

ESTERLINE TECHNOLOGIES CORP  
Form 10-K  
December 22, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended October 30, 2009

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 1-6357

**ESTERLINE TECHNOLOGIES CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**13-2595091**  
(I.R.S. Employer  
Identification No.)

**500 108th Avenue NE**

**Bellevue, Washington**  
(Address of principal executive offices)

**98004**  
(Zip code)

Registrant's telephone number, including area code 425/453-9400  
Securities registered pursuant to Section 12(b) of the Act:

**Name of each exchange**  
**on which registered**

**Title of each class**

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Common Stock (\$.20 par value)

New York Stock Exchange

Preferred Stock Purchase Rights

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  Accelerated filer  Non-accelerated filer

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

As of December 18, 2009, 29,793,112 shares of the Registrant's common stock were outstanding. The aggregate market value of shares of common stock held by non-affiliates as of May 1, 2009 was \$777,974,514 (based upon the closing sales price of \$26.18 per share).

#### **Documents Incorporated by Reference**

Part III incorporates information by reference to the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended October 30, 2009.

## PART I

This Report includes a number of forward-looking statements that reflect the Company's current views with respect to future events and financial performance. Please refer to the section addressing forward-looking information on page 11 for further discussion. In this report, we, our, us, Company, and Esterline refer to Esterline Technologies Corporation and subsidiaries, unless otherwise noted or context otherwise indicates.

### Item 1. Business

#### *(a) General Development of Business.*

Esterline, a Delaware corporation formed in 1967, is a leading specialized manufacturing company principally serving aerospace and defense customers. We design, manufacture and market highly engineered products and systems for application within the industries we serve.

Our strategy is to maintain a leadership position in niche markets for the development and manufacture of highly engineered products that are essential to our customers. We are concentrating our efforts to expand selectively our capabilities in these markets, to anticipate the global needs of our customers and to respond to such needs with comprehensive solutions. Our current business and strategic growth plan focuses on the continuous development of these products in three key technology segments—avionics and controls, sensors and systems, and advanced materials including thermally engineered components and specialized high-performance elastomers and other complex materials, principally for aerospace and defense markets. Our products are often mission-critical equipment, which have been designed into particular military and commercial platforms and in certain cases can only be replaced by products of other manufacturers following a formal certification process. As part of our implementation of this growth plan, we focus on, among other things, expansion of our capabilities as a more comprehensive supplier to our customers. In fiscal 2009 such expansion included the December 15, 2008, acquisition of NMC Group, Inc. (NMC), which designs and manufactures specialized light-weight fasteners principally for commercial aviation applications, and the January 26, 2009, acquisition of Racal Acoustics Global Ltd. (Racal Acoustics), which develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics segment. We also divested a non-core business operating as Muirhead Aerospace and Traxsys Input Products Limited. These acquisitions and divestiture are described in more detail in the Overview section of Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations contained in Item 7 of this report.

Our products have a long history in the aerospace and defense industry and are found on most military and commercial aircraft, helicopters, and land-based systems. For example, our products are used on the majority of active and in-production U.S. military aircraft and on every Boeing commercial aircraft platform manufactured in the past 65 years. In addition, our products are supplied to Airbus, all of the major regional and business jet manufacturers, and the major aircraft engine manufacturers. We differentiate ourselves through our engineering and manufacturing capabilities and our reputation for quality, on-time delivery, reliability, and innovation—all embodied in the Esterline Performance System, our way of approaching business that ensures all employees are focused on continuous improvement. We work closely with original equipment manufacturers (OEMs) on new, highly engineered product designs which often results in our products being designed into their platforms; this integration often results in sole-source positions for OEM production and aftermarket business. In

fiscal 2009, we estimate that 32% of our sales to commercial and military aerospace customers were derived from aftermarket business. Our aftermarket sales, including retrofits, spare parts, and repair services, historically carry a higher gross margin than sales to OEMs. In many cases, aftermarket sales extend well beyond the OEM production period, supporting the platform during its entire life cycle.

Our sales are diversified across three broad markets: defense, commercial aerospace, and general industrial. For fiscal 2009, we estimate we derived approximately 45% of our sales from the defense market, 40% from the commercial aerospace market and 15% from the general industrial market.

*(b) Financial Information About Industry Segments.*

A summary of net sales to unaffiliated customers, operating earnings and identifiable assets attributable to our business segments for fiscal years 2009, 2008 and 2007 is reported in Note 18 to the Company's Consolidated Financial Statements for the fiscal year ended October 30, 2009, and appears in Item 8 of this report.

*(c) Narrative Description of Business.*

**Avionics & Controls**

Our Avionics & Controls business segment includes avionics systems, control systems, interface technologies and communication systems capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and gaming industries. Communication systems designs and manufactures military audio and data products for severe battlefield environments. In addition, communication systems designs and manufactures communication control systems to enhance security and aural clarity in military applications.

We are a market leader in global positioning systems (GPS), head-up displays, enhanced vision systems, and electronic flight management systems that are used in a broad variety of control and display applications. For example, our high-performance GPS systems are installed on over 16,500 aircraft worldwide. In addition, we develop, manufacture and market sophisticated high reliability technology interface systems for commercial and military aircraft. These products include lighted push-button and rotary switches, keyboards, lighted indicators, panels and displays. Over the years, our products have been integrated into many existing aircraft designs, including every Boeing commercial aircraft platform currently in production. Our large installed base provides us with a significant spare parts and retrofit business. We are a Tier 1 supplier on the Boeing 787 program to design and manufacture all of the cockpit overhead panels and embedded software for these systems. We manufacture control sticks, grips and wheels, as well as specialized switching systems. In this area, we primarily serve commercial and military aviation, and airborne and ground-based military equipment manufacturing customers. For example, we are a leading manufacturer of pilot control grips for most types of military fighter jets and helicopters. Additionally, our software engineering center supports our customers' needs with such applications as primary flight displays, flight management systems, air data computers and engine control systems.

Our proprietary products meet critical operational requirements and provide customers with significant technological advantages in such areas as night vision compatibility and active-matrix liquid-crystal displays (a technology enabling pilots to read display screens in a variety of light conditions as well as from extreme angles). Our products are incorporated in a wide variety of platforms ranging from military helicopters, fighters and transports, to commercial wide- and narrow-body, regional and business jets. In fiscal 2009, some of our largest customers for these products included BAE Systems, The Boeing Company, General Electric, Honeywell, Lockheed Martin, Rockwell Collins, Sikorsky, and U.S. Department of Defense (DoD).

