted earnings per share (EPS) We believe that the paramount objective of a principal executive officer is to increase stockholder return significantly, and that for a large, well established industrial corporation, EPS is typically a key metric affecting share price. Therefore, we believe EPS is an excellent measure of our executive officers performance. EPS results were adjusted to exclude the accelerated vesting that occurred in May of this year and the restructuring charge taken in the fourth quarter.

Internal sales growth This measure is applied either on a companywide basis, or, for our group presidents, with regard to their respective operating groups. We define internal sales growth as the year-to-year increase in revenues without giving effect to (i) increases in revenues from businesses that we have acquired but that have not had four full quarters of operations subsequent to the acquisition and (ii) foreign currency adjustments. We utilize the measure because we believe that we achieve a greater economic return from internal growth than through acquisitions.

Group operating income This measure applies to our group presidents with regard to their respective operating groups, and reflects adjustments deemed appropriate by the Compensation Committee. We believe this measure is a reliable indicator of operating group performance. Results were adjusted to exclude the restructuring charge that was taken in the fourth quarter. Other adjustments to operating unit income in 2008 were the elimination of specified expenditures for research and development and expenditures for projects to reduce our ongoing operating costs, and the inclusion of specified financing costs related to acquisitions. We eliminated research and development expenditures in connection with a project to support high-potential new development projects. These expenditures were not initially in the operating unit budgets, and we did not want to penalize the operating unit for pursuing what we believe to be an important company initiative. We eliminated expenditures for projects to reduce our ongoing operating costs because the expenditures were not in the operating unit budgets and we wanted to encourage support for these programs. We reduced operating unit income by the estimated amount of

interest

cost we incur on funds borrowed to finance an acquisition where the results of operations of the acquired business are included in the unit s operating results. We believe that reducing the operating unit income derived from an acquired business by these interest costs better reflects the contribution of the acquisition to the operating unit s performance.

Group operating working capital This measure represents inventory plus accounts receivable less accounts payable as a percentage of sales. We use this measure to encourage our group presidents to manage our working capital in a manner that increases cash available for investment. A lower working capital percentage is an indicator of a group president s success in increasing our cash resources.

Discretionary A small portion of each executive s award is based on discretionary factors that are deemed appropriate by the Compensation Committee. In the case of the group presidents, these factors take into account acquisition activity of their respective operating groups.

The weighting of performance measures for each named executive officer is set forth in the table below. The target award is payable upon achievement of 100 percent of a designated goal. Payment amounts increase from 0 percent to 200 percent of the target award in proportion to the increase from 80 percent to 120 percent of the goal with regard to each measure other than group internal growth and group operating working capital. Payment amounts with respect to those measures increase from 80 percent to 120 percent of the target award in proportion to the increase from 97 percent to 103 percent of the group internal growth goal and from 90 percent to 110 percent of the group operating working capital goal. The discretionary portions of the award opportunities are not subject to any specified formula.

Name	Performance Measure	Designated Goal	Actual Results	Performance Measure as a Percentage of Total Target Award Opportunity	Actual Award	Actual Award as Percentage of Target Award Opportunity for the Performance Measure
Frank S. Hermance	Diluted Earnings Per Share	$ 2.42	$ 2.60	80%	$878,016	137%
	Discretionary	100%	200%	20%	$320,984	200%
John J. Molinelli	Diluted Earnings Per Share	$ 2.42	$ 2.60	70%	$255,928	137%
	Internal Sales Growth	$2,424,592,000	$2,364,869,463	10%	$ 4,769	18%
	Discretionary	100%	200%	20%	$107,303	200%
Robert W. Chlebek	Diluted Earnings Per Share	$ 2.42	$ 2.60	35%	$102,995	137%
	Group Internal Sales Growth	$ 756,696,000	$ 743,164,816	10%	$ 8,664	40%
	Group Operating Income	$ 192,773,000	$ 202,579,713	35%	$ 94,171	125%
	Group Working Capital	25.60%	26.50%	10%	$ 13,909	65%
	Discretionary	100%	200%	10%	$ 43,261	200%
David A. Zapico		$ 2.42	$ 2.60	35%	$109,238	137%

	Diluted Earnings Per Share					
	Group Internal Sales Growth	$ 888,968,000	$ 880,340,384	10%	$ 15,390	68%
	Group Operating Income	$ 186,826,000	$ 205,564,846	35%	$119,557	150%
	Group Working Capital	19.30%	20.00%	10%	$ 14,499	64%
	Discretionary	100%	187.60%	10%	$ 43,316	188%
Timothy N. Jones	Diluted Earnings Per Share	$ 2.42	$ 2.60	35%	$ 93,632	137%
	Group Internal Sales Growth	$ 778,927,000	$ 742,651,858	10%		0%
	Group Operating Income	$ 128,523,000	$ 117,664,293	35%	$ 39,596	58%
	Group Working Capital	21.90%	23.40%	10%	$ 6,144	32%
	Discretionary	100%	200%	10%	$ 39,628	200%
John W. Hardin	Diluted Earnings Per Share	$ 2.42	$ 2.60	28.9%	$ 65,492	137%
	Group Internal Sales Growth	$ 756,696,000	$ 743,164,816	6%	$ 3,960	40%
	Group Operating Income	$ 192,773,000	$ 202,579,713	20.9%	$ 43,039	125%
	Group Working Capital	25.60%	26.50%	6%	$ 6,357	65%
	Division Internal Sales Growth	$ 501,767,000	$ 496,977,360	4%	$ 4,577	68%
	Division Operating Income	$ 146,962,000	$ 146,504,125	16.2%	$ 26,434	98%
	Division Working Capital	26.50%	28.80%	4%	$ 887	13%
	Discretionary	100%	200%	14%	$ 47,454	200%

As a result of our actual outcomes with respect to the performance measures and the Committee s determinations with respect to the discretionary component, the award payments and the percentage of the aggregate target award represented by the award payments are as follows: Mr. Hermance, $1,199,000 (150%); Mr. Molinelli, $368,000 (138%); Mr. Chlebek, $263,000 (122%); Mr. Zapico, $302,000 (132%); Mr. Jones, $179,000 (91%) and

Mr. Hardin, $198,200 (119%). In accordance with SEC regulations, the award payments are reflected in two separate columns of the Summary Compensation Table. The discretionary awards for the named executive officers appear in the Bonus column. The other awards are reflected in the Non-Equity Incentive Plan Compensation column.
The actual total cash compensation for the named executive officers, as a percentage of the dollar amount of total cash compensation at the 50th percentile reference point for comparable executives, ranged from 90% to 120%.
In providing a discretionary award to Mr. Hermance, the Compensation Committee considered our success with respect to our four growth strategies:

Operational Excellence Our operating income margin increased to 18.7 percent in 2008 from 18.1 percent in 2007, excluding the impact of the restructuring charge taken in the fourth quarter of 2008.

Global and market expansion We increased international sales by 16 percent in 2008 as compared to 2007.

Strategic acquisitions We completed seven acquisitions in 2008 that added approximately $290 million in annualized revenue.

New products We introduced a number of new products that contributed to our revenue and profitability.

In addition, the Compensation Committee recognized Mr. Hermance s role in the upgrading of our leadership talent. In the case of Mr. Molinelli, the Compensation Committee considered the same factors as those considered for Mr. Hermance, as well as improvement in our accounts receivable. The group presidents discretionary awards reflected the Committee s assessment of acquisition activities for their respective operating groups.

Equity-Based Compensation

Our equity-based compensation in 2008 included awards of stock options and restricted stock. We used data provided by the compensation consultant in 2008 to establish target levels of equity-based compensation. These levels were based on a Black-Scholes model, with regard to long-term incentives at the 50th percentile for comparable executives, taking into account the scope of the named executive s responsibilities. In considering the data provided by the compensation consultant, we believe that an equity-based award is competitive if it is within 20 percent above or below the 50th percentile for comparable executives.
The Compensation Committee has the discretion to modify the actual award for each named executive from the target levels. In exercising its discretion, the Compensation Committee considered each executive s contribution to the success of the four growth strategies described above and the upgrading of our leadership talent in 2007. In April 2008, the Compensation Committee made awards to the named executive officers that were within the range of 20 percent above or below the targets described above, except for the award to Mr. Zapico. The Compensation Committee increased Mr. Zapico s award to 22% above the target in recognition of the outstanding performance in 2007 of the businesses under his supervision, including the businesses excellent performance with respect to our four growth strategies.
We granted 50 percent of the long-term incentive award in the form of stock options, and 50 percent in the form of restricted stock. To determine the award size, we applied a Black-Scholes methodology. As a result, we awarded options and restricted stock to the named executive officers as set forth in the Grants of Plan-Based Awards table on page 23 under the column headings, All Other Option Awards: Number of Securities Underlying Options and All Other Stock Awards: Number of Shares of Stock or Units respectively.
The dollar amounts shown in the Summary Compensation Table under Option Awards and Stock Awards generally reflect the dollar amounts recognized for financial statement purposes in accordance with SFAS 123(R). Therefore, it includes amounts with respect to only a portion of the options and restricted stock granted in 2008, while also including amounts from earlier grants. See the footnotes to the Summary Compensation Table for further information.

Our options generally vest in equal annual increments on the first four anniversaries of the date of grant. We believe that these vesting terms provide to our executives a meaningful incentive for continued employment. For additional information regarding stock option terms, see the narrative accompanying the Grants of Plan-Based Awards table.
We believe that the vesting provisions of our restricted stock also serve as an incentive for continued employment. However, to encourage performance that ultimately enhances stockholder value, we provide for immediate vesting of a restricted stock award if the closing price of our Common Stock during any five consecutive trading days reaches 200 percent of the price of our Common Stock on the date of grant.

Stock-Based Award Grant Practices

In October 2006, we adopted practices for the grant of stock-based awards. Among other things, these practices encompass the following principles:

- The majority of stock-based awards are approved annually by the Compensation Committee on a pre-scheduled date, which occurs in close proximity to the date of our Annual Meeting of Stockholders.

- The annual stock-based awards will not be made when the Compensation Committee is aware that executive officers or non-employee Directors are in possession of material, non-public information, or during quarterly or other specified blackout periods.

- While stock-based awards other than annual awards may be granted to address, among other things, the recruiting or hiring of new employees and promotions, such awards will not be made to executive officers if the Committee is aware that the executive officers are in possession of material, non-public information, or during quarterly or other specified blackout periods.

- The Compensation Committee has established that stock options are granted only on the date the Compensation Committee approves the grant and with an exercise price equal to the fair market value on the date of grant.

- Backdating of stock options is prohibited.

Stock Ownership Guidelines

We believe that by encouraging our executives to maintain a meaningful equity interest in our company, we will align the interests of our executives with those of our stockholders. Mr. Hermance is required to hold a multiple of five times his base salary in our stock. The multiple for Messrs. Molinelli, Chlebek, Zapico, Jones and Hardin is three times base salary. Under our guidelines, an executive is expected to reach his or her stock ownership requirement within five years of being promoted to his or her position. As of December 31, 2008, each of our named executive officers, with the exception of Mr. Hardin, met his stock ownership guideline. Mr. Hardin s stock ownership guideline increased when he was promoted, and he is on track to meet his stock ownership requirement within the required timeframe.

Ongoing and Post-employment Agreements

We have several plans and agreements addressing compensation for our named executive officers that accrue value as the executive continues to work for us, provide special benefits upon certain types of termination events and provide retirement benefits. These plans and agreements were adopted and, in some cases, amended at various times over the past 25 years, and were designed to be a part of a competitive compensation package. Not all plans apply to each named executive officer, and the participants are indicated in the discussion below.

The Employees Retirement Plan This plan is a tax-qualified defined benefit plan available to all U.S.-based salaried employees who commenced employment with us prior to January 1, 1997. The plan pays annual benefits based on final average plan compensation and years of credited service. The amount of compensation that can be taken into account is subject to limits imposed by the Internal Revenue Code ($230,000 in 2008), and the maximum annual benefits payable under the plan also are subject to Internal Revenue Code limits ($185,000 in 2008). Messrs. Hermance, Molinelli, Zapico and Jones participate in The Employees Retirement Plan. See the Pension Benefits table and accompanying narrative for additional information.

The Retirement and Savings Plan This is a tax-qualified defined contribution plan under which our participating employees may contribute a percentage of specified compensation on a pretax basis. In the case of highly compensated employees, including the named executive officers, contributions of up to ten percent of eligible compensation can be made, subject to a limit mandated by the Internal Revenue Code, which was $15,500 for 2008, or, if the participant was at least 50 years old, $20,500. We provide a matching contribution equal to one-third of the first six percent of compensation contributed, subject to a maximum of $1,200. A participant may invest the participant s contributions and matching contributions in one or more of a number of investment alternatives, including our Common Stock, and the value of a participant s account will be determined by the investment performance of the participant s account. No more than 25 percent of a participant s contributions can be invested in our Common Stock. All of the named executive officers participate in The Retirement and Savings Plan. Our matching contributions are included in the All Other Compensation column of the Summary Compensation Table.

Retirement Feature of The Retirement and Savings Plan The Retirement Feature is available to participants in The Retirement and Savings Plan who meet specified criteria, including ineligibility to participate in any of our defined benefit plans. Messrs. Chlebek and Hardin participate in the Retirement Feature. We make retirement contributions based on the total of a participant s age plus years of service. For Messrs. Chlebek and Hardin, we contributed an amount equal to five percent of their compensation subject to Social Security taxes and seven percent of their additional compensation. We also make an employer incentive retirement contribution equal to one percent of a participant s eligible compensation if the participant is contributing at least six percent of his or her compensation under the Retirement and Savings Plan. See the notes to the All Other Compensation column of the Summary Compensation Table for further information regarding our contributions to the Retirement Feature for the accounts of Messrs. Chlebek and Hardin.

Supplemental Executive Retirement Plan (SERP) This plan is a non-qualified deferred compensation plan that provides benefits for executives to the extent that their compensation cannot be taken into account under our tax-qualified plans because the compensation exceeds limits imposed by the Internal Revenue Code. We refer to the compensation that exceeds these limits as excess compensation. For 2008, compensation in excess of $230,000 constitutes excess compensation. Under the SERP, each year we credit to the account of a participant an amount equal to 13% of the executive s excess compensation, which is then deemed to be invested in our Common Stock. Payout of an executive s account, which is subject to tax liability, occurs upon termination of the executive s employment and is made in shares of our Common Stock. Therefore, the ultimate value of the shares paid out under the SERP will depend on the performance of our Common Stock during the period an executive participates in the SERP. All of the named executive officers participate in the SERP. See the Non-qualified Deferred Compensation table and accompanying narrative for additional information.

Deferred Compensation Plan This plan provides an opportunity for executives to defer payment of their short-term incentive award to the extent that such award, together with other relevant compensation, constitutes excess compensation. In advance of the year in which the short-term incentive award will be paid, an executive may elect to defer all or part of his eligible incentive award into a notional investment in our Common Stock, in an interest-bearing account or in both. A participant generally may elect to have the value of his or her account distributed following retirement, either in a lump sum or in up to five annual installments, or in the form of an in-service distribution, payable either in a lump sum or in up to four annual installments commencing on a date specified by the participant in his or her distribution election. Payments may commence sooner upon the participant s earlier separation from service, upon the death of the participant, in the event of an unforeseeable financial emergency or upon a change of control. Payments from the notional Common Stock fund are made in shares of our Common Stock, while payments from the interest-bearing account are paid in cash. Messrs. Hermance, Molinelli and Chlebek participate in the Deferred Compensation Plan. See the Non-qualified Deferred Compensation table and accompanying narrative for additional information.

Supplemental Senior Executive Death Benefit Program Under this program, Messrs. Hermance and Molinelli have entered into agreements that require us to pay death benefits to their designated beneficiaries and to pay benefits to them under certain circumstances during their lifetimes. If a covered executive dies before retirement or before age 65 while on disability retirement, the executive s beneficiary will receive monthly payments of up to $8,333 from the date of the executive s death until the date he or she would have attained age 80. If a covered executive retires, or reaches age 65 while on disability retirement, the Program provides for a maximum benefit of $100,000 per year for a period of 10 years. We have purchased insurance policies on the lives of Messrs. Hermance and Molinelli to fund our obligations under the program. See the Pension Benefits table and accompanying narrative for additional information.

2004 Executive Death Benefit Plan This plan provides for retirement benefits or, if the executive dies before retirement, a death benefit. Generally, if the executive dies before retirement, the executive s beneficiary will receive a monthly payment of $8,333 until the participant would have reached age 80. If the executive retires (either at age 65 or after attaining age 55 with at least five years of service) the executive will be entitled to receive a distribution based on the value of his account in the plan, which is determined by gains or losses on, and death benefits received under, a pool of insurance policies that we own covering the lives of participants. Messrs. Chlebek, Zapico, Jones and Hardin participate in this plan. See the Non-qualified Deferred Compensation table and accompanying narrative for further information.

Change of Control Agreements We have change of control agreements with each of our executive officers, which are described under Potential Payments Upon Termination or Change of Control. We entered into these change of control agreements so that our executives can focus their attention and energies on our business during periods of uncertainty that may occur due to a potential change of control. In addition, we want our executives to support a corporate transaction involving a change of control that is in the best interests of our stockholders, even though the transaction may have an effect on the executive s continued employment with us. We believe these arrangements provide an important incentive for our executives to remain with us. Our agreement with each executive other than Mr. Hermance provides for payments and other benefits to the executive if we terminate the executive s employment without cause or if the executive terminates employment for good reason within two years following a change of control. Mr. Hermance s change of control agreement differs from those of the other named executive officers with respect to the amount of the payment and the scope of the benefits upon the change of control events and does not have the two-year limit applicable to the other executives following the change of control. Given the critical nature of his role as Chief Executive, his tenure with us, and our interest in retaining his services, we believe that it is appropriate to provide Mr. Hermance with this protection so that he is free to focus all of his attention on the growth and future of the Company, even in a period following a change of control. We believe that the incentive provided by these additional benefits is well worth any potential cost. For these same reasons, we also have agreed to provide payments and other benefits to Mr. Hermance if, outside of

the context of a change of control, we terminate his employment without cause or he terminates his employment for good reason. In addition, Mr. Hermance s agreement differs from the other agreements with respect to payments that exceed the limitations under Section 280G of the Internal Revenue Code. The other executives agreements limit the payments made upon a change of control to the maximum amount that may be paid without an excise tax and loss of corporate tax deduction under Sections 4999 and 280G of the Internal Revenue Code. Mr. Hermance s agreement does not contain this limitation and instead provides that if the total payments to Mr. Hermance under

the terms of the agreement are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, we will make an additional payment to Mr. Hermance. This payment is designed so that, after payment of all excise taxes and any other taxes payable in respect of the additional payment, Mr. Hermance will retain the same amount as if no excise tax had been imposed. See Tax Considerations below for further information regarding the excise tax reimbursement.

Tax Considerations

Under Section 162(m) of the Internal Revenue Code, a publicly held corporation may not deduct more than $1 million in a taxable year for certain forms of compensation made to the chief executive officer and other officers listed on the Summary Compensation Table. Our policy is generally to preserve the federal income tax deductibility of compensation paid to our executives, and certain of our equity awards have been structured to preserve deductibility under Section 162(m). Nevertheless, we retain the flexibility to authorize compensation that may not be deductible if we believe it is in the best interests of our company. The compensation paid to our executives in 2008 was deductible, except for the portion resulting from vested shares. Though not deductible, the vesting of shares under the provisions of our stock award program aligns our executives interests with the interests of our stockholders, and serves as a retention incentive.

As noted above, under Mr. Hermance s change of control agreement, our payments to Mr. Hermance will not be subject to limitations under Section 280G of the Internal Revenue Code, and therefore a portion of the payments will not be deductible. In addition, we will make an additional payment to Mr. Hermance if payments to him resulting from a change of control are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code. We did not wish to have the provisions of Mr. Hermance s agreement serve as a disincentive to his pursuit of a change of control that otherwise might be in the best interests of our company and its stockholders. Accordingly, we determined to provide a payment to reimburse Mr. Hermance for any excise taxes payable in connection with the change-of-control payment, as well as any taxes that accrue as a result of our reimbursement. We believe that, in light of Mr. Hermance s outstanding record in enhancing value for our stockholders, this determination is appropriate.

Role of Executive Officers in Determining Executive Compensation For Named Executive Officers

In connection with 2008 compensation, Mr. Hermance, aided by our human resources department, provided statistical data and recommendations to the Compensation Committee to assist it in determining compensation levels.

Mr. Hermance did not make recommendations as to his own compensation. While the Compensation Committee utilized this information, and valued Mr. Hermance s observations with regard to other executive officers, the ultimate decisions regarding executive compensation were made by the Compensation Committee.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis required by Securities and Exchange Commission regulations. Based on its review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted,

The Compensation Committee:

Charles D. Klein, Chairperson

James R. Malone

Elizabeth R. Varet

Dated: March 13, 2009

COMPENSATION TABLES
SUMMARY COMPENSATION TABLE 2008

The following table provides information regarding the compensation of our Chief Executive Officer, Chief Financial Officer and other four most highly compensated executive officers.

Name and Principal Position	*Year*	*Salary*	*Bonus*	*Stock Awards (1)*	*Option Awards (2)*	*Non-Equity Incentive Plan Compensation (3)*	*Change in Pension Value and Nonqualified Deferred Compensation Earnings (Losses) (4)*	*All Other Compensation (5)*	*Total*
Frank S. Hermance	2008	$800,000	$320,984	$8,658,008	$1,226,110	$878,016	$ 79,223	$297,082	$12,259,423
Chairman of the Board	2007	740,000	296,000	3,683,817	1,236,216	851,000	92,024	417,117	7,316,174
and Chief Executive Officer	2006	700,000	280,000	3,119,931	1,291,890	952,000	84,247	383,942	6,812,010
John J. Molinelli	2008	390,000	107,303	317,062	312,415	260,697	121,235	78,828	1,587,540
Executive Vice President	2007	355,000	97,000	391,942	304,350	277,000	75,213	74,396	1,574,901
Chief Financial Officer	2006	330,000	89,000	237,695	330,469	308,000	107,293	87,815	1,490,272
Robert W. Chlebek	2008	330,000	43,261	228,258	468,882	219,739	(284,603)	81,493	1,087,030
President Electronic	2007	310,000	41,000	301,166	273,327	232,000	186,846	80,032	1,424,371
Instruments (Retired 12/31/08)	2006	300,000	19,600	189,323	276,087	250,400	133,889	69,833	1,239,132
David A. Zapico	2008	337,500	43,316	251,961	241,297	258,684	(38,133)	72,529	1,167,154
President Electronic	2007	310,000	41,000	309,247	230,712	296,000	35,318	74,518	1,296,795
Instruments	2006	285,000	19,700	186,411	201,292	323,300	26,117	71,183	1,113,003
Timothy N. Jones	2008	300,000	39,628	186,925	180,829	139,372	(60,899)	41,869	827,724
President	2007	277,000	32,900	209,992	161,785	192,100	65,612	43,799	983,188
Electromechanical Group	2006	247,527	21,400	118,078	141,703	222,600	42,084	44,954	838,346
John W. Hardin	2008	277,250	47,454	138,506	125,448	150,746	(37,021)	194,863	897,246
President Electronic Instruments (Elected 7/23/08)									

(1) The amounts shown for stock awards relate to restricted shares granted under our 1999 and

2002 Stock Incentive Plans. These amounts are equal to the dollar amounts recognized with respect to the stock awards for financial statement purposes, computed in accordance with SFAS 123(R), but without giving effect to estimated forfeitures related to service-based vesting conditions. For information regarding the number of shares subject to 2008 awards, other features of the awards and the grant date fair value of the awards, see the Grants of Plan-Based Awards table on page 23.

(2) The amounts shown for option awards relate to shares granted under our 1999 and 2002 Stock Incentive Plans. These amounts are equal to the dollar amounts recognized with respect to the option awards

for financial statement purposes, computed in accordance with SFAS 123(R), but without giving effect to estimated forfeitures related to service-based vesting conditions. The assumptions used in determining the amounts in this column are set forth in note 9 to our consolidated financial statements on page 41 of Appendix A to this proxy statement. For information regarding the number of shares subject to 2008 awards, other features of those awards, and the grant date fair value of the awards, see the Grants of Plan-Based Awards table on page 23.

(Footnotes continue on following page.)

(3) Represents payments under our short-term incentive program based on achievement of companywide or operating group performance measures. See Compensation Discussion and Analysis 2008 Compensation Short-Term Incentive Program.

(4) Includes, for 2008, the aggregate change in actuarial present value of the accumulated benefit under defined benefit plans as follows: Mr. Hermance, $72,900; Mr. Molinelli, $120,200; Mr. Zapico, $8,900; and Mr. Jones, $21,300. Also includes earnings (losses) on non-qualified deferred compensation plans, to the extent required to be disclosed under SEC

regulations, as follows: Mr. Hermance, $6,323; Mr. Molinelli, $1,035; Mr. Chlebek, $(284,603); Mr. Zapico, $(47,033); Mr. Jones, $(82,199); and Mr. Hardin, $(37,021).

(5) Included in All Other Compensation for 2008 are the following items that exceeded $10,000:

our contributions under our defined contribution plans, including our Supplemental Executive Retirement Plan, as follows: Mr. Hermance, $231,170; Mr. Molinelli, $69,840; Mr. Chlebek, $63,750; Mr. Zapico, $54,435; Mr. Jones, $33,570; and Mr. Hardin, $39,458.

dividends on restricted stock and the interest on the dividend balance, which totaled $26,194 for Mr. Hermance, and are subject to forfeiture if the related restricted stock does not vest.

perquisites, which totaled $38,365 for Mr. Hermance; $11,872 for Mr. Chlebek; $12,809 for Mr. Zapico; and $152,433 for Mr. Hardin. Perquisites included automobile allowances for all of the named executive officers, country club dues for Mr. Hermance, and relocation expense reimbursement for Mr. Hardin (in the amount of $145,386).

GRANTS OF PLAN-BASED AWARDS 2008

The following table provides details regarding plan-based awards granted to the named executive officers in 2008.

Name	*Grant Date*	*Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)* Threshold	Target	Maximum	*All Other Stock Awards: Number of Shares of Stock or Units*	*All Other Option Awards: Number of Securities Underlying Options (4)*	*Exercise or Base Price of Option Awards*	*Grant Date Fair Value of Stock and Option Awards (5)*
Frank S.	2/22/08		$640,000	$1,280,000				N/A
Hermance	4/23/08				35,610 *(2)*	129,490	$48.60	$2,971,160
John J.	2/22/08		213,600	427,200				N/A
Molinelli	4/23/08				9,590 *(2)*	34,870	48.60	800,129
Robert W.	2/22/08		193,500	387,000				N/A
Chlebek	4/23/08				5,480 *(2)*	19,930	48.60	457,257
David A.	2/22/08		205,200	410,400				N/A
Zapico	4/23/08				6,850 *(2)*	24,910	48.60	571,548
Timothy N.	2/22/08		175,500	351,000				N/A
Jones	4/23/08				5,480 *(2)*	19,930	48.60	457,257
John W.	4/23/08		53,760	107,520	2,671 *(2)*	9,712	48.60	222,852
Hardin	7/23/08		89,100	178,200	4,000 *(3)*			198,680

(1) These targets were established under our short-term incentive program. See Compensation Discussion and Analysis 2008 Compensation Short-Term Incentive Program for information regarding the criteria applied in determining the amounts payable under

the awards. There were no threshold amounts payable under the short-term incentive program. The actual amounts paid with respect to these awards are included in the Bonus and Non-Equity Incentive Plan Compensation columns in the Summary Compensation Table on page 21. Targets reflect the October 1, 2008 salary for each individual, as required by the program.

(2) The stock awards constitute restricted shares granted under our 2002 Stock Incentive Plan. These shares become vested on the earliest to occur of (a) the closing price of our Common Stock on any five consecutive days equaling or exceeding $97.20 per share, (b) the death or permanent disability of the

grantee, (c) the termination of the grantee s employment with us in connection with a change of control, (d) the fourth anniversary of the date of grant, namely April 23, 2012, provided the grantee has been employed by us continuously through that date, or (e) the grantee s retirement from employment with us at or after age 55 and the completion of at least ten years of employment with us, in which case only a pro rata portion of the shares will become nonforfeitable and transferable based upon the time that has elapsed since the date of grant. Cash dividends are earned on the restricted shares but are not paid until the restricted shares vest. Until the restricted stock vests, the dividends

accrue interest at the 5-year Treasury note rate plus .5%, compounded quarterly.

(3) The stock award constitutes restricted shares granted under our 2002 Stock Incentive Plan. These shares become vested on the earliest to occur of (a) the closing price of our Common Stock on any five consecutive days equaling or exceeding $99.34 per share, (b) the death or permanent disability of the grantee, (c) the termination of the grantee s employment with us in connection with a change of control, (d) the fourth anniversary of the date of grant, namely July 23, 2012, provided the grantee has been employed by us continuously through that date, or (e) the grantee s retirement from employment with us at or

after age 55 and the completion of at least ten years of employment with us, in which case only a pro rata portion of the shares will become nonforfeitable and transferable based upon the time that has elapsed since the date of grant. Cash dividends are earned on the restricted shares but are not paid until the restricted shares vest. Until the restricted stock vests, the dividends accrue interest at the 5-year Treasury note rate plus .5%, compounded quarterly.

(Footnotes continue on following page.)

(4) The option awards constitute stock options granted under our 1999 and 2002 Stock Incentive Plans. Stock options become exercisable as to 25% of the underlying shares on each of the first four anniversaries of the date of grant. Options generally become fully exercisable in the event of the grantee s death or permanent disability, normal retirement or termination of employment in connection with a change of control.

(5) The grant date fair value is computed in accordance with SFAS 123(R), but without giving effect to estimated forfeitures related to service-based vesting conditions. The assumptions used in determining the

grant date fair value of option awards in this column are set forth in note 9 to our consolidated financial statements on page 41 of Appendix A to this proxy statement.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2008

The following table provides details regarding outstanding equity awards for the named executive officers at December 31, 2008.

		Option Awards (1)				*Stock Awards (2)*	
Name	*Option Grant Date*	*Number of Securities Underlying Unexercised Options Exercisable*	*Number of Securities Underlying Unexercised Options Unexercisable*	*Option Exercise Price*	*Option Expiration Date*	*Number of Shares or Units of Stock That Have Not Vested*	*Market Value of Shares or Units of Stock That Have Not Vested (3)*
Frank S. Hermance	5/22/2002	210,000		$ 12.54667	5/21/2009	113,450	$ 3,427,325
	5/20/2003	240,000		12.04167	5/19/2010		
	5/18/2004	178,995		17.45000	5/17/2011		
	9/22/2004	84,127		20.27000	9/21/2011		
	4/27/2005	97,931	32,644	25.28667	4/26/2012		
	4/26/2006	63,307	63,308	33.26667	4/25/2013		
	4/24/2007	31,887	95,663	36.44000	4/23/2014		
	4/23/2008		129,490	48.60000	4/22/2015		
John J. Molinelli	5/20/2003	90,000		12.04167	5/19/2010	27,615	834,249
	5/18/2004	39,375		17.45000	5/17/2011		
	9/22/2004	37,020		20.27000	9/21/2011		
	4/27/2005	20,902	6,968	25.28667	4/26/2012		
	4/26/2006	13,995	13,995	33.26667	4/25/2013		
	4/24/2007	7,687	23,063	36.44000	4/23/2014		
	4/23/2008		34,870	48.60000	4/22/2015		
Robert W. Chlebek	9/22/2004	7,050		20.27000	9/21/2011	18,470	557,979
	4/27/2005		6,034	25.28667	4/26/2012		
	4/26/2006		11,243	33.26667	4/25/2013		
	4/24/2007		15,000	36.44000	4/23/2014		
	4/23/2008		19,930	48.60000	4/22/2015		
David A. Zapico	5/18/2004	7,500		17.45000	5/17/2011	21,650	654,047
	9/22/2004	18,200		20.27000	9/21/2011		
	4/27/2005	17,111	5,704	25.28667	4/26/2012		

	4/26/2006	11,242	11,243	33.26667	4/25/2013		
	4/24/2007	6,430	19,290	36.44000	4/23/2014		
	4/23/2008		24,910	48.60000	4/22/2015		
Timothy N. Jones	5/18/2004	8,170		17.45000	5/17/2011	18,470	557,979
	9/22/2004	20,565		20.27000	9/21/2011		
	4/27/2005	7,560	2,520	25.28667	4/26/2012		
	4/26/2006	11,242	11,243	33.26667	4/25/2013		
	4/24/2007	5,000	15,000	36.44000	4/23/2014		
	4/23/2008		19,930	48.60000	4/22/2015		
John W. Hardin	9/22/2004	5,876		20.27000	9/21/2011	13,410	405,116
	4/27/2005		3,203	25.28667	4/26/2012		
	4/26/2006		6,099	33.26667	4/25/2013		
	4/24/2007		7,415	36.44000	4/23/2014		
	4/23/2008		9,712	48.60000	4/22/2015		

(1) All option grants become exercisable as to 25% of the underlying shares on each of the first four anniversaries of the dates of grant.

(2) The following table sets forth grant and vesting information for the outstanding restricted stock awards for all named executive officers:

Name	*Grant Date*	*Number of Shares or Units of Stock That Have Not Vested*	*Vesting Date*	*Price-Related Event for Accelerated Vesting**
Frank S. Hermance	4/26/2006	37,500	4/26/2010	$ 66.14
	4/24/2007	40,340	4/24/2011	72.88
	4/23/2008	35,610	4/23/2012	97.20
John J. Molinelli	4/26/2006	8,295	4/26/2010	66.14
	4/24/2007	9,730	4/24/2011	72.88
	4/23/2008	9,590	4/23/2012	97.20
Robert W. Chlebek	4/26/2006	6,660	4/26/2010	66.14
	4/24/2007	6,330	4/24/2011	72.88
	4/23/2008	5,480	4/23/2012	97.20
David A. Zapico	4/26/2006	6,660	4/26/2010	66.14
	4/24/2007	8,140	4/24/2011	72.88
	4/23/2008	6,850	4/23/2012	97.20
Timothy N. Jones	4/26/2006	6,660	4/26/2010	66.14
	4/24/2007	6,330	4/24/2011	72.88
	4/23/2008	5,480	4/23/2012	97.20
John W. Hardin	4/26/2006	3,612	4/26/2010	66.14
	4/24/2007	3,127	4/24/2011	72.88
	4/23/2008	2,671	4/23/2012	97.20
	7/23/2008	4,000	7/23/2012	99.34

* The price-related event for accelerated vesting of the restricted stock

awards will occur if the closing price per share of our Common Stock for five consecutive trading days is equal to at least two times the closing price per share on the date of grant.

(3) The dollar values are based on the closing price of our Common Stock on December 31, 2008 ($30.21). Cash dividends will be earned but will not be paid until the restricted shares vest. The dividends will be payable at the same rate as dividends to holders of our outstanding Common Stock. Until the restricted stock vests, the dividends accrue interest at the 5-year Treasury note rate plus .5%, compounded quarterly.

OPTION EXERCISES AND STOCK VESTED 2008

The following table provides information regarding option exercises and vesting of restricted stock awards for the named executive officers in 2008.

	Option Awards		*Stock Awards*	
	Number of		*Number of*	

Name	*Shares Acquired on Exercise*	*Value Realized on Exercise (1)*	*Shares Acquired on Vesting*	*Value Realized on Vesting (2)*
Frank S. Hermance			571,080	$30,616,037
John J. Molinelli	82,500	$3,041,111	9,840	527,530
Robert W. Chlebek	48,893	1,054,089	8,520	456,764
David A. Zapico	32,500	1,029,879	8,055	431,835
Timothy N. Jones	6,750	212,344	3,570	191,390
John W. Hardin	22,148	516,704	4,530	242,857

(1) The value realized on exercise is equal to the difference between the market price of the shares acquired upon exercise and the option exercise price for the acquired shares.

(2) On May 16, 2008, the price-related event for accelerated vesting of the restricted stock granted on April 27, 2005 occurred. The total value realized on vesting is equal to (1) the closing price per share of our Common Stock on May 16, 2008 ($52.98) multiplied by the number of shares acquired on vesting, minus the par value per share paid by the named executive, (2)

the dividends
accrued since
the date of
award, and
(3) the interest
accrued on these
dividends.

PENSION BENEFITS 2008

We have the following defined benefit plans in which some or all of our named executive officers participate:

The Employees Retirement Plan This plan is a qualified defined benefit pension plan that provides retirement benefits to our U.S.-based salaried employees who commenced employment with us prior to January 1, 1997. The plan pays benefits based upon eligible final average plan compensation and years of credited service. Compensation in excess of a specified amount prescribed by the Department of the Treasury ($230,000 for 2008) is not taken into account under the Retirement Plan. Messrs. Chlebek and Hardin, who joined us after January 1, 1997, are not eligible to participate in The Employees Retirement Plan, but instead are eligible to participate in the Retirement Feature of the AMETEK Retirement and Savings Plan, a defined contribution plan.

Annual benefits earned under The Employees Retirement Plan are computed using the following formula:

(A + B) x C x 1.02

where:

A = 32.0% of eligible compensation not in excess of Social Security covered compensation plus 40.0% of eligible compensation in excess of Social Security covered compensation, times credited service at the normal retirement date (maximum of 15 years) divided by 15;

B = 0.5% of eligible plan compensation times credited service at the normal retirement date in excess of 15 years (maximum of ten years); and

C = current credited service divided by credited service at the normal retirement date.

Participants may retire as early as age 55 with 10 years of service. Unreduced benefits are available when a participant attains age 65 with 5 years of service. Otherwise, benefits are reduced 6.67% for each year by which pension commencement precedes the attainment of age 65. Pension benefits earned are distributed in the form of a lifetime annuity. Messrs. Hermance and Molinelli are eligible for early retirement under the plan.

Supplemental Senior Executive Death Benefit Program Under this program, we have entered into individual agreements with Messrs. Hermance and Molinelli that require us to pay death benefits to their designated beneficiaries and to pay lifetime benefits to them under specified circumstances. If a covered executive dies before retirement or before age 65 while on disability retirement, the executive s beneficiary will receive monthly payments of up to $8,333 from the date of the executive s death until the date he would have attained age 80. If a covered executive retires, or reaches age 65 while on disability retirement, the program provides for an annual benefit of up to a maximum of $100,000 per year, or an aggregate of $1,000,000. The benefit is payable monthly over a period of ten years to the executive or the executive s beneficiary. The payments will commence for retirees at age 70 or death, whichever is earlier. However, if the executive retires after age 70, the payments commence on retirement. To fund benefits under the Program, we have purchased individual life insurance policies on the lives of certain of the covered executives. We retain the right to terminate all of the Program agreements under designated circumstances.

The following table provides details regarding the present value of accumulated benefits under the plans described above for the named executive officers in 2008.

