

METTLER TOLEDO INTERNATIONAL INC/  
Form 10-Q  
July 28, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006, OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number 1-13595

Mettler-Toledo International Inc.

-----  
(Exact name of registrant as specified in its charter)

Delaware

13-3668641

-----  
(State or other jurisdiction of incorporation or organization)

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

Im Langacher, P.O. Box MT-100  
CH 8606 Greifensee, Switzerland

-----  
(Address of principal executive offices)  
(Zip Code)

+41-44-944-22-11

-----  
(Registrant's telephone number, including area code)

not applicable

-----  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No  
-----

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer Non-accelerated filer  
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No X  
-----

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The Registrant had 40,228,430 shares of Common Stock outstanding at June 30, 2006.

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

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

METTLER-TOLEDO INTERNATIONAL INC.  
 INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS  
 THREE MONTHS ENDED JUNE 30, 2006 AND 2005  
 (IN THOUSANDS, EXCEPT SHARE DATA)  
 (UNAUDITED)

|   | JUNE 30,<br>2006<br>---- | JUNE 30,<br>2005<br>---- |
|---|--------------------------|--------------------------|
| Net sales   |                          |                          |
| Products  | \$ 299,029               | \$ 284,619               |
| Service   | 90,128                   | 84,018                   |
|   | -----                    | -----                    |
| Total net sales   | 389,157                  | 368,637                  |
| Cost of sales   |                          |                          |
| Products  | 138,275                  | 133,814                  |
| Service   | 58,447                   | 54,398                   |
|   | -----                    | -----                    |
| Gross profit  | 192,435                  | 180,425                  |
| Research and development  | 20,562                   | 20,936                   |
| Selling, general and administrative                               | 117,576                  | 108,115                  |
| Amortization  | 2,850                    | 2,991                    |
| Interest expense  | 4,350                    | 3,764                    |
| Other charges (income), net                                       | (2,557)                  | 21,581                   |
|   | -----                    | -----                    |
| Earnings before taxes   | 49,654                   | 23,038                   |
| Provision for taxes   | 14,897                   | 4,727                    |
|   | -----                    | -----                    |
| Net earnings  | \$ 34,757                | \$ 18,311                |
|   | =====                    | =====                    |
| Basic earnings per common share:                                  |                          |                          |
| Net earnings  | \$ 0.86                  | \$ 0.43                  |
| Weighted average number of common shares                          | 40,535,389               | 42,356,672               |
| Diluted earnings per common share:                                |                          |                          |
| Net earnings  | \$ 0.84                  | \$ 0.42                  |
| Weighted average number of common and common<br>equivalent shares | 41,237,812               | 43,438,961               |

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

METTLER-TOLEDO INTERNATIONAL INC.  
 INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS  
 SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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(IN THOUSANDS, EXCEPT SHARE DATA)  
(UNAUDITED)

|  | JUNE 30,<br>2006<br>---- | JUNE 30,<br>2005<br>---- |
|--|--------------------------|--------------------------|
| Net sales  |                          |                          |
| Products   | \$ 560,742               | \$ 539,979               |
| Service  | 174,575                  | 165,818                  |
|  | -----                    | -----                    |
| Total net sales  | 735,317                  | 705,797                  |
| Cost of sales  |                          |                          |
| Products   | 260,113                  | 253,738                  |
| Service  | 112,429                  | 108,839                  |
|  | -----                    | -----                    |
| Gross profit   | 362,775                  | 343,220                  |
| Research and development                                       | 40,501                   | 41,738                   |
| Selling, general and administrative                            | 229,707                  | 214,432                  |
| Amortization   | 5,705                    | 5,799                    |
| Interest expense   | 8,426                    | 7,280                    |
| Other charges (income), net                                    | (5,095)                  | 21,245                   |
|  | -----                    | -----                    |
| Earnings before taxes  | 83,531                   | 52,726                   |
| Provision for taxes  | 25,059                   | 13,634                   |
|  | -----                    | -----                    |
| Net earnings   | \$ 58,472                | \$ 39,092                |
|  | =====                    | =====                    |
| Basic earnings per common share:                               |                          |                          |
| Net earnings   | \$ 1.43                  | \$ 0.91                  |
| Weighted average number of common shares                       | 40,793,119               | 42,747,953               |
| Diluted earnings per common share:                             |                          |                          |
| Net earnings   | \$ 1.41                  | \$ 0.89                  |
| Weighted average number of common and common equivalent shares | 41,505,940               | 43,913,966               |

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

METTLER-TOLEDO INTERNATIONAL INC.  
INTERIM CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2006 AND DECEMBER 31, 2005  
(IN THOUSANDS, EXCEPT SHARE DATA)  
(UNAUDITED)

JUNE 30,  
2006  
----

DECE  
2  
-

ASSETS

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|   |              |       |
|---|--------------|-------|
| Current assets:   |              |       |
| Cash and cash equivalents   | \$ 246,766   | \$    |
| Trade accounts receivable, less allowances of \$7,691 at June 30, 2006 and \$7,897 at December 31, 2005   | 265,586      |       |
| Inventory   | 162,609      |       |
| Current deferred tax assets, net  | 33,361       |       |
| Other current assets and prepaid expenses   | 27,187       |       |
|   | -----        | ----- |
| Total current assets  | 735,509      |       |
| Property, plant and equipment, net  | 219,566      |       |
| Goodwill  | 428,751      |       |
| Other intangible assets, net  | 104,513      |       |
| Non-current deferred tax assets, net  | 75,231       |       |
| Other non-current assets  | 53,108       |       |
|   | -----        | ----- |
| Total assets  | \$ 1,616,678 | \$ 1, |
|   | =====        | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |              |       |
| Current liabilities:  |              |       |
| Trade accounts payable  | \$ 79,818    | \$    |
| Accrued and other liabilities   | 60,593       |       |
| Accrued compensation and related items  | 81,577       |       |
| Deferred revenue and customer prepayments   | 49,254       |       |
| Taxes payable   | 64,835       |       |
| Current deferred tax liabilities  | 5,097        |       |
| Short-term borrowings   | 8,201        |       |
|   | -----        | ----- |
| Total current liabilities   | 349,375      |       |
| Long-term debt  | 412,787      |       |
| Non-current deferred tax liabilities  | 80,635       |       |
| Other non-current liabilities   | 142,116      |       |
|   | -----        | ----- |
| Total liabilities   | 984,913      | 1,    |
| Commitments and contingencies (Note 10)   |              |       |
| Shareholders' equity:   |              |       |
| Preferred stock, \$0.01 par value per share; authorized 10,000,000 shares; issued 0   | -            |       |
| Common stock, \$0.01 par value per share; authorized 125,000,000 shares; issued 44,786,011 and 44,786,011 shares; outstanding 40,228,430 and 41,404,071 shares at June 30, 2006 and December 31, 2005, respectively | 448          |       |
| Additional paid-in capital  | 448,847      |       |
| Treasury stock at cost (4,557,581 shares at June 30, 2006 and 3,381,940 shares at December 31, 2005)  | (248,132)    | (     |
| Retained earnings   | 475,547      |       |
| Accumulated other comprehensive income (loss)   | (44,945)     |       |
|   | -----        | ----- |
| Total shareholders' equity  | 631,765      |       |
|   | -----        | ----- |
| Total liabilities and shareholders' equity  | \$ 1,616,678 | \$ 1, |
|   | =====        | ===== |