We are also a supplier in custom input integration with a full line of keyboard, switch and input technologies for specialized medical equipment, communications systems and comparable equipment for military applications. These products include custom keyboards, keypads, and input devices that integrate cursor control devices, bar-code scanners, displays, video, and voice activation. We also produce instruments that are used for point-of-use and point-of-care in vivo diagnostics. We have developed a wide variety of technologies, including plastic and vinyl membranes that protect high-use switches and fully depressible buttons, and backlit elastomer switch coverings that are resistant to exposure from harsh chemicals. These technologies now serve as the foundation for a small but growing portion of our product line. In fiscal 2009, some of our largest customers for these products included Biosite, Finmeccanica, General Electric, IDEXX Laboratories, Inc., Philips, Roche, Siemens, and WMS.

In addition, we design and manufacture ruggedized military personal communication equipment, primarily headsets. We are the sole supplier of Active Noise Reduction (ANR) headsets to the British Army's tracked and wheeled vehicle fleets under the Bowman communication system program. In the U.S., we supply ANR headsets to the U.S. Army's tracked and wheeled vehicle fleets under the Vehicle Intercom System (VIS) program comprising over 150,000 vehicles, and we are the sole supplier to the U.S. Marine Corps for their MRAP fleet. We are also the sole ANR headset supplier to the Canadian Army. We have a long-standing relationship with armies around the world including forces in India, Australia, Spain, and Saudi Arabia. In fiscal 2009, some of our largest customers for these products included Northrop Grumman and the British Ministry of Defence (MoD).

### **Sensors & Systems**

Our Sensors & Systems business segment includes power systems and advanced sensors capabilities. We develop and manufacture high-precision temperature, pressure and speed sensors, electrical power switching, control and data communication devices, and other related systems principally for aerospace and defense customers. We are the sole-source supplier of temperature probes for use on all versions of the General Electric/Snecma CFM-56 jet engine. The CFM-56 jet engine has an installed base of 20,000, is standard equipment on new generation Boeing 737 aircraft and was selected as the engine for approximately 52% of all Airbus aircraft delivered to date. We were contracted to design and manufacture the 787's sensors for the environmental control system, and provide the primary power distribution assembly for the Airbus A400M military transport. Additionally, we have secured a Tier 1 position with Rolls Royce for the complete suite of sensors for the engine that will power the A400M and A350. The principal customers for our products in this business segment are jet engine manufacturers and airframe manufacturers. In fiscal 2009, some of our largest customers for these products included The Boeing Company, Bombardier, Dassault, Eurocopter, Flame, Honeywell, Pratt & Whitney, and SAFRAN.

## Advanced Materials

Our Advanced Materials business segment includes engineered materials and defense technologies capabilities. We develop and manufacture high-performance elastomer products used in a wide range of commercial aerospace, space, and military applications, and highly engineered thermal components for commercial aerospace and industrial applications. We also develop and manufacture combustible ordnance for military applications.

*Specialized High-Performance Applications.* We specialize in the development of proprietary formulations for silicone rubber and other elastomer products. Our elastomer products are engineered to address specific customer requirements where superior performance in high temperature, high pressure, caustic, abrasive and other difficult environments is critical. These products include clamping devices, thermal fire barrier insulation products, sealing systems, tubing and coverings designed in custom-molded shapes. Some of the products include proprietary elastomers that are specifically designed for use on or near a jet engine. We are a leading U.S. supplier of high-performance elastomer products to the aerospace industry, with our primary customers for these products being jet and rocket engine manufacturers, commercial and military airframe manufacturers, as well as commercial airlines. In fiscal 2009, some of the largest customers for these products included Alliant Techsystems, The Boeing Company, Honeywell, KAPCO, Lockheed Martin, Northrop Grumman, and Pattonair. We also develop and manufacture high temperature lightweight metallic insulation systems for aerospace and marine applications. Our commercial aerospace programs include the 737, A320, and A380 series aircraft and the V2500 and BR710 engines. Our insulation material is used on diesel engine manifolds for earthmoving and agricultural applications. In addition, we specialize in the development of thermal protection for fire, nuclear, and petro-chemical industries. We design and manufacture high temperature components for industrial and marine markets. Our manufacturing processes consist of cutting, pressing, and welding stainless steel, Inconel and titanium fabrications. In fiscal 2009, some of the largest customers of these products included Airbus, Rolls Royce, and Spirit AeroSystems.

*Ordnance and Countermeasure Applications.* We develop and manufacture combustible ordnance and warfare countermeasure devices for military customers. We manufacture molded fiber cartridge cases, mortar increments, igniter tubes and other combustible ordnance components primarily for the U.S. Department of Defense. We are currently the sole supplier of combustible casings utilized by the U.S. Armed Forces. Sales are made either directly to the U.S. Department of Defense or through prime contractors, Alliant Techsystems and General Dynamics. These products include the combustible case for the U.S. Army's new generation 155mm Modular Artillery Charge System, the 120mm combustible case used with the main armament system on the U.S. Army and Marine Corps M1-A1/2 tanks, and the 60mm, 81mm and 120mm combustible mortar increments. We are one of two suppliers to the U.S. Army of infrared decoy flares used by aircraft to help protect against radar and infrared guided missiles. Additionally, we are a supplier of infrared decoy flares to the MoD and other international defense agencies. We are currently the only supplier of radar countermeasure to the U.S. Army.

A summary of product lines contributing sales of 10% or more of total sales for fiscal years 2009, 2008 and 2007 is reported in Note 18 to the Consolidated Financial Statements for the fiscal year ended October 30, 2009, and appears in Item 8 of this report.

## **Marketing and Distribution**

We believe that a key to continued success is our ability to meet customer requirements both domestically and internationally. We have and will continue to improve our world-wide sales and distribution channels in order to provide wider market coverage and to improve the effectiveness of our customers' supply chain. For example, our medical device assembly operation in Shanghai, China, serves our global medical customers, our service center in Singapore improves our capabilities in Asia for our temperature sensor customers, and our marketing representative office in Beijing, China, facilitates marketing opportunities in China. Other enhancements include combining sales and marketing forces of our operating units where appropriate, cross-training our sales representatives on multiple product lines, and cross-stocking our spares and components.

In the technical and highly engineered product segments in which we compete, relationship selling is particularly appropriate in targeted marketing segments where customer and supplier design and engineering inputs need to be tightly integrated. Participation in industry trade shows is an effective method of meeting customers, introducing new products, and exchanging technical specifications. In addition to technical and industry conferences, our products are supported through direct internal international sales efforts, as well as through manufacturer representatives and selected distributors. As of October 30, 2009, 235 sales people, 315 representatives, and 144 distributors support our operations internationally.