Name	*Plan Name*	*Number of Years Credited Service at December 31, 2008*	*Present Value of Accumulated Benefit (1)*	*Payments During 2008*
Frank S. Hermance	The Employees Retirement Plan	17	$593,100	
	Supplemental Senior Executive Death Benefit Plan	12	394,500	
John J. Molinelli	The Employees Retirement Plan	39	934,500	
	Supplemental Senior Executive Death Benefit Plan	12	316,500	
Robert W. Chlebek	N/A	N/A	N/A	
David A. Zapico	The Employees Retirement Plan	19	123,300	
Timothy N. Jones	The Employees Retirement Plan	29	295,200	
John W. Hardin	N/A	N/A	N/A	

(1) The amounts shown in the Pension Benefit Table above are actuarial present values of the benefits accumulated through December 31, 2008. We used the following assumptions in quantifying the present value of the accumulated benefit: discount rate 6.50%; limitation on eligible annual compensation

under the Internal Revenue Code $230,000; limitation on eligible annual benefits under the Internal Revenue Code $185,000; retirement age 65; termination and disability rates none; form of payment single life annuity; RP-2000 mortality table, as adjusted.

NON-QUALIFIED DEFERRED COMPENSATION 2008

We have the following non-qualified deferred compensation plans in which our named executive officers participate:

Supplemental Executive Retirement Plan (SERP) This plan provides benefits for executives to the extent that their compensation cannot be taken into account under our tax-qualified plans because the compensation exceeds limits imposed by the Department of the Treasury ($230,000 in 2008). Under the SERP, each year we credit to the account of a participant an amount equal to 13% of the executive s compensation that exceeds the Department of the Treasury limits, which is then deemed to be invested in our Common Stock. Payout of an executive s account occurs upon termination of the executive s employment and is made in shares of our Common Stock. Therefore, the ultimate value of the shares paid out under the SERP will depend on the performance of our Common Stock during the period an executive participates in the SERP.

Deferred Compensation Plan This plan provides an opportunity for executives to defer payment of their short-term incentive award to the extent that such award, together with other relevant compensation, exceeds limits imposed by the Department of the Treasury ($230,000 in 2008). In advance of the year in which the short-term incentive award will be paid, an executive may elect to defer all or part of his eligible incentive award. The monies are invested in one of two notional accounts, a Common Stock fund and an interest-bearing fund. A participant generally may elect to have the value of his or her account distributed following retirement, or while in service, as specified by the participant in his or her deferral election. Payments may commence earlier upon the participant s earlier separation from service, upon the death of the participant, in the event of an unforeseeable financial emergency or upon a change of control, as defined in the plan. Payments from the notional Common Stock fund are made in shares of our Common Stock, while payments from the interest-bearing account are paid in cash.

2004 Executive Death Benefit Plan Under this plan, we provide a retirement benefit to Messrs. Chlebek, Zapico, Jones and Hardin. The retirement benefit under this plan is designed to provide the lump sum necessary to deliver 20% of the executive s final projected annual salary paid annually for 10 years, on a present value basis at age 70. However, the actual benefit will vary based on the gains and losses from the underlying investments in a pool of insurance policies that we own covering the lives of the participants; and on death benefits received from these same policies. The maximum salary on which the benefit can be based is $500,000. If the covered executive dies while actively employed or while disabled and before age 65, the executive s beneficiaries will receive monthly payments from the date of the executive s death until the executive would have attained age 80.

The following table provides details regarding non-qualified deferred compensation for the named executive officers in 2008.

Name	*Executive Contributions in Last Fiscal Year*	*Registrant Contributions in Last Fiscal Year (1)*	*Aggregate Earnings (Losses) in Last Fiscal Year (2)*	*Aggregate Withdrawals/ Distributions*	*Aggregate Balance at Last Fiscal Year-End (3)*
Frank S. Hermance	$1,130,369	$ 229,970	$ (1,655,436)		$ 12,960,210
John J. Molinelli	184,289	68,640	(690,548)		2,929,359
Robert W. Chlebek	180,258	48,490	(658,467)		1,697,918
David A. Zapico		53,235	(220,199)		379,809
Timothy N. Jones		32,370	(172,629)		205,737
John W. Hardin		26,498	(74,502)		94,541

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(1) Includes for each named executive officer the following amounts that are also reported in the Summary Compensation Table on page 21: Mr. Hermance, $229,970; Mr. Molinelli, $68,640; Mr. Chlebek, $48,490; Mr. Zapico, $53,235; Mr. Jones, $32,370; and Mr. Hardin, $26,498.

(2) Includes for each named executive officer the following amounts that are also reported in the Summary Compensation Table on page 21: Mr. Hermance, $6,323; Mr. Molinelli, $1,035; Mr. Chlebek, $(284,603); Mr. Zapico, $(47,033); Mr. Jones, $(82,199); and Mr. Hardin, $(37,021).

(3) Includes for each named executive officer the following amounts that were reported as compensation in the Summary Compensation Table in previous years: Mr. Hermance, $8,670,272; Mr. Molinelli, $1,668,486; Mr. Chlebek, $1,395,804; Mr. Zapico, $264,307; and Mr. Jones, $160,851.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

In this section, we describe payments that may be made to our named executive officers upon several events of termination, including termination in connection with a change of control. The information in this section does not include information relating to the following:

- distributions under The Employees Retirement Plan and distributions, other than death benefits, under the Supplemental Senior Executive Death Benefit Plan see Pension Benefits 2008 for information regarding these plans,
- distributions under the Supplemental Executive Retirement Plan and the Deferred Compensation Plan and distributions, other than death benefits, under the 2004 Executive Death Benefit Plan see Nonqualified Deferred Compensation 2008 for information regarding these plans,
- other payments and benefits provided on a nondiscriminatory basis to salaried employees generally upon termination of employment, including tax-qualified defined contribution plans, and
- short-term incentive payments that would not be increased due to the termination event.

The following items are reflected in the summary table on page 32. The payment amounts reflect the payments that would have been due to the named executive officers had the termination or change of control event occurred on December 31, 2008.

Change of Control Agreements. Under our change of control agreements with our named executive officers other than Mr. Hermance, in the event that a named executive officer s employment is terminated by us without cause or by the named executive officer for good reason within two years beginning on the effective date of a change of control, the executive officer will receive: (1) 2.99 times the sum of (a) the executive officer s base salary in effect on the last day of the fiscal year immediately preceding the effective date of the change of control and (b) the greater of the target bonus for the fiscal year in which the change of control occurred or the average of the bonus received for the two previous fiscal years; all cash payments will be paid when permitted under Section 409A of the Code, namely, on the first day of the seventh month following the termination date; and (2) continuation of health benefits until the earliest to occur of Medicare eligibility, coverage under another group health plan without a pre-existing condition limitation, the expiration of ten years, or the executive officer s death. Payments to executive officers other than Mr. Hermance under the change of control agreements will be reduced, if necessary, to prevent them from being subject to the limitation on deductions under Section 280G of the Internal Revenue Code. The Compensation Committee selected the 2.99 times multiple of salary and bonus to reflect competitive market levels for such agreements and, except in the case of Mr. Hermance, the amount payable is subject to limitations designed to minimize the payment of any excise taxes by us.

Generally, a change of control is deemed to occur under the change of control agreements if: (1) any person or more than one person acting as a group acquires ownership of stock which constitutes more than 50 percent of the total fair market value or total voting power of our stock; (2) any person or more than one person acting as a group acquires (during the 12-month period ending on the date of the most recent acquisition) ownership of stock possessing 30 percent or more of the total fair market value or total voting power of our stock; (3) a majority of Board members are replaced during any 12-month period by directors whose election is not endorsed by a majority of the members of the Board; or (4) any person or more than one person acting as a group acquires assets from us having a total fair market value of not less than 40 percent of the total fair market value of all of our assets immediately prior to the acquisition.

A termination for good reason generally means a termination initiated by the executive officer in the event of: (1) our noncompliance with the change of control agreement; (2) any involuntary reduction in the executive officer s authority, duties or responsibilities that were in effect immediately prior to the change of control; (3) any involuntary reduction in the executive officer s total compensation that was in effect immediately prior to the change of control; or (4) any transfer of the executive officer without the executive officer s consent of more than 50 miles from the executive officer s principal place of business immediately prior to the change of control other than on a temporary basis (less than 6 months).

A termination for cause would result from misappropriation of funds, habitual insobriety or substance abuse, conviction of a crime involving moral turpitude, or gross negligence in the performance of duties that has a material adverse effect on our business, operations, assets, properties or financial condition.

Under our change of control agreement with Mr. Hermance, in the event that his employment is terminated by us without cause or by Mr. Hermance for good reason in anticipation of, or following, a change of control, he will receive: (1) a lump sum payment equal to the sum of (a) 2.99 times the sum of Mr. Hermance s base salary for the year prior to the year in which his termination occurs and (b) his targeted bonus for the year in which he is terminated or, if the amount of the targeted bonus is not known, the average of his bonuses for the two years preceding the year in which his termination occurs; all cash payments will be paid when permitted under Section 409A of the Code, namely, on the first day of the seventh month following the termination date; (2) continuation of health benefits, disability insurance and death benefits until the earliest of (a) the end of the tenth year following the year of the separation from service; (b) Medicare eligibility; (c) commencement of new employment where Mr. Hermance can participate in similar plans or programs without a pre-existing condition limitation; or (d) death; and (3) use of an automobile and reimbursement of reasonable operating expenses, and continued reimbursement of country club dues, in each case until the second anniversary of his termination or, if earlier, his death.

In addition, upon a change of control, or upon Mr. Hermance s termination without cause or resignation for good reason in anticipation of a change of control, (1) all of his restricted stock awards and stock options immediately vest; (2) all stock options, other than incentive stock options, will be exercisable for one year following his termination, or, if earlier, the stated expiration date of the stock option; and (3) if Mr. Hermance becomes subject to excise taxes under Section 4999 of the Internal Revenue Code because our change of control payments to him are subject to the limitations on deductions under Section 280G of the Internal Revenue Code, he will be reimbursed for those excise taxes and any additional taxes payable by him as a result of the reimbursement.

Generally, a change of control is deemed to occur under Mr. Hermance s change of control agreement upon: (1) the acquisition by any person or group of 20 percent or more of our total voting stock; (2) the acquisition by us, any executive benefit plan, or any entity we establish under the plan, acting separately or in combination with each other or with other persons, of 50 percent or more of our voting stock, if after such acquisition our Common Stock is no longer publicly traded; (3) the death, resignation or removal of our Directors within a two-year period, as a result of which the Directors serving at the beginning of the period and Directors elected with the advance approval of two-thirds of the Directors serving at the beginning of the period constitute less than a majority of the Board; (4) the approval by the shareholders of (a) a merger in which the shareholders no longer own or control at least 50 percent of the value of our outstanding equity or the combined voting power of our then outstanding voting securities, or (b) a sale or other disposition of all or substantially all of the Company s assets. A termination is deemed to be in anticipation of a change of control if it occurs during the 90 days preceding the change of control and the substantial possibility of a change of control was known to Mr. Hermance and a majority of the Directors.

Good reason and cause are defined in Mr. Hermance s agreement in substantially the same manner as in the other executive officers change of control agreements.

Payments and other benefits under the change of control agreements would have been in the following amounts if the event requiring payment occurred on December 31, 2008: Lump sum payments Mr. Hermance, $4,604,600; Mr. Molinelli, $2,215,590; Mr. Chlebek, $1,728,220; Mr. Zapico, $1,927,055; Mr. Jones, $1,432,210; Mr. Hardin, $1,291,381. Health and disability benefits Mr. Hermance, $106,556; Mr. Molinelli, $67,400; Mr. Zapico, $64,500; Mr. Jones, $154,500; Mr. Hardin, $186,000. Perquisites Mr. Hermance, $81,383 (including use of an automobile and operating expenses in the amount of $59,691; and country club fees). The benefits Mr. Hermance receives upon acceleration of his equity grants in connection with a change of control are quantified below under Acceleration of Vesting Provisions Pertaining to Stock Options and Restricted Stock.

In addition, Mr. Hermance s change of control agreement generally provides that in the event his employment is terminated by us without cause or by Mr. Hermance for good reason, in either case prior to and other than in anticipation of or following a change of control, he would receive the same benefits as he would receive in connection with a change of control, as described above, except: (1) the portion of the lump sum payment based on a multiple of salary will be equal to two times, rather than 2.99 times, base salary and (2) the continuation of health benefits,

disability benefits and death benefits cannot exceed a maximum of two years from the termination of his employment, rather than ten years.

Payments and other benefits to Mr. Hermance under this provision include the following: Lump sum payments, $3,080,000; stock option grant vesting acceleration, $160,717; restricted stock award vesting acceleration, $3,475,633; health and disability insurance benefits, $42,938; perquisites, $81,383 (including use of an automobile and operating expenses in the amount of $59,691; and country club fees).

Acceleration of Vesting Provisions Pertaining to Stock Options and Restricted Stock. Under our stock incentive plans, outstanding stock options generally will vest immediately upon the occurrence of any of the following events: (1) the holder s retirement after age 65, following two years of service with us; (2) the death of the holder; or (3) the holder s termination of employment following a change of control. Benefits relating to accelerated vesting of stock options in connection with termination following a change of control (or, in the case of Mr. Hermance, in anticipation of, or upon a change of control), or upon normal retirement or death is as follows: Mr. Hermance, $160,717; Mr. Molinelli, $34,306; Mr. Chlebek, $29,707; Mr. Zapico, $28,083; Mr. Jones, $12,407; Mr. Hardin, $15,769. The value of the accelerated vesting benefit equals the number of shares as to which the stock options would vest on an accelerated basis upon the occurrence of the specified termination or change of control event, multiplied by the difference between the closing price per share of our Common Stock on December 31, 2008 and the exercise price per share for the affected options.

Outstanding restricted stock generally will vest immediately upon the occurrence of either of the following events: (1) the holder s death or disability; or (2) the holder s termination of employment following a change of control. Benefits relating to accelerated vesting of restricted stock in connection with termination following a change of control (or, in the case of Mr. Hermance, in anticipation of, or upon a change of control), or upon disability or death are as follows: Mr. Hermance, $3,475,633; Mr. Molinelli, $845,595; Mr. Chlebek, $566,044; Mr. Zapico, $663,143; Mr. Jones, $566,044; Mr. Hardin, $409,786. Benefits in connection with other events of termination addressed in the table below are as follows: Mr. Hermance, $1,466,941; Mr. Molinelli, $343,465; Mr. Chlebek, $245,599; Mr. Zapico (normal retirement only), $275,648; Mr. Jones (normal retirement only), $245,599; Mr. Hardin (normal retirement only), $140,404. The value of the accelerated vesting benefit equals the number of shares of restricted stock that would vest on an accelerated basis on the occurrence of the specified termination or change of control event times the closing price per share of our Common Stock on December 31, 2008.

Our incentive plans define change of control in substantially the same manner as the change of control agreements relating to our executives other than Mr. Hermance.

Death Benefits. Death benefits are payable to Messrs. Hermance and Molinelli under our Supplemental Senior Executive Death Benefit Plan, as described under Pension Benefits 2008. Death benefits are payable to Messrs. Chlebek, Zapico, Jones and Hardin under our 2004 Executive Death Benefit Plan, as described under Nonqualified Deferred Compensation 2008.

The amount of death benefits payable to each of the named executive officers in the event of his death would have been as follows on December 31, 2008: Mr. Hermance, $1,134,300; Mr. Molinelli, $748,000; Mr. Chlebek, $964,700; Mr. Zapico, $1,414,400; Mr. Jones, $1,307,900; Mr. Hardin, $1,420,500.

Summary Table. The following table summarizes the amounts payable to each of the named executive officers based on the items described above with respect to each of the events set forth in the table. As used in the table below, change of control refers to payment or other benefit events occurring upon a change of control or in connection with a termination related to a change of control, as applicable.

Name	Voluntary Termination/Early Retirement/ Termination For Cause	Normal Retirement	Involuntary Not For Cause Termination	Change of Control	Disability	Death
Frank S. Hermance	$1,466,941	$1,627,658	$6,840,671	$8,428,889	$3,475,633	$4,770,650
John J. Molinelli	343,465	377,771	343,465	3,162,891	845,595	1,627,901

Robert W. Chlebek	245,599	275,306	245,599	2,323,972	566,044	1,560,452
David A. Zapico		303,730		2,682,781	663,143	2,105,626
Timothy N. Jones		258,006		2,165,161	566,044	1,886,351
John W. Hardin		156,174		1,902,936	409,786	1,846,055

STOCK OWNERSHIP OF
EXECUTIVE OFFICERS AND DIRECTORS

The Compensation Committee of the Board of Directors approved stock ownership guidelines for all executive officers, and reviews stock ownership on an annual basis. See Compensation Discussion and Analysis Stock Ownership Guidelines on page 17 for a discussion of stock ownership guidelines for our named executive officers.

The Board of Directors established stock ownership guidelines for non-employee Directors in order to more closely link their interests with those of stockholders. Under the guidelines, each non-employee Director is expected to own, by the end of a five-year period, shares of our Common Stock having a value equal to at least five times the Director s annual cash retainer. Each non-employee Director other than Mr. Williams, who was first elected to the Board of Directors in 2006, has exceeded his or her required stock ownership level of five times his or her annual retainer.

The following table shows the number of shares of Common Stock that the Directors and all executive officers as a group beneficially owned, and the number of deemed shares held for the account of the executive officers under the Supplemental Executive Retirement Plan (SERP) as of February 2, 2009.

	Number of Shares and Nature of Ownership (1)					
Name	Outstanding Shares Beneficially Owned	Right to Acquire (2)	Total	Percent of Class	SERP	Total Beneficial and SERP Ownership
Sheldon S. Gordon	126,805	11,057	137,862	*		137,862
John W. Hardin	22,428	5,876	28,304	*	3,129	31,433
Frank S. Hermance	1,000,452	906,247	1,906,699	1.8%	135,646	2,042,345
Timothy N. Jones	53,157	52,537	105,694	*	6,567	112,261
Charles D. Klein (3)	148,005	11,057	159,062	*		159,062
Steven W. Kohlhagen	18,430	2,882	21,312	*		21,312
James R. Malone	58,805	11,057	69,862	*		69,862
John J. Molinelli	258,061	208,979	467,040	*	48,959	515,999
David P. Steinmann (4)	223,741	4,195	227,936	*		227,936
Elizabeth R. Varet (5)	633,266	11,057	644,323	*		644,323
Dennis K. Williams	3,430	2,882	6,312	*		6,312
David A. Zapico	69,400	60,483	129,883	*	12,302	142,185
Directors and Executive Officers as a Group (13 persons) including individuals named above	2,545,084	1,347,898	3,892,982	3.6%	211,949	4,104,931

* Represents less than 1% of the outstanding shares of our Common Stock.

(1) Under Rule 13d-3 of the Securities Exchange Act of 1934, as amended, beneficial ownership of a security consists of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose or direct the disposition) with respect to the security through any contract, arrangement, understanding, relationship or otherwise.

(2) Shares the Director or executive officer has a right to acquire through stock option exercises within 60 days of February 2, 2009.

(Footnotes continue on following page.)

(3) Includes 3,000 shares owned by one of Mr. Klein s adult children through a trust for which Mr. Klein s wife is the trustee and as to which Mr. Klein disclaims any beneficial ownership. Includes 5,000 shares held by a charitable foundation of which Mr. Klein is a director.

(4) Includes 15,600 shares owned by Mr. Steinmann s wife, as to which Mr. Steinmann disclaims any beneficial ownership. Mr. Steinmann has shared voting and investment power with respect to 181,311 shares, as to 111,309 of which such power is shared with Ms. Varet and others.

(5) Includes 36,600 shares, of which 30,000 shares are owned by a trust of which Ms. Varet s

husband is a beneficiary, 1,800 shares are owned by one of Ms. Varet s adult children, and 4,800 shares are owned by two trusts of which Ms. Varet s husband is the trustee, as to which Ms. Varet disclaims any beneficial ownership. Ms. Varet has shared voting and investment power with respect to 513,961 shares, as to 111,309 shares of which such power is shared with Mr. Steinmann and others.

BENEFICIAL OWNERSHIP OF PRINCIPAL STOCKHOLDERS

The following table provides information regarding the only entities known to us to be beneficial owners of more than five percent of the outstanding shares of our Common Stock as of March 6, 2009.

Name and Address of Beneficial Owner	Nature of Beneficial Ownership	Number of Shares	Percent of Class
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	Sole voting power for 1,747,150 shares and sole dispositive power (1)	7,915,600	7.4%
Columbia Wanger Asset Management, L.P. 227 West Monroe Street, Suite 3000 Chicago, IL 60606	Sole voting power for 7,265,000 shares and sole dispositive power (2)	7,574,800	7.1%

(1) Based on Schedule 13G filed on February 11, 2009. These securities are owned by various individual and institutional investors including the T. Rowe Price Mid-Cap Growth Fund, Inc. (which owns 5,700,000 shares, representing 5.3% percent of the shares outstanding, for which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities).

For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(2) Based on Schedule 13G filed on February 5, 2009.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and officers to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our Common Stock. Copies of all such Section 16(a) reports are required to be furnished to us. These filing requirements also apply to holders of more than 10% of our Common Stock, but we do not know of any person that holds more than 10% of our Common Stock. To our knowledge, based solely on a review of the copies of Section 16(a) reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2008, all of our officers and Directors made all required filings on a timely basis except for one Form 4 report that was filed late by Mr. Malone reporting one transaction.

OTHER BUSINESS

We are not aware of any other matters that will be presented at the Annual Meeting. If other matters are properly introduced, the individuals named on the enclosed proxy card will vote the shares it represents in accordance with their judgment.

By Order of the Board of Directors
Kathryn E. Sena
Corporate Secretary
Dated: March 13, 2009

MULTIPLE STOCKHOLDERS SHARING THE SAME ADDRESS

Registered and street-name stockholders who reside at a single address receive only one annual report and proxy statement at that address unless a stockholder provides contrary instructions. This practice is known as householding and is designed to reduce duplicate printing and postage costs. However, if a stockholder wishes in the future to receive a separate annual report or proxy statement, he or she may contact our transfer agent, American Stock Transfer & Trust Company, toll-free at 1-800-937-5449, or in writing at American Stock Transfer & Trust Company, Stockholder Services, 59 Maiden Lane, New York, NY 10038. Stockholders can request householding if they receive multiple copies of the annual report and proxy statement by contacting American Stock Transfer & Trust Company at the address above.

ELECTRONIC DISTRIBUTION OF PROXY STATEMENTS AND ANNUAL REPORTS

To receive future AMETEK, Inc. proxy statements and annual reports electronically, please visit **www.amstock.com.** Click on Shareholder Account Access to enroll. After logging in, select Receive Company Mailings via E-mail. Once enrolled, stockholders will no longer receive a printed copy of proxy materials, unless they request one. Each year they will receive an e-mail explaining how to access the Annual Report and Proxy Statement online as well as how to vote their shares online. They may suspend electronic distribution at any time by contacting American Stock Transfer & Trust Company.

APPENDIX A

AMETEK, Inc.
ANNUAL FINANCIAL INFORMATION AND REVIEW OF OPERATIONS
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INFORMATION RELATING TO AMETEK COMMON STOCK

The principal market on which the Company s common stock is traded is the New York Stock Exchange and it is traded under the symbol AME.

Market price and dividend information with respect to the Company s common stock is set forth below. Future dividend payments by the Company will be dependent on future earnings, financial requirements, contractual provisions of debt agreements and other relevant factors.

Market Price and Dividends Per Share

The high and low sales prices of the Company s common stock on the New York Stock Exchange composite tape and the quarterly dividends per share paid on the common stock were:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Dividends paid per share	**$ 0.06**	**$ 0.06**	**$ 0.06**	**$ 0.06**
Common stock trading range:				
High	**$ 46.95**	**$ 53.12**	**$ 52.50**	**$ 41.24**
Low	**$ 37.09**	**$ 43.80**	**$ 37.74**	**$ 27.32**
2007				
Dividends paid per share	$ 0.06	$ 0.06	$ 0.06	$ 0.06
Common stock trading range:				
High	$ 35.91	$ 40.94	$ 43.79	$ 48.45
Low	$ 30.67	$ 33.51	$ 36.38	$ 42.00

Stock Performance Graph

The following graph and accompanying table compare the cumulative total shareholder return for AMETEK, Inc. over the last five years ended December 31, 2008 with total returns for the same period for the Russell 1000 Index and the Dow Jones U.S. Electronic Equipment Index. The performance graph and table assume a $100 investment made on December 31, 2003 and reinvestment of all dividends. The stock performance shown on the graph below is based on historical data and is not necessarily indicative of future stock price performance.

	December 31,					
	2003	2004	2005	2006	2007	2008
AMETEK, Inc.	$ 100.00	$ 149.08	$ 178.84	$ 201.99	$ 298.97	$ 193.94
Russell 1000 Index*	100.00	111.40	118.38	136.69	144.58	90.22
Dow Jones U.S. Electronic Equipment Index*	100.00	108.49	116.80	134.72	158.08	92.80

* Includes AMETEK, Inc.

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AMETEK, INC.

SELECTED FINANCIAL DATA

	2008	2007	2006	2005	2004
	(Dollars and shares in millions, except per share amounts)				
Consolidated Operating Results (Year Ended December 31):					
Net sales	**$ 2,531.1**	$ 2,136.9	$ 1,819.3	$ 1,434.5	$ 1,232.3
Operating income(1)	**$ 432.7**	$ 386.6	$ 309.0	$ 233.5	$ 191.2
Interest expense	**$ (63.7)**	$ (46.9)	$ (42.2)	$ (32.9)	$ (28.3)
Net income(1)	**$ 247.0**	$ 228.0	$ 181.9	$ 136.4	$ 109.0
Earnings per share(1):					
Basic	**$ 2.33**	$ 2.15	$ 1.74	$ 1.31	$ 1.07
Diluted	**$ 2.30**	$ 2.12	$ 1.71	$ 1.29	$ 1.06
Dividends declared and paid per share	**$ 0.24**	$ 0.24	$ 0.18	$ 0.16	$ 0.16
Weighted average common shares outstanding:					
Basic	**106.1**	105.8	104.8	103.7	101.7
Diluted	**107.4**	107.6	106.6	105.6	103.1
Performance Measures and Other Data:					
Operating income Return on sales(1)	**17.1%**	18.1%	17.0%	16.3%	15.5%
Return on average total assets(1)	**14.9%**	15.9%	15.8%	14.6%	14.5%
Net income Return on average total capital(1)(5)	**10.9%**	12.0%	11.8%	10.7%	10.5%
Return on average stockholders equity(1)(5)	**19.5%**	20.7%	20.5%	18.5%	18.2%
EBITDA(1)(2)	**$ 489.4**	$ 433.9	$ 351.4	$ 269.9	$ 228.3
Ratio of EBITDA to interest expense(1)(2)	**7.7x**	9.3x	8.3x	8.2x	8.1x
Depreciation and amortization	**$ 63.3**	$ 52.7	$ 45.9	$ 39.4	$ 39.9
Capital expenditures	**$ 44.2**	$ 37.6	$ 29.2	$ 23.3	$ 21.0
Cash provided by operating activities	**$ 247.3**	$ 278.5	$ 226.0	$ 155.7	$ 155.8
Free cash flow(3)	**$ 203.1**	$ 240.9	$ 196.8	$ 132.4	$ 134.8
Ratio of earnings to fixed charges(6)	**6.1x**	7.3x	6.6x	6.2x	6.0x
Consolidated Financial Position (At December 31):					
Current assets	**$ 954.6**	$ 952.2	$ 684.1	$ 556.3	$ 461.9
Current liabilities	**$ 447.5**	$ 640.8	$ 480.9	$ 405.8	$ 272.8
Property, plant and equipment, net	**$ 307.9**	$ 293.1	$ 258.0	$ 228.5	$ 207.5
Total assets	**$ 3,055.5**	$ 2,745.7	$ 2,130.9	$ 1,780.6	$ 1,420.4
Long-term debt	**$ 1,093.2**	$ 667.0	$ 518.3	$ 475.3	$ 400.2
Total debt	**$ 1,111.7**	$ 903.0	$ 681.9	$ 631.4	$ 450.1
Stockholders equity(5)	**$ 1,287.8**	$ 1,240.7	$ 966.7	$ 809.5	$ 663.3
Stockholders equity per share(5)	**$ 12.07**	$ 11.56	$ 9.11	$ 7.66	$ 6.44
	46.3%	42.1%	41.4%	43.8%	40.4%

Total debt as a percentage of capitalization(5)					
Net debt as a percentage of capitalization(4)(5)	**44.3%**	37.1%	39.6%	42.4%	38.3%

See Notes to Selected Financial Data on page A-4.

Notes to Selected Financial Data

(1) Amounts for years prior to 2006 reflect the retrospective application of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment* (SFAS 123R) to expense stock options. The adoption of SFAS 123R reduced operating income, net income and diluted earnings per share by the following amounts:

Impact of Adopting SFAS 123R	Reduction of Amounts Originally Reported: Operating Income	Net Income	Diluted Earnings Per Share
	(In millions, except per share amounts)		
2005	$ 5.9	$ 4.3	$ 0.04
2004	$ 5.1	$ 3.7	$ 0.04

(2) EBITDA represents income before interest, income taxes, depreciation and amortization. EBITDA is presented because the Company is aware that it is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. It should not be considered, however, as an alternative to operating income as an indicator of the Company s operating performance or as an alternative to cash flows as a measure of the Company s overall liquidity as presented in the Company s consolidated financial statements. Furthermore, EBITDA measures shown for the Company may not be comparable to similarly titled measures used by other companies. The following table presents the reconciliation of net income reported in accordance with U.S. generally accepted accounting principles (GAAP) to EBITDA:

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
	(In millions)				
Net income	**$ 247.0**	$ 228.0	$ 181.9	$ 136.4	$ 109.0
Add (deduct):					
Interest expense	**63.7**	46.9	42.2	32.9	28.3
Interest income	**(3.9)**	(2.1)	(0.4)	(0.7)	(0.6)
Income taxes	**119.3**	108.4	81.8	61.9	51.7
Depreciation	**45.8**	42.3	38.9	35.0	36.8
Amortization	**17.5**	10.4	7.0	4.4	3.1
Total adjustments	**242.4**	205.9	169.5	133.5	119.3
EBITDA	**$ 489.4**	$ 433.9	$ 351.4	$ 269.9	$ 228.3

(3) Free cash flow represents cash flow from operating activities less capital expenditures. Free cash flow is presented because the Company is aware that it is used by rating agencies, securities analysts, investors and other parties in evaluating the Company. (Also see note 2 above). The following table presents the reconciliation of

cash flow from operating activities reported in accordance with U.S. GAAP to free cash flow:

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
			(In millions)		
Cash provided by operating activities (U.S. GAAP basis)	**$ 247.3**	$ 278.5	$ 226.0	$ 155.7	$ 155.8
Deduct: Capital expenditures	**(44.2)**	(37.6)	(29.2)	(23.3)	(21.0)
Free cash flow	**$ 203.1**	$ 240.9	$ 196.8	$ 132.4	$ 134.8

(4) Net debt represents total debt minus cash and cash equivalents. Net debt is presented because the Company is aware that it is used by securities analysts, investors and other parties in evaluating the Company. (Also see note 2 above). The following table presents the reconciliation of total debt in accordance with U.S. GAAP to net debt:

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
			(In millions)		
Total debt	**$ 1,111.7**	$ 903.0	$ 681.9	$ 631.4	$ 450.1
Less: Cash and cash equivalents	**(87.0)**	(170.1)	(49.1)	(35.5)	(37.6)
Net debt	**1,024.7**	732.9	632.8	595.9	412.5
Stockholders equity	**1,287.8**	1,240.7	966.7	809.5	663.3
Capitalization (net debt plus stockholders equity)	**$ 2,312.5**	$ 1,973.6	$ 1,599.5	$ 1,405.4	$ 1,075.8
Net debt as a percentage of capitalization	**44.3%**	37.1%	39.6%	42.4%	38.3%

(5) The adoption of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, for our defined benefit pension plans, which was effective December 31, 2006, resulted in a reduction of $32.7 million to stockholders equity. The adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, as of January 1, 2007, resulted in a $5.9 million charge to the opening balance of stockholders equity.

(6) Penalties and interest accrued related to unrecognized tax benefits are recognized in income tax expense.

AMETEK, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report includes forward-looking statements based on the Company s current assumptions, expectations and projections about future events. When used in this report, the words believes, anticipates, may, expect, intend, estimate, project and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. For more information concerning risks and other factors, that could have a material adverse effect on our business, or could cause actual results to differ materially from management s expectations, see Forward-Looking Information on page A-20.

The following discussion and analysis of the Company s results of operations and financial condition should be read in conjunction with Selected Financial Data and the consolidated financial statements of the Company and the related notes included elsewhere in this Appendix. We begin with an overview of our business and operations.

Business Overview

As a global business, AMETEK s operations are affected by global, regional and industry economic factors. However, the Company s strategic geographic and industry diversification, and its mix of products and services, have helped to limit the potential adverse impact of any unfavorable developments in any one industry or the economy of any single country on its consolidated operating results. For most of 2008, the Company continued to experience strong market conditions in many of its businesses. However, beginning in the fourth quarter of 2008, the Company experienced lower order rates as a result of the current financial and economic crisis. For the full year 2008, contributions from recent acquisitions and internal growth, combined with successful Operational Excellence initiatives, enabled the Company to post another year of record sales, operating income, net income and diluted earnings per share. In addition to achieving its financial objectives, the Company also benefited from its strategic initiatives under AMETEK s four growth strategies: Operational Excellence, New Product Development, Global and Market Expansion and Strategic Acquisitions and Alliances. Highlights of 2008 were:

In 2008, sales were $2.5 billion, an increase of $394.2 million or 18% from 2007, on internal growth of approximately 5% in the Electronic Instruments Group (EIG) and 2% in the Electromechanical Group (EMG) excluding the effect of foreign currency translation, and contributions from the 2007 and 2008 acquisitions. During 2008, the Company completed the following acquisitions:

In February 2008, the Company acquired Drake Air (Drake). Drake is a provider of heat-transfer repair services to the commercial aerospace industry.

In February 2008, the Company acquired Motion Control Group (MCG). MCG is a leading global manufacturer of highly customized motors and motion control solutions for the medical, life sciences, industrial automation, semiconductor and aviation markets.

In April 2008, the Company acquired Reading Alloys. Reading Alloys is a global leader in specialty titanium master alloys and highly engineered metal powders used in the aerospace, medical implant, military and electronics markets.

In June 2008, the Company acquired Vision Research, Inc. Vision Research is a leading manufacturer of high-speed digital imaging systems used for motion capture and analysis in numerous test and measurement applications.

In August 2008, the Company acquired the programmable power business of Xantrex Technology, Inc. (Xantrex Programmable). Xantrex Programmable is a leader in alternating current and direct current programmable power supplies used to test electrical and electronic products.

In November 2008, the Company acquired UK-based Muirhead Aerospace Limited (Muirhead). Muirhead is a leading manufacturer of motion technology products and a provider of avionics repair and overhaul services for the aerospace and defense markets.

As the Company grows globally, it continues to achieve an increasing level of international sales. International sales, including U.S. export sales, were $1,225.5 million of consolidated sales in 2008, compared with $1,053.7 million of consolidated sales in 2007.

The Company continued its emphasis on investment in research, development and engineering, spending $115.9 million in 2008 before customer reimbursement of $6.1 million, an increase of 12.6% over 2007. Sales from products introduced in the last three years increased $71.5 million or 18.3% in 2008 to $462.8 million.

In the third quarter of 2008, the Company completed a private placement agreement to sell $350 million in senior notes to a group of institutional investors. There were two funding dates for the senior notes. The first funding occurred in September 2008 for $250 million, consisting of $90 million in aggregate principal amount of 6.59% senior notes due September 2015 and $160 million in aggregate principal amount of 7.08% senior notes due September 2018. The second funding date occurred in December 2008 for $100 million, consisting of $35 million in aggregate principal amount of 6.69% senior notes due December 2015 and $65 million in aggregate principal amount of 7.18% senior notes due December 2018. The proceeds from the senior notes were used to pay down a portion of the Company s revolving credit facility.

In July 2008, the Company repaid the $225 million 7.20% senior notes due July 2008 using proceeds from borrowings under its existing revolving credit facility.

In the fourth quarter of 2008, the Company recorded pre-tax charges totaling $40.0 million, which had the effect of reducing net income by $27.3 million ($0.25 per diluted share). These charges include restructuring costs for employee reductions and facility closures ($32.6 million), as well as asset write-downs ($7.4 million) as a result of the global economic recession and financial crisis.

In 2008, the Company made $79.9 million in contributions to its defined benefit pension plans in the U.S. and the United Kingdom. $74.0 million in contributions were made in the fourth quarter of 2008, which had the effect of eliminating or significantly reducing the amount of unfunded pension obligations associated with the Company s pension plans.

Results of Operations

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

	Year Ended December 31,		
	2008	**2007**	**2006**
		(In thousands)	
Net sales(1):			
Electronic Instruments	**$ 1,402,653**	$ 1,199,757	$ 1,016,503
Electromechanical	**1,128,482**	937,093	802,787
Consolidated net sales	**$ 2,531,135**	$ 2,136,850	$ 1,819,290
Operating income and income before income taxes:			
Segment operating income(2):			

Electronic Instruments	**$ 306,764**	$ 260,338	$ 203,430
Electromechanical	**175,181**	167,166	139,926
Total segment operating income	**481,945**	427,504	343,356
Corporate administrative and other expenses	**(49,291)**	(40,930)	(34,362)
Consolidated operating income	**432,654**	386,574	308,994
Interest and other expenses, net	**(66,438)**	(50,130)	(45,308)
Consolidated income before income taxes	**$ 366,216**	$ 336,444	$ 263,686

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

(2) Segment operating income represents sales less all direct costs and expenses (including certain administrative and other expenses) applicable to each segment, but does not include interest expense.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Results of Operations

In 2008, the Company posted record sales, operating income, net income and diluted earnings per share. The Company achieved these results from contributions from acquisitions completed in 2008 and 2007, as well as internal growth in both EIG and EMG. Operating income increased, driven by the record sales and a continued focus on cost reduction programs under our Operational Excellence initiatives. The Company expects the current financial and economic crisis, to have a negative impact on operating results in 2009. The full year impact of the 2008 acquisitions and our Operational Excellence capabilities will have a positive impact on our 2009 results.

Net sales for 2008 were $2,531.1 million, an increase of $394.2 million or 18.4% when compared with net sales of $2,136.9 million in 2007. Net sales for EIG were $1,402.7 million in 2008, an increase of 16.9% from sales of $1,199.8 million in 2007. Net sales for EMG were $1,128.5 million in 2008, an increase of 20.4% from sales of $937.1 million in 2007. The Company s internal sales growth was approximately 4% in 2008, which excludes a 1% favorable effect of foreign currency translation, driven by strength in its differentiated businesses. The acquisitions mentioned above contributed the remainder of the net sales increase.