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

METTLER-TOLEDO INTERNATIONAL INC.  
 INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND  
 COMPREHENSIVE INCOME (LOSS)  
 SIX MONTHS ENDED JUNE 30, 2006 AND 2005  
 (IN THOUSANDS, EXCEPT SHARE DATA)  
 (UNAUDITED)

|   | COMMON STOCK |        | ADDITIONAL         | TREASURY     | RETA   |
|---|--------------|--------|--------------------|--------------|--------|
|   | SHARES       | AMOUNT | PAID-IN<br>CAPITAL | STOCK        | EARN   |
| Balance at December 31, 2005  | 41,404,071   | \$ 448 | \$ 457,129         | \$ (170,325) | \$ 417 |
| Exercise of stock options   | 766,259      | -      | (21,884)           | 39,381       |        |
| Repurchases of common stock   | (1,941,900)  | -      | -                  | (117,188)    |        |
| Tax benefit resulting from<br>exercise of certain employee<br>stock options | -            | -      | 9,334              | -            |        |
| Share-based compensation  | -            | -      | 4,268              | -            |        |
| Comprehensive income:   |              |        |                    |              |        |
| Net earnings  | -            | -      | -                  | -            | 58     |
| Change in currency<br>translation adjustment                                | -            | -      | -                  | -            |        |
| Comprehensive income  | -            | -      | -                  | -            |        |
| Balance at June 30, 2006  | 40,228,430   | \$ 448 | \$ 448,847         | \$ (248,132) | \$ 475 |
| Balance at December 31, 2004  | 43,366,139   | \$ 448 | \$ 476,704         | \$ (67,404)  | \$ 308 |
| Exercise of stock options   | 127,625      | -      | (1,885)            | 5,810        |        |
| Repurchases of common stock   | (1,505,900)  | -      | -                  | (73,259)     |        |
| Comprehensive income:   |              |        |                    |              |        |
| Net earnings  | -            | -      | -                  | -            | 39     |
| Change in currency<br>translation adjustment                                | -            | -      | -                  | -            |        |
| Comprehensive income  | -            | -      | -                  | -            |        |
| Balance at June 30, 2005  | 41,987,864   | \$ 448 | \$ 474,819         | \$ (134,853) | \$ 347 |

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

METTLER-TOLEDO INTERNATIONAL INC.  
 INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
 SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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(IN THOUSANDS)  
(UNAUDITED)

|  | JUNE 30,<br>2006<br>---- | JUNE 30,<br>2005<br>---- |
|--|--------------------------|--------------------------|
| Cash flows from operating activities:  |                          |                          |
| Net earnings   | \$ 58,472                | \$                       |
| Adjustments to reconcile net earnings to net cash provided<br>by operating activities: |                          |                          |
| Depreciation   | 12,895                   |                          |
| Amortization   | 5,705                    |                          |
| Deferred taxes   | (5,045)                  |                          |
| Excess tax benefits from share-based payment arrangements                              | (7,748)                  |                          |
| Share-based compensation   | 4,268                    |                          |
| Other  | (1,320)                  |                          |
| Increase (decrease) in cash resulting from changes in:                                 |                          |                          |
| Trade accounts receivable, net   | 14,617                   |                          |
| Inventory  | (6,833)                  |                          |
| Other current assets   | (2,531)                  |                          |
| Trade accounts payable   | (6,950)                  |                          |
| Taxes payable  | 12,854                   |                          |
| Accruals and other   | (6,137)                  |                          |
|  | -----                    | -----                    |
| Net cash provided by operating activities  | 72,247                   |                          |
|  | -----                    | -----                    |
| Cash flows from investing activities:  |                          |                          |
| Proceeds from sale of property, plant and equipment                                    | 3,597                    |                          |
| Purchase of property, plant and equipment  | (11,799)                 |                          |
| Acquisitions   | (790)                    |                          |
|  | -----                    | -----                    |
| Net cash used in investing activities  | (8,992)                  |                          |
|  | -----                    | -----                    |
| Cash flows from financing activities:  |                          |                          |
| Proceeds from borrowings   | 29,729                   |                          |
| Repayments of borrowings   | (75,349)                 |                          |
| Proceeds from exercise of stock options  | 17,467                   |                          |
| Repurchases of common stock  | (121,344)                |                          |
| Excess tax benefits from share-based payment arrangements                              | 7,748                    |                          |
|  | -----                    | -----                    |
| Net cash used in financing activities  | (141,749)                |                          |
|  | -----                    | -----                    |
| Effect of exchange rate changes on cash and cash equivalents                           | 682                      |                          |
|  | -----                    | -----                    |
| Net increase (decrease) in cash and cash equivalents                                   | (77,812)                 |                          |
| Cash and cash equivalents:   |                          |                          |
| Beginning of period  | 324,578                  |                          |
|  | -----                    | -----                    |
| End of period  | \$ 246,766               | \$                       |
|  | =====                    | =====                    |

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

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METTLER-TOLEDO INTERNATIONAL INC.  
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AT JUNE 30, 2006 - UNAUDITED  
(In thousands, except share data, unless otherwise stated)

## 1. BASIS OF PRESENTATION

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

The accompanying interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include all entities in which the Company has control, which are its wholly owned subsidiaries. The interim consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements as of June 30, 2006 and for the three and six month periods ended June 30, 2006 and 2005 should be read in conjunction with the December 31, 2005 and 2004 consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The accompanying interim consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates. A discussion of the Company's critical accounting policies is included in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES



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### Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents the Company's best estimate of probable credit losses in its existing trade accounts receivable. Historically the Company has had minimal bad debts due to its customer base.

### Inventory

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

Inventory consisted of the following:

|                         | June 30,<br>2006 | December 31,<br>2005 |  |
|-------------------------|------------------|----------------------|--|
|                         | -----            | -----                |  |
| Raw materials and parts | \$ 84,260        | \$ 80,201            |  |
| Work-in-progress        | 21,433           | 19,777               |  |
| Finished goods          | 56,916           | 50,223               |  |
|                         | -----            | -----                |  |
|                         | \$ 162,609       | \$ 150,201           |  |
|                         | =====            | =====                |  |

### Other Intangible Assets

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

Other intangible assets consisted of the following:

|                               | June 30, 2006   |                             | December 31, 2005 |                             |  |
|-------------------------------|-----------------|-----------------------------|-------------------|-----------------------------|--|
|                               | Gross<br>Amount | Accumulated<br>Amortization | Gross<br>Amount   | Accumulated<br>Amortization |  |
|                               | -----           | -----                       | -----             | -----                       |  |
| Customer relationships        | \$ 73,381       | \$ (8,128)                  | \$ 72,339         | \$ (7,104)                  |  |
| Proven technology and patents | 30,329          | (14,472)                    | 29,918            | (13,402)                    |  |
| Tradename (finite life)       | 1,467           | (498)                       | 1,427             | (451)                       |  |
| Tradename (indefinite life)   | 22,434          | -                           | 22,434            | -                           |  |
|                               | -----           | -----                       | -----             | -----                       |  |

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\$ 127,611      \$ (23,098)      \$ 126,118      \$ (20,957)  
 =====

The annual aggregate amortization expense based on the current balance of other intangible assets is estimated at \$4.4 million for 2006 through 2010. The Company had amortization expense associated with the above intangible assets of \$2.3 million and \$2.1 million for the six months ended June 30, 2006 and 2005, respectively.

In addition to the above amortization, the Company recorded amortization expense associated with capitalized software of \$3.4 million and \$3.6 million for the six months ended June 30, 2006 and 2005, respectively.