## **Backlog**

Backlog was \$1.1 billion at October 30, 2009, and October 31, 2008. We estimate that approximately \$366.0 million of backlog is scheduled to be shipped after fiscal 2010.

Backlog is subject to cancellation until delivered, and therefore, we cannot assure that our backlog will be converted into revenue in any particular period or at all. Backlog does not include the total contract value of cost-plus reimbursable contracts, which are funded as we incur the costs. Except for the released portion, backlog also does not include fixed-price multi-year contracts.

## **Competition**

Our products and services are affected by varying degrees of competition. We compete with other companies in most markets we serve, many of which have far greater sales volumes and financial resources. Some of our competitors are also our customers on certain programs. The principal competitive factors in the commercial markets in which we participate are product performance, on-time delivery, service and price. Part of product performance requires expenditures in research and development that lead to product improvement. The market for many of our products may be affected by rapid and significant technological changes and new product introductions. Our principal competitors include Bose, ECE, EMS, Eaton, GE Aerospace, Honeywell, Otto Controls, Rockwell Collins, Telephonics, Thales, Ultra Electronics, and Universal Avionics Systems Corporation in our Avionics & Controls segment; Ametek, ECE, Goodrich, MPC Products, Meggitt, and Tyco in our Sensors & Systems segment; and Chemring, Doncasters, Hitemp, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), and ULVA in our Advanced Materials segment.

## **Research and Development**

Our product development and design programs utilize an extensive base of professional engineers, technicians and support personnel, supplemented by outside engineering and consulting firms when





needed. In fiscal 2009, we expended approximately \$66.3 million for research, development and engineering, compared with \$86.8 million in fiscal 2008 and \$66.9 million in fiscal 2007. Our funding for the development of the T-6B integrated avionics system, the A400M power distribution system, and 787 overhead control panel and environmental control systems was substantially completed in fiscal 2009. We believe continued product development is key to our long-term growth, and consequently, we consistently invest in research and development. Examples include research and development projects relating to advanced vision systems, integrated avionics control panels, A350 engine sensors, high temperature, low observable material for military applications, and kinematic and spectral countermeasure flares for military applications. We actively participate in customer-funded research and development programs, including applications on C-130 cockpit upgrades, P-8 aircraft and power systems for the HH-47 Chinook helicopter and A400M.

### **Foreign Operations**

Our principal foreign operations consist of manufacturing facilities located in France, Germany, Canada, the United Kingdom, Mexico and China, and include sales and service operations located in Singapore and China. For further information regarding foreign operations, see Note 18 to the Consolidated Financial Statements under Item 8 of this report.

### **U.S. Government Contracts and Subcontracts**

As a contractor and subcontractor to the U.S. government (primarily the U.S. Department of Defense), we are subject to various laws and regulations that are more restrictive than those applicable to private sector contractors. Approximately 10% of our sales were made directly to the U.S. government in fiscal 2009. In addition, we estimate that our subcontracting activities to contractors for the U.S. government accounted for approximately 20% of sales during fiscal 2009. Therefore, we estimate that approximately 30% of our sales during the fiscal year were subject to U.S. government contracting regulations. Such contracts may be subject to termination, reduction or modification in the event of changes in government requirements, reductions in federal spending, and other factors.

Historically, our U.S. government contracts and subcontracts have been predominately fixed-price contracts. Generally, fixed-price contracts offer higher margins than cost-plus contracts in return for accepting the risk that increased or unexpected costs may reduce anticipated profits or cause us to sustain losses on the contracts. The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. The contracts and subcontracts to which we are a party are also subject to profit and cost controls and standard provisions for termination at the convenience of the U.S. government. Upon termination, other than for our default, we will normally be entitled to reimbursement for allowable costs and to an allowance for profit. To date, none of our material fixed-price contracts have been terminated.

### **Patents and Licenses**

Although we hold a number of patents and licenses, we do not believe that our operations are dependent on our patents and licenses. In general, we rely on technical superiority, continual product improvement, exclusive product features, superior lead-time, on-time delivery performance, quality and customer relationships to maintain competitive advantage.

### **Seasonality**

The timing of our revenues is impacted by the purchasing patterns of our customers and as a result we do not generate revenues evenly throughout the year. Moreover, our first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America. This leads to decreased order and shipment activity; consequently, first quarter results are typically weaker than other quarters and not necessarily indicative of our performance in subsequent quarters.

### **Sources and Availability of Raw Materials and Components**

Due to our diversification, the sources and availability of certain raw materials and components are not as critical as they would be for manufacturers of a single product line. However, certain components, supplies and raw materials for our operations are purchased from single sources. In such instances, we strive to develop alternative sources and design modifications to minimize the effect of business interruptions.

### **Environmental Matters**

We are subject to federal, state, local and foreign laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous waste, and (ii) impose liability for the costs of cleaning up, and certain damages resulting from, sites or past spills, disposals or other releases of hazardous substances.

At various times we have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), and analogous state environmental laws, for the cleanup of contamination resulting from past disposals of hazardous wastes at certain sites to which we, among others, sent wastes in the past. CERCLA requires potentially responsible persons to pay for cleanup of sites from which there has been a release or threatened release of hazardous substances. Courts have interpreted CERCLA to impose strict, joint and several liability on all persons liable for cleanup costs. As a practical matter, however, at sites where there are multiple potentially responsible persons, the costs of cleanup typically are allocated among the parties according to a volumetric or other standard.

We have accrued liabilities for environmental remediation costs expected to be incurred by our operating facilities. Environmental exposures are provided for at the time they are known to exist or are considered reasonably probable and estimable. No provision has been recorded for environmental remediation costs that could result from changes in laws or other circumstances we have not currently contemplated.

### **Employees**

We had 8,901 employees at October 30, 2009, of which 4,743 were based in the United States, 2,631 in Europe, 1,074 in Canada, 332 in Mexico and 121 in Asia. Approximately 16% of the U.S.-based employees were represented by a labor union. Our European operations are subject to national trade union agreements and to local regulations governing employment.

*(d) Financial Information About Foreign and Domestic Operations and Export Sales.*

See risk factor below entitled Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results under Item 1A of this report and Note 18 to the Consolidated Financial Statements under Item 8 of this report.