Total international sales for 2008 were $1,225.5 million or 48.4% of consolidated net sales, an increase of $171.8 million or 16.3% when compared with international sales of $1,053.7 million or 49.3% of consolidated net sales in 2007. The increase in international sales resulted from increased international sales from base businesses of $29.3 million or 17.0% of the increase, which includes the effect of foreign currency translation, as well as the acquisitions completed in 2008 and 2007, most notably Cameca SAS (Cameca), the Repair & Overhaul Division of Umeco plc (Umeco R&O), Reading Alloys, California Instruments Corporation (California Instruments) and Vision Research. Increased international sales came primarily from sales to Europe and Asia by both reportable segments. Export shipments from the United States, which are included in total international sales, were $478.5 million in 2008, an increase of $84.1 million or 21.3% compared with $394.4 million in 2007. Export shipments improved primarily due to increased exports from the base businesses and the acquisitions noted above.

New orders for 2008 were a record at $2,561.5 million, an increase of $273.2 million or 11.9% when compared with $2,288.3 million in 2007. The increase in new orders was primarily due to the recent acquisitions noted above. As a result, the Company s backlog of unfilled orders at December 31, 2008 was $718.6 million, an increase of $30.4 million or 4.4% when compared with $688.2 million at December 31, 2007. The increase in backlog was primarily due to the acquired backlog of the recent acquisitions noted above. Beginning in the fourth quarter of 2008 through the filing date of this Form 10-K, the Company has experienced lower order rates as a result of the current financial and economic crisis.

The year ended December 31, 2008 results include fourth quarter pre-tax charges totaling $40.0 million, which had the effect of reducing net income by $27.3 million ($0.25 per diluted share). These charges include restructuring costs for employee reductions and facility closures ($32.6 million), as well as asset write-downs ($7.4 million). Of the $40.0 million in charges, $32.9 million of the restructuring charges and asset write-downs were recorded in cost of sales and $7.1 million of the restructuring charges and asset write-downs were recorded in Selling, general and administrative (SG&A) expenses. The restructuring charges and asset write-downs were reported in segment operating income as follows: $20.4 million in EIG, $19.4 million in EMG and $0.2 million in Corporate administrative and other expenses. The restructuring costs for employee reductions and facility closures relate to plans established by the Company as part of cost reduction initiatives to be broadly implemented across the Company s various businesses during fiscal 2009. The restructuring costs include the consolidation of manufacturing facilities, the migration of production to low cost locales and a general reduction in workforce in response to lower levels of expected sales

volumes in certain of the Company s businesses. The Company recorded pre-tax charges of $30.1 million for severance costs for slightly more than 10% of the Company s workforce. The Company also recorded pre-tax charges of $1.5 million for lease termination costs associated with the closure of certain facilities in 2009. Substantially all of the payments for employee severance and lease termination costs are expected to be made in 2009.

Segment operating income for 2008 was $481.9 million, an increase of $54.4 million or 12.7% when compared with segment operating income of $427.5 million in 2007. Segment operating income, as a percentage of sales,

decreased to 19.0% for 2008 from 20.0% in 2007. The increase in segment operating income resulted primarily from strength in the Company s differentiated businesses and profit contributions made by the acquisitions, partially offset by the fourth quarter pre-tax restructuring charges and asset write-downs described above. The decrease in segment operating margins resulted primarily from the restructuring charges and asset write-downs, which negatively impacted segment operating margins by 160 basis points.

SG&A expenses for 2008 were $322.6 million, an increase of $59.1 million or 22.4% when compared with $263.5 million in 2007. As a percentage of sales, SG&A expenses were 12.7% for 2008, compared with 12.3% in 2007. The increase in SG&A expenses was the result of higher sales, as well as a $7.1 million charge representing a 0.3% increase in SG&A expenses recorded in corporate administrative expenses related to the accelerated vesting of an April 2005 restricted stock grant in the second quarter of 2008 and $7.1 million of SG&A expense related to the fourth quarter of 2008 restructuring charges and asset write-downs described above. Additionally, the Company s acquisition strategy generally is to acquire differentiated businesses, which because of their distribution channels and higher marketing costs tend to have a higher content of selling expenses. Base business selling expenses increased approximately 7.9%. Excluding the impact of the fourth quarter restructuring charges and asset write-downs on selling expense of $6.9 million, a 3.2% impact, and foreign currency translation, the increase in 2008 base business selling expenses was in line with internal sales growth. Selling expenses, as a percentage of sales, increased to 10.8% for 2008, compared with 10.4% in 2007.

Corporate administrative expenses for 2008 were $49.2 million, an increase of $8.4 million or 20.6% when compared with $40.8 million in 2007. As a percentage of sales, corporate administrative expenses were 1.9%, in both 2008 and 2007. The increase in corporate administrative expenses was primarily the result of equity-based compensation associated with the accelerated vesting of restricted stock in the second quarter of 2008, noted above, as well as other expenses necessary to grow the Company, partially offset by equity-based compensation associated with the accelerated vesting of restricted stock in the first and third quarters of 2007.

Consolidated operating income was $432.7 million or 17.1% of sales for 2008, an increase of $46.1 million or 11.9% when compared with $386.6 million or 18.1% of sales in 2007.

Interest expense was $63.7 million for 2008, an increase of $16.8 million or 35.8% when compared with $46.9 million in 2007. The increase was due to the impact of the funding of the private placement senior notes in the fourth quarter of 2007 and the third and fourth quarters of 2008, higher average borrowings to fund the recent acquisitions and the repurchase of 1.3 million shares of the Company s common stock in 2008.

The effective tax rate for 2008 was 32.6% compared with 32.2% in 2007. The higher effective tax rate for 2008 primarily reflects an increase in state and foreign income taxes and the impact of accelerated vesting of non-deductible restricted stock amortization, offset by the impact of settlements of various income tax issues with U.S. taxing authorities and a favorable agreement in the United Kingdom related to deductible interest expense for which previously unrecognized tax benefits were recognized. The lower effective tax rate in 2007 primarily reflects an enacted decrease in certain foreign corporate tax rates in the second half of 2007, partially offset by the elimination of the Foreign Sales Corporation/Extraterritorial Income (FSC/ETI) tax benefit. See Note 11 of the notes to consolidated financial statements included in this Appendix for further details.

Net income for 2008 was $247.0 million, an increase of $19.0 million or 8.3% when compared with $228.0 million in 2007. Diluted earnings per share for 2008 was $2.30, an increase of $0.18 or 8.5% when compared with $2.12 per diluted share in 2007. Diluted earnings per share for 2008 includes the impact of the fourth quarter of 2008 restructuring charges and asset write-downs, which negatively impacted earnings by $0.25 per diluted share.

Segment Results

EIG s sales totaled $1,402.7 million for 2008, an increase of $202.9 million or 16.9% when compared with $1,199.8 million in 2007. The sales increase was due to internal growth of approximately 5%, excluding a favorable 1% effect of foreign currency translation, driven primarily by EIG s aerospace, power, and process and analytical instrument businesses. The acquisitions of Advanced Industries, Inc. (Advanced), B&S Aircraft Parts and Accessories (B&S), Cameca, California Instruments, Vision Research, Inc. and Xantrex Programmable accounted for the remainder of the sales increase.

EIG s operating income was $306.8 million for 2008, an increase of $46.5 million or 17.9% when compared with $260.3 million in 2007. The increases in segment operating income were due to the contribution from the higher sales by EIG s aerospace, power and process and analytical businesses, which includes the acquisitions mentioned above, partially offset by the fourth quarter of 2008 restructuring charges and asset write-downs of $20.4 million. EIG s operating margins were 21.9% of sales for 2008 compared with 21.7% of sales in 2007. The increase in operating margins was driven by operational excellence initiatives throughout the group. The fourth quarter of 2008 restructuring charges and asset write-downs had a negative impact on EIG s operating margins of 140 basis points.

EMG s sales totaled $1,128.5 million for 2008, an increase of $191.4 million or 20.4% from $937.1 million in 2007. The sales increase was due to internal growth of approximately 2%, excluding a favorable 1% effect of foreign currency translation, driven primarily by EMG s differentiated businesses. The acquisitions of Seacon Phoenix, subsequently renamed AMETEK SCP, Inc. (SCP), Hamilton Precision Metals (Hamilton), Umeco R&O, Drake Air, MCG, Reading Alloys and Muirhead accounted for the remainder of the sales increase.

EMG s operating income was $175.2 million for 2008, an increase of $8.0 million or 4.8% when compared with $167.2 million in 2007. EMG s increase in operating income was primarily due to higher sales from the group s differentiated businesses, which include the acquisitions mentioned above, partially offset by the fourth quarter of 2008 restructuring charges and asset write-downs of $19.4 million. EMG s operating margins were 15.5% of sales for 2008 compared with 17.8% of sales in 2007. The decrease in operating margins was primarily driven by the fourth quarter of 2008 restructuring charges and asset write-downs, which had a negative impact on operating margins of 170 basis points. The remainder of the decrease was the dilutive impact of recent acquisitions.

Fourth Quarter Results

Net sales for the fourth quarter of 2008 were $623.7 million, an increase of $40.4 million or 6.9% when compared with net sales of $583.3 million for the fourth quarter of 2007. Net sales for EIG were $361.6 million in 2008, an increase of 7.6% from sales of $336.1 million in 2007. Net sales for EMG were $262.1 million in 2008, an increase of 6.1% from sales of $247.1 million in 2007. The Company s internal sales growth was approximately negative 2%, which excludes a 4% unfavorable effect of foreign currency translation. The acquisitions mentioned above made up the net sales increase.

The three months ended December 31, 2008 results include pre-tax charges totaling $40.0 million, which had the effect of reducing net income by $27.3 million ($0.25 per diluted share). These charges include restructuring costs for employee reductions and facility closures ($32.6 million), as well as asset write-downs ($7.4 million). Of the $40.0 million in charges, $32.9 million of the restructuring charges and asset write-downs were recorded in cost of sales and $7.1 million of the restructuring charges and asset write-downs were recorded in SG&A expenses. The restructuring charges and asset write-downs were reported in segment operating income as follows: $20.4 million in EIG, $19.4 million in EMG and $0.2 million in Corporate administrative and other expenses. The restructuring costs for employee reductions and facility closures relate to plans established by the Company as part of cost reduction initiatives to be broadly implemented across the Company s various businesses during fiscal 2009. The restructuring costs include the consolidation of manufacturing facilities, the migration of production to low cost locales and a general reduction in workforce in response to lower levels of expected sales volumes in certain of the Company s businesses. The Company recorded pre-tax charges of $30.1 million for severance costs for slightly more than 10% of the Company s workforce. The Company also recorded pre-tax charges of $1.5 million for lease termination costs associated with the closure of certain facilities in 2009. Substantially all of the payments for employee severance and lease termination costs are expected to be made in 2009.

Net income for the fourth quarter of 2008 was $43.8 million, a decrease of $18.1 million or 29.2% when compared with $61.9 million for the fourth quarter of 2007. Diluted earnings per share in the fourth quarter of 2008 was $0.41, a

decrease of $0.16 or 28.1% when compared with $0.57 per diluted share in the fourth quarter of 2007. Diluted earnings per share includes the impact of the fourth quarter of 2008 restructuring charges and asset write-downs, which negatively impacted earnings by $0.25 per diluted share.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Results of Operations

In 2007, the Company posted record sales, operating income, net income, diluted earnings per share and cash flow from operations. The Company achieved these results from strong internal growth in both EIG and EMG, as well as contributions from acquisitions in 2007 and 2006. Operating income increased, driven by the record sales and a continued focus on cost reduction programs under our Operational Excellence initiatives.

Net sales for 2007 were $2,136.9 million, an increase of $317.6 million or 17.5% when compared with net sales of $1,819.3 million in 2006. Net sales for EIG were $1,199.8 million in 2007, an increase of 18.0% from sales of $1,016.5 million in 2006. Net sales for EMG were $937.1 million in 2007, an increase of 16.7% from sales of $802.8 million in 2006. The Company s internal sales growth was approximately 7% in 2007, which excludes a 2% favorable effect of foreign currency translation, driven by strength in its differentiated businesses. The acquisitions mentioned above contributed the remainder of the net sales increase.

Total international sales for 2007 were $1,053.7 million or 49.3% of consolidated net sales, an increase of $187.7 million or 21.7% when compared with international sales of $866.0 million or 47.6% of consolidated net sales in 2006. The increase in international sales primarily resulted from increased international sales from base businesses of $74.9 million or 39.9% of the increase, which includes the effect of foreign currency translation. The acquisitions of Cameca, SCP, Hamilton and Umeco R&O in 2007 and Land Instruments International Limited (Land Instruments), PennEngineering Motion Technologies, Inc. (Pittman), Precitech and Southern Aeroparts, Inc. (SAI) in 2006 contributed the remainder of the increase. Increased international sales came primarily from sales to Europe by both reportable segments. Export shipments from the United States, which are included in total international sales, were $394.4 million in 2007, an increase of $50.6 million or 14.7% compared with $343.8 million in 2006. Export shipments improved primarily due to increased exports from the base businesses and acquisitions noted above.

New orders for 2007 were $2,288.3 million, an increase of $372.9 million or 19.5% when compared with $1,915.4 million in 2006. The increase in new orders was driven by the Company s base differentiated businesses, which contributed $167.2 million or 44.8% of the increase, led by the Company s aerospace and engineered materials, interconnects and packaging businesses. The acquisitions mentioned above contributed the remainder of the increase. As a result, the Company s backlog of unfilled orders at December 31, 2007 was $688.2 million, an increase of $151.4 million or 28.2% when compared with $536.8 million at December 31, 2006. The increase in backlog was due to higher order levels in base differentiated businesses and the 2007 acquisitions noted above.

Segment operating income for 2007 was $427.5 million, an increase of $84.1 million or 24.5% when compared with segment operating income of $343.4 million in 2006. Segment operating income, as a percentage of sales, increased to 20.0% for 2007 from 18.9% in 2006. The increase in segment operating income resulted from strength in the differentiated businesses of each group, which includes the profit contributions made by the acquisitions. The margin improvement came from the Company s differentiated businesses.

SG&A expenses for 2007 were $263.5 million, an increase of $44.0 million or 20.1% when compared with $219.5 million in 2006. As a percentage of sales, SG&A expenses were higher in 2007 at 12.3% compared to 12.1% in 2006. Selling expenses, as a percentage of sales, were 10.4% in 2007, slightly higher than the 10.2% in 2006. The selling expense increase and the corresponding increase in selling expenses as a percentage of sales were due primarily to business acquisitions. The Company s acquisition strategy generally is to acquire differentiated businesses, which because of their distribution channels and higher marketing costs tend to have a higher content of selling expenses. Base business selling expenses increased 9.7% for 2007, compared to 2006, which was in line with internal sales growth including the impact of foreign currency translation.

Corporate administrative expenses for 2007 were $40.8 million, an increase of $6.6 million or 19.4% when compared with $34.2 million in 2006. The increase in corporate expenses was the result of higher compensation, including equity-based compensation associated with accelerated vesting of restricted stock grants in 2007 and other costs necessary to grow the Company. As a percentage of sales, corporate administrative expenses were 1.9% in both 2007 and 2006.

Consolidated operating income was $386.6 million or 18.1% of sales for 2007, an increase of $77.6 million or 25.1% when compared with $309.0 million or 17.0% of sales in 2006.

Interest expense was $46.9 million for 2007, an increase of $4.7 million or 11.1% when compared with $42.2 million in 2006. The increase was due to higher average borrowings to fund the 2007 acquisitions, higher average interest rates and the impact of the fourth quarter of 2007 funding of the private placement senior notes.

The effective tax rate for 2007 was 32.2% compared with 31.0% in 2006. The 2007 effective tax rate primarily reflects the elimination of the FSC/ETI tax benefit in 2007, an increase in state income taxes and an increase in interest and penalties on uncertain tax positions, partially offset by an enacted decrease in certain foreign corporate tax rates in the second half of 2007 and the recognition of tax benefits from our international tax planning initiatives. The 2006 effective tax rate benefited primarily from the reversal of a valuation allowance for foreign tax credit carryforwards of $3.2 million, offset somewhat by higher nondeductible equity-based compensation.

Net income for 2007 was $228.0 million, an increase of $46.1 million or 25.3% when compared with $181.9 million in 2006. Diluted earnings per share for 2007 was $2.12, an increase of $0.41 or 24.0% when compared with $1.71 per diluted share in 2006.

Segment Results

EIG s sales totaled $1,199.8 million for 2007, an increase of $183.3 million or 18.0% when compared with $1,016.5 million in 2006. The sales increase was due to internal growth of approximately 9%, excluding a favorable 2% effect of foreign currency translation. The internal growth was driven by sales increases in EIG s process and analytical, aerospace and power businesses. The acquisitions of Cameca, Land Instruments, Precitech, Advanced and B&S accounted for the remainder of the sales increase.

EIG s operating income was $260.3 million for 2007, an increase of $56.9 million or 28.0% when compared with $203.4 million in 2006. EIG s operating margins were 21.7% of sales for 2007 compared with 20.0% of sales in 2006. The increase in operating income and margins came from the group s base differentiated businesses, which include the acquisitions mentioned above.

EMG s sales totaled $937.1 million for 2007, an increase of $134.3 million or 16.7% from $802.8 million in 2006. The sales increase was due to internal growth of approximately 6%, excluding a favorable 2% effect of foreign currency translation, driven primarily by EMG s differentiated businesses. The acquisitions of Pittman, SAI, SCP, Umeco R&O and Hamilton accounted for the remainder of the sales increase.

EMG s operating income was $167.2 million for 2007, an increase of $27.3 million or 19.5% when compared with $139.9 million in 2006. EMG s increase in operating income was due to strength in the group s differentiated businesses, which includes the acquisitions mentioned above. EMG s operating margins were 17.8% of sales for 2007 compared with 17.4% of sales in 2006. The increase in operating margins was primarily due to an increased contribution from the group s differentiated businesses.

Liquidity and Capital Resources

Cash provided by operating activities totaled $247.3 million in 2008, a decrease of $31.2 million or 11.2% when compared with $278.5 million in 2007. The decrease in operating cash flow was primarily the result of higher defined benefit pension plan contributions of $79.9 million in 2008, a $74.7 million increase over the $5.2 million contributed in 2007. The 2008 contributions had the effect of eliminating or significantly reducing the amount of unfunded pension obligations associated with the Company s pension plans. Also impacting operating cash flow are higher

overall operating working capital levels necessary to grow the Company, partially offset by higher earnings. Free cash flow (operating cash flow less capital spending) was $203.1 million in 2008, compared to $240.9 million in 2007. EBITDA (earnings before interest, income taxes, depreciation and amortization) was $489.4 million in 2008, which includes the fourth quarter of 2008 pre-tax restructuring charges and asset write-downs of $40.0 million, compared with $433.9 million in 2007, a 12.8% improvement. Free cash flow and EBITDA are presented because the Company is aware that they are measures used by third parties in evaluating the Company. (See tables on page A-4 for a reconciliation of U.S. generally accepted accounting principles (GAAP) measures to comparable non-GAAP measures).

Cash used for investing activities totaled $496.6 million in 2008, compared with $334.7 million in 2007. In 2008, the Company paid $463.0 million for six business acquisitions and one technology line acquisition, net of cash received, compared with $300.6 million paid for seven business acquisitions and one technology line, net of cash received in 2007. Additions to property, plant and equipment totaled $44.2 million in 2008, compared with $37.6 million in 2007.

Cash provided by financing activities totaled $173.5 million in 2008, compared with $174.1 million in 2007. In 2008, net total borrowings increased by $266.9 million, compared with a net total increase of $180.9 million in 2007. Short-term borrowings increased $69.7 million in 2008, compared with a decrease of $162.6 million in 2007. Long-term borrowings increased $197.2 million in 2008, compared to an increase of $343.4 million in 2007.

In July 2008, the Company repaid the $225 million 7.20% senior notes due July 2008 using the proceeds from borrowings under its existing revolving credit facility.

In the third quarter of 2008, the Company completed a private placement agreement to sell $350 million in senior notes to a group of institutional investors. There were two funding dates for the senior notes. The first funding occurred in September 2008 for $250 million, consisting of $90 million in aggregate principal amount of 6.59% senior notes due September 2015 and $160 million in aggregate principal amount of 7.08% senior notes due September 2018. The second funding date occurred in December 2008 for $100 million, consisting of $35 million in aggregate principal amount of 6.69% senior notes due December 2015 and $65 million in aggregate principal amount of 7.18% senior notes due December 2018. The senior notes carry a weighted average interest rate of 6.93%. The senior notes are subject to certain customary covenants, including financial covenants that, among other things, require the Company to maintain certain debt-to-EBITDA and interest coverage ratios. The proceeds from the senior notes were used to pay down a portion of the borrowings outstanding under the Company s revolving credit facility.

In May 2008, the accounts receivable securitization facility was amended and restated, extending the expiration date from May 2008 to May 2009, and bringing the borrowing capacity to $100 million from $110 million previously. There were no borrowings under this facility at December 31, 2008.

In the third quarter of 2007, the Company completed a private placement agreement to sell $450 million in senior notes to a group of institutional investors. There were two funding dates for the senior notes. The first funding occurred in December 2007 for $370 million, consisting of $270 million in aggregate principal amount of 6.20% senior notes due December 2017 and $100 million in aggregate principal amount of 6.30% senior notes due December 2019. The second funding occurred in July 2008 for $80 million in aggregate principal amount of 6.35% senior notes due July 2018. The notes carry a weighted average interest rate of 6.25%. The proceeds from the first funding of the notes were used to pay down borrowings outstanding under the Company s revolving credit facility, which included a foreign portion related to the 2007 acquisition of Cameca and the 2006 acquisition of Land Instruments, as well as borrowings outstanding under the Company s accounts receivable securitization program. Additionally, the proceeds from the private placement were used to purchase California Instruments in December 2007. The proceeds from the second funding of the notes were used to pay down a portion of the borrowings outstanding under the Company s revolving credit facility.

In June 2007, the Company amended its revolving credit facility, increasing the total borrowing capacity from $400 million to $550 million, which includes an accordion feature that permits the Company to request up to an additional $100 million in revolving credit commitments at any time during the life of the revolving credit agreement under certain conditions. The amendment also extended the term of the facility from October 2011 to June 2012. At December 31, 2008, the Company had $468.9 million available under its revolving credit facility, including the $100 million accordion feature.

At December 31, 2008, total debt outstanding was $1,111.7 million, compared with $903.0 million at December 31, 2007. The debt-to-capital ratio was 46.3% at December 31, 2008, compared with 42.1% at December 31, 2007. The net debt-to-capital ratio (total debt less cash and cash equivalents divided by the sum of net debt and stockholders equity) was 44.3% at December 31, 2008, compared with 37.1% at December 31, 2007. The net debt-to-capital ratio is presented because the Company is aware that this measure is used by third

parties in evaluating the Company. (See table on page A-4 for a reconciliation of U.S. GAAP measures to comparable non-GAAP measures).

Additional financing activities for 2008 include the receipt of net cash proceeds from the exercise of employee stock options of $7.5 million compared with $17.2 million in 2007. Cash dividends paid were $25.7 million in both 2008 and 2007. In 2008, the Company repaid $21.4 million in life insurance policy loans.

Repurchases of 1.3 million shares of the Company s common stock in 2008 totaled $57.4 million, compared with a total of $5.4 million paid for approximately 144,000 shares repurchased in 2007. On January 24, 2008, the Board of Directors approved an increase of $50 million in the authorization for the repurchase of the Company s common stock, adding to the $25.9 million that remained available at December 31, 2007 from an existing $50 million authorization approved in March 2003 for a total of $75.9 million. On July 23, 2008, the Board of Directors approved another increase of $50 million in the authorization for the repurchase of the Company s common stock, adding to the $18.5 million that remained available at June 30, 2008 from the existing $50 million authorization approved in January 2008 for a total of $68.5 million. At December 31, 2008, $68.5 million was available under the current Board authorization for future share repurchases.

The following table summarizes AMETEK s contractual cash obligations and the effect such obligations are expected to have on the Company s liquidity and cash flows in future years at December 31, 2008.

		Payments Due			
Contractual Obligations(4)	**Total**	**Less Than One Year**	**One to Three Years**	**Four to Five Years**	**After Five Years**
			(In millions)		
Long-term debt(1)	$ 1,017.6	$ 1.1	$ 88.3	$	$ 928.2
Revolving credit loans	65.6	7.2		58.4	
Capital lease(2)	14.5	0.9	1.8	1.8	10.0
Other indebtedness	14.0	9.2	1.2	3.0	0.6
Total debt	1,111.7	18.4	91.3	63.2	938.8
Interest on long-term fixed-rate debt	539.4	63.9	122.0	118.6	234.9
Noncancellable operating leases	74.1	15.3	19.9	11.3	27.6
Purchase obligations(3)	219.9	199.7	20.2		
Employee severance and other	46.9	46.9			
Total	$ 1,992.0	$ 344.2	$ 253.4	$ 193.1	$ 1,201.3

(1) Includes the $450 million private placement completed in 2007 and the $350 million private placement completed in 2008.

(2) Represents a capital lease for a building and land associated with the Cameca acquisition. The lease has a term of twelve years, which began July 2006, and is payable quarterly.

(3) Purchase obligations primarily consist of contractual commitments to purchase certain inventories at fixed prices.

(4) The liability for uncertain tax positions was not included in the table of contractual obligations as of December 31, 2008 because the timing of the settlements of these uncertain tax positions cannot be reasonably estimated at this time. See Note 11 to the consolidated financial statements for further details.

Other Commitments

The Company has standby letters of credit and surety bonds of $16.4 million related to performance and payment guarantees at December 31, 2008. Based on experience with these arrangements, the Company believes that any obligations that may arise will not be material to its financial position.

The Company may, from time to time, repurchase its long-term debt in privately negotiated transactions, depending upon availability, market conditions and other factors.

As a result of all of the Company s cash flow activities in 2008, cash and cash equivalents at December 31, 2008 totaled $87.0 million, compared with $170.1 million at December 31, 2007. The Company s liquidity has not been impacted by the recent financial crisis nor do we expect liquidity to be impacted in the near future. Additionally, the Company is in compliance with all of its debt covenants, which includes its financial covenants, for all of its debt agreements. The Company believes it has sufficient cash-generating capabilities from domestic and unrestricted foreign sources, available credit facilities and access to long-term capital funds to enable it to meet its operating needs and contractual obligations in the foreseeable future.

Critical Accounting Policies

The Company has identified its critical accounting policies as those accounting policies that can have a significant impact on the presentation of the Company s financial condition and results of operations and that require the use of complex and subjective estimates based upon past experience and management s judgment. Because of the uncertainty inherent in such estimates, actual results may differ materially from the estimates used. The consolidated financial statements and related notes contain information that is pertinent to the Company s accounting policies and to management s discussion and analysis. The information that follows represents additional specific disclosures about the Company s accounting policies regarding risks, estimates, subjective decisions or assessments whereby materially different results of operations and financial condition could have been reported had different assumptions been used or different conditions existed. Primary disclosure of the Company s significant accounting policies is in Note 1 to the consolidated financial statements.

Revenue Recognition. The Company recognizes revenue on product sales in the period when the sales process is complete. This generally occurs when products are shipped to the customer in accordance with terms of an agreement of sale, under which title and risk of loss have been transferred, collectibility is reasonably assured and pricing is fixed or determinable. For a small percentage of sales where title and risk of loss passes at point of delivery, the Company recognizes revenue upon delivery to the customer, assuming all other criteria for revenue recognition are met. The policy with respect to sales returns and allowances generally provides that the customer may not return products or be given allowances, except at the Company s option. The Company has agreements with distributors that do not provide expanded rights of return for unsold products. The distributor purchases the product from the Company, at which time title and risk of loss transfers to the distributor. The Company does not offer substantial sales incentives and credits to its distributors other than volume discounts. The Company accounts for the sales incentive as a reduction of revenues when the sale is recognized. Accruals for sales returns, other allowances and estimated warranty costs are provided at the time revenue is recognized based upon past experience. At December 31, 2008, 2007 and 2006, the accrual for future warranty obligations was $16.1 million, $14.4 million and $10.9 million, respectively. The Company s expense for warranty obligations was $12.2 million, $11.3 million and $7.6 million in 2008, 2007 and 2006, respectively. The warranty periods for products sold vary widely among the Company s operations, but for the most part do not exceed one year. The Company calculates its warranty expense provision based on past warranty experience and adjustments are made periodically to reflect actual warranty expenses. If actual future sales returns and allowances and warranty amounts are higher than past experience, additional accruals may be required.

Accounts Receivable. The Company maintains allowances for estimated losses resulting from the inability of specific customers to meet their financial obligations to the Company. A specific reserve for bad debts is recorded against the amount due from these customers. For all other customers, the Company recognizes reserves for bad debts based on the length of time specific receivables are past due based on its historical experience. If the financial condition of the Company s customers were to deteriorate, resulting in their inability to make payments, additional allowances may be required. The allowance for possible losses on receivables was $8.5 million and $6.4 million at December 31, 2008 and 2007, respectively.

Inventories. The Company uses the first-in, first-out (FIFO) method of accounting, which approximates current replacement cost, for approximately 62% of its inventories at December 31, 2008. The last-in, first-out (LIFO) method of accounting is used to determine cost for the remaining 38% of its inventory at December 31, 2008. For inventories where cost is determined by the LIFO method, the FIFO value would have been $30.8 million and $35.6 million higher than the LIFO value reported in the consolidated balance

sheet at December 31, 2008 and 2007, respectively. The Company provides estimated inventory reserves for slow-moving and obsolete inventory based on current assessments about future demand, market conditions, customers who may be experiencing financial difficulties and related management initiatives. If these factors are less favorable than those projected by management, additional inventory reserves may be required.

Goodwill and Other Intangibles Assets. The Company accounts for goodwill and other intangible assets under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Under SFAS 142, purchased goodwill and other intangible assets with indefinite lives, primarily trademarks and trade names, are not amortized; rather, they are tested for impairment at least annually. These impairment tests include the projection and discounting of cash flows, estimates of future operating performance of the reporting unit being valued and estimates of the fair value of the intangible assets being tested. SFAS 142 requires a two-step impairment test for goodwill. The first step is to compare the carrying amount of the reporting unit s net assets to the fair value of the reporting unit. If the fair value exceeds the carrying value, no further evaluation is required and no impairment loss is recognized. If the carrying amount exceeds the fair value, then the second step must be completed, which involves allocating the fair value of the reporting unit to each asset and liability, with the excess being implied goodwill. An impairment loss occurs if the amount of the recorded goodwill exceeds the implied goodwill. The Company would be required to record such impairment losses. Indefinite-lived intangibles other than goodwill are tested by estimating the fair values of those assets as of the Company s measurement date, with such fair values based on expected future operating performance and discount rates determined by management. Changes in interest rates and market conditions, among other factors, may have an impact on these estimates. These estimates will likely change over time. The Company s acquisitions have generally included a large goodwill component and the Company expects to continue to make acquisitions. At December 31, 2008, goodwill and other indefinite-lived intangible assets totaled $1,681.8 million, or 55.0% of the Company s total assets. The Company performed its required annual impairment test in the fourth quarter of 2008 and determined that the Company s goodwill and indefinite-lived intangibles were not impaired. There can be no assurance that goodwill or indefinite-lived intangibles impairment will not occur in the future.

Pensions. The Company has U.S. and foreign defined benefit and defined contribution pension plans. The Company accounts for all of its defined benefit pension plans in accordance with SFAS No. 87, *Employers Accounting for Pensions* (SFAS 87) and SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106, and 132(R)* (SFAS 158) for balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans, as well as the income statement recognition of the costs related to these plans. SFAS 87 and SFAS 158 require that amounts recognized in the financial statements be determined on an actuarial basis. The most significant elements in determining the Company s pension income or expense are the assumed pension liability discount rate and the expected return on plan assets. The pension discount rate reflects the current interest rate at which the pension liabilities could be settled at the valuation date. At the end of each year, the Company determines the assumed discount rate to be used to discount plan liabilities. In estimating this rate for 2008, the Company considered rates of return on high-quality, fixed-income investments. The discount rate used in determining the 2008 pension cost was 6.25% for U.S. defined benefit pension plans and 5.89% for foreign plans. The discount rate used for determining the funded status of the plans at December 31, 2008 and determining the 2009 defined benefit pension cost is 6.50% for U.S. plans and 6.09% for foreign plans. In estimating the U.S. and foreign discount rates, the Company s actuaries developed a customized discount rate appropriate to the plans projected benefit cash flow based on yields derived from a database of long-term bonds at consistent maturity dates. The Company used an expected long-term rate of return on plan assets for 2008 of 8.25% for U.S. defined benefit pension plans and 7.0% for foreign plans. The Company will continue to use these rates for 2009 for the U.S. and foreign plans, respectively. The Company determines the expected long-term rate of return based primarily on its expectation of future returns for the

pension plans investments. Additionally, the Company considers historical returns on comparable fixed-income investments and equity investments and adjusts its estimate as deemed appropriate. The rate of compensation increase used in

determining the 2008 pension expense for the U.S. plans was 3.75% and will remain unchanged in 2009. For foreign plans, the rate of compensation increase will be decreased from 3.86% in 2008 to 2.98% in 2009. For the year ended December 31, 2008, the Company recognized consolidated pre-tax pension income of $6.8 million from its U.S. and foreign defined benefit pension plans as compared with pre-tax pension income of $3.8 million recognized for these plans in 2007. The Company estimates its 2009 U.S. and foreign defined benefit pension plans pre-tax expense to be $15.4 million.

The Company follows the balance sheet recognition requirements of SFAS 158. Under SFAS 158, all unrecognized prior service costs, remaining transition obligations or assets and actuarial gains and losses have been recognized, net of tax effects, as a charge to accumulated other comprehensive income (AOCI) in stockholders equity and will be amortized as a component of net periodic pension cost. In addition, effective for fiscal years beginning after December 15, 2008, the measurement date (the date at which plan assets and benefit obligation are measured) is required to be the Company s fiscal year end. The Company uses a December 31 measurement date for its U.S. and foreign defined benefit plans as required by SFAS 158.

To fund the plans, the Company made cash contributions to its defined benefit pension plans during 2008 which totaled $79.9 million, compared with $5.2 million in 2007. The Company anticipates making approximately $19 million to $24 million in cash contributions to its defined benefit pension plans in 2009.

Income Taxes. The process of providing for income taxes and determining the related balance sheet accounts requires management to assess uncertainties, make judgments regarding outcomes and utilize estimates. The Company conducts a broad range of operations around the world and is therefore subject to complex tax regulations in numerous international taxing jurisdictions, resulting at times in tax audits, disputes and potential litigation, the outcome of which is uncertain. Management must make judgments currently about such uncertainties and determine estimates of the Company s tax assets and liabilities. To the extent the final outcome differs, future adjustments to the Company s tax assets and liabilities may be necessary.

The Company assesses the realizability of its deferred tax assets, taking into consideration the Company s forecast of future taxable income, available net operating loss carryforwards and available tax planning strategies that could be implemented to realize the deferred tax assets. Based on this assessment, management must evaluate the need for, and the amount of, valuation allowances against the Company s deferred tax assets. To the extent facts and circumstances change in the future, adjustments to the valuation allowances may be required.

Effective January 1, 2007, the Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*. In accordance with FIN 48, the Company is required to assess the uncertainty in its tax positions, by applying a minimum recognition threshold a tax position is required to meet before a tax benefit is recognized in the financial statements. Once the minimum threshold is met, using a more likely than not standard, a series of probability estimates is made for each item to properly measure and record a tax benefit. The tax benefit recorded is generally equal to the highest probable outcome that is more than 50% likely to be realized after full disclosure and resolution of a tax examination. The underlying probabilities are determined based on the best available objective evidence such as recent tax audit outcomes, published guidance, external expert opinion, or by analogy to the outcome of similar issues in the past. There can be no assurance that these estimates will ultimately be realized given continuous changes in tax policy, legislation and audit practice.

As a result of the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), the Company recorded a $4.7 million increase in liabilities associated with unrecognized tax benefits, including interest and penalties of $2.4 million, a decrease of $1.2 million in goodwill related to a previous business combination and a $5.9 million charge to the January 1, 2007 opening balance of retained earnings. The Company recognizes interest and penalties accrued related to uncertain tax positions in income

tax expense.

Recently Issued Financial Accounting Standards

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which provides a one year deferral of the effective date of SFAS 157 for fair value measurements of nonfinancial assets and nonfinancial liabilities, except for items recognized or disclosed at fair value on a non-recurring basis (at least annually). The deferral applies to fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. Therefore, the Company has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only.
SFAS 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to the valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company s own assumptions used to measure assets and liabilities at fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

At December 31, 2008, $0.3 million of the Company s cash and cash equivalents and $4.2 million of marketable securities are valued as level 1 investments. The Company held $8.5 million valued as level 2 investments in the investments and other assets line of the consolidated balance sheet. For the year ended December 31, 2008, gains and losses on the investments noted above were not material.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). This statement significantly changes the financial accounting and reporting of business combination transactions in the Company s consolidated financial statements. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and prohibits early adoption. Upon adoption, SFAS 141R will not have a significant impact on the Company s consolidated results of operations, financial position or cash flows. However, depending on the nature of an acquisition or the quantity of acquisitions entered into after the adoption, SFAS 141R may significantly impact the Company s consolidated results of operations, financial position or cash flows when compared to acquisitions accounted for under existing U.S. GAAP and result in more earnings volatility and generally lower earnings due to, among other items, the expensing of deal costs and restructuring costs of acquired companies.

In November 2008, the FASB ratified the consensus reached in Emerging Issues Task Force (EITF) Issue No. 08-7, *Accounting for Defensive Intangible Assets* (EITF 08-7). EITF 08-7 clarifies how to account for acquired defensive intangible assets subsequent to initial measurement under SFAS 141R that the Company does not intend to actively use but does intend to hold to prevent others from obtaining access to the asset. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, along with SFAS 141R. The Company has evaluated EITF 08-7 and does not expect the adoption of EITF 08-7 to have a material impact on its consolidated results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 significantly changes the accounting for and reporting of noncontrolling (minority) interests in the Company s consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and prohibits early adoption. The Company does not expect the adoption of SFAS 160 to have an impact on its consolidated results of operations, financial position or cash flows.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing

renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other U.S. GAAP. FSP FAS 142-3 applies to all intangible assets and is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company has evaluated FSP FAS 142-3 and does not expect the adoption of FSP FAS 142-3 to have a material impact on its consolidated results of operations, financial position or cash flows.

Internal Reinvestment

Capital Expenditures

Capital expenditures were $44.2 million or 1.7% of sales in 2008, compared with $37.6 million or 1.8% of sales in 2007. 54% of the expenditures in 2008 were for improvements to existing equipment or additional equipment to increase productivity and expand capacity. The Company s 2008 capital expenditures increased due to a continuing emphasis on spending to improve productivity and expand manufacturing capabilities. The 2009 capital expenditures are expected to approximate 2.0% of sales, with a continued emphasis on spending to improve productivity.