Warranty

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

The Company's accrual for product warranties is included in accrued and other liabilities in the consolidated balance sheets. Changes to the Company's accrual for product warranties for the six months ended June 30 are as follows:

|                                | 2006      | 2005      |
|--------------------------------|-----------|-----------|
|                                | -----     | -----     |
| Balance at beginning of period | \$ 10,732 | \$ 10,483 |
| Accruals for warranties        | 5,940     | 5,833     |
| Foreign currency translation   | 357       | (669)     |
| Payments / utilizations        | (6,306)   | (6,077)   |
|                                | -----     | -----     |
| Balance at end of period       | \$ 10,723 | \$ 9,570  |
|                                | =====     | =====     |

Research and Development

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

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123R, "Share-Based Payment" ("SFAS 123R"). SFAS 123R replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." SFAS 123R requires public companies to recognize the cost of employee services received in exchange for an award (with limited exceptions) over the period during which an employee is required to provide service. The Company adopted this statement on January 1, 2006. See Note 3, Share-Based Compensation.

3. SHARE-BASED COMPENSATION

The Company's 2004 equity incentive plan provides for the grant of options, restricted stock, restricted stock units and other equity-based awards. The exercise price of options granted shall not be less than the

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fair market value of the common stock on the date of grant. Options generally vest equally over a five-year period from the date of grant and have a maximum term of up to 10 years and six months. Restricted stock units vest equally over a five-year period from the date of grant.

On January 1, 2006, the Company adopted SFAS 123R and Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payments", applying the modified prospective method. SFAS 123R requires all share-based compensation arrangements granted to employees, including stock option grants, to be recognized in the consolidated statement of operations based on the grant date fair value of the award. Under the modified prospective method, the Company is required to record share-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption.

Share-based compensation expense is recorded within selling, general and administrative in the consolidated statement of operations with a corresponding offset to additional paid-in capital in the consolidated balance sheet. Prior year periods have not been restated. The effect on net earnings and net earnings per share for the three and six months ended June 30, 2006 is as follows:

|   | Three Months Ended<br>June 30, 2006 | Six Months Ended<br>June 30, 2006 |
|---|-------------------------------------|-----------------------------------|
|   | -----                               | -----                             |
| Share-based compensation by award type: |                                     |                                   |
| Stock options                           | \$ 1,921                            | \$ 3,109                          |
| Restricted stock units                  | 188                                 | 1,387                             |
|   | -----                               | -----                             |
| Total share-based compensation          | 2,109                               | 4,496                             |
| Tax effect on share-based compensation  | 722                                 | 1,109                             |
|   | -----                               | -----                             |
| Effect on net earnings                  | \$ 1,387                            | \$ 2,987                          |
|   | =====                               | =====                             |
| Effect on net earnings per share:       |                                     |                                   |
| Basic                                   | \$ 0.03                             | \$ 0.05                           |
| Diluted                                 | \$ 0.04                             | \$ 0.07                           |

The fair values of stock options granted were calculated using the Black-Scholes pricing model. The following table summarizes all stock option activity from December 31, 2005 through June 30, 2006:

|                                  | Number of<br>Options | Weighted Average<br>Exercise Price | Aggregate<br>Intrinsic Value<br>(in millions) |
|----------------------------------|----------------------|------------------------------------|---|
|                                  | -----                | -----                              | -----   |
| Outstanding at December 31, 2005 | 3,924,372            | \$ 37.44                           |   |
| Granted                          | 10,000               | 61.40                              |   |
| Exercised                        | (766,259)            | 22.83                              |   |
| Forfeited                        | (91,695)             | 44.27                              |   |
|                                  | -----                | -----                              | -----   |

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|                                      |           |    |       |    |       |
|--------------------------------------|-----------|----|-------|----|-------|
| Outstanding at June 30, 2006         | 3,076,418 | \$ | 40.95 | \$ | 60.3  |
|                                      | -----     |    | ----- |    | ----- |
| Options exercisable at June 30, 2006 | 1,597,018 | \$ | 37.49 | \$ | 36.9  |

The following table details the weighted average remaining contractual life of options outstanding at June 30, 2006 by range of exercise prices:

| Number of Options<br>Outstanding | Weighted Average Exercise<br>Price | Remaining Contractual Life<br>of Options Outstanding | Options Ex |
|----------------------------------|------------------------------------|--|------------|
| -----                            | -----                              | -----  | -----      |
| 214,468                          | \$15.53                            | 1.3  |            |
| 502,000                          | \$31.99                            | 6.2  |            |
| 770,350                          | \$38.53                            | 7.2  |            |
| 1,153,600                        | \$46.86                            | 6.4  |            |
| 436,000                          | \$52.51                            | 9.7  |            |
| -----                            |                                    | -----  | -----      |
| 3,076,418                        |                                    | 6.7  | 1,         |
| =====                            |                                    |  | =====      |

As of the date granted, the weighted average grant-date fair value of the options granted during the six months ended June 30, 2006 was approximately \$19.69. Such weighted average grant-date fair value was determined using the Black-Scholes pricing model that incorporated the following assumptions:

|                         |       |
|-------------------------|-------|
|                         | 2006  |
|                         | ----- |
| Risk-free interest rate | 4.9%  |
| Expected life in years  | 5     |
| Expected volatility     | 25%   |
| Expected dividend yield | --    |

The following table summarizes all restricted stock unit activity from December 31, 2005 through June 30, 2006:

|                                    | Number of<br>Restricted Stock<br>Units | Aggregate<br>Intrinsic Value<br>(in millions) |
|------------------------------------|--|---|
|                                    | -----                                  | -----   |
| Outstanding at December 31, 2005   | 74,600                                 |   |
| Granted                            | -                                      |   |
| Exercised                          | -                                      |   |
| Forfeited                          | (300)                                  |   |
|                                    | -----                                  | -----   |
| Outstanding at June 30, 2006       | 74,300                                 | \$ 4.5  |
|                                    | -----                                  | -----   |
| Units exercisable at June 30, 2006 | -                                      | -   |

As of June 30, 2006, the unrecorded deferred share-based compensation balance related to both stock options and restricted stock units was \$18.8 million and will be recognized using a straight-line method over an estimated weighted average amortization period of 2.3 years.

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Prior to January 1, 2006, the Company applied the intrinsic valuation methodology under Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its share-based compensation plan.

Had compensation cost for the Company's share-based plan been determined based upon the fair value of such awards at the grant date, consistent with the methods of SFAS 123, "Accounting for Stock Based Compensation," the Company's net earnings and basic and diluted net earnings per common share for the three and six month periods ended June 30, 2005 would have been as follows:

|   | Three Months<br>Ended<br>June 30,<br>2005 | Six Months<br>Ended<br>June 30,<br>2005 |
|---|---|---|
|   | -----                                     | -----                                   |
| Net earnings:   |   |   |
| As reported   | \$ 18,311                                 | \$ 39,092                               |
| Compensation expense  | (1,704)                                   | (3,415)                                 |
|   | -----                                     | -----                                   |
| Pro forma   | \$ 16,607                                 | \$ 35,677                               |
|   | =====                                     | =====                                   |
| Basic earnings per common share:                                  |   |   |
| As reported   | \$ 0.43                                   | \$ 0.91                                 |
| Compensation expense  | (0.04)                                    | (0.08)                                  |
|   | -----                                     | -----                                   |
| Pro forma   | \$ 0.39                                   | \$ 0.83                                 |
|   | =====                                     | =====                                   |
| Weighted average number of common shares                          | 42,356,672                                | 42,747,953                              |
| Diluted earnings per common share:                                |   |   |
| As reported   | \$ 0.42                                   | \$ 0.89                                 |
| Compensation expense  | (0.04)                                    | (0.08)                                  |
|   | -----                                     | -----                                   |
| Pro forma   | \$ 0.38                                   | \$ 0.81                                 |
|   | =====                                     | =====                                   |
| Weighted average number of common and<br>common equivalent shares | 43,305,348                                | 43,744,474                              |

#### 4. TREASURY STOCK

The Company has a share repurchase program. Under the program, the Company has been authorized to buy back up to \$500 million of equity shares. As of June 30, 2006, there were \$114.4 million of remaining equity shares authorized to be repurchased under the plan by December 31, 2007. During July 2006, the Company has been authorized to buy back an additional \$400 million of shares through December 2008. The share repurchases are expected to be funded from cash balances, borrowings and cash generated from operating activities. Repurchases will be made through open market transactions, and the timing will depend on the level of acquisition activity, business and market conditions, the stock price, trading restrictions and other factors. The Company has purchased 7.4 million shares since the inception of the program through June 30, 2006.