*(e) Available Information of the Registrant.*

You can access financial and other information on our Web site, [www.esterline.com](http://www.esterline.com). We make available through our Web site, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the Securities and Exchange Commission (SEC). The SEC also maintains a Web site at [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements, and other information regarding public companies, including Esterline. Any reports filed with the SEC may also be obtained from the SEC's Reference Room at 100 F Street, NE, Washington, DC 20549. Our Corporate Governance Guidelines and charters for our board committees are available on our Web site, [www.esterline.com](http://www.esterline.com) on the Corporate Governance tab, and our Code of Business Conduct and Ethics, which includes a code of ethics applicable to our accounting and financial employees, including our Chief Executive Officer and Chief Financial Officer, is available on our Web site at [www.esterline.com](http://www.esterline.com) on the Corporate Governance tab. Each of these documents is also available in print (at no charge) to any shareholder upon request. Our Web site and the information contained therein or connected thereto are not incorporated by reference into this Form 10-K.

**Executive Officers of the Registrant**

The names and ages of all executive officers of the Company and the positions and offices held by such persons as of December 22, 2009 are as follows:

| Name                   | Position with the Company   | Age |
|------------------------|---|-----|
| R. Bradley Lawrence    | President and Chief Executive Officer                               | 62  |
| Robert D. George       | Vice President, Chief Financial Officer,<br>Secretary and Treasurer | 53  |
| Marcia J. M. Greenberg | Vice President, Human Resources                                     | 57  |
| Frank E. Houston       | Senior Group Vice President   | 58  |
| Stephen R. Larson      | Vice President, Strategy & Technology                               | 65  |
| Albert S. Yost         | Group Vice President  | 44  |

Mr. Lawrence has been President and Chief Executive Officer since November 2009. Prior to that time, he was President and Chief Operating Officer since July 2009 and Group Vice President since January 2007. From September 2002 to January 2007, he was President of Advanced Input Systems, a subsidiary of the Company. Mr. Lawrence has an M.B.A. from the University of Pittsburgh and a B.S. degree in Business Administration from Pennsylvania State University.

Mr. George has been Vice President, Chief Financial Officer, Secretary and Treasurer since July 1999. Mr. George has an M.B.A. from the Fuqua School of Business at Duke University and a B.A. degree in Economics from Drew University.



Ms. Greenberg has been Vice President, Human Resources since March 1993. Ms. Greenberg has a J.D. degree from Northwestern University School of Law and a B.A. degree in Political Science from Portland State University.

Mr. Houston has been Senior Group Vice President since December 2009. Prior to that time, he was Group Vice President since March 2005. Previously, he was President of Korry Electronics Co., part of Esterline's Avionics & Controls segment, since October 2002. Mr. Houston has an M.B.A. from the University of Washington and a B.A. degree in Political Science from Seattle Pacific University.

Mr. Larson has been Vice President, Strategy & Technology since January 2000. Mr. Larson has an M.B.A. from the University of Chicago and a B.S. degree in Electrical Engineering from Northwestern University.

Mr. Yost has been Group Vice President since November 2009. Previously, he was President of Advanced Input Systems, a subsidiary of the Company from May 2007 and held management responsibilities for Esterline's Interface Technologies business platform. From April 2002 to April 2007, he was Director of Finance for Advanced Input Systems. Mr. Yost has an M.B.A. from Utah State University and a B.A. degree in Economics from Brigham Young University.

### **Forward-Looking Statements**

This annual report on Form 10-K includes forward-looking statements. These statements may be identified by the use of forward-looking terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, plan, potential, predict, should or will or the negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report under the headings Risks Relating to Our Business and Our Industry, Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations and Business are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed in this report under the headings Risks Relating to Our Business and Our Industry, Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations and Business may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations are:

- A significant downturn in the aerospace industry;
- A significant reduction in defense spending;
- A decrease in demand for our products as a result of competition, technological innovation or otherwise;
- Our inability to integrate acquired operations or complete acquisitions; and
- Loss of a significant customer or defense program.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included or incorporated by reference into this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

## **Item 1A. Risk Factors**

### **Risks Relating to Our Business and Our Industry**

#### **The current global recession may adversely affect our access to capital, cost of capital, and business operations.**

If the global recession continues or becomes worse, our future cost of debt and equity capital could be adversely affected. Any inability to obtain adequate financing from debt and equity sources could force us to self fund strategic initiatives or even forgo some opportunities, potentially harming our financial position, results of operations, and liquidity.

#### **Economic conditions may impair our customers' business and markets, which could adversely affect our business operations.**

As a result of the current economic downturn currently affecting the economy of the United States and other parts of the world, the businesses of some of our customers may not generate sufficient revenues. Customers may choose to delay or postpone purchases from us until the economy and their businesses strengthen. Decisions by current or future customers to forgo or defer purchases and/or our customers' inability to pay us for our products may adversely affect our earnings and cash flow.

#### **Implementing our acquisition strategy involves risks, and our failure to successfully implement this strategy could have a material adverse effect on our business.**

One of our key strategies is to grow our business by selectively pursuing acquisitions. Since 1996 we have completed over 30 acquisitions, and we are continuing to actively pursue additional acquisition opportunities, some of which may be material to our business and financial performance. Although we have been successful with this strategy in the past, we may not be able to grow our business in the future through acquisitions for a number of reasons, including:

- Acquisition financing not being available on acceptable terms or at all;
- Encountering difficulties identifying and executing acquisitions;
- Increased competition for targets, which may increase acquisition costs;
- Consolidation in our industry reducing the number of acquisition targets; and
- Competition laws and regulations preventing us from making certain acquisitions.

In addition, there are potential risks associated with growing our business through acquisitions, including the failure to successfully integrate and realize the expected benefits of an acquisition. For example, with any past or future acquisition, there is the possibility that:

- The business culture of the acquired business may not match well with our culture;
- Technological and product synergies, economies of scale and cost reductions may not occur as expected;





Management may be distracted from overseeing existing operations by the need to integrate acquired businesses;

We may acquire or assume unexpected liabilities;

Unforeseen difficulties may arise in integrating operations and systems;

We may fail to retain and assimilate employees of the acquired business;

We may experience problems in retaining customers and integrating customer bases; and

Problems may arise in entering new markets in which we may have little or no experience.

Failure to continue implementing our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

**Our future financial results could be adversely impacted by asset impairment charges.**

We are required to test both acquired goodwill and other indefinite-lived intangible assets for impairment on an annual basis based upon a fair value approach, rather than amortizing them over time. We have chosen to perform our annual impairment reviews of goodwill and other indefinite-lived intangible assets during the fourth quarter of each fiscal year. We also are required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. If the fair market value is less than the book value of goodwill, we could be required to record an impairment charge. The valuation of reporting units requires judgment in estimating future cash flows, discount rates and estimated product life cycles. In making these judgments, we evaluate the financial health of the business, including such factors as industry performance, changes in technology and operating cash flows.