Product Development and Engineering

The Company is committed to research, product development and engineering activities that are designed to identify and develop potential new and improved products or enhance existing products. Research, product development and engineering costs before customer reimbursement were $115.9 million, $102.9 million and $87.6 million in 2008, 2007 and 2006, respectively. Customer reimbursements in 2008, 2007 and 2006 were $6.1 million, $7.1 million and $6.4 million, respectively. These amounts included net Company-funded research and development expenses of $57.5 million, $52.9 million and $42.0 million, respectively. All such expenditures were directed toward the development of new products and processes and the improvement of existing products and processes.

Environmental Matters

Certain historic processes in the manufacture of products have resulted in environmentally hazardous waste by-products as defined by federal and state laws and regulations. While these waste products were handled in compliance with regulations existing at that time, at December 31, 2008, the Company is named a Potentially Responsible Party (PRP) at 16 non-AMETEK-owned former waste disposal or treatment sites (the non-owned sites). The Company is identified as a de minimis party in 14 of these sites based on the low volume of waste attributed to the Company relative to the amounts attributed to other named PRPs. In 10 of these sites, the Company has reached a tentative agreement on the cost of the de minimis settlement to satisfy its obligation and is awaiting executed agreements. The tentatively agreed-to settlement amounts are fully reserved. In the other four sites, the Company is continuing to investigate the accuracy of the alleged volume attributed to the Company as estimated by the parties primarily responsible for remedial activity at the sites to establish an appropriate settlement amount. In the two remaining sites where the Company is a non-de minimis PRP, the Company is participating in the investigation and/or related required remediation as part of a PRP Group and reserves have been established sufficient to satisfy the Company s expected obligation. The Company historically has resolved these issues within established reserve levels and reasonably expects this result will continue. In addition to these non-owned sites, the Company has an ongoing practice of providing reserves for probable remediation activities at certain of its current or previously owned manufacturing locations (the owned sites). For claims and proceedings against the Company with respect to other environmental matters, reserves are established once the Company has determined that a loss is probable and estimable. This estimate is refined as the Company moves through the various stages of investigation, risk assessment, feasibility study and corrective action processes. In certain instances, the Company has developed a range of estimates

for such costs and has recorded a liability based on the low end of the range. It is reasonably possible that the actual cost of remediation of the individual sites could vary from the current estimates and the amounts accrued in the consolidated financial statements; however, the amounts of such variances are not expected to result in a material change to the consolidated financial statements. In estimating the Company s liability for

remediation, the Company also considers the likely proportionate share of the anticipated remediation expense and the ability of the other PRPs to fulfill their obligations.

Total environmental reserves at December 31, 2008 and 2007 were $28.4 million and $25.3 million, respectively, for non-owned and owned sites. In 2008, the Company provided $7.3 million of additional reserves, including $5.6 million for existing sites and $1.7 million related to recent acquisitions. Additionally, the Company spent $4.2 million on environmental matters in 2008. The Company s reserves for environmental liabilities at December 31, 2008 and 2007 include reserves of $17.9 million and $18.0 million, respectively, for an owned site acquired in connection with the fiscal 2005 acquisition of HCC Industries (HCC). The Company is solely liable for the performance of remedial activities for one of several operating units making up a large Superfund site in the San Gabriel Valley of California. The Company has obtained indemnifications and other financial assurances from the former owners of HCC related to the costs of the required remedial activities. At December 31, 2008, the Company has $12.4 million in receivables related to HCC for probable recoveries from third-party escrow funds and other committed third-party funds to support the required remediation. Also, the Company is indemnified by HCC s former owners for up to $19.0 million of additional costs.

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

In October 2008, the Company received a Notice of Administrative Civil Liability from the San Diego Regional Water Quality Control Board seeking certain penalties. The Notice claims that a former subsidiary of AMETEK, which became a separate company in 1988 and filed for bankruptcy liquidation in 2007, failed to adequately produce a delineation report and feasibility study within specified time frames. We believe we have good and valid defenses to this claim and intend to vigorously defend against it.

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

Market Risk

The Company s primary exposures to market risk are fluctuations in interest rates, foreign currency exchange rates and commodity prices, which could impact its results of operations and financial condition. The Company addresses its exposure to these risks through its normal operating and financing activities. The Company s differentiated and global business activities help to reduce the impact that any particular market risk may have on its operating earnings as a whole.

The Company s short-term debt carries variable interest rates and generally its long-term debt carries fixed rates. These financial instruments are more fully described in the notes to the consolidated financial statements.

The foreign currencies to which the Company has the most significant exchange rate exposure are the Euro, the British pound, the Japanese yen, the Chinese renminbi and the Mexican peso. Exposure to foreign currency rate

fluctuation is monitored, and when possible, mitigated through the occasional use of local borrowings and derivative financial instruments in the foreign country affected. The effect of translating foreign subsidiaries balance sheets into U.S. dollars is included in other comprehensive income within stockholders equity. Foreign currency transactions have not had a significant effect on the operating results reported by the Company because revenues and costs associated with the revenues are generally transacted in the same foreign currencies.

The primary commodities to which the Company has market exposure are raw material purchases of nickel, aluminum, copper, steel, titanium and gold. Exposure to price changes in these commodities is generally mitigated

through adjustments in selling prices of the ultimate product and purchase order pricing arrangements, although forward contracts are sometimes used to manage some of those exposures.

Based on a hypothetical ten percent adverse movement in interest rates, commodity prices or foreign currency exchange rates, the Company s best estimate is that the potential losses in future earnings, fair value of risk-sensitive financial instruments and cash flows are not material, although the actual effects may differ materially from the hypothetical analysis.

Forward-Looking Information

Certain matters discussed in this Appendix are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 (PSLRA), which involve risk and uncertainties that exist in the Company s operations and business environment and can be affected by inaccurate assumptions, or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company s actual future results. The Company wishes to take advantage of the safe harbor provisions of the PSLRA by cautioning readers that numerous important factors, in some cases have caused, and in the future could cause, the Company s actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Additional information concerning risk and other factors that could have a material adverse effect on our business, or cause actual results to differ from projections is contained in the Company s Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, subsequent events or otherwise, unless required by the securities laws to do so.

Management s Responsibility for Financial Statements

Management has prepared and is responsible for the integrity of the consolidated financial statements and related information. The statements are prepared in conformity with U.S. generally accepted accounting principles consistently applied and include certain amounts based on management s best estimates and judgments. Historical financial information elsewhere in this report is consistent with that in the financial statements.

In meeting its responsibility for the reliability of the financial information, management maintains a system of internal accounting and disclosure controls, including an internal audit program. The system of controls provides for appropriate division of responsibility and the application of written policies and procedures. That system, which undergoes continual reevaluation, is designed to provide reasonable assurance that assets are safeguarded and records are adequate for the preparation of reliable financial data.

Management is responsible for establishing and maintaining adequate controls over financial reporting. We maintain a system of internal controls that is designed to provide reasonable assurance as to the fair and reliable preparation and presentation of the consolidated financial statements; however, there are inherent limitations in the effectiveness of any system of internal controls.

Management recognizes its responsibility for conducting the Company s activities according to the highest standards of personal and corporate conduct. That responsibility is characterized and reflected in a code of business conduct for all employees, and in a financial code of ethics for the Chief Executive Officer and Senior Financial Officers, as well as in other key policy statements publicized throughout the Company.

The Audit Committee of the Board of Directors, which is composed solely of independent directors who are not employees of the Company, meets with the independent registered public accounting firm, the internal auditors and management to satisfy itself that each is properly discharging its responsibilities. The report of the Audit Committee is included in the Proxy Statement of the Company for its 2009 Annual Meeting. Both the independent registered public accounting firm and the internal auditors have direct access to the Audit Committee.

The Company s independent registered public accounting firm, Ernst & Young LLP, is engaged to render an opinion as to whether management s financial statements present fairly, in all material respects, the Company s financial position and operating results. This report is included on page A-23.

Management s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Company s internal control over financial reporting as of December 31, 2008 based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that the Company s internal control over financial reporting was effective as of December 31, 2008.

The Company s internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which appears on page A-22.

Frank S. Hermance
Chairman and Chief Executive Officer

John J. Molinelli
Executive Vice President Chief Financial Officer

February 25, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of AMETEK, Inc.:

We have audited AMETEK, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AMETEK, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AMETEK, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AMETEK, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and stockholders equity for each of the three years in the period ended December 31, 2008, and our report dated February 25, 2009 expressed an unqualified opinion thereon.

Philadelphia, Pennsylvania
February 25, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To the Board of Directors and Stockholders of AMETEK, Inc.:

We have audited the accompanying consolidated balance sheets of AMETEK, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and stockholders equity for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMETEK, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 11, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, effective January 1, 2007. Also, as discussed in Note 12, the Company adopted in 2006 the balance sheet recognition and disclosure requirements and in 2008 the measurement date provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AMETEK, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2009 expressed an unqualified opinion thereon.

Philadelphia, Pennsylvania
February 25, 2009

AMETEK, Inc.

Consolidated Statement of Income
(In thousands, except per share amounts)

	Year Ended December 31,		
	2008	**2007**	**2006**
Net sales	**$ 2,531,135**	$ 2,136,850	$ 1,819,290
Operating expenses:			
Cost of sales, excluding depreciation	**1,730,086**	1,444,514	1,251,920
Selling, general and administrative	**322,552**	263,472	219,454
Depreciation	**45,843**	42,290	38,922
Total operating expenses	**2,098,481**	1,750,276	1,510,296
Operating income	**432,654**	386,574	308,994
Other expenses:			
Interest expense	**(63,652)**	(46,866)	(42,167)
Other, net	**(2,786)**	(3,264)	(3,141)
Income before income taxes	**366,216**	336,444	263,686
Provision for income taxes	**119,264**	108,424	81,752
Net income	**$ 246,952**	$ 228,020	$ 181,934
Basic earnings per share	**$ 2.33**	$ 2.15	$ 1.74
Diluted earnings per share	**$ 2.30**	$ 2.12	$ 1.71
Weighted average common shares outstanding:			
Basic shares	**106,148**	105,832	104,841
Diluted shares	**107,443**	107,580	106,608

See accompanying notes.

AMETEK, Inc.

Consolidated Balance Sheet
(In thousands, except share amounts)

	December 31, 2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 86,980**	$ 170,139
Marketable securities	**4,230**	10,842
Receivables, less allowance for possible losses	**406,012**	395,631
Inventories	**349,509**	301,679
Deferred income taxes	**30,919**	23,294
Other current assets	**76,936**	50,619
Total current assets	**954,586**	952,204
Property, plant and equipment, net	**307,908**	293,107
Goodwill	**1,240,052**	1,045,733
Other intangibles, net of accumulated amortization	**441,785**	312,349
Investments and other assets	**111,211**	142,307
Total assets	**$ 3,055,542**	$ 2,745,700
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	**$ 18,438**	$ 236,005
Accounts payable	**203,742**	206,170
Income taxes payable	**31,649**	28,437
Accrued liabilities	**193,684**	170,138
Total current liabilities	**447,513**	640,750
Long-term debt	**1,093,243**	666,953
Deferred income taxes	**144,941**	116,568
Other long-term liabilities	**82,073**	80,722
Total liabilities	**1,767,770**	1,504,993
Stockholders equity:		
Preferred stock, $0.01 par value; authorized: 5,000,000 shares; none issued		
Common stock, $0.01 par value; authorized: 400,000,000 shares; issued: 2008 110,188,937 shares; 2007 109,749,985 shares	**1,102**	1,097
Capital in excess of par value	**203,000**	174,450
Retained earnings	**1,320,470**	1,099,111
Accumulated other comprehensive (loss) income	**(144,767)**	5,370
Less: Treasury stock: 2008 3,461,541 shares; 2007 2,381,778 shares	**(92,033)**	(39,321)

Total stockholders equity	**1,287,772**	1,240,707
Total liabilities and stockholders equity	**$ 3,055,542**	$ 2,745,700

See accompanying notes.

AMETEK, Inc.

Consolidated Statement of Stockholders Equity
(In thousands)

	Year Ended December 31,					
	2008		2007		2006	
	Comprehensive Income	Stockholders Equity	Comprehensive Income	Stockholders Equity	Comprehensive Income	Stockholders Equity
Capital Stock						
Preferred Stock, $0.01 par value		$		$		$
Common Stock, $0.01 par value						
Balance at the beginning of the year		**1,097**		1,085		1,075
Shares issued		**5**		12		10
Balance at the end of the year		**1,102**		1,097		1,085
Capital in Excess of Par Value						
Balance at the beginning of the year		**174,450**		134,001		107,086
Issuance of common stock under employee stock plans		**3,474**		15,455		9,768
Share-based compensation costs		**20,186**		15,530		12,441
Excess tax benefits from exercise of stock options		**4,890**		9,464		4,706
Balance at the end of the year		**203,000**		174,450		134,001
Retained Earnings						
Balance at the beginning of the year		**1,099,111**		902,379		739,522
Adoption of FIN 48				(5,901)		
Net income	**$ 246,952**	**246,952**	$ 228,020	228,020	$ 181,934	181,934
Cash dividends paid		**(25,685)**		(25,748)		(18,832)
Other		**92**		361		(245)
		1,320,470		1,099,111		902,379

Balance at the end of the year						
Accumulated Other Comprehensive (Loss) Income						
Foreign currency translation:						
Balance at the beginning of the year		**7,331**		(1,137)		(17,838)
Translation adjustments, net of tax of $-, $- and ($85) in 2008, 2007 and 2006, respectively	**(46,784)**		6,056		8,542	
(Loss) gain on net investment hedges, net of tax benefit (expense) of $6,058, ($1,298) and ($1,374) in 2008, 2007 and 2006, respectively	**(11,253)**		2,412		8,159	
	(58,037)	**(58,037)**	8,468	8,468	16,701	16,701
Balance at the end of the year		**(50,706)**		7,331		(1,137)
Defined benefit pension plans:						
Balance at the beginning of the year		**(3,040)**		(33,213)		(3,380)
Adjustments during the year, net of tax of ($1,536)					2,852	2,852
Change in pension plans, net of tax benefit (expense) of $56,344 and ($14,141) in 2008 and 2007	**(90,320)**	**(90,320)**	30,173	30,173		
Adoption of SFAS No. 158, net of tax of $17,179						(32,685)
Balance at the end of the year		**(93,360)**		(3,040)		(33,213)
Unrealized holding gain (loss) on available-for-sale securities:						
Balance at the beginning of the year		**1,079**		798		302
(Decrease) increase during the year, net of tax benefit	**(1,780)**	**(1,780)**	281	281	496	496

(expense) of ($958), $151 and $430 in 2008, 2007 and 2006, respectively			
Balance at the end of the year	**(701)**	1,079	798
Total other comprehensive (loss) income for the year	**(150,137)**	38,922	20,049
Total comprehensive income for the year	**$ 96,815**	$ 266,942	$ 201,983
Accumulated other comprehensive income (loss) at the end of the year	**(144,767)**	5,370	(33,552)
Treasury Stock			
Balance at the beginning of the year	**(39,321)**	(37,241)	(17,247)
Issuance of common stock under employee stock plans	**4,732**	3,357	1,081
Purchase of treasury stock	**(57,444)**	(5,437)	(21,075)
Balance at the end of the year	**(92,033)**	(39,321)	(37,241)
Total Stockholders Equity	**$ 1,287,772**	$ 1,240,707	$ 966,672

See accompanying notes.

AMETEK, Inc.

Consolidated Statement of Cash Flows
(In thousands)

	Year Ended December 31,		
	2008	**2007**	**2006**
Cash provided by (used for):			
Operating activities:			
Net income	**$ 246,952**	$ 228,020	$ 181,934
Adjustments to reconcile net income to total operating activities:			
Depreciation and amortization	**63,261**	52,665	45,929
Deferred income tax expense (benefit)	**29,742**	4,769	(524)
Share-based compensation expense	**20,186**	15,530	12,441
Changes in assets and liabilities, net of acquisitions:			
Decrease (increase) in receivables	**6,636**	(26,944)	(26,042)
(Increase) decrease in inventories and other current assets	**(35,180)**	194	(6,225)
Increase in payables, accruals and income taxes	**3,161**	13,421	29,751
Decrease in other long-term liabilities	**(1,907)**	(7,153)	(1,819)
Pension contribution	**(79,905)**	(5,162)	(13,721)
Other	**(5,681)**	3,183	4,243
Total operating activities	**247,265**	278,523	225,967
Investing activities:			
Additions to property, plant and equipment	**(44,215)**	(37,620)	(29,156)
Purchases of businesses, net of cash acquired	**(463,012)**	(300,569)	(177,639)
Decrease (increase) in marketable securities	**6,323**	(1,700)	(871)
Other	**4,282**	5,228	1,641
Total investing activities	**(496,622)**	(334,661)	(206,025)
Financing activities:			
Net change in short-term borrowings	**69,693**	(162,589)	4,048
Additional long-term borrowings	**430,000**	370,000	29,507
Reduction in long-term borrowings	**(232,835)**	(26,553)	(18,186)
Repayment of life insurance policy loans	**(21,394)**		
Repurchases of common stock	**(57,444)**	(5,437)	(21,075)
Cash dividends paid	**(25,685)**	(25,748)	(18,832)
Excess tax benefits from share-based payments	**4,890**	9,464	4,706
Proceeds from employee stock plans and other	**6,238**	14,961	9,878
Total financing activities	**173,463**	174,098	(9,954)
Effect of exchange rate changes on cash and cash equivalents	**(7,265)**	3,088	3,558
(Decrease) increase in cash and cash equivalents	**(83,159)**	121,048	13,546

Cash and cash equivalents:			
Beginning of year	**170,139**	49,091	35,545
End of year	**$ 86,980**	$ 170,139	$ 49,091

See accompanying notes.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements reflect the operations, financial position and cash flows of AMETEK, Inc. (the Company), and include the accounts of the Company and subsidiaries, after elimination of all intercompany transactions in the consolidation. The Company s investments in 50% or less owned joint ventures are accounted for by the equity method of accounting. Such investments are not significant to the Company s consolidated results of operations, financial position or cash flows.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents, Securities and Other Investments

All highly liquid investments with maturities of three months or less when purchased are considered cash equivalents. At December 31, 2008 and 2007, all of the Company s equity securities and fixed-income securities (primarily those of a captive insurance subsidiary) are classified as available-for-sale, although the Company may hold fixed-income securities until their maturity dates. Fixed-income securities generally mature within three years. The aggregate market value of equity and fixed-income securities at December 31, 2008 and 2007 was $11.9 million ($12.9 million amortized cost) and $17.9 million ($16.3 million amortized cost), respectively. The temporary unrealized gain or loss on such securities is recorded as a separate component of accumulated other comprehensive income (in stockholders equity), and is not material. The Company had $0.2 million of other-than-temporary impairment losses in 2008 and no other-than-temporary impairment losses in 2007. Certain of the Company s other investments, which are not significant, are also accounted for by the equity method of accounting as discussed above.

Accounts Receivable

The Company maintains allowances for estimated losses resulting from the inability of specific customers to meet their financial obligations to the Company. A specific reserve for doubtful receivables is recorded against the amount due from these customers. For all other customers, the Company recognizes reserves for doubtful receivables based on the length of time specific receivables are past due based on past experience. The allowance for possible losses on receivables was $8.5 million and $6.4 million at December 31, 2008 and 2007, respectively. See Note 6.

Inventories

The Company uses the first-in, first-out (FIFO) method of accounting, which approximates current replacement cost, for 62% of its inventories at December 31, 2008. The last-in, first-out (LIFO) method of accounting is used to determine cost for the remaining 38% of the Company s inventory at December 31, 2008. For inventories where cost is determined by the LIFO method, the excess of the FIFO value over the LIFO value was $30.8 million and $35.6 million at December 31, 2008 and 2007, respectively. The Company provides estimated inventory reserves for slow-moving and obsolete inventory based on current assessments about future demand, market conditions, customers

who may be experiencing financial difficulties and related management initiatives.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for additions to plant facilities, or that extend their useful lives, are capitalized. The cost of minor tools, jigs and dies, and maintenance and repairs is charged to

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

operations as incurred. Depreciation of plant and equipment is calculated principally on a straight-line basis over the estimated useful lives of the related assets. The range of lives for depreciable assets is generally three to 10 years for machinery and equipment, five to 27 years for leasehold improvements and 25 to 50 years for buildings.

Revenue Recognition

The Company recognizes revenue on product sales in the period when the sales process is complete. This generally occurs when products are shipped to the customer in accordance with terms of an agreement of sale, under which title and risk of loss have been transferred, collectability is reasonably assured and pricing is fixed or determinable. For a small percentage of sales where title and risk of loss passes at point of delivery, the Company recognizes revenue upon delivery to the customer, assuming all other criteria for revenue recognition are met. The policy, with respect to sales returns and allowances, generally provides that the customer may not return products or be given allowances, except at the Company s option. The Company has agreements with distributors that do not provide expanded rights of return for unsold products. The distributor purchases the product from the Company, at which time title and risk of loss transfers to the distributor. The Company does not offer substantial sales incentives and credits to its distributors other than volume discounts. The Company accounts for these sales incentives as a reduction of revenues when the sale is recognized in the income statement. Accruals for sales returns, other allowances and estimated warranty costs are provided at the time revenue is recognized based upon past experience. At December 31, 2008, 2007 and 2006, the accrual for future warranty obligations was $16.1 million, $14.4 million and $10.9 million, respectively. The Company s expense for warranty obligations was $12.2 million in 2008, $11.3 million in 2007 and $7.6 million in 2006. The warranty periods for products sold vary widely among the Company s operations, but for the most part do not exceed one year. The Company calculates its warranty expense provision based on past warranty experience and adjustments are made periodically to reflect actual warranty expenses.

Research and Development

Company-funded research and development costs are charged to operations as incurred and were $57.5 million in 2008, $52.9 million in 2007 and $42.0 million in 2006.

Shipping and Handling Costs

Shipping and handling costs are included in cost of sales and were $34.0 million in 2008, $27.5 million in 2007 and $23.5 million in 2006.

Earnings Per Share

The calculation of basic earnings per share is based on the weighted average number of common shares considered outstanding during the periods. The calculation of diluted earnings per share reflects the effect of all potentially dilutive securities (principally outstanding common stock options and restricted stock grants). The number of weighted average shares used in the calculation of basic earnings per share and diluted earnings per share were as follows for the years ended December 31:

	2008	**2007**	**2006**

	(In thousands)		
Weighted average shares			
Basic shares	**106,148**	105,832	104,841
Stock option and awards plans	**1,295**	1,748	1,767
Diluted shares	**107,443**	107,580	106,608

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial Instruments and Foreign Currency Translation

Assets and liabilities of foreign operations are translated using exchange rates in effect at the balance sheet date and their results of operations are translated using average exchange rates for the year. Certain transactions of the Company and its subsidiaries are made in currencies other than their functional currency. Exchange gains and losses from those transactions are included in operating results for the year.

The Company makes infrequent use of derivative financial instruments. Forward contracts are entered into from time to time to hedge specific firm commitments for certain inventory purchases or export sales, thereby minimizing the Company s exposure to raw material commodity price or foreign currency fluctuation. No forward contracts were outstanding at December 31, 2008. During 2008, the Company was party to certain commodity price forward contracts pertaining to raw materials, which were not significant. These forward contracts were acquired as a part of a 2008 acquisition. At December 31, 2007, the Company was party to certain foreign currency forward contracts, which were not significant. These forward contracts were acquired as a part of a 2007 acquisition. In instances where transactions are designated as hedges of an underlying item, the gains and losses on those transactions are included in accumulated other comprehensive income (AOCI) within stockholders equity to the extent they are effective as hedges. The Company has designated certain foreign-currency-denominated long-term debt as hedges of the net investment in certain foreign operations. These net investment hedges are the Company s British-pound-denominated long-term debt and Euro-denominated long-term debt, pertaining to certain European acquisitions whose functional currencies are either the British pound or the Euro. These acquisitions were financed by foreign-currency-denominated borrowings under the Company s revolving credit facility and all but 40 million British pounds ($58.4 million) at December 31, 2008 was subsequently refinanced with long-term private placement debt. These borrowings were designed to create net investment hedges in each of the foreign subsidiaries on their respective dates of acquisition. Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), permits hedging the foreign currency exposure of a net investment in a foreign operation. In accordance with SFAS 133, on the respective dates of acquisition, the Company designated the British pound- and Euro-denominated loans referred to above as hedging instruments to offset foreign exchange gains or losses on the net investment in the acquired business due to changes in the British pound and Euro exchange rates. These net investment hedges were evidenced by management s documentation supporting the contemporaneous hedge designation on the acquisition dates. As required by SFAS 133, any gain or loss on the hedging instrument following hedge designation (the debt), is reported in AOCI in the same manner as the translation adjustment on the investment based on changes in the spot rate, which is used to measure hedge effectiveness. As of December 31, 2008 and 2007, all net investment hedges were effective. At December 31, 2008, the translation losses on the net carrying value of the foreign-currency-denominated investments exceeded the translation gains on the carrying value of the underlying debt and the difference is included in AOCI. At December 31, 2007, the translation gains on the net carrying value of the foreign-currency-denominated investments exceeded the translation losses on the carrying value of the underlying debt and the difference is included in AOCI. An evaluation of hedge effectiveness is performed by the Company on an ongoing basis and any changes in the hedge are made as appropriate.

At December 31, 2008 and 2007, the Company had $189.7 million and $178.8 million, respectively, of British pound-denominated loans, which are designated as a hedge against the net investment in foreign subsidiaries acquired in 2008, 2004 and 2003. At December 31, 2008 and 2007, the Company had $69.8 million and $73.0 million, respectively, of Euro-denominated loans, which were designated as a hedge against the net investment in a foreign subsidiary acquired in 2005. As a result of these British pound- and Euro-denominated loans being designated and

effective as net investment hedges, $55.6 million of currency gains and $9.6 million of currency losses have been included in the foreign currency translation component of other comprehensive income at December 31, 2008 and 2007, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Share-Based Compensation

The Company accounts for share-based payments in accordance with SFAS No. 123(R), *Share-Based Payment* (SFAS 123R). Accordingly, the Company expenses the fair value of awards made under its share-based plans. That cost is recognized in the consolidated financial statements over the requisite service period of the grants. See Note 9.

Goodwill and Other Intangible Assets

The Company accounts for purchased goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Under SFAS 142, purchased goodwill and intangible assets with indefinite lives, primarily trademarks and trade names, are not amortized; rather, they are tested for impairment at least annually.

Intangible assets, other than goodwill, with definite lives are amortized over their estimated useful lives. Patents are being amortized over useful lives of four to 20 years. Customer relationships are being amortized over a period of two to 20 years. Miscellaneous other intangible assets are being amortized over a period of 13 to 20 years. The Company periodically evaluates the reasonableness of the estimated useful lives of these intangible assets.

In order to test goodwill and intangible assets with indefinite lives for impairment under SFAS 142, a determination of the fair value of the Company s reporting units and its other intangible assets with indefinite lives is required and is based upon, among other things, estimates of future operating performance. Changes in market conditions, among other factors, may have an impact on these estimates. The Company completed its required annual impairment tests in the fourth quarter of 2008, 2007 and 2006 and determined that the carrying values of goodwill and other intangible assets with indefinite lives were not impaired.

Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. As a result of the adoption of FIN 48, the Company recorded a $4.7 million increase in liabilities associated with unrecognized tax benefits, including interest and penalties of $2.4 million, a decrease of $1.2 million in goodwill related to a previous business combination and a $5.9 million charge to the January 1, 2007, opening balance of retained earnings. The Company recognizes interest and penalties accrued related to uncertain tax positions in income tax expense.

The Company s annual provision for income taxes and determination of the related balance sheet accounts requires management to assess uncertainties, make judgments regarding outcomes and utilize estimates. The Company conducts a broad range of operations around the world and is therefore subject to complex tax regulations in numerous international taxing jurisdictions, resulting at times in tax audits, disputes and potential litigation, the outcome of which is uncertain. Management must make judgments currently about such uncertainties and determine estimates of the Company s tax assets and liabilities. To the extent the final outcome differs, future adjustments to the Company s tax assets and liabilities may be necessary.

The Company also is required to assess the realizability of its deferred tax assets, taking into consideration the Company s forecast of future taxable income, available net operating loss carryforwards and available tax planning

strategies that could be implemented to realize the deferred tax assets. Based on this assessment, management must evaluate the need for, and amount of, valuation allowances against the Company s deferred tax assets. To the extent facts and circumstances change in the future, adjustments to the valuation allowances may be required.

2. Recently Issued Financial Accounting Standards

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

provides a one year deferral of the effective date of SFAS 157 for fair value measurements of nonfinancial assets and nonfinancial liabilities, except for items recognized or disclosed at fair value on a non-recurring basis (at least annually). The deferral applies to fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. Therefore, the Company has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only.
SFAS 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to the valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company s own assumptions used to measure assets and liabilities at fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

At December 31, 2008, $0.3 million of the Company s cash and cash equivalents and $4.2 million of marketable securities are valued as level 1 investments. The Company held $8.5 million valued as level 2 investments in the investments and other assets line of the consolidated balance sheet. For the year ended December 31, 2008, gains and losses on the investments noted above were not material.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). This statement significantly changes the financial accounting and reporting of business combination transactions in the Company s consolidated financial statements. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and prohibits early adoption. Upon adoption, SFAS 141R will not have a significant impact on the Company s consolidated results of operations, financial position or cash flows. However, depending on the nature of an acquisition or the quantity of acquisitions entered into after the adoption, SFAS 141R may significantly impact the Company s consolidated results of operations, financial position or cash flows when compared to acquisitions accounted for under existing U.S. GAAP and result in more earnings volatility and generally lower earnings due to, among other items, the expensing of deal costs and restructuring costs of acquired companies.

In November 2008, the FASB ratified the consensus reached in Emerging Issues Task Force (EITF) Issue No. 08-7, *Accounting for Defensive Intangible Assets* (EITF 08-7). EITF 08-7 clarifies how to account for acquired defensive intangible assets subsequent to initial measurement under SFAS 141R that the Company does not intend to actively use but does intend to hold to prevent others from obtaining access to the asset. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, along with SFAS 141R. The Company has evaluated EITF 08-7 and does not expect the adoption of EITF 08-7 to have a material impact on its consolidated results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 significantly changes the accounting for and reporting of noncontrolling (minority) interests in the Company s consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and prohibits early adoption. The Company does not expect the adoption of SFAS 160 to have an impact on its consolidated results of operations, financial position or cash flows.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other U.S. GAAP. FSP FAS 142-3 applies to all intangible assets and is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company has evaluated FSP FAS 142-3 and does not expect the adoption of FSP FAS 142-3 to have a material impact on its consolidated results of operations, financial position or cash flows.

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

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

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

	Restructuring			
	Severance	Facility Closures	Asset Write-Downs	Total
	(In millions)			
Restructuring accruals at December 31, 2007	$	$	$	$
Pre-tax charges	**30.1**	**2.5**	**7.4**	**40.0**
Utilization		**(1.0)**	**(7.4)**	**(8.4)**
Restructuring accruals at December 31, 2008	**$ 30.1**	**$ 1.5**	**$**	**$ 31.6**

The fourth quarter of 2008 severance charge was recorded in accordance with SFAS No. 112, *Employers Accounting for Postemployment Benefits* (SFAS 112). SFAS 112 is applicable to all types of postemployment benefits, which

constitute an ongoing benefit arrangement, including, but not limited to, salary continuation, supplemental unemployment benefits, severance benefits, job training, counseling and continuation of benefits such as health care benefits and life insurance coverage. Under SFAS 112, costs associated with such ongoing benefit arrangements are recorded no later than the period when it becomes probable that the costs will be incurred and the costs are reasonably estimable.

4. Acquisitions

The Company spent a total of approximately $463.0 million in cash, net of cash acquired, for six acquisitions and one small technology line in 2008. The acquisitions include Drake Air (Drake) and Motion Control Group (MCG) in February 2008, Reading Alloys in April 2008, Vision Research, Inc. in June 2008, the programmable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

power business of Xantrex Technology, Inc. (Xantrex Programmable) in August 2008 and Muirhead Aerospace Limited (Muirhead) in November 2008. Drake is a provider of heat-transfer repair services to the commercial aerospace industry and further expands the Company s presence in the global aerospace maintenance, repair and overhaul (MRO) services industry. MCG is a leading global manufacturer of highly customized motors and motion control solutions for the medical, life sciences, industrial automation, semiconductor and aviation markets. MCG enhances the Company s capability in providing precision motion technology solutions. Reading Alloys is a global leader in specialty titanium master alloys and highly engineered metal powders used in the aerospace, medical implant, military and electronics markets. Vision Research is a leading manufacturer of high-speed digital imaging systems used for motion capture and analysis in numerous test and measurement applications. Xantrex Programmable is a leader in alternating current and direct current programmable power supplies used to test electrical and electronic products. Muirhead is a leading manufacturer of motion technology products and a provider of avionics repair and overhaul services for the aerospace and defense markets. Drake, MCG, Reading Alloys and Muirhead are part of the Company s Electromechanical Group (EMG) and Vision Research and Xantrex Programmable are part of the Company s Electronic Instruments Group (EIG). The six businesses acquired have annualized sales of approximately $290 million.

The acquisitions have been accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations*. Accordingly, the operating results of the above acquisitions have been included in the Company s consolidated results from the respective dates of acquisition.

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

	(In millions)
Property, plant and equipment	$ 26.2
Goodwill	271.1
Other intangible assets	136.7
Net working capital and other	29.0
Total purchase price	$ 463.0

The amount allocated to goodwill is reflective of the benefits the Company expects to realize from the acquisitions as follows: The Drake acquisition further expands the Company s position in the third-party aerospace MRO market. The MCG acquisition is a strategic fit with the Company s highly differentiated technical motors business, sharing common markets, customers, distribution channels and motor platforms. The Reading Alloys acquisition expands the Company s position in customized titanium products, adding to its capabilities in strip and foil products used in medical devices, electronic components and aerospace instruments. In addition, Reading Alloys metal powder production techniques complement the Company s existing gas and water atomization capabilities. The Vision Research acquisition provides opportunities for growth in high-speed digital imaging and serves a number of the Company s markets, including aerospace and defense, general industrial, and research and development. The Xantrex Programmable acquisition significantly expands the Company s position in the niche market for programmable power

sources and provides the Company with further opportunities for growth in the electronic test and measurement equipment market. The Muirhead acquisition expands the Company s penetration in motion control products for the aerospace and defense markets, including actuators and other specialized linear motors, complementing our existing technical motor capabilities. No goodwill recorded as a part of the 2008 acquisitions will be deductible in future years for tax purposes.

The Company is in the process of conducting third-party valuations of certain tangible and intangible assets acquired, as well as finalizing restructuring plans for certain acquisitions. Adjustments to the allocation of purchase price will be recorded when this information is finalized. Therefore, the allocation of the purchase price is subject to revision.

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The valuations for the $136.7 million preliminarily assigned to other intangible assets, related to the 2008 acquisitions, currently are being finalized by third-party appraisers. In connection with the finalization of the 2007 acquisitions, $109.1 million was assigned to intangible assets, which consisted primarily of patents, technology, customer relationships and trade names with estimated lives ranging from six to 20 years.

In 2007, the Company spent $300.6 million in cash, net of cash acquired, for seven acquisitions and one small technology line. The acquisitions include Seacon Phoenix, subsequently renamed AMETEK SCP, Inc. (SCP), in April 2007, Advanced Industries, Inc. (Advanced), B&S Aircraft Parts and Accessories (B&S) and Hamilton Precision Metals (Hamilton) in June 2007, Cameca SAS (Cameca) in August 2007, the Repair & Overhaul Division of Umeco plc (Umeco R&O) in November 2007 and California Instruments Corporation (California Instruments) in December 2007. SCP provides undersea electrical interconnect subsystems to the global submarine market. Advanced manufactures starter generators, brush and brushless motors, vane-axial centrifugal blowers for cabin ventilation and linear actuators for the business jet, light jet and helicopter markets. B&S provides third-party MRO services, primarily for starter generators and hydraulic and fuel system components, for a variety of business aircraft and helicopter applications. Hamilton produces highly differentiated niche specialty metals used in medical implant devices and surgical instruments, electronic components and measurement devices for aerospace and other industrial markets. Cameca is a manufacturer of high-end elemental analysis systems used in advanced laboratory research, semiconductor and nanotechnology applications. Umeco R&O provides third-party MRO services for a variety of helicopters and commercial and regional aircraft throughout Europe. California Instruments is a leader in the niche market for programmable alternating current (AC) power sources used to test electrical and electronic products, with an especially strong position in the high-power segment. Advanced, B&S, Cameca and California Instruments are part of EIG and SCP, Hamilton and Umeco R&O are part of EMG.

Had the 2008 acquisitions been made at the beginning of 2008, unaudited pro forma net sales, net income and diluted earnings per share for the year ended December 31, 2008 would not have been materially different than the amounts reported.

Had the 2008 acquisitions and the 2007 acquisitions been made at the beginning of 2007, unaudited pro forma net sales, net income and diluted earnings per share would have been as follows:

	Year Ended December 31, 2007 (In millions, except per share amount)	
Net sales	$	2,571.0
Net income	$	245.7
Diluted earnings per share	$	2.28

Pro forma results are not necessarily indicative of the results that would have occurred if the acquisitions had been completed at the beginning of 2007.

In 2006, the Company spent $177.6 million, net of cash acquired, for five new businesses and two small technology lines. The businesses acquired included Pulsar Technologies, Inc. (Pulsar) in February 2006, PennEngineering Motion

Technologies, Inc. (Pittman) in May 2006, Land Instruments International Limited (Land Instruments) in June 2006, Precitech in November 2006 and Southern Aeroparts, Inc. (SAI) in December 2006. Pulsar is a leading designer and manufacturer of specialized communications equipment for the electric utility market. Pittman is a leading designer and manufacturer of highly engineered motors. Land Instruments is a global supplier of high-end analytical instrumentation. Precitech is a leading manufacturer of ultraprecision machining systems for a variety of markets, including nanotechnology, military, defense and ophthalmic. SAI is a provider of third-party maintenance, repair and overhaul services to the commercial aerospace industry. Pittman and SAI are part of EMG and Pulsar, Land Instruments and Precitech are part of EIG.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisitions Subsequent to Year End

On January 20, 2009, the Company announced the acquisition of High Standard Aviation, a provider of electrical and electromechanical, hydraulic and pneumatic repair services to the aerospace industry. High Standard Aviation broadens the global footprint of AMETEK s aerospace MRO business. High Standard Aviation, with annual sales of approximately $31 million, will be part of AMETEK s Electromechanical Group.