The Company spent \$117.2 million and \$73.3 million on the repurchase of 1,941,900 shares and 1,505,900 shares at an average price of \$60.32 and \$48.62 during the six months ended June 30, 2006 and 2005, respectively, as well as an additional \$4.2 million and \$1.4 million during the six month

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periods ended June 30, 2006 and 2005, respectively, relating to the settlement of the liability for shares repurchased as of December 31, 2005 and 2004. The Company reissued 766,259 shares and 121,825 shares held in treasury for the exercise of stock options for the six months ended June 30, 2006 and 2005, respectively.

### 5. EARNINGS PER COMMON SHARE

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

|                    | 2006    | 2005      |  |
|--------------------|---------|-----------|--|
| Three months ended | 702,423 | 1,082,289 |  |
| Six months ended   | 712,821 | 1,166,013 |  |

Outstanding options to purchase 451,000 and 508,500 shares of common stock for the three month periods ended June 30, 2006 and 2005, respectively, and options to purchase 451,000 and 254,250 shares of common stock for the six month periods ended June 30, 2006 and 2005, respectively, have been excluded from the calculation of diluted weighted average number of common and common equivalent shares on the grounds that such options and restricted stock units would be anti-dilutive.

### 6. NET PERIODIC BENEFIT COST

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

|  | U.S. Pension Benefits |         | Non-U.S. Pension Benefits |          |  |
|--|-----------------------|---------|---------------------------|----------|--|
|  | 2006                  | 2005    | 2006                      | 2005     |  |
| Service cost, net                              | \$ 165                | \$ 159  | \$ 3,507                  | \$ 3,428 |  |
| Interest cost on projected benefit obligations | 1,557                 | 1,508   | 4,157                     | 4,302    |  |
| Expected return on plan assets                 | (2,012)               | (1,903) | (5,961)                   | (5,520)  |  |
| Net amortization and deferral                  | -                     | -       | -                         | -        |  |
| Recognition of actuarial losses (gains)        | 646                   | 602     | 278                       | (409)    |  |
| Net periodic pension cost                      | \$ 356                | \$ 366  | \$ 1,981                  | \$ 1,801 |  |

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

|  | U.S. Pension Benefits | Non-U.S. Pension Benefits |  |
|--|-----------------------|---------------------------|--|
|--|-----------------------|---------------------------|--|

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|  | 2006    |         | 2005     |          |
|--|---------|---------|----------|----------|
| Service cost, net                              | \$ 330  | \$ 318  | \$ 6,887 | \$ 7,142 |
| Interest cost on projected benefit obligations | 3,114   | 3,016   | 8,091    | 8,837    |
| Expected return on plan assets                 | (4,024) | (3,806) | (11,680) | (11,238) |
| Net amortization and deferral                  | -       | -       | -        | -        |
| Recognition of actuarial losses (gains)        | 1,292   | 1,204   | 348      | (524)    |
| Net periodic pension cost                      | \$ 712  | \$ 732  | \$ 3,646 | \$ 4,217 |

As previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2005, the Company expects to make normal employer contributions of approximately \$11 million to its non-U.S. pension plans and \$2 million to its U.S. post-retirement medical plan during the year ended December 31, 2006.

7. OTHER CHARGES (INCOME), NET

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

For the three and six months ended June 30, 2005, other charges (income), net also included a \$21.8 million charge related to pipette litigation. The Company wrote off a non-cash \$19.9 million (\$12 million after-tax) intangible asset relating to an intellectual property license that was subject to litigation with the grantor in June 2005 which is included as a component of Other in the interim consolidated statements of cash flows. This license enabled a wholly owned subsidiary of the Company exclusive rights to distribute certain third-party manufactured pipettes in the United States. A judgment entered on June 6, 2005 terminated the license agreement and awarded damages to the other party. The Company also incurred \$1.9 million of related legal costs during the three months ended June 30, 2005, which included damages of \$0.6 million.

8. SEGMENT REPORTING

As disclosed in Note 16 to the Company's consolidated financial statements for the year ending December 31, 2005, operating segments are the individual reporting units within the Company. These units are managed separately and it is at this level where the determination of resource allocation is made. The units have been aggregated based on operating segments in geographic regions that have similar economic characteristics and meet the aggregation criteria of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). The Company has determined there are five reportable segments: U.S. Operations, Swiss Operations, Western European Operations, Chinese Operations and Other.

The Company evaluates segment performance based on Segment Profit (earnings before taxes before share-based compensation expense, amortization, interest expense and other charges).

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

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| For the three months ended<br>June 30, 2006 | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Se<br>P   |
|---|---------------------------------------|-----------------------------------|--------------------|-----------|
| U.S. Operations                             | \$ 148,351                            | \$ 13,536                         | \$ 161,887         | \$        |
| Swiss Operations                            | 23,654                                | 57,846                            | 81,500             |           |
| Western European Operations                 | 129,791                               | 18,190                            | 147,981            |           |
| Chinese Operations                          | 31,216                                | 18,554                            | 49,770             |           |
| Other (a)                                   | 56,145                                | (158)                             | 55,987             |           |
| Eliminations and Corporate (b)              | -                                     | (107,968)                         | (107,968)          |           |
| <b>Total</b>                                | <b>\$ 389,157</b>                     | <b>\$ -</b>                       | <b>\$ 389,157</b>  | <b>\$</b> |

| For the six months ended<br>June 30, 2006 | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Se<br>P   |
|---|---------------------------------------|-----------------------------------|--------------------|-----------|
| U.S. Operations                           | \$ 276,969                            | \$ 23,766                         | \$ 300,735         | \$        |
| Swiss Operations                          | 44,224                                | 113,863                           | 158,087            |           |
| Western European Operations               | 249,507                               | 34,977                            | 284,484            |           |
| Chinese Operations                        | 55,881                                | 35,146                            | 91,027             |           |
| Other (a)                                 | 108,736                               | (67)                              | 108,669            |           |
| Eliminations and Corporate (b)            | -                                     | (207,685)                         | (207,685)          |           |
| <b>Total</b>                              | <b>\$ 735,317</b>                     | <b>\$ -</b>                       | <b>\$ 735,317</b>  | <b>\$</b> |

| For the three months ended<br>June 30, 2005 | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Se<br>P   |
|---|---------------------------------------|-----------------------------------|--------------------|-----------|
| U.S. Operations                             | \$ 139,728                            | \$ 11,187                         | \$ 150,915         | \$        |
| Swiss Operations                            | 22,900                                | 59,548                            | 82,448             |           |
| Western European Operations                 | 127,039                               | 18,121                            | 145,160            |           |
| Chinese Operations                          | 28,535                                | 14,534                            | 43,069             |           |
| Other (a)                                   | 50,435                                | 183                               | 50,618             |           |
| Eliminations and Corporate (b)              | -                                     | (103,573)                         | (103,573)          |           |
| <b>Total</b>                                | <b>\$ 368,637</b>                     | <b>\$ -</b>                       | <b>\$ 368,637</b>  | <b>\$</b> |