As we have grown through acquisitions, we have accumulated \$736.8 million of goodwill, and have \$48.3 million of indefinite-lived intangible assets, out of total assets of \$2.3 billion at October 30, 2009. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. We performed our impairment review for fiscal 2009 as of August 1, 2009, and our Step One analysis indicates that no impairment of goodwill and other indefinite-lived assets exists at any of our reporting units except for a trade name of a certain subsidiary. Management determined that the trade name useful life was no longer indefinite as a result of further integration of advanced sensors units and promotion of the Advanced Sensors brand name. An impairment test was required to be performed to value the trade name at fair value, which resulted in the impairment charge of \$3.0 million.

A long-lived asset to be disposed of is reported at the lower of its carrying amount or fair value less cost to sell. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows. As we have grown through acquisitions, we have accumulated \$373.8 million of definite-lived intangible assets. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

**The amount of debt we have outstanding, as well as any debt we may incur in the future, could have an adverse effect on our operational and financial flexibility.**

As of October 30, 2009, we had \$531.4 million of debt outstanding, of which \$520.2 million is long-term debt. Our primary U.S. dollar credit facility as of October 30, 2009, totaled \$200.0 million and is made available through a group of banks. In April 2009, we amended the credit facility to provide for a \$125.0 million term loan. Up to \$50.0 million in letters of credit may be drawn in U.K. pounds or euros in addition to U.S. dollars. The credit agreement is secured by substantially all of the Company's assets and interest is based on standard inter-bank offering rates. In addition, we have unsecured foreign currency credit facilities that have been extended by foreign banks for up to \$31.9 million. Available credit under the above credit facilities was \$203.5 million at October 30, 2009, when reduced by outstanding foreign bank borrowings of \$5.9 million and letters of credit of \$22.5 million.

The indentures governing our outstanding \$175.0 million 7.75% senior subordinated notes due in June 2013 and \$175.0 million 6.625% senior notes due in March 2017 and other debt agreements limit, but do not prohibit, us from incurring additional debt in the future. Our level of debt could have significant consequences to our business, including the following:

Depending on interest rates and debt maturities, a substantial portion of our cash flow from operations could be dedicated to paying principal and interest on our debt, thereby reducing funds available for our acquisition strategy, capital expenditures or other purposes;

A significant amount of debt could make us more vulnerable to changes in economic conditions or increases in prevailing interest rates;

Our ability to obtain additional financing for acquisitions, capital expenditures or for other purposes could be impaired;

The increase in the amount of debt we have outstanding increases the risk of non-compliance with some of the covenants in our debt agreements which require us to maintain specified financial ratios; and

We may be more leveraged than some of our competitors, which may result in a competitive disadvantage.

**The loss of a significant customer or defense program could have a material adverse effect on our operating results.**

Some of our operations are dependent on a relatively small number of customers and defense programs, which change from time to time. Significant customers in fiscal 2009 included The Boeing Company, Flame, GE Aerospace, General Dynamics, Honeywell, Lockheed Martin, Rolls Royce, and U.S. Department of Defense. There can be no assurance that our current significant customers will continue to buy our products at current levels. The loss of a significant customer or the cancellation of orders related to a sole-source defense program could have a material adverse effect on our operating results if we were unable to replace the related sales.

**Our operating results are subject to fluctuations that may cause our revenues to decline.**

Our business is susceptible to seasonality and economic cycles, and as a result, our operating results have fluctuated widely in the past and are likely to continue to do so. Our revenue tends to fluctuate based on a number of factors, including domestic and foreign economic conditions and developments affecting the specific industries and customers we serve. For example, it is possible that the current recession could result in a more severe downturn in commercial aviation and defense. It is also

possible that in the future our operating results in a particular quarter or quarters will not meet the expectations of securities analysts or investors, causing the market price of our common stock, senior subordinated notes or senior notes to decline. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance and should not be relied upon to predict our future performance.

**Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results.**

Foreign sales were approximately 56.0% of our total sales in fiscal 2009, and we have manufacturing facilities in a number of foreign countries. A substantial portion of our Avionics & Controls operations is based in Canada and the U.K., and a substantial portion of our Sensors & Systems operations is based in the U.K. and France. We also have manufacturing operations in Mexico and China. Doing business in foreign countries is subject to numerous risks, including political and economic instability, restrictive trade policies of foreign governments, economic conditions in local markets, health concerns, inconsistent product regulation or unexpected changes in regulatory and other legal requirements by foreign agencies or governments, the imposition of product tariffs and the burdens of complying with a wide variety of international and U.S. export laws and differing regulatory requirements. To the extent that foreign sales are transacted in a foreign currency, we are subject to the risk of losses due to foreign currency fluctuations. In addition, we have substantial assets denominated in foreign currencies, primarily the Canadian dollar, U.K. pound and euro, that are not offset by liabilities denominated in those foreign currencies. These net foreign currency investments are subject to material changes in the event of fluctuations in foreign currencies against the U.S. dollar.

Among other things, we are subject to the Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, we may be held liable for actions taken by our strategic or local partners even though our partners are not subject to the FCPA. Any determination that we have violated the FCPA could result in sanctions that could have a material adverse effect on our business, financial condition and results of operations.

**A downturn in the aircraft market could adversely affect our business.**

The aerospace industry is cyclical in nature and affected by periodic downturns that are beyond our control. The principal markets for manufacturers of commercial aircraft are the commercial and regional airlines, which are adversely affected by a number of factors, including the current recession, fuel and labor costs, intense price competition, outbreak of infectious disease and terrorist attacks, as well as economic cycles, all of which can be unpredictable and are outside our control. Commercial aircraft production may increase or decrease in response to changes in customer demand caused by the current recession and the perceived safety and ease of airline travel.

The military aircraft industry is dependent upon the level of equipment expenditures by the armed forces of countries throughout the world, and especially those of the United States. Although the war on terror has increased the level of equipment expenditures by the U.S. armed forces, this level of spending may not be sustainable in light of government spending priorities by the U.S. In addition, in the past this industry has been adversely affected by a number of factors, including the reduction in military spending since the end of the Cold War. Decreases in military spending could depress demand for military aircraft.

Any decrease in demand for new aircraft or use of existing aircraft will likely result in a decrease in demand of our products and services, and correspondingly, our revenues, thereby adversely affecting our business, financial condition and results of operations.