5. Goodwill and Other Intangible Assets

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

	EIG	EMG (In millions)	Total
Balance at December 31, 2006	**$ 531.7**	**$ 349.7**	**$ 881.4**
Goodwill acquired during the year	84.2	86.3	170.5
Purchase price allocation adjustments and other*	(9.2)	(12.8)	(22.0)
Foreign currency translation adjustments	15.3	0.5	15.8
Balance at December 31, 2007	**622.0**	**423.7**	**1,045.7**
Goodwill acquired during the year	164.6	106.5	271.1
Purchase price allocation adjustments and other*	(4.1)	(2.0)	(6.1)
Foreign currency translation adjustments	(45.3)	(25.3)	(70.6)
Balance at December 31, 2008	**$ 737.2**	**$ 502.9**	**$ 1,240.1**

* Purchase price allocation adjustments reflect final purchase price allocations and revisions to certain preliminary allocations for recent acquisitions, which include reclassifications between goodwill and other intangible assets.

Other intangible assets were as follows at December 31:

	2008 (In thousands)	2007
Definite-lived intangible assets (subject to amortization):		
Patents	**$ 51,021**	$ 37,037
Purchased technology	**69,041**	34,865
Customer lists	**203,335**	118,047
Other acquired intangibles	**38,441**	55,053

	361,838	245,002
Accumulated amortization:		
Patents	**(25,250)**	(24,220)
Purchased technology	**(22,870)**	(21,717)
Customer lists	**(23,331)**	(12,361)
Other acquired intangibles	**(26,468)**	(26,605)
	(97,919)	(84,903)
Net intangible assets subject to amortization	**263,919**	160,099
Indefinite-lived intangible assets (not subject to amortization):		
Trademarks and trade names	**177,866**	152,250
	$ 441,785	$ 312,349

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense was $17.5 million, $10.4 million and $7.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. Amortization expense for each of the next five years is expected to approximate $20.8 million per year, not considering the impact of potential future acquisitions.

6. Other Consolidated Balance Sheet Information

	December 31, 2008	December 31, 2007
	(In thousands)	
INVENTORIES		
Finished goods and parts	**$ 66,416**	$ 52,206
Work in process	**81,282**	86,858
Raw materials and purchased parts	**201,811**	162,615
	$ 349,509	$ 301,679
PROPERTY, PLANT AND EQUIPMENT		
Land	**$ 27,342**	$ 28,720
Buildings	**199,696**	195,888
Machinery and equipment	**612,474**	592,950
	839,512	817,558
Less: Accumulated depreciation	**(531,604)**	(524,451)
	$ 307,908	$ 293,107
ACCRUED LIABILITIES		
Accrued employee compensation and benefits	**$ 59,915**	$ 56,171
Severance and lease termination accruals	**46,863**	17,606
Other	**86,906**	96,361
	$ 193,684	$ 170,138

	2008	2007	2006
		(In thousands)	
ALLOWANCES FOR POSSIBLE LOSSES ON ACCOUNTS AND NOTES RECEIVABLE			
Balance at the beginning of the year	**$ 6,393**	$ 7,387	$ 7,581
Additions charged to expense	**5,648**	663	1,511

Recoveries credited to allowance	**10**	22	182
Write-offs	**(2,878)**	(2,122)	(501)
Currency translation adjustments and other	**(684)**	443	(1,386)
Balance at the end of the year	**$ 8,489**	$ 6,393	$ 7,387

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Debt

Long-term debt consisted of the following at December 31:

	2008	2007
	(In thousands)	
U.S. dollar 7.20% senior notes due July 2008	$	$ 225,000
U.S. dollar 6.59% senior notes due September 2015	**90,000**	
U.S. dollar 6.69% senior notes due December 2015	**35,000**	
U.S. dollar 6.20% senior notes due December 2017	**270,000**	270,000
U.S. dollar 6.35% senior notes due July 2018	**80,000**	
U.S. dollar 7.08% senior notes due September 2018	**160,000**	
U.S. dollar 7.18% senior notes due December 2018	**65,000**	
U.S. dollar 6.30% senior notes due December 2019	**100,000**	100,000
British pound 5.96% senior note due September 2010	**72,960**	99,340
British pound floating-rate term note due through December 2010 (3.52% at December 31, 2008)	**16,416**	24,339
Euro 3.94% senior note due August 2015	**69,842**	72,993
British pound 5.99% senior note due November 2016	**58,369**	79,480
Revolving credit loan	**65,569**	
Other, principally foreign	**28,525**	31,806
Total debt	**1,111,681**	902,958
Less: Current portion	**(18,438)**	(236,005)
Total long-term debt	**$ 1,093,243**	$ 666,953

Maturities of long-term debt outstanding at December 31, 2008 were as follows: $89.9 million in 2010; $1.4 million in 2011; $61.3 million in 2012; $1.9 million in 2013; $1.2 million in 2014; and $937.6 million in 2015 and thereafter.

In July 2008, the Company repaid the $225 million 7.20% senior notes due July 2008 using the proceeds from borrowings under its existing revolving credit facility.

In the third quarter of 2008, the Company completed a private placement agreement to sell $350 million in senior notes to a group of institutional investors. There were two funding dates for the senior notes. The first funding occurred in September 2008 for $250 million, consisting of $90 million in aggregate principal amount of 6.59% senior notes due September 2015 and $160 million in aggregate principal amount of 7.08% senior notes due September 2018. The second funding date occurred in December 2008 for $100 million, consisting of $35 million in aggregate principal amount of 6.69% senior notes due December 2015 and $65 million in aggregate principal amount of 7.18% senior notes due December 2018. The senior notes carry a weighted average interest rate of 6.93%. The proceeds from the senior notes were used to pay down a portion of the Company s revolving credit facility.

In the third quarter of 2007, the Company completed a private placement agreement to sell $450 million in senior notes to a group of institutional investors. There were two funding dates for the senior notes. The first funding occurred in December 2007 for $370 million, consisting of $270 million in aggregate principal amount of 6.20% senior notes due December 2017 and $100 million in aggregate principal amount of 6.30% senior notes due December 2019. The second funding occurred in July 2008 for $80 million in aggregate principal amount of 6.35% senior notes due July 2018. The notes carry a weighted average interest rate of 6.25%. The proceeds from the first funding of the notes were used to pay down the Company s revolving credit facility, which included a foreign

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

portion related to the 2007 acquisition of Cameca and the 2006 acquisition of Land Instruments, as well as borrowings outstanding under the Company s accounts receivable securitization program. Additionally, the proceeds from the private placement were used to purchase California Instruments in December 2007. The proceeds from the second funding of the notes were used to pay down a portion of the Company s revolving credit facility.

At December 31, 2008, the Company has an outstanding 11.3 million British pound ($16.4 million at December 31, 2008) 3.52% (London Interbank Offered Rate (LIBOR) plus 0.69%) floating-rate term loan with annual installment payments due through December 2010. In September 2005, the Company issued a 50 million Euro ($69.8 million at December 31, 2008) 3.94% senior note due August 2015. In November 2004, the Company issued a 40 million British pound ($58.4 million at December 31, 2008) 5.99% senior note due in November 2016. In September 2003, the Company issued a 50 million British pound ($73.0 million at December 31, 2008) 5.96% senior note due in September 2010.

The Company has an accounts receivable securitization facility agreement with a wholly owned, special-purpose subsidiary and the special-purpose subsidiary has a receivables sale agreement with a bank, whereby it can sell to a third party up to $100.0 million of its trade accounts receivable on a revolving basis. The securitization facility is a financing vehicle utilized by the Company because it can offer attractive rates relative to other financing sources. When borrowings are outstanding under the facility, all securitized accounts receivable and related debt are reflected on the Company s consolidated balance sheet.

The special-purpose subsidiary is the servicer of the accounts receivable under the securitization facility. The accounts receivable securitization facility was amended and restated in May 2008, extending the expiration date from May 2008 to May 2009, and bringing the borrowing capacity to $100 million, from $110 million previously. The Company intends to renew the securitization facility on an annual basis. Interest rates on amounts drawn down are based on prevailing market rates for short-term commercial paper plus a program fee. The Company also pays a commitment fee on any unused commitments under the securitization facility. The Company s accounts receivable securitization is accounted for as a secured borrowing under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

At December 31, 2008 and 2007, the Company had no borrowings outstanding on the accounts receivable securitization. Interest expense under this facility is not significant. The weighted average interest rate when borrowings were outstanding under the accounts receivable securitization during 2008 and 2007 was 3.6% and 5.7%, respectively.

In June 2007, the Company amended its revolving credit facility, increasing the total borrowing capacity from $400 million to $550 million, which includes an accordion feature that permits the Company to request up to an additional $100 million in revolving credit commitments at any time during the life of the revolving credit agreement under certain conditions. The amendment also extended the term of the facility from October 2011 to June 2012.

The revolving credit facility places certain restrictions on allowable additional indebtedness. At December 31, 2008, the Company had available borrowing capacity of $468.9 million under its $550 million revolving bank credit facility, which includes an accordion feature allowing $100 million of additional borrowing capacity.

Interest rates on outstanding loans under the revolving credit facility are at the applicable LIBOR rate plus a negotiated spread, or at the U.S. prime rate. At December 31, 2008, the Company had $65.6 million borrowings outstanding under the revolving credit facility, of which $58.4 million related to 40 million of British pounds borrowings under the revolver. At December 31, 2007, the Company had no borrowings outstanding under the revolving credit facility. The weighted average interest rate on the revolving credit facility for the years ended December 31, 2008 and 2007 was 2.81% and 5.82%, respectively. The Company had outstanding letters of credit totaling $15.5 million and $24.7 million at December 31, 2008 and 2007, respectively.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The private placement, the floating-rate term loan, the senior notes, the revolving credit facility and the accounts receivable securitization are subject to certain customary covenants, including financial covenants that, among other things, require the Company to maintain certain debt-to-EBITDA and interest coverage ratios.

Foreign subsidiaries of the Company had available credit facilities with local foreign lenders of $51.0 million at December 31, 2008. Foreign subsidiaries had debt outstanding at December 31, 2008 totaling $44.9 million, including $33.7 million reported in long-term debt.

The weighted average interest rate on total debt outstanding at December 31, 2008 and 2007 was 6.2% and 6.3%, respectively.

8. Stockholders Equity

On both January 24, 2008 and July 23, 2008, the Board of Directors authorized increases of $50 million for the repurchase of common stock for a total of $100 million in 2008. These increases were added to the $25.9 million that remained available at December 31, 2007 from an existing $50 million authorization approved in March 2003. In 2008, the Company repurchased approximately 1,263,000 shares of common stock for $57.4 million in cash under its current share repurchase authorization. In 2007, the Company used cash of $5.4 million for the repurchase of approximately 144,000 shares of common stock. At December 31, 2008, $68.5 million of the current share repurchase authorization remained available. At December 31, 2008, the Company held 3.5 million shares in its treasury at a cost of $92.0 million, compared with 2.4 million shares at a cost of $39.3 million at December 31, 2007. The number of shares outstanding at December 31, 2008 was 106.7 million shares, compared with 107.4 million shares at December 31, 2007.

The Company has a Shareholder Rights Plan, under which the Company s Board of Directors declared a dividend of one Right for each share of Company common stock owned at the close of business on June 2, 2007, and has authorized the issuance of one Right for each share of Common Stock of the Company issued between the Record Date and the Distribution Date. The Plan provides, under certain conditions involving acquisition of the Company s common stock, that holders of Rights, except for the acquiring entity, would be entitled (i) to purchase shares of preferred stock at a specified exercise price, or (ii) to purchase shares of common stock of the Company, or the acquiring company, having a value of twice the Rights exercise price. The Rights under the Plan expire in June 2017.

9. Share-Based Compensation

Under the terms of the Company s stockholder-approved share-based plans, incentive and non-qualified stock options and restricted stock awards have been, and may be, issued to the Company s officers, management-level employees and members of its Board of Directors. In 2007, the Board of Directors and the Company s stockholders approved the 2007 Omnibus Incentive Compensation Plan, which permits the issuance of up to 3.5 million shares of Company common stock. Employee and non-employee director stock options generally vest at a rate of 25% per year, beginning one year from the date of the grant, and restricted stock awards generally have a four-year cliff vesting. Options primarily have a maximum contractual term of seven years. At December 31, 2008, 8.0 million shares of Company common stock were reserved for issuance under the Company s share-based plans, including 4.0 million shares for stock options outstanding.

The Company issues previously unissued shares when options are exercised and shares are issued from treasury stock upon the award of restricted stock.

The Company follows the provisions of SFAS 123R. SFAS 123R requires companies to measure and record compensation expense related to all stock awards by recognizing the grant date fair value of the awards over their requisite service periods in the financial statements. For grants under any of the Company s plans that are subject to graded vesting over a service period, the Company recognizes expense on a straight-line basis over the requisite service period for the entire award.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2008	2007	2006
Expected stock volatility	**18.4%**	22.4%	24.4%
Expected life of the options (years)	**4.7**	4.7	4.8
Risk-free interest rate	**2.60%**	4.53%	4.71%
Expected dividend yield	**0.49%**	0.66%	0.50%
Black-Scholes-Merton fair value per option granted	**$ 9.58**	$ 9.58	$ 9.55

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

Total share-based compensation expense recognized under SFAS 123R was as follows for the years ended December 31:

	2008	2007 (In thousands)	2006
Stock option expense	**$ 6,300**	$ 5,884	$ 5,541
Restricted stock expense	**13,886**	9,646	6,900
Total pre-tax expense	**20,186**	15,530	12,441
Related tax benefit	**(3,990)**	(4,180)	(3,116)
Reduction of net income	**$ 16,196**	$ 11,350	$ 9,325
Reduction of earnings per share:			
Basic	**$ 0.15**	$ 0.11	$ 0.09
Diluted	**$ 0.15**	$ 0.11	$ 0.09

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

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the Company s stock option activity and related information for the year ended December 31, 2008:

	Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In millions)
Outstanding at the beginning of the year	3,806	$ 23.05		
Granted	713	48.60		
Exercised	(439)	17.57		
Forfeited	(45)	36.30		
Outstanding at the end of the year	4,035	$ 28.01	3.6	$ 27.6
Exercisable at the end of the year	2,423	$ 19.80	2.4	$ 26.9

The aggregate intrinsic value of options exercised during 2008, 2007 and 2006 was $13.3 million, $32.2 million and $17.6 million, respectively. The total fair value of the stock options vested during 2008, 2007 and 2006 was $5.6 million, $5.7 million and $5.7 million, respectively.

The following is a summary of the status of the Company s nonvested options outstanding for the year ended December 31, 2008:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Nonvested options outstanding at the beginning of the year	1,678	$ 8.37
Granted	713	9.58
Vested	(734)	7.57
Forfeited	(45)	6.97
Nonvested options outstanding at the end of the year	1,612	$ 9.39

Expected future pre-tax compensation expense relating to the 1.6 million nonvested options outstanding as of December 31, 2008 is $10.2 million, which is expected to be recognized over a weighted average period of approximately two years.

The fair value of restricted shares under the Company s restricted stock arrangement is determined by the product of the number of shares granted and the grant date market price of the Company s common stock. Upon the grant of restricted stock, the fair value of the restricted shares (unearned compensation) at the date of grant is charged as a reduction of capital in excess of par value in the Company s consolidated balance sheet and is amortized to expense on a straight-line basis over the vesting period, which is the same as the calculated derived service period as determined on the grant date.

Restricted stock awards are subject to accelerated vesting due to certain events, including doubling of the grant price of the Company s common stock as of the close of business during any five consecutive trading days. On May 19, 2008, the April 27, 2005 grant of 706,605 shares of restricted stock vested under this accelerated vesting provision. The pre-tax charge to income due to the accelerated vesting of these shares was $7.8 million ($7.3 million net after-tax charge) for the year ended December 31, 2008. On February 20, 2007, July 9, 2007 and October 2, 2007, an aggregate of 472,612 shares of restricted stock vested under this accelerated vesting provision. The charge to income due to the accelerated vesting of these shares did not have a material impact on the Company s earnings for the year ended December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the status of the Company s nonvested restricted stock outstanding for the year ended December 31, 2008:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Nonvested restricted stock outstanding at the beginning of the year	1,133	$ 28.77
Granted	204	48.38
Vested	(710)	25.09
Forfeited	(19)	38.65
Nonvested restricted stock outstanding at the end of the year	608	$ 39.34

The total fair value of the restricted stock that vested during 2008 was $17.8 million and 2007 and 2006 were not material. The weighted average fair value of restricted stock granted per share during 2008 and 2007 was $48.38 and $36.89, respectively. Expected future pre-tax compensation expense related to the 0.6 million nonvested restricted shares outstanding as of December 31, 2008 is $14.5 million, which is expected to be recognized over a weighted average period of approximately three years.

Under a Supplemental Executive Retirement Plan (SERP) in 2008, the Company reserved 27,154 shares of common stock. Reductions for retirements and terminations were 137 shares in 2008. The total number of shares of common stock reserved under the SERP was 282,132 as of December 31, 2008. Charges to expense under the SERP are not significant in amount and are considered pension expense with the offsetting credit reflected in capital in excess of par value.

10. Leases and Other Commitments

Minimum aggregate rental commitments under noncancellable leases in effect at December 31, 2008 (principally for production and administrative facilities and equipment) amounted to $74.1 million, consisting of payments of $15.3 million in 2009, $11.8 million in 2010, $8.1 million in 2011, $6.7 million in 2012, $4.6 million in 2013 and $27.6 million thereafter. Rental expense was $22.7 million in 2008, $19.1 million in 2007 and $15.2 million in 2006. The leases expire over a range of years from 2009 to 2082, with renewal or purchase options, subject to various terms and conditions, contained in most of the leases.

The Company acquired a capital lease obligation in 2007 for land and a building. The lease has a term of 12 years, which began July 2006, and is payable quarterly. Property, plant and equipment as of December 31, 2008 includes a building of $13.5 million, net of $1.6 million of accumulated depreciation and land of $2.1 million related to this capital lease. Amortization of the leased assets of $0.7 million is included in 2008 depreciation expense. Future

minimum lease payments are estimated to be $0.9 million in each of the years 2009 through 2013 and $10.0 million thereafter, for total minimum lease payments of $14.5 million, net of interest.

As of December 31, 2008 and 2007, the Company had $219.9 million and $189.2 million, respectively, in purchase obligations outstanding, which primarily consisted of contractual commitments to purchase certain inventories at fixed prices.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Income Taxes

The components of income before income taxes and the details of the provision for income taxes were as follows for the years ended December 31:

	2008	2007	2006
		(In thousands)	
Income before income taxes:			
Domestic	**$ 260,464**	$ 244,550	$ 197,718
Foreign	**105,752**	91,894	65,968
Total	**$ 366,216**	$ 336,444	$ 263,686
Provision for income taxes:			
Current:			
Federal	**$ 52,581**	$ 66,386	$ 49,571
Foreign	**29,889**	28,929	26,632
State	**7,052**	8,340	6,073
Total current	**89,522**	103,655	82,276
Deferred:			
Federal	**28,920**	4,751	(705)
Foreign	**(1,378)**	(2,036)	(259)
State	**2,200**	2,054	440
Total deferred	**29,742**	4,769	(524)
Total provision	**$ 119,264**	$ 108,424	$ 81,752

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of deferred tax (asset) liability were as follows at December 31:

	2008	2007
	(In thousands)	
Current deferred tax (asset) liability:		
Reserves not currently deductible	**$ (20,885)**	$ (19,056)
Share-based compensation	**(1,984)**	(1,223)
Net operating loss carryforwards	**(1,107)**	(107)
Foreign tax credit carryforwards	**(3,360)**	(3,106)
Other	**(3,583)**	198
Net current deferred tax asset	**$ (30,919)**	$ (23,294)
Noncurrent deferred tax (asset) liability:		
Differences in basis of property and accelerated depreciation	**$ 24,442**	$ 18,802
Reserves not currently deductible	**(17,815)**	(18,066)
Pensions	**7,454**	24,505
Differences in basis of intangible assets and accelerated amortization	**136,417**	91,508
Net operating loss carryforwards	**(11,950)**	(4,917)
Share-based compensation	**(9,084)**	(4,182)
Other	**4,268**	4,383
	133,732	112,033
Less: Valuation allowance	**11,209**	4,535
Net noncurrent deferred tax liability	**144,941**	116,568
Net deferred tax liability	**$ 114,022**	$ 93,274

The Company s effective tax rate of the provision for income taxes reconciles to the U.S. Federal statutory rate as follows for the years ended December 31:

	2008	2007	2006
U.S. Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal income tax benefit	**1.5**	1.9	1.6
Tax benefits from qualified export sales			(2.6)
Foreign operations, net*	**(3.0)**	(4.6)	(0.5)
Change in valuation allowance			(2.0)
Other	**(0.9)**	(0.1)	(0.5)

Consolidated effective tax rate	**32.6%**	32.2%	31.0%

* Includes the effects of statutory tax rate reductions in Italy, the United Kingdom and Germany during 2007.

As of December 31, 2008, the Company had no provision for U.S. deferred income taxes on the undistributed earnings of its foreign subsidiaries, which total approximately $295 million. If the Company were to distribute those earnings to the United States, the Company would be subject to U.S. income taxes based on the excess of the U.S. statutory rate over statutory rates in the foreign jurisdiction and withholding taxes payable to the various foreign countries. Determination of the amount of the unrecognized deferred income tax liability on these undistributed earnings is not practicable.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2008, the Company had tax benefits of $13.1 million related to net operating loss carryforwards, which will be available to offset future income taxes payable, subject to certain annual or other limitations based on foreign and U.S. tax laws. This amount includes net operating loss carryforwards of $9.2 million for federal income tax purposes with a valuation allowance of $8.4 million, $2.7 million for state income tax purposes with a valuation allowance of $1.6 million, and $1.2 million for foreign locations with a full valuation allowance. These net operating loss carryforwards, if not used, will expire between 2010 and 2031. As of December 31, 2008, the Company had $3.4 million of U.S. foreign tax credit carryforwards.

The Company maintains a valuation allowance to reduce certain deferred tax assets to amounts that are more likely than not to be realized. This allowance primarily relates to the deferred tax assets established for net operating loss carryforwards. In 2008, the Company recorded a net reduction in goodwill of $0.7 million related to the utilization of net operating loss carryforwards. The increase of $6.7 million in the valuation allowance primarily relates to the impact of acquired net operating losses.

As disclosed in Note 1, the Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the adoption of FIN 48, the Company recorded a $4.7 million increase in liabilities associated with unrecognized tax benefits, including interest and penalties of $2.4 million, a decrease of $1.2 million in goodwill related to a previous business combination and a $5.9 million charge to the January 1, 2007, opening balance of retained earnings.

At December 31, 2008, the Company had gross unrecognized tax benefits of $18.6 million, all of which would impact the effective tax rate if recognized. At December 31, 2007, the Company had gross unrecognized tax benefits of $22.7 million, of which $21.6 million, if recognized, would impact the effective tax rate.

The Company recognizes interest and penalties accrued related to uncertain tax positions in income tax expense. At December 31, 2008 and 2007, the Company reported $2.3 million and $3.0 million, respectively, in the aggregate related to interest and penalty exposure as accrued income tax expense in the consolidated balance sheet. During 2008 and 2007, the Company recognized $0.8 million of income and $1.5 million of expense, respectively, of interest and penalties in the income statement.

The most significant tax jurisdiction for the Company is the United States. The Company files income tax returns in various state and foreign tax jurisdictions, in some cases for multiple legal entities per jurisdiction. Generally, the Company has open tax years subject to tax audit on average of between three and six years in these jurisdictions. In 2008, the Internal Revenue Service (IRS) completed the audit of the Company s U.S. income tax returns for 1999-2004 and is currently examining the Company s U.S. income tax returns for 2005-2007. We are also under exam in Germany for 2004-2006. The Company has not materially extended any other statutes of limitation for any significant location and has reviewed and accrued for, where necessary, tax liabilities for open periods. Tax years in certain state and foreign jurisdictions remain subject to examination; however the uncertain tax positions related to these jurisdictions are not considered material. In addition to the IRS and German audits, the Company is also pursuing voluntary disclosure agreements (VDAs) related to state tax issues which, if settled, could have a material impact on tax expense during 2009. Unrecognized tax benefits in total related to the audits and VDAs is $10.6 million at December 31, 2008. There can be no assurance that any portion of the unrecognized tax benefits will be favorably resolved.

During 2008, the Company added $11.6 million of tax, interest and penalties related to 2008 activity for identified uncertain tax positions and reversed $16.5 million of tax and interest related to statute expirations and settlement of prior uncertain positions. During 2007, the Company added $1.9 million of tax, interest and penalties related to 2007 activity for identified uncertain tax positions and reversed $3.9 million of tax and interest related to statute expirations and settlement of prior uncertain positions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a reconciliation of the liability for uncertain tax positions at December 31:

	2008	2007
	(In millions)	
Balance at the beginning of the year	**$ 22.7**	$ 24.9
Additions for tax positions related to the current year	**0.9**	1.3
Additions for tax positions of prior years	**10.1**	
Reductions for tax positions of prior years	**(4.2)**	(3.2)
Reductions related to settlements with taxing authorities	**(10.8)**	
Reductions due to statute expirations	**(0.1)**	(0.3)
Balance at the end of the year	**$ 18.6**	$ 22.7

The additions above primarily reflect the increase in tax liabilities for uncertain tax positions related to certain foreign activities and for acquired businesses, while the reductions above reflect the favorable agreement in the European Union related to deductible interest expense and the settlement of an IRS audit. The net decrease in uncertain tax positions for the year ending December 31, 2008 resulted in a decrease to income tax expense of $12 million.

12. Retirement Plans and Other Postretirement Benefits

Retirement and Pension Plans

The Company sponsors several retirement and pension plans covering eligible salaried and hourly employees. The plans generally provide benefits based on participants years of service and/or compensation. The following is a brief description of the Company s retirement and pension plans.

The Company maintains contributory and noncontributory defined benefit pension plans. Benefits for eligible salaried and hourly employees under all defined benefit plans are funded through trusts established in conjunction with the plans. The Company s funding policy with respect to its defined benefit plans is to contribute amounts that provide for benefits based on actuarial calculations and the applicable requirements of U.S. federal and local foreign laws. The Company estimates that it will make cash contributions of approximately $19 million to $24 million to its worldwide defined benefit pension plans in 2009.

The Company uses a measurement date of December 31 (its fiscal year end) for its U.S. and foreign defined benefit pension plans as required by SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158).* Prior to 2008, the Company used an October 1 measurement date for its three United Kingdom-based defined benefit pension plans. The effect of the elimination of the early measurement date for the three United Kingdom-based defined benefit pension plans was not significant. The recognition and disclosure requirements of SFAS 158 were adopted in 2006.

The Company sponsors a 401(k) retirement and savings plan for eligible U.S. employees. Participants in the savings plan may contribute a portion of their compensation on a before-tax basis. The Company matches employee contributions on a dollar-for-dollar basis up to six percent of eligible compensation or a maximum of $1,200 per participant.

The Company s retirement and savings plan has a defined contribution retirement feature principally to cover U.S. salaried employees joining the Company after December 31, 1996. Under the retirement feature, the Company makes contributions for eligible employees based on a pre-established percentage of the covered employee s salary subject to pre-established vesting. Employees of certain of the Company s foreign operations participate in various local defined contribution plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company also has a defined contribution retirement plan for certain of its U.S. acquired businesses for the benefit of eligible employees. Company contributions are made for each participant up to a specified percentage, not to exceed six percent of the participant s base compensation.

The Company has nonqualified unfunded retirement plans for its Directors and certain retired employees. It also provides supplemental retirement benefits, through contractual arrangements and/or a SERP covering certain current and former executives of the Company. These supplemental benefits are designed to compensate the executive for retirement benefits that would have been provided under the Company s primary retirement plan, except for statutory limitations on compensation that must be taken into account under those plans. The projected benefit obligations of the SERP and the contracts will primarily be funded by a grant of shares of the Company s common stock upon retirement or termination of the executive. The Company is providing for these obligations by charges to earnings over the applicable periods.

The following tables set forth the changes in net projected benefit obligation and the fair value of plan assets for the funded and unfunded defined benefit plans for the years ended December 31:

U.S. Defined Benefit Pension Plans:

	2008	2007
	(In thousands)	
Change in projected benefit obligation (PBO):		
Net projected benefit obligation at the beginning of the year	**$ 356,107**	$ 363,941
Service cost	**3,783**	4,052
Interest cost	**21,724**	21,119
Acquisitions		1,567
Actuarial (gains) losses	**(10,459)**	(12,208)
Gross benefits paid	**(22,793)**	(22,364)
Plan amendments and other	**113**	
Net projected benefit obligation at the end of the year	**$ 348,475**	$ 356,107
Change in plan assets:		
Fair value of plan assets at the beginning of the year	**$ 418,317**	$ 396,333
Actual return on plan assets	**(111,558)**	42,414
Acquisitions		1,450
Employer contributions	**70,885**	484
Gross benefits paid	**(22,793)**	(22,364)
Fair value of plan assets at the end of the year	**$ 354,851**	$ 418,317

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Defined Benefit Pension Plans:

	2008	2007
	(In thousands)	
Change in projected benefit obligation:		
Net projected benefit obligation at the beginning of the year	**$ 129,044**	$ 131,160
Service cost	**2,044**	2,875
Interest cost	**6,825**	6,631
Acquisitions		1,199
Foreign currency translation adjustment	**(40,004)**	6,357
Employee contributions	**600**	910
Actuarial (gains) losses	**(17,201)**	(17,296)
Gross benefits paid	**(3,682)**	(2,792)
Effect of elimination of early measurement date	**1,309**	
Other	**9,231**	
Net projected benefit obligation at the end of the year	**$ 88,166**	$ 129,044
Change in plan assets:		
Fair value of plan assets at the beginning of the year	**$ 125,213**	$ 103,433
Actual return on plan assets	**(20,126)**	13,006
Acquisitions		929
Employer contributions	**9,021**	4,873
Employee contributions	**600**	910
Foreign currency translation adjustment	**(38,633)**	4,854
Gross benefits paid	**(3,682)**	(2,792)
Effect of elimination of early measurement date	**3,193**	
Other	**9,231**	
Fair value of plan assets at the end of the year	**$ 84,817**	$ 125,213

The amounts included in the Effect of elimination of early measurement date in the preceding tables reflect the impact of the change in measurement date for the three United Kingdom-based defined benefit pension plans.

The accumulated benefit obligation (ABO) consisted of the following at December 31:

U.S. Defined Benefit Pension Plans:

2008	2007
(In thousands)	

Funded plans	**$ 333,468**	$ 339,488
Unfunded plans	**4,746**	4,851
Total	**$ 338,214**	$ 344,339

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Defined Benefit Pension Plans:

	2008	2007
	(In thousands)	
Funded plans	**$ 80,149**	$ 124,386
Unfunded plans	**1,179**	1,188
Total	**$ 81,328**	$ 125,574

Weighted average assumptions used to determine benefit obligations at December 31:

	2008	2007
U.S. Defined Benefit Pension Plans:		
Discount rate	**6.50%**	6.25%
Rate of compensation increase (where applicable)	**3.75%**	3.75%
Foreign Defined Benefit Pension Plans:		
Discount rate	**6.09%**	5.89%
Rate of compensation increase (where applicable)	**2.98%**	3.86%

For the Company s U.S. defined benefit pension plans, the asset allocation percentages at December 31, 2008 and 2007 and the target allocation percentages for 2009, by asset category, are as follows:

U.S. Defined Benefit Pension Plans:

	Target Allocation	Percent of Plan Assets at December 31,	
Asset Category	**2009**	**2008**	**2007**
Equity securities	50%-70%	58%	61%
Debt securities	20%-40%	31	28
Other*	0%-15%	11	11
Total		100%	100%

* Amounts in 2008 and 2007 include cash and cash equivalents and an approximate 10% investment in alternative assets consisting of hedge funds.

The fair value of plan assets for U.S. plans was $354.9 million and $418.3 million at December 31, 2008 and 2007, respectively. The expected long-term rate of return on these plan assets was 8.25% in 2008 and 2007. Equity securities included 679,200 shares of AMETEK, Inc. common stock with a market value of $20.5 million (5.8% of total plan investment assets) at December 31, 2008 and 679,200 shares of AMETEK, Inc. common stock with a market value of $31.8 million (7.6% of total plan investment assets) at December 31, 2007.

The objectives of the AMETEK, Inc. U.S. defined benefit plans investment strategy are to maximize the plans funded status and minimize Company contributions and plan expense. Because the goal is to optimize returns over the long term, an investment policy that favors equity holdings has been established. Since there may be periods of time where both equity and fixed-income markets provide poor returns, an allocation to alternative assets may be made to improve the overall portfolio s diversification and return potential. The Company periodically reviews its asset allocation, taking into consideration plan liabilities, plan benefit payment streams and the investment strategy of the pension plans. The actual asset allocation is monitored frequently relative to the established targets and ranges and is rebalanced when necessary.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The equity portfolio is diversified by market capitalization and style. The equity portfolio also includes an international component.

The objective of the fixed-income portion of the pension assets is to provide interest rate sensitivity for a portion of the assets and to provide diversification. The fixed-income portfolio is diversified within certain quality and maturity guidelines in an attempt to minimize the adverse effects of interest rate fluctuations.

Other than for investments in alternative assets, described in the footnote to the table above, certain investments are prohibited. Prohibited investments include venture capital, private placements, unregistered or restricted stock, margin trading, commodities, limited partnerships, short selling and rights and warrants. Foreign currency futures, options and forward contracts may be used to manage foreign currency exposure.

For the Company s foreign defined benefit pension plans, the asset allocation percentages at December 31, 2008 and 2007 and the target allocation percentages for 2009, by asset category, are as follows:

Foreign Defined Benefit Pension Plans:

		Percent of Plan Assets	
	Target Allocation	at December 31,	
Asset Category	**2009**	**2008**	**2007**
Equity securities	70%-90%	79%	82%
Debt securities	5%-15%	15	11
Real estate	0%-5%		3
Other*		6	4
Total		100%	100%

* Primarily cash, cash equivalents and insurance contracts.

The objective of AMETEK, Inc. s foreign defined benefit plans investment strategy is to maximize the long-term rate of return on plan investments, subject to a reasonable level of risk. Liability studies are also performed on a regular basis to provide guidance in setting investment goals with an objective to balance risks against the current and future needs of the plans. The trustees consider the risk associated with the different asset classes, relative to the plans liabilities and how this can be affected by diversification, and the relative returns available on equities, fixed-income investments, real estate and cash. Also, the likely volatility of those returns and the cash flow requirements of the plans are considered. It is expected that equities will outperform fixed-income investments over the long term. However, the trustees recognize the fact that fixed-income investments may better match the liabilities for pensioners. Because of the relatively young active employee group covered by the plans and the immature nature of the plans, the trustees have chosen to adopt an asset allocation strategy more heavily weighted toward equity investments. This asset

allocation strategy will be reviewed, from time to time, in view of changes in market conditions and in the plans liability profile.

The assumption for the expected return on plan assets was developed based on a review of historical investment returns for the investment categories for the defined benefit pension assets. This review also considered current capital market conditions and expectations of projected future investment returns. The estimates of future capital market returns by asset category are lower than the actual long-term historical returns. The current low interest rate environment also influences this outlook. Therefore, the assumed rate of return for U.S. and foreign plans remains at 8.25% and 7.00%, respectively, for 2009.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets and pension plans with an accumulated benefit obligation in excess of plan assets were as follows at December 31:

U.S. Defined Benefit Pension Plans:

	Projected Benefit Obligation Exceeds Fair Value of Assets		Accumulated Benefit Obligation Exceeds Fair Value of Assets	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Projected benefit obligation	**$ 4,746**	$ 5,659	**$ 4,746**	$ 5,659
Accumulated benefit obligation	**4,746**	5,659	**4,746**	5,659
Fair value of plan assets		758		758

Foreign Defined Benefit Pension Plans:

	Projected Benefit Obligation Exceeds Fair Value of Assets		Accumulated Benefit Obligation Exceeds Fair Value of Assets	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Projected benefit obligation	**$ 40,755**	$ 89,499	**$ 1,555**	$ 88,445
Accumulated benefit obligation	**36,677**	86,028	**1,467**	85,141
Fair value of plan assets	**35,898**	82,874	**197**	81,917

The following table provides the amounts recognized in the consolidated balance sheet at December 31:

	2008	**2007**
	(In thousands)	
Funded status asset (liability):		
Fair value of plan assets	**$ 439,668**	$ 543,530
Projected benefit obligation	**(436,641)**	(485,151)
Funded status at the end of the year	**$ 3,027**	$ 58,379

Amounts recognized in the consolidated balance sheet consisted of:

Noncurrent asset for pension benefits (other assets)	**$ 12,630**	$ 69,904
Current liabilities for pension benefits	**(321)**	(372)
Noncurrent liability for pension benefits	**(9,282)**	(11,153)
Net amount recognized at the end of the year	**$ 3,027**	$ 58,379

The following table provides the amounts recognized in accumulated other comprehensive income, net of taxes, at December 31:

Net Amounts Recognized:	**2008**	**2007**
	(In thousands)	
Net actuarial loss	**$ 92,800**	$ 2,423
Prior service costs	**604**	621
Transition asset	**(44)**	(4)
Total recognized	**$ 93,360**	$ 3,040

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other changes in pension plan assets and benefit obligations recognized in other comprehensive income, net of taxes:	**2008**
	(In thousands)
Net actuarial loss	**$ 90,580**
Curtailment effects	**(227)**
Amortization of net actuarial gain	**74**
Current year prior service cost	**78**
Amortization of prior service costs	**(200)**
Amortization of transition asset	**15**
Total recognized	**$ 90,320**

The following table provides the components of net periodic pension benefit expense for the years ended December 31:

	2008	**2007**	**2006**
		(In thousands)	
Defined benefit plans:			
Service cost	**$ 5,827**	$ 6,927	$ 6,479
Interest cost	**28,549**	27,750	25,314
Expected return on plan assets	**(41,578)**	(39,354)	(34,490)
Amortization of:			
Net actuarial loss	**(74)**	650	4,069
Prior service costs	**200**	201	266
Transition (asset) obligation	**(15)**	(15)	(15)
Special termination benefits	**35**		
SFAS 87 (income) expense	**(7,056)**	(3,841)	1,623
SFAS 88 curtailment charge	**277**		834
Total net periodic benefit (income) expense	**(6,779)**	(3,841)	2,457
Other plans:			
Defined contribution plans	**12,950**	10,338	8,785
Foreign plans and other	**4,406**	4,752	3,530
Total other plans	**17,356**	15,090	12,315
Total net pension expense	**$ 10,577**	$ 11,249	$ 14,772

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic pension benefit expense in 2009 for the net actuarial losses and prior service costs are expected to be $15.4 million.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following weighted average assumptions were used to determine the above net periodic pension benefit expense for the years ended December 31:

	2008	**2007**	**2006**
U.S. Defined Benefit Pension Plans:			
Discount rate	**6.25%**	5.90%	5.65%
Expected return on plan assets	**8.25%**	8.25%	8.25%
Rate of compensation increase (where applicable)	**3.75%**	3.75%	3.50%
Foreign Defined Benefit Pension Plans:			
Discount rate	**5.89%**	5.00%	5.00%
Expected return on plan assets	**7.00%**	7.00%	7.00%
Rate of compensation increase (where applicable)	**3.86**%	3.61%	3.40%

Estimated Future Benefit Payments

The estimated future benefit payments for U.S. and foreign plans are as follows (in thousands): 2009 $25,859; 2010 $26,919; 2011 $27,855; 2012 $29,037; 2013 $30,167; 2014 to 2018 $162,851. Future benefit payments primarily represent amounts to be paid from pension trust assets. Amounts included that are to be paid from the Company s assets are not significant in any individual year.