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| For the six months ended<br>June 30, 2005 | Net Sales to<br>External<br>Customers | Net Sales to<br>Other<br>Segments | Total Net<br>Sales | Se<br>P   |
|---|---------------------------------------|-----------------------------------|--------------------|-----------|
| U.S. Operations                           | \$ 265,943                            | \$ 21,635                         | \$ 287,578         | \$        |
| Swiss Operations                          | 43,537                                | 114,880                           | 158,417            |           |
| Western European Operations               | 249,115                               | 31,997                            | 281,112            |           |
| Chinese Operations                        | 50,499                                | 28,657                            | 79,156             |           |
| Other (a)                                 | 96,703                                | 182                               | 96,885             |           |
| Eliminations and Corporate (b)            | -                                     | (197,351)                         | (197,351)          |           |
| <b>Total</b>                              | <b>\$ 705,797</b>                     | <b>\$ -</b>                       | <b>\$ 705,797</b>  | <b>\$</b> |

A reconciliation of Earnings before taxes to Segment profit for the three and six month periods ended June 30 follows:

|                             | Three Months Ended |                  | Six Months Ended |                  |
|-----------------------------|--------------------|------------------|------------------|------------------|
|                             | June 30,<br>2006   | June 30,<br>2005 | June 30,<br>2006 | June 30,<br>2005 |
| Earnings before taxes       | \$ 49,654          | \$ 23,038        | \$ 83,531        | \$ 52,000        |
| Share-based compensation    | 2,109              | -                | 4,268            | -                |
| Amortization                | 2,850              | 2,991            | 5,705            | 5,705            |
| Interest expense            | 4,350              | 3,764            | 8,426            | 7,426            |
| Other charges (income), net | (2,557)            | 21,581           | (5,095)          | 21,581           |
| <b>Segment profit</b>       | <b>\$ 56,406</b>   | <b>\$ 51,374</b> | <b>\$ 96,835</b> | <b>\$ 87,712</b> |

9. RELATED PARTY TRANSACTIONS

As part of the Rainin acquisition in 2001, the Company entered into an agreement to lease certain property from the former owner and current General Manager of Rainin. During the three and six months ended June 30, 2006 and 2005, the Company made lease payments in respect of this agreement of \$0.7 million and \$0.6 million, respectively and \$1.3 and \$1.4 million, respectively. All of the Company's transactions with the former owner of Rainin were in the normal course of business.

10. CONTINGENCIES

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

11. SUBSEQUENT EVENT

Subsequent to June 30, 2006, the Company completed a legal entity

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reorganization of certain international subsidiaries which will impact the recorded amounts of certain deferred tax assets and deferred tax liabilities. As a result, the Company will record two discrete items in its tax provision during the third quarter. A valuation allowance will be established pertaining to its ability to realize deferred tax assets associated with its foreign tax credit carryforwards in the range of \$8 to \$11 million. In addition, the Company will reverse an \$11 million deferred tax liability associated with the tax effect on unremitted earnings of foreign subsidiaries. The Company is currently evaluating the impact of this reorganization and the discrete items on its annual and third quarter effective tax rate.

### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

#### GENERAL

Our interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on a basis which reflects the interim consolidated financial statements of Mettler-Toledo International Inc. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

#### RESULTS OF OPERATIONS - CONSOLIDATED

The following tables set forth certain items from our interim consolidated statements of operations for the three and six month periods ended June 30, 2006 and 2005 (amounts in thousands).

|   | THREE MONTHS ENDED JUNE 30, |       |             |       | SIX MONTHS ENDED JUNE 30, |  |
|---|-----------------------------|-------|-------------|-------|---------------------------|--|
|   | 2006                        |       | 2005        |       | 2006                      |  |
|   | (UNAUDITED)                 | %     | (UNAUDITED) | %     | (UNAUDITED)               |  |
| Net sales                               | \$ 389,157                  | 100.0 | \$ 368,637  | 100.0 | \$ 735,317                |  |
| Cost of sales                           | 196,722                     | 50.6  | 188,212     | 51.1  | 372,542                   |  |
| Gross profit                            | 192,435                     | 49.4  | 180,425     | 48.9  | 362,775                   |  |
| Research and development                | 20,562                      | 5.3   | 20,936      | 5.7   | 40,501                    |  |
| Selling, general and administrative (a) | 117,576                     | 30.2  | 108,115     | 29.3  | 229,707                   |  |
| Amortization                            | 2,850                       | 0.7   | 2,991       | 0.8   | 5,705                     |  |
| Interest expense                        | 4,350                       | 1.1   | 3,764       | 1.0   | 8,426                     |  |
| Other charges (income), net (b)         | (2,557)                     | (0.7) | 21,581      | 5.9   | (5,095)                   |  |
| Earnings before taxes                   | 49,654                      | 12.8  | 23,038      | 6.2   | 83,531                    |  |
| Provision for taxes                     | 14,897                      | 3.9   | 4,727       | 1.2   | 25,059                    |  |
| Net earnings                            | \$ 34,757                   | 8.9   | \$ 18,311   | 5.0   | \$ 58,472                 |  |

Net sales

Net sales were \$389.2 million and \$735.3 million for the three and six months ended June 30, 2006, compared to \$368.6 million and \$705.8 million for the corresponding periods in 2005. This represents an increase in U.S. dollars of 6% and 4% for the three and six months ended June 30, 2006. Excluding the effect of currency exchange rate fluctuations, or in local currencies, net sales increased 5% and 6% for the three and six months ended June 30, 2006.

During the three and six months ended June 30, 2006, our net sales by geographic destination in local currencies increased by 7% and 4% in the Americas, by 4% and 7% in Europe and by 4% and 8% in Asia/Rest of World. A discussion of sales by operating segment is included below.

As described in Note 16 to our consolidated financial statements for the year ending December 31, 2005, our net sales comprise product sales of precision instruments and related services. Service revenues are primarily derived from regulatory compliance qualification, calibration, certification and repair services, some of which is provided under separately priced contracts, as well as sales of spareparts.

Net sales of products increased in U.S. dollars by 5% and 4% during the three and six months ended June 30, 2006 compared to the corresponding period in 2005. Excluding the effect of currency exchange rate fluctuations for the three and six month periods then ended net sales of products increased 5% and 6%, respectively. Service revenue (including spare parts) increased in U.S. dollars by 7% and 5% during the three and six months ended June 30, 2006 compared to the corresponding period in 2005. Excluding currency exchange rate fluctuations for the three and six month period then ended net service revenues increased 7% in both periods.

Net sales for our laboratory-related products increased 3% and 6% in local currencies during the three and six months ended June 30, 2006, principally driven by strong growth in process analytics, analytical instruments and laboratory balances.

Net sales of our industrial-related products increased 3% and 4% in local currencies for the three and six months ended June 30, 2006, particularly due to growth in our product inspection products.

In our food retailing markets, net sales increased 20% and 16% in local currencies during the three and six months ended June 30, 2006, due to increased sales in all of our key geographic markets related to strong project activity.

Gross profit

Gross profit as a percentage of net sales was 49.4% and 49.3% for the three and six months ended June 30, 2006, compared to 48.9% and 48.6% for the corresponding periods in 2005.