**We may not be able to compete effectively.**

Our products and services are affected by varying degrees of competition. We compete with other companies and divisions and units of larger companies in most markets we serve, many of which have greater sales volumes or financial, technological or marketing resources than we do. Our principal competitors include: Bose, ECE, EMS, Eaton, GE Aerospace, Honeywell, Otto Controls, Rockwell Collins, Telephonics, Thales, Ultra Electronics, and Universal Avionics Systems Corporation in our Avionics & Controls segment; Ametek, ECE, Goodrich, MPC Products, Meggitt, and Tyco in our Sensors & Systems segment; and Chemring, Doncasters, Hitemp, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), and ULVA in our Advanced Materials segment. The principal competitive factors in the commercial markets in which we participate are product performance, service and price. Maintaining product performance requires expenditures in research and development that lead to product improvement and new product introduction. Companies with more substantial financial resources may have a better ability to make such expenditures. We cannot assure that we will be able to continue to successfully compete in our markets, which could adversely affect our business, financial condition and results of operations.

**Our backlog is subject to modification or termination, which may reduce our sales in future periods.**

We currently have a backlog of orders based on our contracts with customers. Under many of our contracts, our customers may unilaterally modify or terminate their orders at any time. In addition, the maximum contract value specified under a government contract awarded to us is not necessarily indicative of the sales that we will realize under that contract. For example, we are a sole-source prime contractor for many different military programs with the U.S. Department of Defense. We depend heavily on the government contracts underlying these programs. Over its lifetime, a program may be implemented by the award of many different individual contracts and subcontracts. The funding of government programs is subject to congressional appropriation.

**Changes in defense procurement models may make it more difficult for us to successfully bid on projects as a prime contractor and limit sole-source opportunities available to us.**

In recent years, the trend in combat system design and development appears to be evolving toward the technological integration of various battlefield components, including combat vehicles, command and control network communications, advanced technology artillery systems and robotics. If the U.S. military procurement approach continues to require this kind of overall battlefield combat system integration, we expect to be subject to increased competition from aerospace and defense companies which have significantly greater resources than we do. This trend could create a role for a prime contractor with broader capabilities that would be responsible for integrating various battlefield component systems and potentially eliminating or reducing the role of sole-source providers or prime contractors of component weapon systems.

**We may lose money or generate less than expected profits on our fixed-price contracts.**

Our customers set demanding specifications for product performance, reliability and cost. Some of our government contracts and subcontracts provide for a predetermined, fixed price for the products we

make regardless of the costs we incur. Therefore, we must absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of sales that we may achieve. Our failure to anticipate technical problems, estimate costs accurately, integrate technical processes effectively or control costs during performance of a fixed-price contract may reduce the profitability of a fixed-price contract or cause a loss. While we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price contracts as required under GAAP, we cannot assure that our contract loss provisions will be adequate to cover all actual future losses. Therefore, we may incur losses on fixed-price contracts that we had expected to be profitable, or such contracts may be less profitable than expected.

**The market for our products may be affected by our ability to adapt to technological change.**

The rapid change of technology is a key feature of all of the markets in which our businesses operate. To succeed in the future, we will need to design, develop, manufacture, assemble, test, market, and support new products and enhancements to our existing products in a timely and cost-effective manner. Historically, our technology has been developed through internal research and development expenditures, as well as customer-sponsored research and development programs. There is no guarantee that we will continue to maintain, or benefit from, comparable levels of research and development in the future. In addition, our competitors may develop technologies and products that are more effective than those we develop or that render our technology and products obsolete or noncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We cannot assure that our existing products will not require significant modifications in the future to remain competitive or that new products we introduce will be accepted by our customers, nor can we assure that we will successfully identify new opportunities and continue to have the needed financial resources to develop new products in a timely or cost-effective manner.

**Our business is subject to government contracting regulations, and our failure to comply with such laws and regulations could harm our operating results and prospects.**

We estimate that approximately 30% of our sales in fiscal 2009 were attributable to contracts in which we were either the prime contractor to, or a subcontractor to a prime contractor to, the U.S. government. As a contractor and subcontractor to the U.S. government, we must comply with laws and regulations relating to the formation, administration and performance of federal government contracts that affect how we do business with our customers and may impose added costs on our business. For example, these regulations and laws include provisions that contracts we have been awarded are subject to:

Protest or challenge by unsuccessful bidders; and

Unilateral termination, reduction or modification in the event of changes in government requirements.

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. Responding to governmental audits, inquiries or investigations may involve significant expense and divert management attention. Our failure to comply with these or other laws and regulations could result in contract termination, suspension or debarment from contracting with the federal government, civil fines and damages, and criminal prosecution and penalties, any of which could have a material adverse effect on our operating results.

**A significant portion of our business depends on U.S. government contracts, which contracts are often subject to competitive bidding, and a failure to compete effectively or accurately anticipate the success of future projects could adversely affect our business.**

We obtain many of our U.S. government contracts through a competitive bidding process that subjects us to risks associated with:

The frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and/or cost overruns;

The substantial time and effort, including design, development and marketing activities, required to prepare bids and proposals for contracts that may not be awarded to us; and

The design complexity and rapid rate of technological advancement of defense-related products.

In addition, in order to win the award of developmental programs, we must be able to align our research and development and product offerings with the government's changing concepts of national defense and defense systems. The government's termination of, or failure to fully fund, one or more of the contracts for our programs would have a negative impact on our operating results and financial condition. Furthermore, we serve as a subcontractor on several military programs that, in large part, involve the same risks as prime contracts.

Overall, we rely on key contracts with U.S. government entities for a significant portion of our sales and business. A substantial reduction in these contracts would materially adversely affect our operating results and financial position.

**The airline industry is heavily regulated and if we fail to comply with applicable requirements, our results of operations could suffer.**

Governmental agencies throughout the world, including the U.S. Federal Aviation Administration, or the FAA, prescribe standards and qualification requirements for aircraft components, including virtually all commercial airline and general aviation products, as well as regulations regarding the repair and overhaul of aircraft engines. Specific regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. We include, with the replacement parts that we sell to our customers, documentation certifying that each part complies with applicable regulatory requirements and meets applicable standards of airworthiness established by the FAA or the equivalent regulatory agencies in other countries. In order to sell our products, we and the products we manufacture must also be certified by our individual OEM customers. If any of the material authorizations or approvals qualifying us to supply our products is revoked or suspended, then the sale of the subject product would be prohibited by law, which would have an adverse effect on our business, financial condition and results of operations.

From time to time, the FAA or equivalent regulatory agencies in other countries propose new regulations or changes to existing regulations, which are usually more stringent than existing regulations. If these proposed regulations are adopted and enacted, we may incur significant additional costs to achieve compliance, which could have a material adverse effect on our business, financial condition and results of operations.