Postretirement Plans and Postemployment Benefits

The Company provides limited postretirement benefits other than pensions for certain retirees and a small number of former employees. Benefits under these arrangements are not funded and are not significant.

The Company also provides limited postemployment benefits for certain former or inactive employees after employment but before retirement. Those benefits are not significant in amount.

The Company has a deferred compensation plan, which allows employees whose compensation exceeds the statutory IRS limit for retirement benefits to defer a portion of earned bonus compensation. The plan permits deferred amounts to be deemed invested in either, or a combination of, (a) an interest-bearing account, benefits from which are payable out of the general assets of the Company, or (b) the equivalent of a fund which invests in shares of the Company s common stock on behalf of the employee. The amount deferred under the plan, including income earned, was $13.6 million and $10.7 million at December 31, 2008 and 2007, respectively. Administrative expense for the plan is borne by the Company and is not significant.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Financial Instruments

The estimated fair values of the Company s financial instruments are compared below to the recorded amounts at December 31, 2008 and 2007. Cash, cash equivalents and marketable securities are recorded at fair value at December 31, 2008 and 2007 in the accompanying consolidated balance sheet.

	Asset (Liability)			
	December 31, 2008		December 31, 2007	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
	(In thousands)			
Fixed-income investments	**$ 8,248**	**$ 8,248**	$ 8,136	$ 8,136
Short-term borrowings	**(16,028)**	**(16,028)**	(234,994)	(236,795)
Long-term debt (including current portion)	**(1,095,653)**	**(1,095,653)**	(667,964)	(667,964)

The fair value of fixed-income investments is based on quoted market prices. The fair value of short-term borrowings approximates the carrying value. The Company s long-term debt is all privately-held with no public market for this debt. It is not practicable to estimate the fair value of this privately-held debt as pricing estimates are contingent upon many financial market, as well as Company specific factors. In conjunction, these factors can produce a wide variance of indicative pricing. See Note 7 for long-term debt principals, interest rates and maturities.

14. Additional Consolidated Income Statement and Cash Flow Information

Included in other income are interest and other investment income of $3.9 million, $2.7 million and $0.7 million for 2008, 2007 and 2006, respectively. Income taxes paid in 2008, 2007, and 2006 were $113.4 million, $80.0 million and $67.2 million, respectively. Cash paid for interest was $59.2 million, $46.0 million and $41.7 million in 2008, 2007, and 2006, respectively.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Reportable Segments and Geographic Areas Information

Descriptive Information about Reportable Segments

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

EIG produces instrumentation for various electronic applications used in transportation industries, including aircraft cockpit instruments and displays, airborne electronics systems that monitor and record flight and engine data, and pressure, temperature, flow and liquid-level sensors for commercial airlines and aircraft and jet engine manufacturers. EIG also produces analytical instrumentation for the laboratory and research markets, as well as instruments for food service equipment, measurement and monitoring instrumentation for various process industries and instruments and complete instrument panels for heavy trucks, heavy construction and agricultural vehicles. EIG also manufactures ultraprecise measurement instrumentation, as well as thermoplastic compounds for automotive, appliance and telecommunications applications.

EMG produces brushless air-moving motors for aerospace, mass transit, medical equipment, computer and business machine applications. EMG also produces high-purity metal powders and alloys in powder, strip and wire form for electronic components, aircraft and automotive products, as well as heat exchangers and thermal management subsystems. EMG also supplies hermetically sealed (moisture-proof) connectors, terminals and headers. These electromechanical devices are used in aerospace, defense and other industrial applications. Additionally, EMG produces air-moving electric motors and motor-blower systems for manufacturers of floor care appliances and outdoor power equipment. Sales of floor care and specialty motors represented 12.1% in 2008, 13.7% in 2007 and 15.6% in 2006 of the Company s consolidated net sales.

Measurement of Segment Results

Segment operating income represents sales, less all direct costs and expenses (including certain administrative and other expenses) applicable to each segment, but does not include an allocation of interest expense. Net sales by segment are reported after elimination of intra- and inter-segment sales and profits, which are insignificant in amount. Such sales are generally based on prevailing market prices. Reported segment assets include allocations directly related to the segment s operations. Corporate assets consist primarily of investments, prepaid pensions, insurance deposits and deferred taxes.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reportable Segment Financial Information

	2008	2007	2006
		(In thousands)	
Net sales(1):			
Electronic Instruments	**$ 1,402,653**	$ 1,199,757	$ 1,016,503
Electromechanical	**1,128,482**	937,093	802,787
Consolidated net sales	**$ 2,531,135**	$ 2,136,850	$ 1,819,290
Operating income and income before income taxes:			
Segment operating income(2):			
Electronic Instruments	**$ 306,764**	$ 260,338	$ 203,430
Electromechanical	**175,181**	167,166	139,926
Total segment operating income	**481,945**	427,504	343,356
Corporate administrative and other expenses	**(49,291)**	(40,930)	(34,362)
Consolidated operating income	**432,654**	386,574	308,994
Interest and other expenses, net	**(66,438)**	(50,130)	(45,308)
Consolidated income before income taxes	**$ 366,216**	$ 336,444	$ 263,686
Assets:			
Electronic Instruments	**$ 1,583,110**	$ 1,367,610	
Electromechanical	**1,291,602**	1,111,313	
Total segment assets	**2,874,712**	2,478,923	
Corporate	**180,830**	266,777	
Consolidated assets	**$ 3,055,542**	$ 2,745,700	
Additions to property, plant and equipment(3):			
Electronic Instruments	**$ 25,860**	$ 42,807	$ 28,793
Electromechanical	**52,231**	29,485	30,323
Total segment additions to property, plant and equipment	**78,091**	72,292	59,116
Corporate	**4,650**	486	2,073
Consolidated additions to property, plant and equipment	**$ 82,741**	$ 72,778	$ 61,189
Depreciation and amortization:			

Electronic Instruments	**$ 30,569**	$ 23,603	$ 21,108
Electromechanical	**32,460**	28,839	24,511
Total segment depreciation and amortization	**63,029**	52,442	45,619
Corporate	**232**	223	310
Consolidated depreciation and amortization	**$ 63,261**	$ 52,665	$ 45,929

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

(2) Segment operating income represents sales less all direct costs and expenses (including certain administrative and other expenses) applicable to each segment, but does not include interest expense.

(3) Includes $38.5 million in 2008, $35.2 million in 2007 and $32.0 million in 2006 from acquired businesses.

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Geographic Areas

Information about the Company s operations in different geographic areas for the years ended December 31, 2008, 2007, and 2006 is shown below. Net sales were attributed to geographic areas based on the location of the customer. Accordingly, U.S. export sales are reported in international sales.

	2008	2007	2006
		(In thousands)	
Net sales:			
United States	**$ 1,305,594**	$ 1,083,118	$ 953,249
International*:			
United Kingdom	**167,891**	127,626	97,578
European Union countries	**394,937**	334,554	255,662
Asia	**373,477**	323,992	275,436
Other foreign countries	**289,236**	267,560	237,365
Total international	**1,225,541**	1,053,732	866,041
Total consolidated	**$ 2,531,135**	$ 2,136,850	$ 1,819,290
Long-lived assets from continuing operations (excluding intangible assets):			
United States	**$ 185,505**	$ 160,343	
International**:			
United Kingdom	**36,212**	41,854	
European Union countries	**64,831**	68,754	
Asia	**10,451**	8,906	
Other foreign countries	**11,530**	14,027	
Total international	**123,024**	133,541	
Total consolidated	**$ 308,529**	$ 293,884	

* Includes U.S. export sales of $478.5 million in 2008, $394.4 million in 2007 and $343.8 million in 2006.

** Represents long-lived assets of foreign-based operations only.

16. Guarantees

The Company does not provide significant guarantees on a routine basis. The Company primarily issues guarantees, stand-by letters of credit and surety bonds in the ordinary course of its business to provide financial or performance assurance to third parties on behalf of its consolidated subsidiaries to support or enhance the subsidiary s stand-alone creditworthiness. The amounts subject to certain of these agreements vary depending on the covered contracts actually outstanding at any particular point in time. At December 31, 2008, the maximum amount of future payment obligations relative to these various guarantees was $88.5 million and the outstanding liability under certain of those guarantees was $24.6 million. These guarantees expire in 2009 through 2010.

Indemnifications

In conjunction with certain acquisition and divestiture transactions, the Company may agree to make payments to compensate or indemnify other parties for possible future unfavorable financial consequences resulting from specified events (e.g., breaches of contract obligations or retention of previously existing environmental, tax or employee liabilities) whose terms range in duration and often are not explicitly defined. Where appropriate, the obligation for such indemnifications is recorded as a liability. Because the amount of these types of

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

indemnifications generally is not specifically stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Further, the Company indemnifies its directors and officers for claims against them in connection with their positions with the Company. Historically, any such costs incurred to settle claims related to these indemnifications have been minimal for the Company. The Company believes that future payments, if any, under all existing indemnification agreements would not have a material impact on its consolidated results of operations, financial position or cash flows.

Product Warranties

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

Changes in accrued product warranty obligation were as follows at December 31:

	2008	2007
	(In thousands)	
Balance at the beginning of the year	**$ 14,433**	$ 10,873
Accruals for warranties issued during the year	**12,201**	11,276
Settlements made during the year	**(11,503)**	(9,933)
Changes in liability for pre-existing warranties, including expirations during the year	**(343)**	328
Warranty accruals related to new businesses	**1,280**	1,889
Balance at the end of the year	**$ 16,068**	$ 14,433

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

17. Contingencies

Asbestos Litigation

The Company (including its subsidiaries) has been named as a defendant, along with many other companies, in a number of asbestos-related lawsuits. Many of these lawsuits either relate to businesses which were acquired by the Company and do not involve products which were manufactured or sold by the Company or relate to previously owned businesses of the Company which are under new ownership. In connection with many of these lawsuits, the sellers or new owners of such businesses, as the case may be, have agreed to indemnify the Company against these claims (the Indemnified Claims). The Indemnified Claims have been tendered to, and are being defended by, such sellers and new owners. These sellers and new owners have met their obligations, in all respects, and the Company does not have any reason to believe such parties would fail to fulfill their obligations in the future; however, one of

these companies filed for bankruptcy liquidation in 2007. To date, no judgments have been rendered against the Company as a result of any asbestos-related lawsuit. The Company believes it has strong defenses to the claims being asserted and intends to continue to vigorously defend itself in these matters.

Environmental Matters

Certain historic processes in the manufacture of products have resulted in environmentally hazardous waste by-products as defined by federal and state laws and regulations. While these waste products were handled in compliance with regulations existing at that time, at December 31, 2008, the Company is named a Potentially Responsible Party (PRP) at 16 non-AMETEK-owned former waste disposal or treatment sites (the non-owned sites). The Company is identified as a de minimis party in 14 of these sites based on the low volume of waste attributed to the Company relative to the amounts attributed to other named PRPs. In 10 of these sites, the Company has reached a tentative

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Total environmental reserves at December 31, 2008 and 2007 were $28.4 million and $25.3 million, respectively, for non-owned and owned sites. In 2008, the Company provided $7.3 million of additional reserves, including $5.6 million for existing sites and $1.7 million related to recent acquisitions. Additionally, the Company spent $4.2 million on environmental matters in 2008. The Company s reserves for environmental liabilities at December 31, 2008 and 2007 include reserves of $17.9 million and $18.0 million, respectively, for an owned site acquired in connection with the fiscal 2005 acquisition of HCC Industries (HCC). The Company is solely liable for the performance of remedial activities for one of several operating units making up a large Superfund site in the San Gabriel Valley of California. The Company has obtained indemnifications and other financial assurances from the former owners of HCC related to the costs of the required remedial activities. At December 31, 2008, the Company had $12.4 million in receivables related to HCC for probable recoveries from third-party escrow funds and other committed third-party funds to support the required remediation. Also, the Company is indemnified by HCC s former owners for up to $19.0 million of additional costs.

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

In October 2008, the Company received a Notice of Administrative Civil Liability from the San Diego Regional Water Quality Control Board seeking certain penalties. The Notice claims that a former subsidiary of AMETEK, which became a separate company in 1988 and filed for bankruptcy liquidation in 2007, failed to adequately produce a delineation report and feasibility study within specified time frames. We believe we have good and valid defenses to

this claim and intend to vigorously defend against it.

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

AMETEK, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
		(In thousands, except per share amounts)			
2008					
Net sales	**$ 611,197**	**$ 648,771**	**$ 647,423**	**$ 623,744**	**$ 2,531,135**
Operating income(a)(b)	**$ 116,233**	**$ 114,111**	**$ 120,065**	**$ 82,245**	**$ 432,654**
Net income(a)(b)	**$ 66,357**	**$ 65,842**	**$ 70,924**	**$ 43,829**	**$ 246,952**
Basic earnings per share(a)(b)(c)	**$ 0.63**	**$ 0.62**	**$ 0.67**	**$ 0.41**	**$ 2.33**
Diluted earnings per share(a)(b)(c)	**$ 0.62**	**$ 0.61**	**$ 0.66**	**$ 0.41**	**$ 2.30**
Dividends paid per share	**$ 0.06**	**$ 0.06**	**$ 0.06**	**$ 0.06**	**$ 0.24**
2007					
Net sales	$ 505,283	$ 519,468	$ 528,849	$ 583,250	$ 2,136,850
Operating income	$ 89,924	$ 96,610	$ 96,004	$ 104,036	$ 386,574
Net income	$ 50,900	$ 58,013	$ 57,244	$ 61,863	$ 228,020
Basic earnings per share(c)	$ 0.48	$ 0.55	$ 0.54	$ 0.58	$ 2.15
Diluted earnings per share(c)	$ 0.48	$ 0.54	$ 0.53	$ 0.57	$ 2.12
Dividends paid per share	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.24

(a) The 2008 results include a second quarter after-tax, non-cash charge of $7.3 million, or $0.07 per diluted share, related to the accelerated amortization of deferred compensation expense due to the vesting of restricted stock.

(b) The 2008 results include fourth quarter pre-tax charges totaling $40.0 million, $27.3 million after tax ($0.25 per diluted share). These charges include restructuring costs for employee reductions and facility closures ($32.6 million), as well as asset write-downs ($7.4 million).

(c) The sum of quarterly earnings per share may not equal total year earnings per share due to rounding of earnings per share amounts, and differences in weighted average shares and equivalent shares outstanding for each of the periods presented.

DIRECTIONS TO
ANNUAL MEETING OF STOCKHOLDERS OF AMETEK, INC.
TO BE HELD AT
THE NEW YORK HELMSLEY
212 EAST 42nd STREET
SUTTON PLACE MEETING ROOM
NEW YORK, NY 10017
(212) 490-8900

The New York Helmsley is in midtown Manhattan and is accessible by mass transportation from New York, New Jersey, Connecticut, Long Island, and elsewhere. Below are automobile directions:

Directions from New Jersey

Take Route 3 East to the Lincoln Tunnel. Upon exiting the Tunnel, follow the signs to 38th Street and proceed eastbound to Third Avenue. Turn left onto Third Avenue and travel north to East 42nd Street. Turn right onto 42nd Street. The New York Helmsley is on the right between Third and Second Avenues.

Alternate route: From the George Washington Bridge, follow signs to Henry Hudson Parkway South. Take the Parkway South to the 42nd Street exit (a left lane exit). Proceed straight onto 42nd Street and go eastbound. The New York Helmsley is on the right between Third and Second Avenues.

Directions from Connecticut

Take I-95 South to the Cross Bronx Expressway. Take the Cross Bronx Expressway to the last exit in New York (stay to the right when approaching the George Washington Bridge so as not to miss the exit). Follow signs for Henry Hudson Parkway/181st Street. Take the Henry Hudson Parkway South to the 42nd Street exit (a left lane exit). Proceed straight onto 42nd Street and go eastbound. The New York Helmsley is on the right between Third and Second Avenues.

Alternate route: Take I-684 South or the Merritt Parkway onto the Hutchinson River Parkway South to the Cross County Parkway. Proceed west on the Cross County Parkway to the Saw Mill River Parkway South. The Saw Mill becomes the Henry Hudson Parkway in New York City. Proceed south on the Parkway until the 42nd Street exit (a left lane exit). Proceed straight onto 42nd Street and go eastbound. The New York Helmsley is on the right between Third and Second Avenues.

Directions from Long Island

Take the Long Island Expressway West (Route 495) to the Midtown Tunnel. Upon exiting the Tunnel, turn left onto East 39th Street and proceed westbound to Third Avenue. Turn right onto Third Avenue and travel north to East 42nd Street. Turn right onto East 42nd Street. The New York Helmsley is on the right between Third and Second Avenues.

Alternate route: Take the Grand Central Parkway to the Triborough Bridge. Take the exit to Manhattan and follow signs for the FDR Drive South. Exit at 63rd Street and proceed to Second Avenue. Turn left and proceed southbound. Make a right onto East 42nd Street. The New York Helmsley is ahead on the left between Second and Third Avenues.

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ANNUAL MEETING OF STOCKHOLDERS OF
AMETEK, Inc.
April 21, 2009

PROXY VOTING INSTRUCTIONS

INTERNET - Access **www.voteproxy.com** and follow the on-screen instructions. Have your proxy card available when you access the web page, and use the Company Number and Account Number shown on your proxy card.

TELEPHONE - Call toll-free **1-800-PROXIES** (1-800-776-9437) in the United States or **1-718-921-8500** from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call and use the Company Number and Account Number shown on your proxy card.

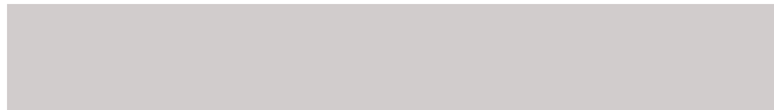
Vote online/phone until 11:59 PM EST the day before the meeting.

MAIL - Sign, date and mail your proxy card in the envelope provided as soon as possible.

IN PERSON - You may vote your shares in person by attending the Annual Meeting.

COMPANY NUMBER

ACCOUNT NUMBER



NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL: The Notice of meeting, proxy statement and proxy card are available at http://phx.corporate-ir.net/phoenix.zhtml?c=104638&p=irol-reportsAnnual

â Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet. â

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E AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK IN

			FOR	AGAINST	ABSTAIN
1. Election of Directors:		2. PROPOSAL TO RATIFY THE APPOINTMENT OF	o	o	o
	NOMINEES:				
o **FOR ALL NOMINEES**	¡ James R.				

Malone

ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR 2009.

¡ Elizabeth R. Varet

¡ Dennis K. Williams

o **WITHHOLD AUTHORITY FOR ALL NOMINEES**

o **FOR ALL EXCEPT**
(See instruction below)

At their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

Receipt of the notice of said meeting and of the Proxy Statement of AMETEK, Inc. accompanying the same is hereby acknowledged.

UNLESS OTHERWISE SPECIFIED IN THE SPACES PROVIDED, THE UNDERSIGNED S VOTE IS TO BE CAST FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR LISTED IN PROPOSAL (1) AND FOR PROPOSAL (2), AS MORE FULLY DESCRIBED IN THE ENCLOSED PROXY STATEMENT.

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: =

Annual Meeting of Stockholders

AMETEK, Inc. s Annual Meeting of Stockholders will be held at 3:00 p.m. Eastern Daylight Time on Tuesday, April 21, 2009, at the New York Helmsley, 212 East 42nd Street, Sutton Place Meeting Room, New York, NY 10017. Please see your proxy statement for directions should you wish to attend the meeting.

ELECTRONIC ACCESS TO FUTURE DOCUMENTS

If you would like to receive future shareholder communications over the Internet exclusively, and no longer receive any material by mail please visit http://www.amstock.com. Click on Shareholder Account Access to enroll. Please enter your account number and tax identification number to log in, then select **Receive Company Mailings via E-Mail** and provide your e-mail address.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. o

Signature of Stockholder	Date:	Signature of Stockholder	Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

n n

ANNUAL MEETING OF STOCKHOLDERS OF
AMETEK, Inc.
April 21, 2009

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, proxy statement and proxy card
are available at http://phx.corporate-ir.net/phoenix.zhtml?c=104638&p=irol-reportsAnnual

Please sign, date and mail
your proxy card in the
envelope provided as soon
as possible.

↓ Please detach along perforated line and mail in the envelope provided. ↓

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PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

1. Election of Directors:

NOMINEES:
¡ James R. Malone
¡ Elizabeth R. Varet

o **FOR ALL NOMINEES**

	FOR	AGAINST	ABSTAIN
2. PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR 2009.	o	o	o

Signature of Stockholder Date: Signature of Stockholder Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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AMETEK, Inc.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

As an alternative to completing this form, you may enter your vote instruction by telephone at 1-800-PROXIES, or via the Internet at WWW.VOTEPROXY.COM and follow the simple instructions. Use the Company Number and Account Number shown on your proxy card.

The undersigned hereby appoints Frank S. Hermance, Robert S. Feit and Kathryn E. Sena or a majority of those present and acting, or, if only one is present and acting, then that one, proxies, with full power of substitution, to vote all stock of AMETEK, Inc. which the undersigned is entitled to vote at AMETEK s Annual Meeting of Stockholders to be held at the New York Helmsley, 212 East 42nd Street, Sutton Place Meeting Room, New York, NY 10017, on Tuesday, April 21, 2009, at 3:00 p.m. Eastern Daylight Time, and at any adjournment or postponement thereof, hereby ratifying all that said proxies or their substitutes may do by virtue hereof, and the undersigned authorizes and instructs said proxies to vote as follows:

(TO BE SIGNED ON REVERSE SIDE)

SEE REVERSE SIDE

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5,301

8,248

Total Real Estate financing receivables, before allowance for losses

$
27,710

$
32,749

Non-impaired financing receivables

$	20,244
$	24,002
General reserves	
	226
	267
Impaired loans	
	7,466
	8,747
Specific reserves	

561

822

Past Due Financing Receivables

The following table displays payment performance of Real Estate financing receivables.

	June 30, 2012		December 31, 2011	
	Over 30 days past due	Over 90 days past due	Over 30 days past due	Over 90 days past due
Debt	2.3 %	1.9 %	2.4 %	2.3 %
Business Properties	4.7	4.3	3.9	3.0
Total	2.8	2.3	2.8	2.5

Nonaccrual Financing Receivables

The following table provides further information about Real Estate financing receivables that are classified as nonaccrual. Of our $5,380 million and $6,949 million of nonaccrual financing receivables at June 30, 2012 and December 31, 2011, respectively, $4,581 million and $6,061 million, respectively, are currently paying in accordance with their contractual terms.

	Nonaccrual financing receivables		Nonearning financing receivables	
(Dollars in millions)	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011

Debt	$	4,900	$	6,351	$	403	$	541
Business Properties		480		598		227		249
Total	$	5,380	$	6,949	$	630	$	790
Allowance for losses percentage		14.6 %		15.7 %		124.9 %		137.8 %

(40)

Impaired Loans

The following table provides information about loans classified as impaired and specific reserves related to Real Estate.

	With no specific allowance			With a specific allowance			
(In millions)	Recorded investment in loans	Unpaid principal balance	Average investment in loans	Recorded investment in loans	Unpaid principal balance	Associated allowance	Average investment in loans
June 30, 2012							
Debt	$ 3,587	$ 3,631	$ 3,632	$ 3,408	$ 3,804	$ 475	$ 3,961
Business Properties	161	161	198	310	310	86	360
Total	$ 3,748	$ 3,792	$ 3,830	$ 3,718	$ 4,114	$ 561	$ 4,321
December 31, 2011							
Debt	$ 3,558	$ 3,614	$ 3,568	$ 4,560	$ 4,652	$ 717	$ 5,435
Business Properties	232	232	215	397	397	105	460
Total	$ 3,790	$ 3,846	$ 3,783	$ 4,957	$ 5,049	$ 822	$ 5,895

We recognized $183 million, $399 million and $206 million of interest income, including $129 million, $339 million and $201 million on a cash basis, for the six months ended June 30, 2012, the year ended December 31, 2011 and the six months ended June 30, 2011, respectively, principally in our Real Estate-Debt portfolio. The total average investment in impaired loans for the six months ended June 30, 2012 and the year ended December 31, 2011 was $8,151 million and $9,678 million, respectively.

Real Estate TDRs decreased from $7,006 million at December 31, 2011 to $6,330 million at June 30, 2012, primarily driven by resolution of TDRs through paydowns, restructurings and foreclosures, partially offset by extensions of loans scheduled to mature during 2012, some of which were classified as TDRs upon modification. We deem loan modifications to be TDRs when we have granted a concession to a borrower experiencing financial difficulty and we do not receive adequate compensation in the form of an effective interest rate that is at current market rates of interest given the risk characteristics of the loan or other consideration that compensates us for the value of the concession. The limited liquidity and higher return requirements in the real estate market for loans with higher loan-to-value (LTV) ratios has typically resulted in the conclusion that the modified terms are not at current market rates of interest, even if the modified loans are expected to be fully recoverable. For the six months ended June 30, 2012, we modified $2,269 million of loans classified as TDRs, substantially all in our Debt portfolio. Changes to these loans primarily included maturity extensions, principal payment acceleration, changes to collateral or covenant terms and cash sweeps, which are in addition to, or sometimes in lieu of, fees and rate increases. Of our $4,454 million of modifications classified as TDRs in the last twelve months, $407 million have subsequently experienced a payment default in the last six months.

Credit Quality Indicators

Due to the primarily non-recourse nature of our Debt portfolio, loan-to-value ratios provide the best indicators of the credit quality of the portfolio. By contrast, the credit quality of the Business Properties portfolio is primarily influenced by the strength of the borrower's general credit quality, which is reflected in our internal risk rating process, consistent with the process we use for our Commercial portfolio.

	Loan-to-value ratio					
	June 30, 2012			December 31, 2011		
(In millions)	Less than 80%	80% to 95%	Greater than 95%	Less than 80%	80% to 95%	Greater than 95%
Debt	$ 14,349	$ 3,787	$ 4,273	$ 14,454	$ 4,593	$ 5,454

	Internal Risk Rating					
	June 30, 2012			December 31, 2011		
(In millions)	A	B	C	A	B	C
Business Properties	$ 4,861	$ 84	$ 356	$ 7,628	$ 110	$ 510

(41)

Within Real Estate-Debt, these financing receivables are primarily concentrated in our North American and European Lending platforms and are secured by various property types. A substantial majority of the Real Estate-Debt financing receivables with loan-to-value ratios greater than 95% are paying in accordance with contractual terms. Substantially all of these loans and substantially all of the Real Estate-Business Properties financing receivables included in Category C are impaired loans which are subject to the specific reserve evaluation process described in Note 1 in our 2011 consolidated financial statements. The ultimate recoverability of impaired loans is driven by collection strategies that do not necessarily depend on the sale of the underlying collateral and include full or partial repayments through third-party refinancing and restructurings.

CONSUMER

At June 30, 2012, our U.S. consumer financing receivables included private-label credit card and sales financing for approximately 52 million customers across the U.S. with no metropolitan area accounting for more than 6% of the portfolio. Of the total U.S. consumer financing receivables, approximately 64% relate to credit card loans, which are often subject to profit and loss sharing arrangements with the retailer (which are recorded in revenues), and the remaining 36% are sales finance receivables, which provide financing to customers in areas such as electronics, recreation, medical and home improvement.

Financing Receivables and Allowance for Losses

The following table provides further information about general and specific reserves related to Consumer financing receivables.

	Financing receivables	
(In millions)	June 30, 2012	December 31, 2011
Non-U.S. residential mortgages	$ 33,826	$ 35,550
Non-U.S. installment and revolving credit	17,960	18,544
U.S. installment and revolving credit	45,531	46,689
Non-U.S. auto	4,740	5,691
Other	7,643	7,244
Total Consumer financing receivables, before allowance for losses	$ 109,700	$ 113,718
Non-impaired financing receivables	$ 106,697	$ 110,825
General reserves	2,503	2,891
Impaired loans	3,003	2,893
Specific reserves	625	680

Past Due Financing Receivables

The following table displays payment performance of Consumer financing receivables.

	June 30, 2012		December 31, 2011	
	Over 30 days past due	Over 90 days past due(a)	Over 30 days past due	Over 90 days past due(a)
Non-U.S. residential mortgages	12.5 %	7.9 %	12.3 %	7.9 %
Non-U.S. installment and revolving credit	4.3	1.2	4.1	1.2
U.S. installment and revolving credit	4.3	1.8	5.0	2.2
Non-U.S. auto	3.2	0.5	3.1	0.5
Other	3.6	2.0	3.5	2.0
Total	6.7	3.5	6.9	3.7

(a) Included $36 million and $45 million of loans at June 30, 2012 and December 31, 2011, respectively, which are over 90 days past due and accruing interest, mainly representing accretion on loans acquired at a discount.

Nonaccrual Financing Receivables

The following table provides further information about Consumer financing receivables that are classified as nonaccrual.

(Dollars in millions)	Nonaccrual financing receivables		Nonearning financing receivables	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Non-U.S. residential mortgages	$ 2,853	$ 2,995	$ 2,720	$ 2,870
Non-U.S. installment and revolving credit	244	321	243	263
U.S. installment and revolving credit	773	990	773	990
Non-U.S. auto	27	43	28	43
Other	476	487	380	419
Total	$ 4,373	$ 4,836	$ 4,144	$ 4,585
Allowance for losses percentage	71.5 %	73.8 %	75.5 %	77.9 %

Impaired Loans

The vast majority of our Consumer nonaccrual financing receivables are smaller balance homogeneous loans evaluated collectively, by portfolio, for impairment and therefore are outside the scope of the disclosure requirement for impaired loans. Accordingly, impaired loans in our Consumer business represent restructured smaller balance homogeneous loans meeting the definition of a TDR, and are therefore subject to the disclosure requirement for impaired loans, and commercial loans in our Consumer–Other portfolio. The recorded investment of these impaired loans totaled $3,003 million (with an unpaid principal balance of $3,384 million) and comprised $106 million with no specific allowance, primarily all in our Consumer–Other portfolio, and $2,897 million with a specific allowance of $625 million at June 30, 2012. The impaired loans with a specific allowance included $303 million with a specific allowance of $98 million in our Consumer–Other portfolio and $2,594 million with a specific allowance of $527 million across the remaining Consumer business and had an unpaid principal balance and average investment of $3,241 million and $2,876 million, respectively, at June 30, 2012. We recognized $76 million, $141 million and $54 million of interest income, including $3 million, $15 million and $2 million on a cash basis, for the six months ended June 30, 2012, the year ended December 31, 2011 and the six months ended June 30, 2011, respectively, principally in our Consumer-U.S. installment and revolving credit portfolios. The total average investment in impaired loans for the six months ended June 30, 2012 and the year ended December 31, 2011 was $2,971 million and $2,623 million, respectively.

Impaired loans classified as TDRs in our Consumer business were $2,859 million and $2,723 million at June 30, 2012 and December 31, 2011, respectively. We utilize certain loan modification programs for borrowers experiencing financial difficulties in our Consumer loan portfolio. These loan modification programs primarily include interest rate reductions and payment deferrals in excess of three months, which were not part of the terms of the original contract, and are primarily concentrated in our non-U.S. residential mortgage and U.S. credit card portfolios. For the six months ended June 30, 2012, we modified $913 million of consumer loans for borrowers experiencing financial difficulties, which are classified as TDRs, and included $623 million of non-U.S. consumer loans, primarily residential mortgages, credit cards and personal loans and $290 million of U.S. consumer loans, primarily credit cards. We expect borrowers

whose loans have been modified under these programs to continue to be able to meet their contractual obligations upon the conclusion of the modification. Of our $2,106 million of modifications classified as TDRs in the last twelve months, $352 million have subsequently experienced a payment default in the last six months, primarily in our installment and revolving credit portfolios.

Credit Quality Indicators

Our Consumer financing receivables portfolio comprises both secured and unsecured lending. Secured financing receivables comprise residential loans and lending to small and medium-sized enterprises predominantly secured by auto and equipment, inventory finance, and cash flow loans. Unsecured financing receivables include private-label credit card financing. A substantial majority of these cards are not for general use and are limited to the products and services sold by the retailer. The private label portfolio is diverse with no metropolitan area accounting for more than 5% of the related portfolio.

Non-U.S. residential mortgages

For our secured non-U.S. residential mortgage book, we assess the overall credit quality of the portfolio through loan-to-value ratios (the ratio of the outstanding debt on a property to the value of that property at origination). In the event of default and repossession of the underlying collateral, we have the ability to remarket and sell the properties to eliminate or mitigate the potential risk of loss. The table below provides additional information about our non-U.S. residential mortgages based on loan-to-value ratios.

	Loan-to-value ratio					
	June 30, 2012			December 31, 2011		
(In millions)	80% or less	Greater than 80% to 90%	Greater than 90%	80% or less	Greater than 80% to 90%	Greater than 90%
Non-U.S. residential mortgages	$ 18,861	$ 5,815	$ 9,150	$ 19,834	$ 6,087	$ 9,629

The majority of these financing receivables are in our U.K. and France portfolios and have re-indexed loan-to-value ratios of 84% and 57%, respectively. We have third-party mortgage insurance for approximately 64% of the balance of Consumer non-U.S. residential mortgage loans with loan-to-value ratios greater than 90% at June 30, 2012. Such loans were primarily originated in the U.K., Poland and France.

Installment and Revolving Credit

For our unsecured lending products, including the non-U.S. and U.S. installment and revolving credit and non-U.S. auto portfolios, we assess overall credit quality using internal and external credit scores. Our internal credit scores imply a probability of default which we consistently translate into three approximate credit bureau equivalent credit score categories, including (a) 681 or higher, which are considered the strongest credits; (b) 615 to 680, considered moderate credit risk; and (c) 614 or less, which are considered weaker credits.

	Internal ratings translated to approximate credit bureau equivalent score					
	June 30, 2012			December 31, 2011		
(In millions)	681 or higher	615 to 680	614 or less	681 or higher	615 to 680	614 or less
Non-U.S. installment and revolving credit	$ 9,966	$ 4,505	$ 3,489	$ 9,913	$ 4,838	$ 3,793
U.S. installment and revolving credit	29,824	8,607	7,100	28,918	9,398	8,373
Non-U.S. auto	3,429	802	509	3,927	1,092	672

Of those financing receivable accounts with credit bureau equivalent scores of 614 or less at June 30, 2012, 95% relate to installment and revolving credit accounts. These smaller balance accounts have an average outstanding balance less than one thousand U.S. dollars and are primarily concentrated in our retail card and sales finance receivables in the U.S. (which are often subject to profit and loss sharing arrangements), and closed-end loans outside the U.S., which minimizes the potential for loss in the event of default. For lower credit scores, we adequately price for the

incremental risk at origination and monitor credit migration through our risk ratings process. We continuously adjust our credit line underwriting management and collection strategies based on customer behavior and risk profile changes.

Consumer – Other

Secured lending in Consumer – Other comprises loans to small and medium-sized enterprises predominantly secured by auto and equipment, inventory finance and cash flow loans. We develop our internal risk ratings for this portfolio in a manner consistent with the process used to develop our Commercial credit quality indicators, described above. We use the borrower's credit quality and underlying collateral strength to determine the potential risk of loss from these activities.

At June 30, 2012, Consumer – Other financing receivables of $6,203 million, $576 million and $864 million were rated A, B, and C, respectively. At December 31, 2011, Consumer – Other financing receivables of $5,580 million, $757 million and $907 million were rated A, B, and C, respectively.

(44)

13. VARIABLE INTEREST ENTITIES

We securitize financial assets and arrange other forms of asset-backed financing in the ordinary course of business. The securitization transactions we engage in are similar to those used by many financial institutions. These securitization transactions serve as alternative funding sources for a variety of diversified lending and securities transactions. Historically, we have used both GECC-supported and third-party VIEs to execute off-balance sheet securitization transactions funded in the commercial paper and term markets. The largest group of VIEs that we are involved with are former Qualified Special Purpose Entities (QSPEs), which under guidance in effect through December 31, 2009 were excluded from the scope of consolidation standards based on their characteristics. Except as noted below, investors in these entities only have recourse to the assets owned by the entity and not to our general credit. We do not have implicit support arrangements with any VIE. We did not provide non-contractual support for previously transferred financing receivables to any VIE in 2012 or 2011.

In evaluating whether we have the power to direct the activities of a VIE that most significantly impact its economic performance, we consider the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and our decision-making role, if any, in those activities that significantly determine the entity's economic performance as compared to other economic interest holders. This evaluation requires consideration of all facts and circumstances relevant to decision-making that affects the entity's future performance and the exercise of professional judgment in deciding which decision-making rights are most important.

In determining whether we have the right to receive benefits or the obligation to absorb losses that could potentially be significant to the VIE, we evaluate all of our economic interests in the entity, regardless of form (debt, equity, management and servicing fees, and other contractual arrangements). This evaluation considers all relevant factors of the entity's design, including: the entity's capital structure, contractual rights to earnings (losses), subordination of our interests relative to those of other investors, contingent payments, as well as other contractual arrangements that have potential to be economically significant. The evaluation of each of these factors in reaching a conclusion about the potential significance of our economic interests is a matter that requires the exercise of professional judgment.

Consolidated Variable Interest Entities

We consolidate VIEs because we have the power to direct the activities that significantly affect the VIEs economic performance, typically because of our role as either servicer or manager for the VIE. Our consolidated VIEs fall into three main groups, which are further described below:

- Trinity comprises two consolidated entities that hold investment securities, the majority of which are investment grade, and were funded by the issuance of GICs. These entities were consolidated in 2003 and ceased issuing new investment contracts beginning in the first quarter of 2010. Since 2004, GECC has fully guaranteed repayment of these entities' GIC obligations. These obligations include conditions under which certain GIC holders could require immediate repayment of their investment should the long-term credit ratings of GECC fall below AA-/Aa3 or the short-term credit ratings fall below A-1+/P-1. To the extent that amounts due were to exceed the ultimate value of proceeds realized from Trinity assets, GECC would be required to provide such excess amount. Following the April 3, 2012 Moody's downgrade of GECC's long-term credit ratings to A1, substantially all of these GICs became redeemable by the holders. In the second quarter of 2012, holders of $1,981 million of GICs redeemed their holdings. The redemption was funded primarily through advances from GECC. The remaining outstanding GICs will continue to be subject to the existing terms and maturities of their respective contracts.

- Consolidated Securitization Entities (CSEs) comprise primarily our previously unconsolidated QSPEs that were consolidated on January 1, 2010 in connection with our adoption of ASU 2009-16 & 17. These entities were created

to facilitate securitization of financial assets and other forms of asset-backed financing which serve as an alternative funding source by providing access to the commercial paper and term markets. The securitization transactions executed with these entities are similar to those used by many financial institutions and substantially all are non-recourse. We provide servicing for substantially all of the assets in these entities.