Gross profit as a percentage of net sales for products was 53.8% and 53.6% for the three and six months ended June 30, 2006, compared to 53.0% and 53.0% for the corresponding periods in 2005.

Gross profit as a percentage of net sales for services (including spare parts) was 35.2% and 35.6% for the three and six months ended June

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30, 2006, compared to 35.3% and 34.4% for the corresponding periods in 2005.

The increase in gross profit reflects benefits from our sales volume leveraging our fixed production costs, as well as pricing, benefits from our cost rationalization initiatives.

Research and development and selling, general and administrative expenses

Research and development expenses decreased 1% and were unchanged, in local currencies, during the three and six months ended June 30, 2006, respectively, compared to the corresponding periods in 2005. This reflects the timing of previous year projects as well as our desire to continue to reallocate research and development resources to marketing.

Selling, general and administrative expenses increased 9% and 10%, in local currencies, during the three and six months ended June 30, 2006, respectively, compared to the corresponding periods in 2005. This is primarily due to share-based compensation expense, performance related compensation costs, as well as our continued sales and marketing investments, especially in China.

Interest expense, other charges (income), net, taxes and net earnings

Interest expense was \$4.4 million and \$8.4 million for the three and six months ended June 30, 2006, respectively, and \$3.8 million and \$7.3 million for the corresponding periods in 2005. The increase is due to higher average borrowings in 2006 over the comparable period in 2005.

Other income, net consists primarily of interest income, as well as (gains) losses from foreign currency transactions, and other items. The increase in other income, net over the prior year comparable period is due to higher interest income associated with the increase in cash balances resulting from our earnings repatriation associated with the American Jobs Creation Act of 2004. For the three and six months ended June 30, 2005, other charges (income), net also includes a \$21.8 million (\$13.1 million after-tax) charge related to pipette litigation. We wrote-off a \$19.9 million intangible asset relating to an intellectual property license that was subject to litigation with the grantor in June 2005. This license enabled a wholly owned subsidiary of the Company exclusive rights to distribute certain third-party manufactured pipettes in the United States. A judgment entered on June 6, 2005 terminated the license agreement and awarded damages to the other party. We also incurred \$1.9 million of related legal costs during the three months ended June 30, 2005, which includes damages of \$0.6 million.

The provision for taxes for the three month and six month periods ended June 30, 2006 is based upon our projected annual effective tax rate of 30%.

Subsequent to June 30, 2006, we completed a legal entity reorganization of certain international subsidiaries which will impact the recorded amounts of certain deferred tax assets and deferred tax liabilities. As a result, we will record two discrete items in our tax provision during the third quarter. A valuation allowance will be established pertaining to our ability to realize deferred tax assets associated with our foreign tax credit carryforwards in the range of \$8 to \$11 million. In addition, we will reverse an \$11 million deferred tax liability associated with the tax effect on unremitted earnings of foreign subsidiaries. We are currently evaluating the impact of this reorganization and the discrete items on our annual and third quarter effective tax rate.

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Net earnings were \$34.8 million and \$58.5 million during the three and six months ended June 30, 2006, respectively, compared to net earnings of \$18.3 million and \$39.1 million during the three and six months ended June 30, 2005. Net earnings for the three and six months ended June 30, 2006 includes \$1.4 million and \$2.8 million of share-based compensation expense, after tax. Net earnings for the three and six months ended June 30, 2005 included the previously described \$13.1 million one-time pipette litigation charge. Net earnings, as reported, increased 90% and 50% for the three and six months ended June 30, 2006 compared to the same periods in 2005. Excluding the effect of share-based compensation expense and the one-time pipette litigation charge, net earnings would have increased 15% and 17% for the three and six months ended June 30, 2006. Excluding these items, the increase in net earnings primarily reflects improved sales volume in 2006 and the benefits from leveraging our fixed production costs as well as our improved gross margin.

Net earnings per diluted share were \$0.84 and \$1.41 during the three and six months ended June 30, 2006 compared to \$0.42 and \$0.89 during the three and six months ended June 30, 2005. Net earnings for the three and six months ended June 30, 2006 include \$0.04 and \$0.07 per diluted share of share-based compensation expense. Net earnings for the three and six months ended June 30, 2005 included the previously described \$0.30 one-time pipette litigation charge. Net earnings per diluted share, as reported, increased 100% and 58% for the three and six months ended June 30, 2006 compared to the same periods in 2005. Excluding the effect of share-based compensation expense and the one-time pipette litigation charge, net earnings per diluted share would have increased 22% and 24% for the three and six months ended June 30, 2006. The increase in net earnings per diluted share primarily reflects improved sales volume in 2006, the benefits from leveraging our fixed production costs, our improved gross margin and the benefits from our share repurchase program.

### RESULTS OF OPERATIONS - BY OPERATING SEGMENT

#### U.S. Operations

|                                 | Three months ended June 30 |            |      | Six months ended Ju |            |
|---------------------------------|----------------------------|------------|------|---------------------|------------|
|                                 | 2006                       | 2005       | %(1) | 2006                | 2005       |
|                                 | ----                       | ----       | ---- | ----                | ----       |
| Total net sales                 | \$ 161,887                 | \$ 150,915 | 7%   | \$ 300,735          | \$ 287,578 |
| Net sales to external customers | \$ 148,351                 | \$ 139,728 | 6%   | \$ 276,969          | \$ 265,943 |
| Segment profit                  | \$ 25,785                  | \$ 19,234  | 34%  | \$ 40,323           | \$ 31,686  |

The increase in total net sales and net sales to external customers for the six months ended June 30, 2006 reflects growth across most product lines, particularly our food retailing products due to the timing of project activity as well as continued growth in our in-store retail software solutions. Our U.S. Operations have also experienced solid results in process analytics, analytical instruments and product inspection products. Net sales growth to external customers for the three months ended June 30, 2006 included particularly strong results in laboratory balances.

Segment profit increased 34% and 27% for the three and six month periods ended June 30, 2006, respectively, compared to the corresponding

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periods in 2005. The increase was primarily due to increased sales volume and our ability to leverage our fixed production costs, benefits of our cost rationalization initiatives, improved profitability in our liquid handling business and reduced losses in our drug discovery business.

### Swiss Operations

|                                 | Three months ended June 30 |           |      | Six months ended Ju |           |
|---------------------------------|----------------------------|-----------|------|---------------------|-----------|
|                                 | 2006                       | 2005      | %(1) | 2006                | 2005      |
|                                 | ----                       | ----      | ---- | ----                | ----      |
| Total net sales                 | \$ 81,500                  | \$ 82,448 | -1%  | \$158,087           | \$158,417 |
| Net sales to external customers | \$ 23,654                  | \$ 22,900 | 3%   | \$ 44,224           | \$ 43,537 |
| Segment profit                  | \$ 15,208                  | \$ 16,221 | -6%  | \$ 30,355           | \$ 31,805 |

Total net sales in local currency increased 2% and 6% for the three and six month periods ended June 30, 2006. Net sales to external customers in local currency increased 5% and 7% for the same periods versus the prior year comparable period. The increase in sales to external customers relates to continued growth in our process analytics and industrial-related products. We also experienced strong export sales growth to emerging markets for the six months ended June 30, 2006.

The decrease in segment profit during the three and six month periods ending June 30, 2006 primarily reflects increased selling, general and administrative expense versus the previous year due to investments in our global sales and marketing initiatives, as well as increased performance related compensation. The decrease in segment profit for the six months ended June 30, 2006 is due in part to lower research and development expense in the previous year offset in part by benefits from our cost rationalization initiatives as well as favorable changes in foreign currency translation fluctuations.