**We depend on the continued contributions of our executive officers and other key management, each of whom would be difficult to replace.**

Our future success depends to a significant degree upon the continued contributions of our senior management and our ability to attract and retain other highly qualified management personnel. We face competition for management from other companies and organizations. Therefore, we may not be able to retain our existing management personnel or fill new management positions or vacancies created by expansion or turnover at our existing compensation levels. Although we have entered into change of control agreements with some members of senior management, we do not have employment contracts with our key executives, nor have we purchased key-person insurance on the lives of any of our key officers or management personnel to reduce the impact to our company that the loss of any of them would cause. Specifically, the loss of any of our executive officers would disrupt our operations and divert the time and attention of our remaining officers. Additionally, failure to attract and retain highly qualified management personnel would damage our business prospects.

**If we are unable to protect our intellectual property rights adequately, the value of our products could be diminished.**

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret and copyright laws, we cannot assure that the precautionary steps we have taken will completely protect our intellectual property rights. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. In the event a competitor successfully challenges our products, processes, patents or licenses or claims that we have infringed upon their intellectual property, we could incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

In addition to our patent rights, we also rely on unpatented technology, trade secrets and confidential information. Others may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our technology. We may not be able to protect our rights in unpatented technology, trade secrets and confidential information effectively. We require each of our employees and consultants to execute a confidentiality agreement at the commencement of an employment or consulting relationship with us. However, these agreements may not provide effective protection of our information or, in the event of unauthorized use or disclosure, they may not provide adequate remedies.

**Future asbestos claims could harm our business.**

We are subject to potential liabilities relating to certain products we manufactured containing asbestos. To date, our insurance has covered claims against us relating to those products. Commencing November 1, 2003, insurance coverage for asbestos claims has been unavailable. However, we continue to have some insurance coverage for exposure to asbestos contained in our products prior to that date.

We continue to manufacture for one customer a product that contains asbestos. We have an agreement with the customer for indemnification for certain losses we may incur as a result of asbestos claims relating to that product, but we cannot assure that this indemnification agreement will fully protect us from losses arising from asbestos claims.

To the extent we are not insured or indemnified for losses from asbestos claims relating to our products, asbestos claims could adversely affect our operating results and our financial condition.

**Environmental laws and regulations may subject us to significant liability.**

Our business and our facilities are subject to a number of federal, state, local and foreign laws, regulations and ordinances governing, among other things, the use, manufacture, storage, handling and disposal of hazardous materials and certain waste products. Among these environmental laws are rules by which a current or previous owner or operator of land may be liable for the costs of investigation, removal or remediation of hazardous materials at such property. In addition, these laws typically impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of any hazardous materials. Persons who arrange for the disposal or treatment of hazardous materials may be liable for the costs of investigation, removal or remediation of such substances at the disposal or treatment site, regardless of whether the affected site is owned or operated by them.

Because we own and operate a number of facilities that use, manufacture, store, handle or arrange for the disposal of various hazardous materials, we may incur costs for investigation, removal and remediation, as well as capital costs, associated with compliance with environmental laws. At the time of the acquisition of Wallop Defence Systems Limited, we and the seller agreed that some environmental remedial activities may need to be carried out and these activities are currently on-going. Under the terms of the Stock Purchase Agreement, a portion of the costs of any environmental remedial activities will be reimbursed by the seller if the cost is incurred within five years of the consummation of the acquisition. Additionally, at the time of our asset acquisition of the Electronic Warfare Passive Expendables Division of BAE Systems North America, certain environmental remedial activities were required under a Part B Permit issued to the infrared decoy flare facility by the Arkansas Department of Environmental Quality under the Federal Resource Conservation and Recovery Act. The Part B Permit was transferred to our subsidiary, Armtec, along with the remedial obligations. Under the terms of the asset purchase agreement, BAE Systems agreed to perform and pay for these remedial obligations at the infrared decoy flare facility up to a maximum amount of \$25.0 million. Although environmental costs have not been material in the past, we cannot assure that these matters, or any similar liabilities that arise in the future, will not exceed our resources, nor can we completely eliminate the risk of accidental contamination or injury from these materials.

**We may be required to defend lawsuits or pay damages in connection with the alleged or actual harm caused by our products.**

We face an inherent business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in harm to others or to property. For example, our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that has been designed, manufactured or serviced by us. We may incur significant liability if product liability lawsuits against us are successful. While we believe our current general liability and product liability insurance is adequate to protect us from future product liability claims, we cannot assure that coverage will be adequate to cover all claims that may arise. Additionally, we may not be able to maintain insurance coverage in the future at an acceptable cost. Any liability not covered by



insurance or for which third-party indemnification is not available could have a material adverse effect on our business, financial condition and results of operations.

## Item 2. Properties

The following table summarizes our properties that are greater than 100,000 square feet or related to a principal operation, including identification of the business segment, as of October 30, 2009:

| Location          | Type of Facility          | Business Segment    | Approximate<br>Square<br>Footage | Owned<br>or<br>Leased |
|-------------------|---------------------------|---------------------|----------------------------------|-----------------------|
| Brea, CA          | Office, Plant & Warehouse | Advanced Materials  | 429,000                          | Owned                 |
| Montréal, Canada  | Office & Plant            | Avionics & Controls | 269,000                          | Owned                 |
| Everett, WA       | Office & Plant            | Avionics & Controls | 216,000                          | Leased                |
| Seattle, WA       | Office & Plant            | Avionics & Controls | 200,000                          | Leased                |
| East Camden, AR   | Office & Plant            | Advanced Materials  | 204,000                          | Leased                |
| Stillington, U.K. | Office & Plant            | Advanced Materials  | 186,000                          | Owned                 |
| Coachella, CA     | Office & Plant            | Advanced Materials  | 115,000                          | Owned                 |
| Buena Park, CA    | Office & Plant            | Sensors & Systems   | 110,000                          | Owned*                |
| Bourges, France   | Office & Plant            | Sensors & Systems   | 109,000                          | Leased                |
| Farnborough, U.K. | Office & Plant            | Sensors & Systems   | 108,000                          | Leased                |
| Milan, TN         | Office & Plant            | Advanced Materials  | 100,000                          | Leased                |
| Sylmar, CA        | Office & Plant            | Avionics & Controls | 96,000                           | Leased                |
| Ottawa, Canada    | Office & Plant            | Avionics & Controls | 94,000                           | Leased                |
| Coeur d Alene, ID | Office & Plant            | Avionics & Controls | 94,000                           | Leased                |
| Valencia, CA      | Office & Plant            | Advanced Materials  | 88,000                           | Owned                 |
| Hampshire, U.K.   | Office & Plant            | Advanced Materials  | 82,000                           | Owned                 |
| Gloucester, U.K.  | Office & Plant            | Advanced Materials  | 59,000                           | Leased                |

\* The building is located on a parcel of land covering 16.1 acres that is leased by the Company.