(45)

The financing receivables in these entities have similar risks and characteristics to our other financing receivables and were underwritten to the same standard. Accordingly, the performance of these assets has been similar to our other financing receivables; however, the blended performance of the pools of receivables in these entities reflects the eligibility criteria that we apply to determine which receivables are selected for transfer. Contractually the cash flows from these financing receivables must first be used to pay third-party debt holders as well as other expenses of the entity. Excess cash flows are available to GECC. The creditors of these entities have no claim on other assets of GECC.

- Other remaining assets and liabilities of consolidated VIEs relate primarily to four categories of entities: (1) enterprises we acquired that had previously created asset-backed financing entities to fund commercial, middle-market and equipment loans; we are the collateral manager for these entities of $823 million of assets and $754 million of liabilities; (2) joint ventures that lease light industrial equipment of $1,620 million of assets and $880 million of liabilities; (3) other entities that are involved in power generating and leasing activities of $2,343 million of assets and $583 million of liabilities; and (4) insurance entities that, among other lines of business, provide property and casualty and workers' compensation coverage for GE of $1,198 million of assets and $604 million of liabilities.

The table below summarizes the assets and liabilities of consolidated VIEs described above.

Consolidated Securitization Entities

(In millions)	Trinity	Credit Cards(a)	Equipment(a)	Real Estate(b)	Trade Receivables	Other(c)	Total
June 30, 2012							
Assets(d)							
Financing receivables, net	$ –	$ 19,847	$ 11,596	$ 3,055	$ 1,899	$ 4,724	$ 41,121
Investment securities	3,829	–	–	–	–	1,046	4,875
Other assets	349	1,136	332	223	–	1,589	3,629
Total	$ 4,178	$ 20,983	$ 11,928	$ 3,278	$ 1,899	$ 7,359	$ 49,625
Liabilities(d)							
Borrowings	$ –	$ –	$ 3	$ 25	$ –	$ 1,280	$ 1,308
Non-recourse borrowings	–	14,974	9,312	3,163	1,602	745	29,796
Other liabilities	2,167	85	–	4	13	1,472	3,741
Total	$ 2,167	$ 15,059	$ 9,315	$ 3,192	$ 1,615	$ 3,497	$ 34,845
December 31, 2011							
Assets(d)							
Financing receivables, net	$ –	$ 19,229	$ 10,523	$ 3,521	$ 1,614	$ 2,973	$ 37,860
Investment securities	4,289	–	–	–	–	1,031	5,320
Other assets	389	17	283	210	–	2,250	3,149
Total	$ 4,678	$ 19,246	$ 10,806	$ 3,731	$ 1,614	$ 6,254	$ 46,329
Liabilities(d)							
Borrowings	$ –	$ –	$ 2	$ 25	$ –	$ 821	$ 848
Non-recourse borrowings	–	14,184	8,166	3,659	1,769	980	28,758
Other liabilities	4,456	37	–	19	23	1,312	5,847
Total	$ 4,456	$ 14,221	$ 8,168	$ 3,703	$ 1,792	$ 3,113	$ 35,453

(a) We provide servicing to the CSEs and are contractually permitted to commingle cash collected from customers on financing receivables sold to investors with our own cash prior to payment to a CSE, provided our short-term credit rating does not fall below A-1/P-1. These CSEs also owe us amounts for purchased financial assets and scheduled quarterly distributions. At June 30, 2012, the amounts owed to the CSEs and receivable from the CSEs were $6,062 million and $5,112 million, respectively.

(b)

During the second quarter of 2012, we made the decision to sell our Business Property business, which includes servicing rights for most of these CSEs. Following the sale and upon the trust's acceptance of the buyer as the new servicer, we will deconsolidate substantially all of these securitization entities as we will no longer have the power to direct these entities.

(c) Includes $1,415 million in other assets and $537 million of borrowings at June 30, 2012 due to the consolidation of an entity involved in power generating activities.This entity was previously subject to a leveraged lease and we consolidated this entity in March 2012 following the execution of an agreement that gave us the power to direct activities of this entity.

(d) Asset amounts exclude intercompany receivables for cash collected on behalf of the entities by GE as servicer, which are eliminated in consolidation. Such receivables provide the cash to repay the entities' liabilities. If these intercompany receivables were included in the table above, assets would be higher. In addition, other assets, borrowings and other liabilities exclude intercompany balances that are eliminated in consolidation.

Revenues from services from our consolidated VIEs were $1,660 million and $1,394 million in the three months ended June 30, 2012 and 2011, respectively, and $3,240 million and $2,885 million in the six months ended June 30, 2012 and 2011, respectively. Related expenses consisted primarily of provisions for losses of $170 million and $188 million in the three months ended June 30, 2012 and 2011, respectively, and $370 million and $550 million in the six months ended June 30, 2012 and 2011, respectively, and interest of $115 million and $151 million in the three months ended June 30, 2012 and 2011, respectively, and $247 million and $307 million in the six months ended June 30, 2012 and 2011, respectively. These amounts do not include intercompany revenues and costs, principally fees and interest between GECC and the VIEs, which are eliminated in consolidation.

Investments in Unconsolidated Variable Interest Entities

Our involvement with unconsolidated VIEs consists of the following activities: assisting in the formation and financing of the entity, providing recourse and/or liquidity support, servicing the assets and receiving variable fees for services provided. We are not required to consolidate these entities because the nature of our involvement with the activities of the VIEs does not give us power over decisions that significantly affect their economic performance.

The largest unconsolidated VIE with which we are involved is Penske Truck Leasing Co., L.P. (PTL), a joint venture and limited partnership formed in 1988 between Penske Truck Leasing Corporation (PTLC) and GE. PTLC is the sole general partner of PTL and an indirect wholly-owned subsidiary of Penske Corporation. PTL is engaged in truck leasing and support services, including full-service leasing, dedicated logistics support and contract maintenance programs, as well as rental operations serving commercial and consumer customers. Our direct and indirect interest in PTL is accounted for using the equity method. During the second quarter of 2012, PTL effected a recapitalization and subsequently acquired third-party financing which was used to repay $2,382 million of its outstanding debt owed to GECC. At June 30, 2012, our direct and indirect investment in PTL of $5,093 million primarily comprised partnership interests of $799 million and loans and advances of $4,259 million.

Other significant exposures to unconsolidated VIEs at June 30, 2012 include an investment in high quality senior secured debt of various middle-market companies ($4,268 million); investments in real estate entities ($3,075 million), which generally consist of passive limited partnership investments in tax-advantaged, multi-family real estate and investments in various European real estate entities; and exposures to joint ventures that purchase factored receivables ($1,807 million). The vast majority of our other unconsolidated entities consist of passive investments in various asset-backed financing entities.

The classification of our variable interests in these entities in our financial statements is based on the nature of the entity and the type of investment we hold. Variable interests in partnerships and corporate entities are classified as either equity method or cost method investments. In the ordinary course of business, we also make investments in entities in which we are not the primary beneficiary but may hold a variable interest such as limited partner interests or mezzanine debt investments. These investments are classified in two captions in our financial statements: “Other assets” for investments accounted for under the equity method, and “Financing receivables – net” for debt financing provided to these entities. Our investments in unconsolidated VIEs at June 30, 2012 and December 31, 2011 follow.

	June 30, 2012			December 31, 2011		
(In millions)	PTL	All other	Total	PTL	All other	Total
Other assets and investment securities	$ 5,093	$ 7,825	$ 12,918	$ 7,038	$ 7,318	$ 14,356
Financing receivables – net	–	3,002	3,002	–	2,507	2,507
Total investments	5,093	10,827	15,920	7,038	9,825	16,863
Contractual obligations to fund investments or guarantees	189	2,206	2,395	600	2,244	2,844
Revolving lines of credit	10	47	57	1,356	92	1,448
Total	$ 5,292	$ 13,080	$ 18,372	$ 8,994	$ 12,161	$ 21,155

In addition to the entities included in the table above, we also hold passive investments in RMBS, commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) issued by VIEs. Such investments were, by design, investment grade at issuance and held by a diverse group of investors. Further information about such investments is provided in Note 3.

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

A. Results of Operations

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered “non-GAAP financial measures” under the U.S. Securities and Exchange Commission (SEC) rules. For such measures, we have provided supplemental explanations and reconciliations in Exhibit 99(a) to this Form 10-Q Report.

Unless otherwise indicated, we refer to captions such as revenues and earnings from continuing operations attributable to GECC simply as “revenues” and “earnings” throughout this Management’s Discussion and Analysis. Similarly, discussion of other matters in our condensed, consolidated financial statements relates to continuing operations unless otherwise indicated.

Overview

Revenues in the second quarter of 2012 were $11.5 billion, a $1.0 billion (8%) decrease from the second quarter of 2011. Revenues were reduced by $0.2 billion as a result of dispositions. Revenues for the quarter also decreased as a result of organic revenue declines, primarily due to lower GE Capital Ending Net Investment (ENI), the stronger U.S. dollar and lower gains. Earnings were $2.1 billion, up from $1.6 billion in the second quarter of 2011.

Revenues in the first six months of 2012 were $22.9 billion, a $2.6 billion (10%) decrease from the first six months of 2011. Revenues for the six months ended June 30, 2012 included $0.1 billion from acquisitions and were decreased by $0.3 billion as a result of dispositions. Revenues for the first six months of 2012 also decreased as a result of organic revenue declines, primarily due to lower ENI, the absence of the 2011 gain on sale of a substantial portion of our Garanti Bank equity investment (2011 Garanti gain) and the stronger U.S. dollar. Organic revenue excludes the effects of acquisitions, business dispositions (other than dispositions of businesses acquired for investment) and currency exchange rates. Earnings were $3.9 billion, up from $3.4 billion in the first six months of 2011.

Overall, acquisitions contributed an insignificant amount and $0.1 billion to total revenues in the second quarters of 2012 and 2011, respectively. Our earnings in both the second quarters of 2012 and 2011 included an insignificant amount from acquired businesses. We integrate acquisitions as quickly as possible. Only revenues and earnings from the date we complete the acquisition through the end of the fourth following quarter are attributed to such businesses. Dispositions also affected our operations through lower revenues of $0.2 billion and $0.3 billion in the second quarters of 2012 and 2011, respectively. The effects of dispositions on earnings were an insignificant amount in both the second quarters of 2012 and 2011.

Overall, acquisitions contributed $0.1 billion amount to total revenues in both the six months of 2012 and 2011. Our earnings in both the six months of 2012 and 2011 included an insignificant amount from acquired businesses. We integrate acquisitions as quickly as possible. Only revenues and earnings from the date we complete the acquisition through the end of the fourth following quarter are attributed to such businesses. Dispositions also affected our operations through lower revenues of $0.3 billion and $0.8 billion in the six months of 2012 and 2011, respectively. The effects of dispositions on earnings were $0.1 billion and an insignificant amount in the six months of 2012 and 2011, respectively.

Segment Operations

Operating segments comprise our five businesses focused on the broad markets they serve: Commercial Lending and Leasing (CLL), Consumer, Real Estate, Energy Financial Services and GE Capital Aviation Services (GECAS). The Chairman allocates resources to, and assesses the performance of, these five businesses. In addition to providing information on segments in their entirety, we have also provided supplemental information for the geographic regions within the CLL segment for greater clarity.

Corporate items and eliminations include unallocated Treasury and Tax operations; Trinity, a group of sponsored special purpose entities; certain consolidated liquidating securitization entities; the effects of eliminating transactions between operating segments; results of our run-off insurance operations remaining in continuing operations attributable to GECC; underabsorbed corporate overhead; certain non-allocated amounts determined by the Chairman; and a variety of sundry items. Corporate items and eliminations is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements.

Segment profit is determined based on internal performance measures used by the Chairman to assess the performance of each business in a given period. In connection with that assessment, the Chairman may exclude matters such as charges for restructuring; rationalization and other similar expenses; acquisition costs and other related charges;

technology and product development costs; certain gains and losses from acquisitions or dispositions; and litigation settlements or other charges, responsibility for which preceded the current management team.

Segment profit excludes results reported as discontinued operations, earnings attributable to noncontrolling interests of consolidated subsidiaries, GECC preferred stock dividends declared and accounting changes. Segment profit, which we sometimes refer to as "net earnings", includes interest and income taxes. GE allocates service costs related to its principal pension plans and GE no longer allocates the retiree costs of its postretirement healthcare benefits to its segments. This allocation methodology better aligns segment operating costs to the active employee costs, which are managed by the segments.

On February 22, 2012, our former parent, General Electric Capital Services, Inc. (GECS), merged with and into General Electric Capital Corporation (GECC). GECC's continuing operations include the run-off insurance operations previously held and managed in our former parent, GECS, and which are reported in corporate items and eliminations. The operating businesses that are reported as segments, including CLL, Consumer, Real Estate, Energy Financial Services and GECAS, are not affected by the merger. Unless otherwise indicated, references to GECC and the GE Capital segment in this Form 10-Q Report relate to the entity or segment as they exist subsequent to the February 22, 2012 merger.

We have reclassified certain prior-period amounts to conform to the current-period presentation. Refer to the Summary of Operating Segments on page 7 for a reconciliation of the total reportable segments' profit to the consolidated net earnings attributable to the Company.

CLL

	Three months ended June 30,		Six months ended June 30,	
(In millions)	2012	2011	2012	2011
Revenues	$ 4,141	$ 4,666	$ 8,583	$ 9,274
Segment profit	$ 626	$ 701	$ 1,311	$ 1,255

(In millions)	June 30, 2012	December 31, 2011	June 30, 2011
Total assets	$ 185,284	$ 193,869	$ 198,223

	Three months ended June 30,		Six months ended June 30,	
(In millions)	2012	2011	2012	2011
Revenues				
Americas	$ 2,574	$ 2,732	$ 5,348	$ 5,458
Europe	805	1,009	1,657	1,974
Asia	507	542	1,105	1,101
Other	255	383	473	741
Segment profit				
Americas	$ 527	$ 542	$ 1,069	$ 1,001
Europe	55	124	114	215
Asia	37	39	123	72
Other	7	(4)	5	(33)

(In millions)	June 30, 2012	December 31, 2011	June 30, 2011
Total assets			

Americas	$ 111,842	$ 116,034	$ 114,770
Europe	44,378	46,590	50,074
Asia	17,341	17,807	18,148
Other	11,723	13,438	15,231

CLL revenues decreased 11% and net earnings decreased 11% in the second quarter of 2012. Revenues were reduced by $0.1 billion as a result of dispositions. Revenues also decreased as a result of organic revenue declines ($0.3 billion) and the stronger U.S. dollar ($0.1 billion). Net earnings decreased reflecting core decreases ($0.1 billion).

CLL revenues decreased 7% and net earnings increased 4% in the first six months of 2012. Revenues were reduced by $0.2 billion as a result of dispositions. Revenues also decreased as a result of organic revenue declines ($0.4 billion) and the stronger U.S. dollar ($0.1 billion). Net earnings increased reflecting lower provisions for losses on financing receivables ($0.1 billion).

Consumer

(In millions)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Revenues	$ 3,812	$ 4,172	$ 7,689	$ 8,995
Segment profit	$ 907	$ 1,042	$ 1,736	$ 2,283

(In millions)	June 30, 2012	December 31, 2011	June 30, 2011
Total assets	$ 134,874	$ 138,534	$ 145,427

Consumer revenues decreased 9% and net earnings decreased 13% in the second quarter of 2012. Revenues decreased as a result of organic revenue declines ($0.2 billion) and the stronger U.S. dollar ($0.2 billion). The decrease in net earnings resulted primarily from core decreases ($0.1 billion).

Consumer revenues decreased 15% and net earnings decreased 24% in the first six months of 2012. Revenues included $0.1 billion from acquisitions and were reduced by $0.1 billion as a result of dispositions. Revenues also decreased as a result of the absence of the 2011 Garanti gain ($0.7 billion), organic revenue declines ($0.4 billion) and the stronger U.S. dollar ($0.2 billion). The decrease in net earnings resulted primarily from the absence of the 2011 Garanti gain ($0.3 billion), core decreases ($0.2 billion), lower Garanti results ($0.1 billion) and dispositions ($0.1 billion), partially offset by lower provisions for losses on financing receivables.

Real Estate

(In millions)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Revenues	$ 876	$ 992	$ 1,712	$ 1,899
Segment profit	$ 221	$ (335)	$ 277	$ (693)

(In millions)	June 30, 2012	December 31, 2011	June 30, 2011
Total assets	$ 57,892	$ 60,873	$ 67,660

Real Estate revenues decreased 12% and net earnings were favorable in the second quarter of 2012. Revenues decreased as a result of organic revenue declines ($0.1 billion), primarily due to lower ENI. Real Estate net earnings

increased as a result of core increases ($0.3 billion) including higher tax benefits of $0.2 billion, lower impairments ($0.2 billion) and lower provisions for losses on financing receivables ($0.1 billion). Depreciation expense on real estate equity investments totaled $0.2 billion in both the second quarters of 2012 and 2011.

Real Estate revenues decreased 10% and net earnings were favorable in the first six months of 2012. Revenues decreased as a result of organic revenue declines ($0.2 billion), primarily due to lower ENI, partially offset by increases in net gains on property sales. Real Estate net earnings increased as a result of lower impairments ($0.5 billion), core increases ($0.4 billion) including higher tax benefits of $0.3 billion, and lower provisions for losses on financing receivables ($0.1 billion). Depreciation expense on real estate equity investments totaled $0.4 billion and $0.5 billion in the first six months of 2012 and 2011, respectively.

Energy Financial Services

(In millions)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Revenues	$ 446	$ 365	$ 685	$ 710
Segment profit	$ 122	$ 139	$ 193	$ 251

(In millions)	June 30, 2012	December 31, 2011	June 30, 2011
Total assets	$ 19,559	$ 18,357	$ 18,092

Energy Financial Services revenues increased 22% and net earnings decreased 12% in the second quarter of 2012. Revenues increased primarily as a result of organic revenue growth ($0.2 billion) including asset sales by investees and the consolidation of an entity involved in power generating activities, partially offset by lower gains ($0.1 billion). The decrease in net earnings resulted primarily from lower gains ($0.1 billion), partially offset by core increases ($0.1 billion).

Energy Financial Services revenues decreased 4% and net earnings decreased 23% in the first six months of 2012. Revenues decreased primarily as a result of lower gains ($0.2 billion), partially offset by organic revenue growth ($0.2 billion) including asset sales by investees and the consolidation of an entity involved in power generating activities. The decrease in net earnings resulted primarily from lower gains ($0.1 billion), partially offset by core increases ($0.1 billion).

GECAS

(In millions)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Revenues	$ 1,317	$ 1,327	$ 2,648	$ 2,652
Segment profit	$ 308	$ 321	$ 626	$ 627

(In millions)	June 30, 2012	December 31, 2011	June 30, 2011
Total assets	$ 49,927	$ 48,821	$ 48,822

GECAS revenues decreased 1% and net earnings decreased 4% in the second quarter of 2012. Revenues decreased as a result of higher impairments and lower gains, partially offset by organic revenue growth. The decrease in net earnings resulted primarily from higher impairments and lower gains, partially offset by core increases.

GECAS revenues and net earnings were both flat in the first six months of 2012.

Corporate Items and Eliminations

Corporate items and eliminations include an insignificant amount of Treasury operation earnings and $0.1 billion of Treasury operation expenses for the second quarters of 2012 and 2011, respectively. Corporate items and eliminations include Treasury operation expenses for both the first six months of 2012 and 2011 of $0.1 billion. These Treasury results were primarily related to derivative activities that reduce or eliminate interest rate, currency or market risk between financial assets and liabilities.

Corporate items and eliminations for the second quarter and first six months of 2012 include unallocated tax benefits attributable to the high tax basis in the entity being sold in the Business Property disposition, partially offset by the adjustment in the second quarter to bring our six month tax rate in line with the projected full year tax rate.

Certain amounts included in corporate items and eliminations are not allocated to the five operating businesses within the GE Capital segment because they are excluded from the measurement of their operating performance for internal purposes. Unallocated costs included an insignificant amount in both the second quarters and first six months of 2012 and 2011, respectively, primarily related to restructuring and other charges.

Income Taxes

Our effective income tax rate is lower than the U.S. statutory rate primarily because of benefits from lower-taxed global operations, including the use of global funding structures. There is a benefit from global operations as non-U.S. income is subject to local country tax rates that are significantly below the 35% U.S. statutory rate. These non-U.S. earnings have been indefinitely reinvested outside the U.S. and are not subject to current U.S. income tax. The rate of tax on our indefinitely reinvested non-U.S. earnings is below the 35% U.S. statutory rate because we have significant business operations subject to tax in countries where the tax on that income is lower than the U.S. statutory rate and because GECC funds the majority of its non-U.S. operations through foreign companies that are subject to low foreign taxes.

We expect our ability to benefit from non-U.S. income taxed at less than the U.S. rate to continue subject to changes of U.S. or foreign law, including the expiration on December 31, 2011 of the U.S. tax law provision deferring tax on active financial services income, as discussed in Note 10 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 consolidated financial statements). If this provision is not extended, our tax rate will increase significantly after 2012. In addition, since this benefit depends on management's intention to indefinitely reinvest amounts outside the U.S., our tax provision will increase to the extent we no longer indefinitely reinvest foreign earnings.

The provision for income taxes was an expense of $0.1 billion for the second quarter of 2012 (an effective tax rate of 4.6%), compared with $0.3 billion expense for the second quarter of 2011 (an effective tax rate of 17.5%). The tax expense decreased in the second quarter 2012 by $0.2 billion. The decrease is attributable to the high tax basis in the entity being sold in the Business Property disposition and increased benefits from low taxed global operations. These benefits were partially offset by the adjustment in the second quarter to bring our six month tax rate in line with the projected full year tax rate and higher second quarter 2012 pre-tax income.

The provision for income taxes was an expense of $0.3 billion for the first six months of 2012 (an effective tax rate of 6.8%), compared with $0.8 billion expense for the first six months of 2011 (an effective tax rate of 18.3%). The tax expense decreased in the first six months of 2012 by $0.5 billion. The decrease is attributable to the high tax basis in the entity being sold in the Business Property disposition, and increased benefits from low taxed global operations which include the absence of the first quarter 2011 highly taxed disposition of Garanti Bank. These benefits were partially offset by the adjustments to bring our six month tax rate in line with the projected full year tax rate.

(53)

Discontinued Operations

(In millions)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Earnings (loss) from discontinued operations, net of taxes	$ (553)	$ 195	$ (770)	$ 230

Discontinued operations primarily comprised GE Money Japan (our Japanese personal loan business, Lake, and our Japanese mortgage and card businesses, excluding our investment in GE Nissen Credit Co., Ltd.), our U.S. mortgage business (WMC), our U.S. recreational vehicle and marine equipment financing business (Consumer RV Marine), Consumer Mexico, Consumer Singapore, our Consumer home lending operations in Australia and New Zealand (Australian Home Lending) and our Consumer mortgage lending business in Ireland (Consumer Ireland). Results of these businesses are reported as discontinued operations for all periods presented.

Loss from discontinued operations, net of taxes, in the three and six months ended June 30, 2012 primarily reflect the $0.3 billion after-tax effect of incremental reserves for excess interest claims related to our loss-sharing arrangement on the 2008 sale of GE Money Japan and the $0.2 billion after-tax effect of incremental reserves related to retained representation and warranty obligations to repurchase previously sold loans on the 2007 sale of WMC. In addition, the first six months of 2012 included a $0.2 billion loss (which includes a $0.1 billion loss on disposal) related to Consumer Ireland.

Earnings from discontinued operations, net of taxes, in the three and six months ended June 30, 2011 primarily reflected a $0.3 billion gain related to the sale of Consumer Singapore and earnings from operations of Australia Home Lending of $0.1 billion, partially offset by the loss on sale of Australian Home Lending of $0.2 billion.

For additional information related to discontinued operations, see Note 2 to the condensed, consolidated financial statements.

B. Statement of Financial Position

Overview of Financial Position

Major changes in our financial position for the six months ended June 30, 2012 resulted from the following:

- Repayments exceeded new issuances of total borrowings by $23.8 billion and collections on financing receivables exceeded originations by $5.8 billion;
- The U.S. dollar was stronger for most major currencies at June 30, 2012 than at December 31, 2011, decreasing the translated levels of our non-U.S. dollar assets and liabilities.
- We issued 22,500 shares of preferred stock for proceeds of $2.2 billion during the second quarter of 2012. The effect of this issuance is reported as a $2.2 billion increase in additional paid-in capital.
- We paid $3.0 billion of dividends to GE.

Our assets were $558.8 billion at June 30, 2012, a $25.7 billion decrease from December 31, 2011, and reflect a reduction of net financing receivables ($14.9 billion), and decreases in cash and equivalents ($10.5 billion) and

derivative assets ($3.9 billion).

Our liabilities decreased $28.5 billion from December 31, 2011 to $478.2 billion at June 30, 2012, and reflect a $23.8 billion net reduction in borrowings, primarily in long-term borrowings and commercial paper, consistent with our overall reduction in assets, redemptions of guaranteed investment contracts (GICs) at Trinity ($2.0 billion), lower factoring liabilities at CLL ($1.2 billion) and lower deposits at our banks ($0.9 billion).

Cash Flows

Our cash and equivalents were $66.3 billion at June 30, 2012, compared with $78.0 billion at June 30, 2011. Our cash from operating activities totaled $10.8 billion for the six months ended June 30, 2012, compared with cash from operating activities of $9.7 billion for the same period of 2011.

Consistent with our plan to reduce our asset levels, cash from investing activities was $6.9 billion during the six months ended June 30, 2012, primarily resulting from a $5.8 billion reduction in financing receivables due to collections exceeding originations and $2.3 billion related to net loan repayments from our equity method investments, partially offset by $2.8 billion of net purchases of equipment leased to others (ELTO).

GECC cash used for financing activities for the six months ended June 30, 2012 of $27.8 billion related primarily to a $23.8 billion reduction in total borrowings, consisting primarily of reductions in long-term borrowings and commercial paper, $2.0 billion of redemptions of guaranteed investment contracts at Trinity and $0.9 billion of lower deposits at our banks, partially offset by $2.2 billion of proceeds from the second quarter issuance of preferred stock.

Cash used for financing activities also included dividends to GE which represent the distribution of a portion of GECC retained earnings. Beginning in the second quarter of 2012, GECC restarted its dividend to GE. In addition to a dividend of $0.5 billion, GECC paid GE a special dividend of $2.5 billion in the second quarter of 2012.

Fair Value Measurements

See Note 1 in our 2011 consolidated financial statements for disclosures related to our methodology for fair value measurements. Additional information about fair value measurements is provided in Note 10 to the condensed, consolidated financial statements.

At June 30, 2012, the aggregate amount of assets that are measured at fair value through earnings totaled $8.3 billion and consisted primarily of various assets held for sale in the ordinary course of business, as well as equity investments.

C. Financial Services Portfolio Quality

Investment securities comprise mainly investment grade debt securities supporting obligations to annuitants, policyholders and holders of GICs in our run-off insurance operations and Trinity, investment securities at our treasury operations and investments held in our CLL business collateralized by senior secured loans of high-quality, middle-market companies in a variety of industries. The fair value of investment securities increased to $47.9 billion at June 30, 2012 from $47.4 billion at December 31, 2011, primarily due to the impact of lower interest rates and additional purchases in our CLL business. Of the amount at June 30, 2012, we held debt securities with an estimated fair value of $47.1 billion, which included corporate debt securities, asset-backed securities (ABS), residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) with estimated fair values of $27.2 billion, $5.1 billion, $2.4 billion and $3.0 billion, respectively. Net unrealized gains on debt securities were $4.0 billion and $3.0 billion at June 30, 2012 and December 31, 2011, respectively. This amount included unrealized losses on corporate debt securities, ABS, RMBS and CMBS of $0.5 billion, $0.1 billion, $0.2 billion and $0.2 billion, respectively, at June 30, 2012, as compared with $0.6 billion, $0.2 billion, $0.3 billion and $0.2 billion, respectively, at December 31, 2011.

We regularly review investment securities for impairment using both qualitative and quantitative criteria. We presently do not intend to sell the vast majority of our debt securities that are in an unrealized loss position and believe that it is not more likely than not that we will be required to sell the vast majority of these securities before recovery of our amortized cost. We believe that the unrealized loss associated with our equity securities will be recovered within the foreseeable future.

Our RMBS portfolio is collateralized primarily by pools of individual, direct mortgage loans (a majority of which were originated in 2006 and 2005), not other structured products such as collateralized debt obligations. Substantially all of our RMBS are in a senior position in the capital structure of the deals and more than 70% are agency bonds or

insured by Monoline insurers (on which we continue to place reliance). Of our total RMBS portfolio at June 30, 2012 and December 31, 2011, approximately $0.5 billion and $0.6 billion, respectively, relate to residential subprime credit, primarily supporting our guaranteed investment contracts. A majority of exposure to residential subprime credit related to investment securities backed by mortgage loans originated in 2006 and 2005. Substantially all of the subprime RMBS were investment grade at the time of purchase and approximately 70% have been subsequently downgraded to below investment grade.

Our CMBS portfolio is collateralized by both diversified pools of mortgages that were originated for securitization (conduit CMBS) and pools of large loans backed by high quality properties (large loan CMBS), a majority of which were originated in 2007 and 2006. The vast majority of the securities in our CMBS portfolio have investment grade credit ratings and the vast majority of the securities are in a senior position in the capital structure.

Our ABS portfolio is collateralized by senior secured loans of high-quality, middle-market companies in a variety of industries, as well as a variety of diversified pools of assets such as student loans and credit cards. The vast majority of our ABS are in a senior position in the capital structure of the deals. In addition, substantially all of the securities that are below investment grade are in an unrealized gain position.

If there has been an adverse change in cash flows for RMBS, management considers credit enhancements such as Monoline insurance (which are features of a specific security). In evaluating the overall creditworthiness of the Monoline insurer (Monoline), we use an analysis that is similar to the approach we use for corporate bonds, including an evaluation of the sufficiency of the Monoline’s cash reserves and capital, ratings activity, whether the Monoline is in default or default appears imminent, and the potential for intervention by an insurance or other regulator.

Monolines provide credit enhancement for certain of our investment securities, primarily RMBS and municipal securities. The credit enhancement is a feature of each specific security that guarantees the payment of all contractual cash flows, and is not purchased separately by GE. The Monoline industry continues to experience financial stress from increasing delinquencies and defaults on the individual loans underlying insured securities. We continue to rely on Monolines with adequate capital and claims paying resources. We have reduced our reliance on Monolines that do not have adequate capital or have experienced regulator intervention. At June 30, 2012, our investment securities insured by Monolines on which we continue to place reliance were $1.5 billion, including $0.3 billion of our $0.5 billion investment in subprime RMBS. At June 30, 2012, the unrealized loss associated with securities subject to Monoline credit enhancement, for which there is an expected credit loss, was $0.2 billion.

Total pre-tax, other-than-temporary impairment losses during the second quarter of 2012 were an insignificant amount, which was recognized in earnings and primarily relates to credit losses on non-U.S. corporate securities and other-than-temporary losses on equity securities.

Total pre-tax, other-than-temporary impairment losses during the second quarter of 2011 were $0.1 billion which was recognized in earnings and primarily relates to credit losses on non-U.S. corporate securities, non-U.S. government securities and RMBS.

Total pre-tax, other-than-temporary impairment losses during the six months ended June 30, 2012 were $0.1 billion, of which $0.1 billion was recognized in earnings and primarily relates to credit losses on non-U.S. corporate securities and other-than-temporary losses on equity securities.

Total pre-tax, other-than-temporary impairment losses during the six months ended June 30, 2011 were $0.2 billion, of which $0.1 billion was recognized in earnings and primarily relates to credit losses on non-U.S. corporate securities, retained interests, non-U.S. government securities and RMBS.

Our qualitative review attempts to identify issuers’ securities that are “at-risk” of other-than-temporary impairment, that is, for securities that we do not intend to sell and it is not more likely than not that we will be required to sell before recovery of our amortized cost, whether there is a possibility of credit loss that would result in an other-than-temporary impairment recognition in the following 12 months. Securities we have identified as “at-risk” primarily relate to investments in U.S. and non-U.S. corporate debt securities across a broad range of industries, and RMBS. The amount of associated unrealized loss on these securities at June 30, 2012, is $0.6 billion. Unrealized losses are not indicative of the amount of credit loss that would be recognized as credit losses are determined based on adverse changes in expected cash flows rather than fair value. For further information relating to how credit losses are calculated, see Note 3 in our 2011 consolidated financial statements. Uncertainty in the capital markets may cause increased levels of other-than-temporary impairments.

At June 30, 2012 and December 31, 2011, unrealized losses on investment securities totaled $1.2 billion and $1.6 billion, respectively, including $1.1 billion and $1.2 billion, respectively, aged 12 months or longer. Of the amount aged 12 months or longer at June 30, 2012, more than 65% are debt securities that were considered to be investment grade by the major rating agencies. In addition, of the amount aged 12 months or longer, $0.5 billion and $0.4 billion related to structured securities (mortgage-backed and asset-backed) and corporate debt securities, respectively. With respect to our investment securities that are in an unrealized loss position at June 30, 2012, the majority relate to debt securities held to support obligations to holders of GICs. We presently do not intend to sell the vast majority of our debt securities that are in an unrealized loss position and believe that it is not more likely than not that we will be required to sell these securities before recovery of our amortized cost. For additional information, see Note 3 to the condensed, consolidated financial statements.

Financing receivables is our largest category of assets and represents one of our primary sources of revenues. Our portfolio of financing receivables is diverse and not directly comparable to major U.S. banks. A discussion of the quality of certain elements of the financing receivables portfolio follows.

The majority of our consumer portfolio is non-U.S. and primarily comprises mortgage, sales finance, auto and personal loans in various European and Asian countries. Our U.S. consumer financing receivables comprise 17% of our total portfolio. Of those, approximately 64% relate primarily to credit cards, which are often subject to profit and loss sharing arrangements with the retailer (the results of which are reflected in revenues), and have a smaller average balance and lower loss severity as compared to bank cards. The remaining 36% are sales finance receivables, which provide electronics, recreation, medical and home improvement financing to customers. In 2007, we exited the U.S. mortgage business and we have no U.S. auto or student loans.

Our commercial portfolio primarily comprises senior, secured positions with comparatively low loss history. The secured receivables in this portfolio are collateralized by a variety of asset classes, which for our CLL business primarily include: industrial-related facilities and equipment, vehicles, corporate aircraft, and equipment used in many industries, including the construction, manufacturing, transportation, media, communications, entertainment, and healthcare industries. The portfolios in our Real Estate, GECAS and Energy Financial Services businesses are collateralized by commercial real estate, commercial aircraft and operating assets in the global energy and water industries, respectively. We are in a secured position for substantially all of our commercial portfolio.

Losses on financing receivables are recognized when they are incurred, which requires us to make our best estimate of probable losses inherent in the portfolio. The method for calculating the best estimate of losses depends on the size, type and risk characteristics of the related financing receivable. Such an estimate requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of specific customers and market sectors, collateral values (including housing price indices as applicable), and the present and expected future levels of interest rates. The underlying assumptions, estimates and assessments we use to provide for losses are updated periodically to reflect our view of current conditions and are subject to the regulatory examinations process, which can result in changes to our assumptions. Changes in such estimates can significantly affect the allowance and provision for losses. It is possible to experience credit losses that are different from our current estimates.

Our risk management process includes standards and policies for reviewing major risk exposures and concentrations, and evaluates relevant data either for individual loans or financing leases, or on a portfolio basis, as appropriate.

Loans acquired in a business acquisition are recorded at fair value, which incorporates our estimate at the acquisition date of the credit losses over the remaining life of the portfolio. As a result, the allowance for losses is not carried over at acquisition. This may have the effect of causing lower reserve coverage ratios for those portfolios.

For purposes of the discussion that follows, “delinquent” receivables are those that are 30 days or more past due based on their contractual terms; and “nonearning” receivables are those that are 90 days or more past due (or for which collection is otherwise doubtful). Nonearning receivables exclude loans purchased at a discount (unless they have deteriorated post acquisition). Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310, Receivables, these loans are initially recorded at fair value and accrete interest income over the estimated life of the loan based on reasonably estimable cash flows even if the underlying loans are contractually delinquent at acquisition. In addition, nonearning receivables exclude loans that are paying on a cash accounting basis but classified as nonaccrual and impaired. “Nonaccrual” financing receivables include all nonearning receivables and are those on which we have stopped accruing interest. We stop accruing interest at the earlier of the time at which collection of an account becomes doubtful or the account becomes 90 days past due. Recently restructured financing receivables are not considered delinquent when payments are brought current according to the restructured terms, but

may remain classified as nonaccrual until there has been a period of satisfactory payment performance by the borrower and future payments are reasonably assured of collection.

Further information on the determination of the allowance for losses on financing receivables and the credit quality and categorization of our financing receivables is provided in Notes 4 and 12.

(In millions)	Financing receivables June 30, 2012	Financing receivables December 31, 2011	Nonearning receivables June 30, 2012	Nonearning receivables December 31, 2011	Allowance for losses June 30, 2012	Allowance for losses December 31, 2011
Commercial						
CLL						
Americas	$ 77,241	$ 80,505	$ 1,739	$ 1,862	$ 662	$ 889
Europe	34,722	36,899	1,390	1,167	484	400
Asia	11,313	11,635	232	269	87	157
Other	711	436	9	11	1	4
Total CLL	123,987	129,475	3,370	3,309	1,234	1,450
Energy Financial Services	5,159	5,912	2	22	12	26
GECAS	12,046	11,901	56	55	32	17
Other	587	1,282	22	65	12	37
Total Commercial	141,779	148,570	3,450	3,451	1,290	1,530
Real Estate						
Debt(a)	22,409	24,501	403	541	682	949
Business Properties(b)	5,301	8,248	227	249	105	140
Total Real Estate	27,710	32,749	630	790	787	1,089
Consumer						
Non-U.S. residential mortgages(c)	33,826	35,550	2,720	2,870	481	546
Non-U.S. installment and revolving credit	17,960	18,544	243	263	665	717
U.S. installment and revolving credit	45,531	46,689	773	990	1,724	2,008
Non-U.S. auto	4,740	5,691	28	43	79	101
Other	7,643	7,244	380	419	179	199
Total Consumer	109,700	113,718	4,144	4,585	3,128	3,571
Total	$ 279,189	$ 295,037	$ 8,224	$ 8,826	$ 5,205	$ 6,190

(a) Financing receivables included $0.1 billion of construction loans at both June 30, 2012 and December 31, 2011.

(b) Our Business Properties portfolio is underwritten primarily by the credit quality of the borrower and secured by tenant and owner-occupied commercial properties.