### Western European Operations

|                                 | Three months ended June 30 |            |      | Six months ended Ju |            |
|---------------------------------|----------------------------|------------|------|---------------------|------------|
|                                 | 2006                       | 2005       | %(1) | 2006                | 2005       |
|                                 | ----                       | ----       | ---- | ----                | ----       |
| Total net sales                 | \$ 147,981                 | \$ 145,160 | 2%   | \$ 284,484          | \$ 281,112 |
| Net sales to external customers | \$ 129,791                 | \$ 127,039 | 2%   | \$ 249,507          | \$ 249,115 |
| Segment profit                  | \$ 10,939                  | \$ 10,912  | 0%   | \$ 19,897           | \$ 18,129  |

Total net sales increased 4% and 7% in local currency for the three and six months ended June 30, 2006. Net sales in local currency to external customers increased 3% and 5% for the three and six month periods compared to the corresponding periods in 2005 primarily due to strong sales growth in our food retailing products primarily related to strong project activity

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as well as solid growth in our laboratory-related products.

The increase in segment profit for the six months ended June 30, 2006 is principally a result of increased net sales volume, our ability to leverage our fixed production costs and benefits of our cost rationalization initiatives partially offset by unfavorable currency translation fluctuations. Segment profit for the three and six months ended June 30, 2006 also included a restructuring charge of \$1.2 million related primarily to severance charges.

### Chinese Operations

|                                 | Three months ended June 30 |           |      | Six months ended Ju |           |
|---------------------------------|----------------------------|-----------|------|---------------------|-----------|
|                                 | 2006                       | 2005      | %(1) | 2006                | 2005      |
|                                 | ----                       | ----      | ---- | ----                | ----      |
| Total net sales                 | \$ 49,770                  | \$ 43,069 | 16%  | \$ 91,027           | \$ 79,156 |
| Net sales to external customers | \$ 31,216                  | \$ 28,535 | 9%   | \$ 55,881           | \$ 50,499 |
| Segment profit                  | \$ 11,494                  | \$ 9,508  | 21%  | \$ 21,033           | \$ 16,849 |

Total net sales in local currency increased 12% and 12% and net sales to external customers increased 6% and 7% for the three and six months ended June 30, 2006 as compared to the corresponding periods in 2005. These increases were due to continued sales growth for most product lines.

The increase in segment profit is primarily due to the continued improvement in sales volume and our ability to leverage our fixed production costs.

### Other

|                                 | Three months ended June 30 |           |      | Six months ended Ju |           |
|---------------------------------|----------------------------|-----------|------|---------------------|-----------|
|                                 | 2006                       | 2005      | %(1) | 2006                | 2005      |
|                                 | ----                       | ----      | ---- | ----                | ----      |
| Total net sales                 | \$ 55,987                  | \$ 50,618 | 11%  | \$ 108,669          | \$ 96,885 |
| Net sales to external customers | \$ 56,145                  | \$ 50,435 | 11%  | \$ 108,736          | \$ 96,703 |
| Segment profit                  | \$ 4,347                   | \$ 2,341  | 86%  | \$ 8,063            | \$ 5,811  |

Total net sales and net sales to external customers increased 10% and 13% in local currency for the three and six months ended June 30, 2006 compared to the previous year comparable periods. This performance reflects increased sales in our Other Asian Pacific, Eastern European and Other North American markets.

Segment profit increased during the three and six months ended June 30, 2006 primarily due to increased sales volume in Eastern Europe and the timing of certain expenses and inventory charges that occurred during the three months ended June 30, 2005.

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### LIQUIDITY AND CAPITAL RESOURCES

Liquidity is our ability to generate sufficient cash flows from operating activities to meet our obligations and commitments. In addition, liquidity includes the ability to obtain appropriate financing. Currently, our liquidity needs arise primarily from working capital requirements, capital expenditures, share repurchases and acquisitions. In 2005, we also increased our debt balance in Europe and our cash balance in the United States as a result of our foreign earnings repatriation associated with the American Jobs Creation Act of 2004.

Cash provided by operating activities totaled \$72.2 million in the six months ended June 30, 2006, compared to \$57.3 million in the corresponding period in 2005. The increase in 2006 resulted principally from improved operating results and strong cash collections compared to the corresponding period in 2005. Operating cash flows for the six months ended June 30, 2006 excludes excess tax benefits from share-based payment arrangements of \$7.7 million. These benefits have been classified as financing activities pursuant to SFAS 123R.

We continue to explore potential acquisitions. In connection with any acquisition, we may incur additional indebtedness. In addition, the terms of certain of our acquisitions provide for possible additional earn-out payments. However, we do not currently believe we will make any material payments relating to such earn-outs.

Capital expenditures are a significant use of funds and are made primarily for investments in information systems and technology, machinery, equipment and the purchase and expansion of facilities. Our capital expenditures totaled \$11.8 million for the six months ended June 30, 2006 compared to \$11.9 million in the corresponding period in 2005. The decrease is due primarily to timing. However, we expect capital expenditures to increase as our business grows, and to fluctuate as currency exchange rates change.

#### Senior Notes and Credit Facility Agreement

Our short-term borrowings and long-term debt consisted of the following at June 30, 2006.

|   | June 30, 2006 |                                    |
|---|---------------|------------------------------------|
|   | U.S. dollar   | Other principal trading currencies |
| \$150m Senior notes (net of unamortized discount) | \$ 148,662    | \$ -                               |
| Credit facility                                   | -             | 264,125                            |
| Total long-term debt                              | 148,662       | 264,125                            |
| Other local arrangements                          | -             | 8,201                              |
| Total debt  | \$ 148,662    | \$ 272,326                         |

As of June 30, 2006, we had \$176.6 million of availability remaining



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under our credit facility. Changes in exchange rates between the currencies in which we generate cash flows and the currencies in which our borrowings are denominated affect our liquidity. In addition, because we borrow in a variety of currencies, our debt balances fluctuate due to changes in exchange rates.

We currently believe that cash flow from operating activities, together with liquidity available under our Amended Credit Agreement and local working capital facilities, will be sufficient to fund currently anticipated working capital needs and capital spending requirements.

### Share repurchase program

We have a share repurchase program. Under the program, we are authorized to buy back up to \$500 million of equity shares. As of June 30, 2006, there were \$114.4 million of remaining equity shares authorized to be repurchased under the plan by December 31, 2007. During July 2006, we have been authorized to buy back an additional \$400 million of shares through December 2008. The share repurchases are expected to be funded from cash balances, borrowings and cash generated from operating activities. Repurchases will be made through open market transactions, and the timing will depend on the level of acquisition activity, business and market conditions, the stock price, trading restrictions and other factors. We have purchased 7.4 million shares since the inception of the program through June 30, 2006.

We spent \$117.2 million and \$73.3 million on the repurchase of 1,941,900 shares and 1,505,900 shares at an average price of \$60.32 and \$48.62 during the six months ended June 30, 2006 and 2005, respectively, as well as an additional \$4.2 million and \$1.4 million during the six month periods ended June 30, 2006 and 2005, respectively, relating to the settlement of the liability for shares repurchased as of December 31, 2005 and 2004. See Part II Item 2 regarding details of the share repurchase program for the three months ended June 30, 2006. We reissued 766,259 shares and 121,825 shares held in treasury for the exercise of stock options for the six months ended June 30, 2006 and 2005, respectively.

### EFFECT OF CURRENCY ON RESULTS OF OPERATIONS

Because we conduct operations in many countries, our operating income can be significantly affected by fluctuations in currency exchange rates. Swiss franc-denominated expenses represent a much greater percentage of our operating expenses than Swiss franc-denominated sales represent of our net sales. In part, this is because most of our manufacturing costs in Switzerland relate to products that are sold outside Switzerland. Moreover, a substantial percentage of our research and development expenses and general and administrative expenses are incurred in Switzerland. Therefore, if the Swiss franc strengthens against all or most of our major trading currencies (e.g., the U.S. dollar, the euro, other major European currencies and the Japanese yen), our operating profit is reduced. We also have significantly more sales in European currencies (other than the Swiss franc) than we have expenses in those currencies. Therefore, when European currencies weaken against the U.S. dollar and the Swiss franc, it also decreases our operating profits. Accordingly, the Swiss franc exchange rate to the euro is an important cross-rate monitored by the Company. We estimate that a 1% strengthening of the Swiss franc against the euro would result in a decrease in our earnings before tax of approximately \$1 million on an annual basis. In addition to the effects of exchange rate movements on operating profits, our debt levels can fluctuate due to changes in exchange rates, particularly between the U.S. dollar and the Swiss franc. Based on our outstanding debt at June 30, 2006, we estimate that a 10% weakening of the U.S. dollar against the currencies in which our debt is

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denominated would result in an increase of approximately \$30.3 million in the reported U.S. dollar value of the debt.

### NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 to the interim consolidated financial statements.

### FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Some of the statements in this quarterly report constitute "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. These statements relate to future events or our future financial performance, including, but not limited to, strategic plans, annual amortization expense, outcome of litigation, effect of potential loss of licensed rights, potential growth opportunities in both developed markets and emerging markets, planned research and development efforts, product introductions and innovation, manufacturing capacity, expected customer demand, meeting customer expectations, planned operational changes and productivity improvements, research and development expenditures, competitors' product development, expected capital expenditures, source of funding, method and timing of share repurchases, timing and effect of potential exercises of options, future cash sources and requirements, liquidity, impact of taxes, impact of changes in tax laws, expected compliance with laws, impact of environmental costs and environmental proceedings, expected pension contribution, expected cost savings and benefits of completed or future acquisitions, which involve known and unknown risks, impact of currency fluctuations, uncertainties and other factors that may cause our or our businesses' actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or "continue" or the negative of those terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially because of market conditions in our industries or other factors. Moreover, we do not, nor does any other person, assume responsibility for the accuracy and completeness of those statements. Unless otherwise required by applicable laws, we disclaim any intention or obligation to publicly update or revise any of the forward-looking statements after the date of this quarterly report to conform them to actual results, whether as a result of new information, future events, or otherwise. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under the caption, "Factors affecting our future operating results" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005, which describes risks and factors that could cause results to differ materially from those projected in those forward-looking statements.

We caution the reader that the above list of risks and factors that may affect results addressed in the forward-looking statements may not be exhaustive. Other sections of this quarterly report and other documents incorporated by reference may describe additional risks or factors that could adversely impact our business and financial performance. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict these new risk factors, nor can it assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should

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not be relied upon as a prediction of actual results.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2006, there was no material change in the information provided under Item 7A in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

### Item 4. CONTROLS AND PROCEDURES

Our management carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report under the supervision and with the participation of our disclosure committee, our CFO and CEO. Based upon that evaluation, our CFO and CEO concluded that our disclosure controls and procedures are effective in permitting us to comply with our disclosure obligations and ensure that the material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. There were no changes in our internal controls over financial reporting during the six months ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our controls over financial reporting.

## PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. None

Item 1A. RISK FACTORS.

See Risk Factors identified in the Company's most recently filed Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

#### Issuer Purchases of Equity Securities

| (a)                                       | (b)                                | (c)  | (d)  |        |
|---|------------------------------------|--|--|--------|
| Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Maximum N<br>(or Approx<br>Dollar Val<br>Shares tha<br>Yet be Pur<br>Under the P<br>Progra |        |
| April 1 to April 30, 2006                 | 285,000                            | \$ 61.94   | 285,000  | \$ 146 |
| May 1 to May 31, 2006                     | 200,300                            | \$ 65.64   | 200,300  | \$ 132 |
| June 1 to June 30, 2006                   | 303,000                            | \$ 60.78   | 303,000  | \$ 114 |
| Total                                     | 788,300                            | \$ 62.44   | 788,300  | \$ 114 |

The Company has a share repurchase program. Under the program the Company has been authorized to buy back up to \$500 million of equity shares. As of June 30, 2006, there were \$114.4 million of remaining equity shares authorized to be repurchased under the plan by December 31, 2007. During July 2006, the Company has been authorized to buy back an additional \$400 million of shares through December 2008. The Company has purchased 7.4 million shares since the inception of the program through June 30, 2006.

The Company spent \$117.2 million and \$73.3 million on the repurchase of 1,941,900 shares and 1,505,900 shares at an average price of \$60.32 and \$48.62 during the six months ended June 30, 2006 and 2005, respectively, as well as an additional \$4.2 million and \$1.4 million during the six month periods ended June 30, 2006 and 2005, respectively, relating to the settlement of the liability for shares repurchased as of December 31, 2005 and 2004. The Company reissued 766,259 shares and 121,825 shares held in treasury for the exercise of stock options for the six months ended June 30, 2006 and 2005, respectively.

Item 3. DEFAULTS UPON SENIOR SECURITIES. None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Mettler-Toledo International Inc. annual meeting of stockholders was held on May 3, 2006. At the meeting, the following matters were submitted to a vote of stockholders: the election of directors, the ratification of the appointment of the company's independent auditors, and the approval of the POBS Plus Incentive System.

As of the record date of March 6, 2006 there were 40,975,959 shares of common stock entitled to vote at the meeting. The holders of 37,440,545 shares were represented in person or in proxy at the meeting, constituting a quorum. The vote with respect to the matters submitted to stockholders was as follows:

| Matter                                 | For        | Withheld<br>or Against | Abstained |
|--|------------|------------------------|-----------|
| -----                                  | ---        | -----                  | -----     |
| Election of Directors                  |            |                        |           |
| Robert F. Spoerry                      | 36,148,859 | 1,291,686              |           |
| Francis A. Contino                     | 37,103,801 | 336,744                |           |
| John T. Dickson                        | 36,852,924 | 587,621                |           |
| Philip H. Geier                        | 36,823,054 | 617,491                |           |
| John D. Macomber                       | 23,522,023 | 13,918,522             |           |
| Hans Ulrich Maerki                     | 37,070,308 | 370,237                |           |
| George M. Milne                        | 37,024,300 | 416,245                |           |
| Thomas P. Salice                       | 37,092,102 | 348,443                |           |
| Appointment of Independent Auditors    | 37,370,376 | 60,438                 | 9,737     |
| Approval of POBS Plus Incentive System | 35,091,066 | 2,280,640              | 68,839    |

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Item 5. OTHER INFORMATION. None

Item 6. EXHIBITS.

(a) Exhibits

- 10.1 Employment Agreement between Joakim Weidemanis and Mettler-Toledo International Inc., dated May 23, 2005
- 10.2 Employment Agreement between Hans-Peter von Arb and Mettler-Toledo International Inc., dated April 11, 2006
- 10.3 Indemnification Agreement between Hans-Peter von Arb and Mettler-Toledo International Inc., dated June 1, 2006
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

| Date Furnished or Filed | Item Reported  |
|-------------------------|--|
| July 27, 2006           | Press release announcing second quarter 2006 results |

SIGNATURE

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

Mettler-Toledo International Inc.

Date: July 28, 2006

By: /s/ William P. Donnelly

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William P. Donnelly  
Group Vice President and  
Chief Financial Officer