(c) At June 30, 2012, net of credit insurance, approximately 27% of our secured Consumer non-U.S. residential mortgage portfolio comprised loans with introductory, below market rates that are scheduled to adjust at future dates; with high loan-to-value ratios at inception (greater than 90%); whose terms permitted interest-only payments; or whose terms resulted in negative amortization. At origination, we underwrite loans with an adjustable rate to the reset value. Of these loans, 84% are in our U.K. and France portfolios, which comprise mainly loans with interest-only payments, high loan-to-value ratios at inception and introductory below market rates, have a delinquency rate of 15%, have a loan-to-value ratio at origination of 78% and have re-indexed loan-to-value ratios of 82% and 66%, respectively. At June 30, 2012, 8% (based on dollar values) of these loans in our U.K. and France portfolios have been restructured.

The portfolio of financing receivables, before allowance for losses, was $279.2 billion at June 30, 2012, and $295.0 billion at December 31, 2011. Financing receivables, before allowance for losses, decreased $15.8 billion from December 31, 2011, primarily as a result of collections exceeding originations ($5.8 billion) (which includes sales), transfers to held-for-sale ($3.6 billion), write-offs ($3.3 billion) and the stronger U.S. dollar ($1.5 billion).

Related nonearning receivables totaled $8.2 billion (2.9% of outstanding receivables) at June 30, 2012, compared with $8.8 billion (3.0% of outstanding receivables) at December 31, 2011. Nonearning receivables decreased from December 31, 2011, primarily due to write-offs and payoffs in Real Estate and improved economic conditions in the U.S. and collections in Consumer.

The allowance for losses at June 30, 2012 totaled $5.2 billion compared with $6.2 billion at December 31, 2011, representing our best estimate of probable losses inherent in the portfolio. Allowance for losses decreased $1.0 billion from December 31, 2011, primarily because provisions were lower than write-offs, net of recoveries by $0.9 billion, which is attributable to a reduction in the overall financing receivables balance and an improvement in the overall credit environment. The allowance for losses as a percent of total financing receivables decreased from 2.1% at December 31, 2011 to 1.9% at June 30, 2012 primarily due to a decrease in the allowance for losses as discussed above, partially offset by a decline in the overall financing receivables balance as collections exceeded originations. Further information surrounding the allowance for losses related to each of our portfolios is detailed below.

The following table provides information surrounding selected ratios related to nonearning financing receivables and the allowance for losses.

	Nonearning financing receivables as a percent of financing receivables		Allowance for losses as a percent of nonearning financing receivables		Allowance for losses as a percent of total financing receivables	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Commercial						
CLL						
Americas	2.3 %	2.3 %	38.1 %	47.7 %	0.9 %	1.1 %
Europe	4.0	3.2	34.8	34.3	1.4	1.1
Asia	2.1	2.3	37.5	58.4	0.8	1.3
Other	1.3	2.5	11.1	36.4	0.1	0.9
Total CLL	2.7	2.6	36.6	43.8	1.0	1.1
Energy Financial Services	-	0.4	600.0	118.2	0.2	0.4
GECAS	0.5	0.5	57.1	30.9	0.3	0.1
Other	3.7	5.1	54.5	56.9	2.0	2.9
Total Commercial	2.4	2.3	37.4	44.3	0.9	1.0
Real Estate						
Debt	1.8	2.2	169.2	175.4	3.0	3.9
Business Properties	4.3	3.0	46.3	56.2	2.0	1.7
Total Real Estate	2.3	2.4	124.9	137.8	2.8	3.3
Consumer						
Non-U.S. residential mortgages	8.0	8.1	17.7	19.0	1.4	1.5
Non-U.S. installment and revolving credit	1.4	1.4	273.7	272.6	3.7	3.9
U.S. installment and revolving credit	1.7	2.1	223.0	202.8	3.8	4.3
Non-U.S. auto	0.6	0.8	282.1	234.9	1.7	1.8
Other	5.0	5.8	47.1	47.5	2.3	2.7
Total Consumer	3.8	4.0	75.5	77.9	2.9	3.1

Total	2.9	3.0	63.3	70.1	1.9	2.1

Included below is a discussion of financing receivables, allowance for losses, nonearning receivables and related metrics for each of our significant portfolios.

CLL – Americas. Nonearning receivables of $1.7 billion represented 21.1% of total nonearning receivables at June 30, 2012. The ratio of allowance for losses as a percent of nonearning receivables decreased from 47.7% at December 31, 2011, to 38.1% at June 30, 2012, reflecting an overall improvement in the credit quality of the remaining portfolio and an overall decrease in nonearning receivables. The ratio of nonearning receivables as a percent of financing receivables remained constant at 2.3% at June 30, 2012. Collateral supporting these nonearning financing receivables primarily includes assets in the restaurant and hospitality, trucking and industrial equipment industries and corporate aircraft, and for our leveraged finance business, equity of the underlying businesses.

CLL – Europe. Nonearning receivables of $1.4 billion represented 16.9% of total nonearning receivables at June 30, 2012. The ratio of allowance for losses as a percent of nonearning receivables increased slightly from 34.3% at December 31, 2011, to 34.8% at June 30, 2012, reflecting increases in nonearning receivables and the allowance for losses in our Interbanca S.p.A. portfolio, substantially offset by an increase in nonearning receivables in our asset-backed lending portfolio requiring a relatively lower reserve level based on the strength of the underlying collateral values. The majority of nonearning receivables are attributable to the Interbanca S.p.A. portfolio, which was acquired in 2009. The loans acquired with Interbanca S.p.A. were recorded at fair value, which incorporates an estimate at the acquisition date of credit losses over their remaining life. Accordingly, these loans generally have a lower ratio of allowance for losses as a percent of nonearning receivables compared to the remaining portfolio. Excluding the nonearning loans attributable to the 2009 acquisition of Interbanca S.p.A., the ratio of allowance for losses as a percent of nonearning receivables decreased from 55.9% at December 31, 2011, to 46.3% at June 30, 2012, primarily due to an increase in nonearning receivables in our asset-backed lending portfolio, which requires a relatively lower reserve level based on the strength of the underlying collateral. The ratio of nonearning receivables as a percent of financing receivables increased from 3.2% at December 31, 2011, to 4.0% at June 30, 2012, for the reasons described above. Collateral supporting these secured nonearning financing receivables are primarily equity of the underlying businesses for our Interbanca S.p.A. business and equipment for our equipment finance portfolio.

CLL – Asia. Nonearning receivables of $0.2 billion represented 2.8% of total nonearning receivables at June 30, 2012. The ratio of allowance for losses as a percent of nonearning receivables decreased from 58.4% at December 31, 2011, to 37.5% at June 30, 2012, primarily due to a decline in allowance for losses as a result of write-offs in Japan, partially offset by collections and write-offs of nonearning receivables in our asset-based financing businesses in Japan. The ratio of nonearning receivables as a percent of financing receivables decreased from 2.3% at December 31, 2011, to 2.1% at June 30, 2012, primarily due to the decline in nonearning receivables related to our asset-based financing businesses in Japan, partially offset by a lower financing receivables balance. Collateral supporting these nonearning financing receivables is primarily commercial real estate, manufacturing equipment, corporate aircraft, and assets in the auto industry.

Real Estate – Debt. Nonearning receivables of $0.4 billion represented 4.9% of total nonearning receivables at June 30, 2012. The decrease in nonearning receivables from December 31, 2011, was driven primarily by the resolution of North American multi-family and hotel nonearning loans, as well as European retail and mixed use loans, through payoffs and foreclosures. The ratio of allowance for losses as a percent of total financing receivables decreased from 3.9% at December 31, 2011 to 3.0% at June 30, 2012, driven primarily by write-offs related to settlements and payoffs from impaired loan borrowers and improvement in collateral values. The ratio of allowance for losses as a percent of nonearning receivables decreased from 175.4% to 169.2% reflecting write-offs and resolution of nonearning loans as mentioned above.

The Real Estate financing receivables portfolio is collateralized by income-producing or owner-occupied commercial properties across a variety of asset classes and markets. At June 30, 2012, total Real Estate financing receivables of $27.7 billion were primarily collateralized by office buildings ($6.0 billion), owner-occupied properties ($5.3 billion), apartment buildings ($3.8 billion) and hotel properties ($3.5 billion). In the first six months of 2012, commercial real estate markets showed signs of improved stability and liquidity in certain markets; however, the pace of improvement varies significantly by asset class and market and the long term outlook remains uncertain. We have and continue to maintain an intense focus on operations and risk management. Loan loss reserves related to our Real Estate–Debt financing receivables are particularly sensitive to declines in underlying property values. Assuming global property values decline an incremental 1% or 5%, and that decline occurs evenly across geographies and asset classes, we estimate incremental loan loss reserves would be required of less than $0.1 billion and approximately $0.2 billion, respectively. Estimating the impact of global property values on loss performance across our portfolio depends on a number of factors, including macroeconomic conditions, property level operating performance, local market dynamics and individual borrower behavior. As a result, any sensitivity analyses or attempts to forecast potential losses carry a

high degree of imprecision and are subject to change. At June 30, 2012, we had 126 foreclosed commercial real estate properties totaling $1.0 billion.

(61)

Consumer – Non-U.S. residential mortgages. Nonearning receivables of $2.7 billion represented 33.1% of total nonearning receivables at June 30, 2012. The ratio of allowance for losses as a percent of nonearning receivables decreased from 19.0% at December 31, 2011 to 17.7% at June 30, 2012, primarily as a result of improved portfolio quality in the U.K. and write-offs in Hungary. Our non-U.S. mortgage portfolio has a loan-to-value ratio of approximately 75% at origination and the vast majority are first lien positions. Our U.K. and France portfolios, which comprise a majority of our total mortgage portfolio, have reindexed loan-to-value ratios of 84% and 57%, respectively. About 4% of these loans are without mortgage insurance and have a reindexed loan-to-value ratio equal to or greater than 100%. Loan-to-value information is updated on a quarterly basis for a majority of our loans and considers economic factors such as the housing price index. At June 30, 2012, we had in repossession stock 474 houses in the U.K., which had a value of approximately $0.1 billion. The ratio of nonearning receivables as a percent of financing receivables decreased slightly from 8.1% at December 31, 2011 to 8.0% at June 30, 2012.

Consumer – Non-U.S. installment and revolving credit. Nonearning receivables of $0.2 billion represented 3.0% of total nonearning receivables at June 30, 2012. The ratio of allowance for losses as a percent of nonearning receivables increased from 272.6% at December 31, 2011 to 273.7% at June 30, 2012, reflecting higher delinquencies, and lower nonearnings due to collections and write-offs primarily in Australia and New Zealand.

Consumer – U.S. installment and revolving credit. Nonearning receivables of $0.8 billion represented 9.4% of total nonearning receivables at June 30, 2012. The ratio of allowance for losses as a percent of nonearning receivables increased from 202.8% at December 31, 2011, to 223.0% at June 30, 2012 reflecting improved economic conditions, lower entry rates and improved collections resulting in reductions in our nonearning receivables balance. The ratio of nonearning receivables as a percentage of financing receivables decreased from 2.1% at December 31, 2011 to 1.7% at June 30, 2012 primarily due to improved collections reflecting an improvement in the overall credit environment.

Nonaccrual Financing Receivables

The following table provides details related to our nonaccrual and nonearning financing receivables. Nonaccrual financing receivables include all nonearning receivables and are those on which we have stopped accruing interest. We stop accruing interest at the earlier of the time at which collection becomes doubtful or the account becomes 90 days past due. Substantially all of the differences between nonearning and nonaccrual financing receivables relate to loans which are classified as nonaccrual financing receivables but are paying on a cash accounting basis, and therefore excluded from nonearning receivables. Of our $15.0 billion nonaccrual loans at June 30, 2012, $6.6 billion are currently paying in accordance with their contractual terms.

(In millions)	Nonaccrual financing receivables	Nonearning financing receivables
June 30, 2012		
Commercial		
CLL	$ 4,792	$ 3,370
Energy Financial Services	52	2
GECAS	344	56
Other	46	22
Total Commercial	5,234	3,450

Real Estate		5,380		630
Consumer		4,373		4,144
Total	$	14,987	$	8,224

(62)

Impaired Loans

"Impaired" loans in the table below are defined as larger balance or restructured loans for which it is probable that the lender will be unable to collect all amounts due according to original contractual terms of the loan agreement. The vast majority of our Consumer and a portion of our CLL nonaccrual receivables are excluded from this definition, as they represent smaller balance homogeneous loans that we evaluate collectively by portfolio for impairment.

Impaired loans include nonearning receivables on larger balance or restructured loans, loans that are currently paying interest under the cash basis (but are excluded from the nonearning category), and loans paying currently but which have been previously restructured.

Specific reserves are recorded for individually impaired loans to the extent we have determined that it is probable that we will be unable to collect all amounts due according to original contractual terms of the loan agreement. Certain loans classified as impaired may not require a reserve because we believe that we will ultimately collect the unpaid balance (through collection or collateral repossession).

Further information pertaining to loans classified as impaired and specific reserves is included in the table below.

(In millions)	June 30, 2012	December 31, 2011
Loans requiring allowance for losses		
Commercial(a)	$ 2,065	$ 2,357
Real Estate	3,718	4,957
Consumer	2,897	2,824
Total loans requiring allowance for losses	8,680	10,138
Loans expected to be fully recoverable		
Commercial(a)	3,815	3,305
Real Estate	3,748	3,790
Consumer	106	69
Total loans expected to be fully recoverable	7,669	7,164
Total impaired loans	$ 16,349	$ 17,302
Allowance for losses (specific reserves)		
Commercial(a)	$ 640	$ 812
Real Estate	561	822
Consumer	625	680
Total allowance for losses (specific reserves)	$ 1,826	$ 2,314
Average investment during the period	$ 16,940	$ 18,167
Interest income earned while impaired(b)	374	733

(a) Includes CLL, Energy Financial Services, GECAS and Other.

(b) Recognized principally on a cash basis.

We regularly review our Real Estate loans for impairment using both quantitative and qualitative factors, such as debt service coverage and loan-to-value ratios. We classify Real Estate loans as impaired when the most recent valuation reflects a projected loan-to-value ratio at maturity in excess of 100%, even if the loan is currently paying in accordance with contractual terms.

Of our $7.5 billion impaired loans at Real Estate at June 30, 2012, $6.7 billion are currently paying in accordance with the contractual terms of the loan and are typically loans where the borrower has adequate debt service coverage to meet contractual interest obligations. Impaired loans at CLL primarily represent senior secured lending positions.

Our impaired loan balance at June 30, 2012 and December 31, 2011, classified by the method used to measure impairment was as follows.

(63)

(In millions)		June 30, 2012		December 31, 2011
Method used to measure impairment				
Discounted cash flow	$	8,978	$	8,858
Collateral value		7,371		8,444
Total	$	16,349	$	17,302

See Note 1 in our 2011 consolidated financial statements for further information on our valuation processes.

Our loss mitigation strategy is intended to minimize economic loss and, at times, can result in rate reductions, principal forgiveness, extensions, forbearance or other actions, which may cause the related loan to be classified as a TDR, and also as impaired. Changes to Real Estate's loans primarily include maturity extensions, principal payment acceleration, changes to collateral terms and cash sweeps, which are in addition to, or sometimes in lieu of, fees and rate increases. The determination of whether these changes to the terms and conditions of our commercial loans meet the TDR criteria includes our consideration of all relevant facts and circumstances. At June 30, 2012, TDRs included in impaired loans were $13.5 billion, primarily relating to Real Estate ($6.3 billion), CLL ($4.3 billion) and Consumer ($2.9 billion).

Real Estate TDRs decreased from $7.0 billion at December 31, 2011 to $6.3 billion at June 30, 2012, primarily driven by resolution of TDRs through paydowns, restructuring and foreclosures, partially offset by extensions of loans scheduled to mature during 2012, some of which were classified as TDRs upon modification. For borrowers with demonstrated operating capabilities, we work to restructure loans when the cash flow and projected value of the underlying collateral support repayment over the modified term. We deem loan modifications to be TDRs when we have granted a concession to a borrower experiencing financial difficulty and we do not receive adequate compensation in the form of an effective interest rate that is at current market rates of interest given the risk characteristics of the loan or other consideration that compensates us for the value of the concession. For the six months ended June 30, 2012, we modified $2.3 billion of loans classified as TDRs substantially all in our Debt portfolio. Changes to these loans primarily included maturity extensions, principal payment acceleration, changes to collateral or covenant terms and cash sweeps, which are in addition to, or sometimes in lieu of, fees and rate increases. The limited liquidity and higher return requirements in the real estate market for loans with higher loan-to-value (LTV) ratios has typically resulted in the conclusion that the modified terms are not at current market rates of interest, even if the modified loans are expected to be fully recoverable. We received the same or additional compensation in the form of rate increases and fees for the majority of these TDRs. Of our $4.5 billion of modifications classified as TDRs in the last twelve months, $0.4 billion have subsequently experienced a payment default in the last six months.

The substantial majority of the Real Estate TDRs have reserves determined based upon collateral value. Our specific reserves on Real Estate TDRs were $0.4 billion at June 30, 2012 and $0.6 billion at December 31, 2011, and were 6.6% and 8.4%, respectively, of Real Estate TDRs. In many situations these loans did not require a specific reserve as collateral value adequately covered our recorded investment in the loan. While these modified loans had adequate collateral coverage, we were still required to complete our TDR classification evaluation on each of the modifications without regard to collateral adequacy.

We utilize certain short-term (three months or less) loan modification programs for borrowers experiencing temporary financial difficulties in our Consumer loan portfolio. These loan modification programs are primarily concentrated in our non-U.S. residential mortgage and non-U.S. installment and revolving portfolios. We sold our U.S. residential mortgage business in 2007 and as such, do not participate in the U.S. government-sponsored mortgage modification programs. For the six months ended June 30, 2012, we provided short-term modifications of approximately $0.3

billion of consumer loans for borrowers experiencing financial difficulties, substantially all in our non-U.S. residential mortgage, credit card and personal loan portfolios, which are not classified as TDRs. For these modified loans, we provided insignificant interest rate reductions and payment deferrals, which were not part of the terms of the original contract. We expect borrowers whose loans have been modified under these short-term programs to continue to be able to meet their contractual obligations upon the conclusion of the short-term modification. In addition, we have modified $0.9 billion of consumer loans for the six months ended June 30, 2012, which are classified as TDRs. Further information on Consumer impaired loans is provided in Note 12 to the condensed, consolidated financial statements.

Delinquencies

For additional information on delinquency rates at each of our major portfolios, see Note 12 to the condensed, consolidated financial statements.

GECC Selected European Exposures

At June 30, 2012, we had $87 billion in financing receivables to consumer and commercial customers in Europe. The GECC financing receivables portfolio in Europe is well diversified across European geographies and customers. Approximately 87% of the portfolio is secured by collateral and represents approximately 500,000 commercial customers. Several European countries, including Spain, Portugal, Ireland, Italy, Greece and Hungary ("focus countries"), have been subject to credit deterioration due to weaknesses in their economic and fiscal situations. The carrying value of GECC funded exposures in these focus countries and in the rest of Europe comprised the following at June 30, 2012.

June 30, 2012 (In millions)	Spain	Portugal	Ireland	Italy	Greece	Hungary	Rest of Europe	Total Europe
Financing receivables, before allowance for losses on financing receivables	$ 2,038	$ 523	$ 402	$ 7,092	$ 69	$ 2,957	$ 76,062	$ 89,143
Allowance for losses on financing receivables	(100)	(25)	(14)	(316)	–	(113)	(1,288)	(1,856)
Financing receivables, net of allowance for losses on financing receivables(a)(b)	1,938	498	388	6,776	69	2,844	74,774	87,287
Investments(c)(d)	2	–	–	597	–	156	1,883	2,638
Cost and equity method investments(e)	835	24	348	27	31	5	702	1,972
Derivatives, net of collateral(c)(f)	–	–	–	87	–	–	99	186
ELTO(g)	553	66	341	883	259	354	9,796	12,252
Real estate held for investment(g)	754	–	–	397	–	–	5,977	7,128
	$ 4,082	$ 588	$ 1,077	$ 8,767	$ 359	$ 3,359	$ 93,231	$ 111,463

Total funded exposures(h)								
Unfunded commitments	$ 7	$ 9	$ 29	$ 277	$ –	$ 590	$ 8,144	$ 9,056

(a) Financing receivable amounts are classified based on the location or nature of the related obligor.

(b) Substantially all relates to non-sovereign obligors. Includes residential mortgage loans of approximately $33.3 billion before consideration of purchased credit protection. We have third-party mortgage insurance for approximately 27% of these residential mortgage loans, substantially all of which were originated in the U.K., Poland and France.

(c) Investments and derivatives are classified based on the location of the parent of the obligor or issuer.

(d) Includes $1.0 billion related to financial institutions, $0.3 billion related to non-financial institutions and $1.3 billion related to sovereign issuers. Sovereign issuances totaled $0.1 billion and $0.1 billion related to Italy and Hungary, respectively. We held no investments issued by sovereign entities in the other focus countries.

(e) Substantially all is non-sovereign.

(f) Net of cash collateral; entire amount is non-sovereign.

(g) These assets are held under long-term investment and operating strategies, and our ELTO strategies contemplate an ability to redeploy assets under lease should default by the lessee occur. The values of these assets could be subject to decline or impairment in the current environment.

(h) Excludes $35.0 billion of cash and equivalents, which is composed of $20.2 billion of cash on short-term placement with highly rated global financial institutions based in Europe, sovereign central banks and agencies or supra national entities, of which $1.1 billion is in focus countries, and $14.8 billion of cash and equivalents placed with highly rated European financial institutions on a short-term basis, secured by U.S. Treasury securities ($6.1 billion) and sovereign bonds of non-focus countries ($8.7 billion), where the value of our collateral exceeds the amount of our cash exposure.

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We manage counterparty exposure, including credit risk, on an individual counterparty basis. We place defined risk limits around each obligor and review our risk exposure on the basis of both the primary and parent obligor, as well as the issuer of securities held as collateral. These limits are adjusted on an ongoing basis based on our continuing assessment of the credit risk of the obligor or issuer. In setting our counterparty risk limits, we focus on high quality credits and diversification through spread of risk in an effort to actively manage our overall exposure. We actively monitor each exposure against these limits and take appropriate action when we believe that risk limits have been exceeded or there are excess risk concentrations. Our collateral position and ability to work out problem accounts has historically mitigated our actual loss experience. Delinquency experience has been relatively stable in our European commercial and consumer platforms in the aggregate, and we actively monitor and take action to reduce exposures where appropriate. Uncertainties surrounding European markets could have an impact on the judgments and estimates used in determining the carrying value of these assets.

Other assets comprise mainly real estate equity properties and investments, equity and cost method investments, derivative instruments and assets held for sale, and totaled $71.9 billion at June 30, 2012, a decrease of $3.7 billion, primarily related to decreases in the fair value of derivative instruments ($3.9 billion) and the sale of certain held-for-sale real estate and aircraft ($1.6 billion), partially offset by the consolidation of an entity involved in power generating activities ($1.4 billion). During the six months ended June 30, 2012, we recognized an insignificant amount of other-than-temporary impairments of cost and equity method investments, excluding those related to real estate.

Included in other assets are Real Estate equity investments of $23.1 billion and $23.9 billion at June 30, 2012 and December 31, 2011, respectively. Our portfolio is diversified, both geographically and by asset type. We review the estimated values of our commercial real estate investments at least annually, or more frequently as conditions warrant. Based on the most recent valuation estimates available, the carrying value of our Real Estate investments exceeded their estimated value by about $2.6 billion. Commercial real estate valuations in 2011 and the first six months of 2012 showed signs of improved stability and liquidity in certain markets, primarily in the U.S.; however, the pace of improvement varies significantly by asset class and market. Accordingly, there continues to be risk and uncertainty surrounding commercial real estate values. Declines in estimated value of real estate below carrying amount result in impairment losses when the aggregate undiscounted cash flow estimates used in the estimated value measurement are below the carrying amount. As such, estimated losses in the portfolio will not necessarily result in recognized impairment losses. During both the three and six months ended June 30, 2012, Real Estate recognized pre-tax impairments of less than $0.1 billion in its real estate held for investment, which were primarily driven by declining cash flow projections for properties in Japan. Real Estate investments with undiscounted cash flows in excess of carrying value of 0% to 5% at June 30, 2012 had a carrying value of $0.6 billion and an associated estimated unrealized loss of less than $0.1 billion. Continued deterioration in economic conditions or prolonged market illiquidity may result in further impairments being recognized.

D. Liquidity and Borrowings

We maintain a strong focus on liquidity. We manage our liquidity to help provide access to sufficient funding to meet our business needs and financial obligations throughout business cycles.

Our liquidity and borrowing plans for GE and GECC are established within the context of our annual financial and strategic planning processes. At GE, our liquidity and funding plans take into account the liquidity necessary to fund our operating commitments, which include primarily purchase obligations for inventory and equipment, payroll and general expenses (including pension funding). We also take into account our capital allocation and growth objectives, including paying dividends, repurchasing shares, investing in research and development and acquiring industrial businesses. At GE, we rely primarily on cash generated through our operating activities, any dividend payments from GECC, and also have historically maintained a commercial paper program that we regularly use to fund operations in the U.S., principally within fiscal quarters. During the second quarter of 2012, we paid a dividend of $0.5 billion to GE, as well as a special dividend of $2.5 billion.

GECC's liquidity position is targeted to meet our obligations under both normal and stressed conditions. GECC establishes a funding plan annually that is based on the projected asset size and cash needs of GE, which over the past few years, has included GE's strategy to reduce its ending net investment in GE Capital. GECC relies on a diversified source of funding, including the unsecured term debt markets, the global commercial paper markets, deposits, secured funding, retail funding products, bank borrowings and securitizations to fund its balance sheet, in addition to cash generated through collection of principal, interest and other payments on our existing portfolio of loans and leases to fund its operating and interest expense costs.

Our 2012 funding plan anticipates repayment of principal on outstanding short-term borrowings, including the current portion of our long-term debt ($82.7 billion at December 31, 2011), through issuance of long-term debt and reissuance of commercial paper, cash on hand, collections of financing receivables exceeding originations, dispositions, asset sales, and deposits and other alternative sources of funding. Long-term maturities were $26 billion in the second quarter of 2012. Interest on borrowings is primarily repaid through interest earned on existing financing receivables. During the second quarter of 2012, we earned interest income on financing receivables of $5.3 billion, which more than offset interest expense of $3.0 billion.

We maintain a detailed liquidity policy for GECC which includes a requirement to maintain a contingency funding plan. The liquidity policy defines our liquidity risk tolerance under different stress scenarios based on our liquidity sources and also establishes procedures to escalate potential issues. We actively monitor our access to funding markets and our liquidity profile through tracking external indicators and testing various stress scenarios. The contingency funding plan provides a framework for handling market disruptions and establishes escalation procedures in the event that such events or circumstances arise.

We are a savings and loan holding company under U.S. law and became subject to Federal Reserve Board (FRB) supervision on July 21, 2011, the one-year anniversary of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FRB has recently finalized a regulation that requires certain organizations it supervises to submit annual capital plans for review, including institutions' plans to make capital distributions, such as dividend payments. The applicability and timing of this proposed regulation to GECC is not yet determined; however, the FRB has indicated that it expects to extend these requirements to large savings and loan holding companies through separate rulemaking or by order. While GECC is not yet subject to this regulation, GECC's capital allocation planning is still subject to FRB review. In addition, the FRB recently proposed regulations to revise and replace its current rules on capital adequacy. The proposed regulations would apply to savings and loan holding companies like GECC. The transition period for achieving compliance with the proposed regulations following final adoption is unclear.

Actions taken to strengthen and maintain our liquidity are described in the following section.

Liquidity Sources

We maintain liquidity sources that consist of cash and equivalents and a portfolio of high-quality, liquid investments (Liquidity Portfolio) and committed unused credit lines.

GE has consolidated cash and equivalents of $74.3 billion at June 30, 2012, which is available to meet our needs. Of this, approximately $9 billion is held at GE and approximately $66 billion is held at GECC.

In addition to GE's $74.3 billion of consolidated cash and equivalents, we have a centrally-managed portfolio of high-quality, liquid investments with a fair value of $3.1 billion at June 30, 2012. The Liquidity Portfolio is used to manage liquidity and meet our operating needs under both normal and stress scenarios. The investments consist of unencumbered U.S. government securities, U.S. agency securities, securities guaranteed by the government, supranational securities, and a select group of non-U.S. government securities. We believe that we can readily obtain cash for these securities, even in stressed market conditions.

We have committed, unused credit lines totaling $48.8 billion that have been extended to us by 54 financial institutions at June 30, 2012. These lines include $32.6 billion of revolving credit agreements under which we can borrow funds for periods exceeding one year. Additionally, $16.2 billion are 364-day lines that contain a term-out feature that allows us to extend borrowings for one or two years from the date of expiration of the lending agreement.

GE consolidated cash and equivalents of $53.0 billion at June 30, 2012 are held outside of the U.S. Of this amount, $11.3 billion is indefinitely reinvested. Indefinitely reinvested cash held outside of the U.S. is available to fund operations and other growth of non-U.S. subsidiaries; it is also used to fund our needs in the U.S. on a short-term basis through short-term loans, without being subject to U.S. tax. Under the Internal Revenue Code, these loans are permitted to be outstanding for 30 days or less and the total of all such loans are required to be outstanding for less than 60 days during the year.

$1.3 billion of GE cash and equivalents is held in countries with currency controls that may restrict the transfer of funds to the U.S. or limit our ability to transfer funds to the U.S. without incurring substantial costs. These funds are available to fund operations and growth in these countries and we do not currently anticipate a need to transfer these funds to the U.S.

At GECC, about $8 billion of cash and equivalents are in regulated banks and insurance entities and are subject to regulatory restrictions.

If we were to repatriate indefinitely reinvested cash held outside the U.S., we would be subject to additional U.S. income taxes and foreign withholding taxes.

Funding Plan

GE reduced its GE Capital ending net investment, excluding cash and equivalents, from $513 billion at January 1, 2009 to $433 billion at June 30, 2012.

In 2012, we completed issuances of $21.1 billion of senior unsecured debt with maturities up to 22 years (and subsequent to June 30, 2012, an additional $1.7 billion). Average commercial paper borrowings during the second quarter were $42.0 billion, and the maximum amount of commercial paper borrowings outstanding during the second quarter was $43.4 billion. Our commercial paper maturities are funded principally through new commercial paper issuances.

Under the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP), the FDIC guaranteed certain senior, unsecured debt issued by GECC on or before October 31, 2009 for which we paid $2.3 billion of fees to the FDIC for our participation. Our TLGP-guaranteed debt has remaining maturities of $17 billion in 2012. We anticipate funding these and our other long-term debt maturities through a combination of existing cash, new debt issuances, collections exceeding originations, dispositions, asset sales, deposits and other alternative sources of funding. GECC and GE are parties to an Eligible Entity Designation Agreement and GECC is subject to the terms of a Master Agreement, each entered into with the FDIC. The terms of these agreements include, among other things, a requirement that GE and GECC reimburse the FDIC for any amounts that the FDIC pays to holders of GECC

debt that is guaranteed by the FDIC.

We securitize financial assets as an alternative source of funding. During 2012, we completed $8.1 billion of non-recourse issuances and had maturities of $6.7 billion. At June 30, 2012, non-recourse borrowings were $30.7 billion.

We have deposit-taking capability at 12 banks outside of the U.S. and two banks in the U.S. – GE Capital Retail Bank (formerly GE Money Bank), a Federal Savings Bank (FSB), and GE Capital Financial Inc., an industrial bank (IB). The FSB and IB currently issue certificates of deposit (CDs) in maturity terms from three months to ten years.

Total alternative funding at June 30, 2012 was $65 billion, composed mainly of $42 billion bank deposits, $8 billion of funding secured by real estate, aircraft and other collateral and $9 billion GE Interest Plus notes. The comparable amount at December 31, 2011 was $66 billion.

Credit Ratings

On April 3, 2012, Moody's Investors Service (Moody's) announced that it had downgraded the senior unsecured debt rating of GE by one notch from Aa2 to Aa3 and the senior unsecured debt rating of GECC by two notches from Aa2 to A1. The ratings downgrade does not affect GE's and GECC's short-term funding ratings of P-1, which were affirmed by Moody's. Moody's ratings outlook for GE and GECC is stable. We do not anticipate any material operational, funding or liquidity impacts from this ratings downgrade.

As further disclosed in our 2011 consolidated financial statements, GECC has fully guaranteed repayment of $4.1 billion of guaranteed investment contract (GIC) obligations of Trinity. As a result of Moody's downgrade, substantially all of these GICs became redeemable by the holders. In addition, another consolidated entity also had issued GICs where proceeds are loaned to GECC and $1.1 billion of these GICs became redeemable by the holders. During the second quarter of 2012, holders of $2.4 billion in principal amount of GICs redeemed their holdings and GECC made related cash payments. These redemptions were fully considered in our previously discussed liquidity plan. The remaining outstanding GICs will continue to be subject to the existing terms and maturities of their respective contracts.

Additionally, there were other contracts affected by the downgrade with provisions requiring us to provide additional funding, post collateral and make other payments. The total cash and collateral impact of these contracts was less than $0.5 billion.

Income Maintenance Agreement

As set forth in Exhibit 12 hereto, GECC's ratio of earnings to fixed charges was 1.62:1 during the six months ended June 30, 2012 due to higher pre-tax earnings at GECC, which were primarily driven by lower losses and delinquencies. For additional information, see the Income Maintenance Agreement section in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2011 consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to our market risk since December 31, 2011. For a discussion of our exposure to market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our consolidated financial statements for the year ended December 31, 2011.

Item 4. Controls and Procedures.

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures and internal control over financial reporting and concluded that (i) our disclosure controls and procedures were effective as of June 30, 2012, and (ii) no change in internal control over financial reporting occurred during the quarter ended June 30, 2012, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The following information supplements and amends our discussion set forth under Part I, Item 3 “Legal Proceedings” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.

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As previously reported, a shareholder derivative action seeking unspecified damages was filed in federal court in Connecticut in May 2009 making similar allegations as the New York class actions described below. GE's motion to transfer the derivative action to the Southern District of New York as a related case was granted in February 2010, and our motion to dismiss the complaint was granted in April 2011. In July 2012, the Court of Appeals for the Second Circuit affirmed the district court's judgment dismissing the case.

As also previously reported, in March 2010, a shareholder derivative action was filed in the United States District Court for the Southern District of New York naming as defendants GE, a number of GE officers (including our chief executive officer and chief financial officer) and our directors. The complaint seeks unspecified damages and principally alleges breaches of fiduciary duty and other causes of action related to the GE dividend and SEC matter which GE resolved in August 2009 and alleged mismanagement of our financial services businesses. In September 2011, our motion to dismiss was granted. In June 2012, plaintiff's motion to file an amended complaint was denied. The plaintiff has filed a notice of appeal.

As also previously reported, in February and March 2012, two shareholder derivative actions were filed in New York Supreme Court naming as defendants GE, a number of GE officers (including our chief executive officer and chief financial officer) and our directors. The complaints seek unspecified damages and principally allege breaches of fiduciary duty and other causes of action related to 2009 earnings forecasts for GE Capital, changes in the GE dividend and GE's credit rating in 2009 and GE's 2008 commercial paper program. In June 2012, these two cases were consolidated into a single action.

As also previously reported, in March and April 2009, shareholders filed purported class actions under the federal securities laws in the United States District Court for the Southern District of New York naming as defendants GE, a number of GE officers (including our chief executive officer and chief financial officer) and our directors. The complaints, which have now been consolidated, seek unspecified damages based on allegations related to statements, among others, regarding the GE dividend and projected losses and earnings for GECC in 2009. In January 2012, the District Court granted in part, and denied in part, our motion to dismiss. In April 2012, the District Court granted a portion of our motion for reconsideration, resulting in the dismissal of plaintiffs' claims under the Securities Act of 1933. In July 2012, the District Court denied plaintiffs' motion seeking to amend their complaint to include the alleged claims under the Securities Act of 1933.

In 2000, GE and the Environmental Protection Agency (EPA) entered into a consent decree relating to PCB cleanup in the Massachusetts area of the Housatonic River. In 2006, cleanup of a portion of the river was completed, and in May, 2012, the EPA issued a status report describing potential conceptual approaches to a 10-mile stretch of the river below the previously addressed area. GE is currently discussing this report with the EPA. A proposed remedy could be issued in the second half of 2012.

WMC is a party to legal proceedings involving loan repurchase claims now pending in three federal district courts. In the second quarter of 2012, WMC commenced five declaratory judgment actions in the United States District Court for the Central District of California and the United States District Court for the District of Minnesota relating to repurchase claims made by securitization trustees, Deutsche Bank National Trust Company (Deutsche Bank) and US Bank National Association (US Bank), respectively. In these cases, WMC asserts it has no obligation to repurchase the loans submitted by the trustees and that other remedies are unavailable. Following the commencement of these actions by WMC, Deutsche Bank filed two lawsuits in the United States District Court for the District of Connecticut against WMC and GECC alleging contractual breaches arising out of the same repurchase claims at issue in the Central District of California matters. In these two cases, the trustee alleges WMC has breached its contractual obligation to repurchase non-performing mortgage loans with an original principal balance of approximately $1,700 million, of which $850 million are reported in WMC's pending claims, and claims it has suffered damages in excess of $950 million. Two other actions involving WMC and US Bank are pending in the United States District Court for the

District of Minnesota, in which US Bank alleges breach of contract arising out of WMC's refusal of repurchase claims totaling approximately $158 million. WMC and GECC intend to defend themselves vigorously.

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Item 6. Exhibits.

Exhibit 3(i)	A complete copy of the Certificate of Incorporation of GECC consisting of the Restated Certificate of Incorporation of GECC as filed with the Office of the Secretary of State, State of Delaware on April 1, 2008, as amended by the Certificate of Designations of GECC with respect to the Series A Preferred Stock as filed with the Office of the Secretary of State, State of Delaware on June 8, 2012.
Exhibit 4	Form of Certificate representing the Series A Preferred Stock (Incorporated by reference to Exhibit 4.1 of GECC's Current Report on Form 8-K dated as of June 8, 2012) (Commission file number 001-06461).
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges and Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
Exhibit 31(a)	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended.
Exhibit 31(b)	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended.
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350.
Exhibit 99	Financial Measures That Supplement Generally Accepted Accounting Principles.
Exhibit 101	The following materials from General Electric Capital Services, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language); (i) Condensed Statement of Earnings for the three and six months ended June 30, 2012 and 2011, (ii) Condensed Statement of Comprehensive Income for the three and six months ended June 30, 2012 and 2011, (iii) Condensed Statement of Changes in Shareowners' Equity for the six months ended June 30, 2012 and 2011, (iv) Condensed Statement of Financial Position at June 30, 2012 and December 31, 2011, (v) Condensed Statement of Cash Flows for the six months ended June 30, 2012 and 2011, and (vi) Notes to Condensed, Financial Statements.*
*	Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Signatures

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

General Electric Capital Corporation
(Registrant)

July 30, 2012	/s/Jamie S. Miller
Date	Jamie S. Miller
	Senior Vice President and Controller
	Duly Authorized Officer and Principal Accounting Officer

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