In total, we own approximately 1,700,000 square feet and lease approximately 1,900,000 square feet of manufacturing facilities and properties.

## Item 3. Legal Proceedings

From time to time we are involved in legal proceedings arising in the ordinary course of our business. We believe we have adequately reserved for these liabilities and that there is no litigation pending that could have a material adverse effect on our results of operations and financial condition.

## Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year ended October 30, 2009.



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**PART II**
**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**
***Market Price of Esterline Common Stock***

In Dollars

| For Fiscal Years | 2009     |          | 2008     |          |
|------------------|----------|----------|----------|----------|
|                  | High     | Low      | High     | Low      |
| <b>Quarter</b>   |          |          |          |          |
| First            | \$ 41.51 | \$ 25.39 | \$ 55.13 | \$ 42.68 |
| Second           | 38.95    | 18.90    | 56.97    | 44.58    |
| Third            | 31.73    | 23.77    | 62.90    | 44.67    |
| Fourth           | 43.80    | 27.68    | 58.00    | 26.83    |

Principal Market New York Stock Exchange

At the end of fiscal 2009, there were approximately 434 holders of record of the Company's common stock. On December 17, 2009, there were 428 holders of record of our common stock.

No cash dividends were paid during fiscal 2009 and 2008. We are restricted from paying dividends under our current credit facility, and so we do not anticipate paying any dividends in the foreseeable future.

The following graph shows the performance of the Company's common stock compared to the S&P 500 Index, the S&P SmallCap 600 Index, and the S&P 600 Aerospace & Defense Index for a \$100 investment made on October 29, 2004.

**Item 6. Selected Financial Data*****Selected Financial Data***

In Thousands, Except Per Share Amounts

| For Fiscal Years                                      | 2009         | 2008         | 2007         | 2006       | 2005       |
|---|--------------|--------------|--------------|------------|------------|
| <b>Operating Results<sup>1</sup></b>                  |              |              |              |            |            |
| Net sales   | \$ 1,425,438 | \$ 1,483,172 | \$ 1,207,033 | \$ 920,447 | \$ 774,605 |
| Cost of sales   | 963,589      | 992,853      | 833,973      | 633,427    | 528,115    |
| Selling, general and administrative                   | 239,630      | 239,282      | 199,826      | 152,068    | 129,820    |
| Research, development and engineering                 | 66,270       | 86,798       | 66,891       | 49,077     | 37,857     |
| Other (income) expense                                | 7,970        | 86           | 24           | (490)      | 514        |
| Insurance recovery                                    |              |              | (37,467)     | (4,890)    |            |
| Interest income                                       | (1,634)      | (4,374)      | (3,093)      | (2,575)    | (3,994)    |
| Interest expense                                      | 28,689       | 29,922       | 35,299       | 21,288     | 18,157     |
| Gain on derivative financial instrument               |              | (1,850)      |              |            |            |
| Loss on extinguishment of debt                        |              |              | 1,100        | 2,156      |            |
| Income from continuing operations before income taxes | 120,924      | 140,455      | 110,480      | 70,386     | 64,136     |
| Income tax expense                                    | 13,511       | 26,563       | 22,565       | 15,910     | 16,398     |
| Income from continuing operations                     | 107,196      | 113,509      | 87,762       | 53,611     | 47,403     |
| Income from discontinued operations, net of tax       | 12,602       | 7,024        | 4,522        | 2,004      | 10,623     |
| Net earnings  | 119,798      | 120,533      | 92,284       | 55,615     | 58,026     |
| Earnings per share diluted:                           |              |              |              |            |            |
| Continuing operations                                 | \$ 3.58      | \$ 3.80      | \$ 3.34      | \$ 2.08    | \$ 1.87    |
| Discontinued operations                               | 0.42         | 0.23         | 0.18         | 0.07       | 0.42       |
| Earnings per share diluted                            | 4.00         | 4.03         | 3.52         | 2.15       | 2.29       |

<sup>1</sup> Operating results reflect the segregation of continuing operations from discontinued operations. See Note 3 to the Consolidated Financial Statements. Operating results include the acquisitions of Racal Acoustics in January 2009,

NMC in December 2008, CMC in March 2007, Wallop in March 2006, and Darchem in December 2005. See Note 16 to the Consolidated Financial Statements.

**Selected Financial Data**

In Thousands, Except Per Share Amounts

| For Fiscal Years   | 2009         | 2008         | 2007         | 2006         | 2005         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Financial Structure</b>                                     |              |              |              |              |              |
| Total assets   | \$ 2,314,247 | \$ 1,922,102 | \$ 2,039,059 | \$ 1,290,451 | \$ 1,115,248 |
| Long-term debt, net  | 520,158      | 388,248      | 455,002      | 282,307      | 175,682      |
| Shareholders' equity   | 1,253,021    | 1,026,341    | 1,121,826    | 707,989      | 620,864      |
| Weighted average shares<br>outstanding diluted                 | 29,951       | 29,908       | 26,252       | 25,818       | 25,302       |
| For Fiscal Years   | 2009         | 2008         | 2007         | 2006         | 2005         |
| <b>Other Selected Data<sup>2</sup></b>                         |              |              |              |              |              |
| EBITDA from continuing<br>operations <sup>2</sup>              | \$ 217,710   | \$ 227,597   | \$ 196,579   | \$ 131,362   | \$ 111,100   |
| Capital expenditures <sup>3</sup>                              | 59,184       | 40,665       | 30,467       | 26,540       | 23,776       |
| Interest expense   | 28,689       | 29,922       | 35,299       | 21,288       | 18,157       |
| Depreciation and<br>amortization from<br>continuing operations | 69,731       | 63,444       | 52,793       | 40,107       | 32,801       |

<sup>2</sup> EBITDA from continuing operations is a measurement not calculated in accordance with GAAP. We define EBITDA from continuing operations as operating earnings from continuing operations plus depreciation and amortization (excluding amortization of debt issuance costs). We do not intend EBITDA from continuing operations to represent cash flows from continuing operations or any other items calculated in accordance with GAAP, or as an indicator of Esterline's operating performance. Our definition of EBITDA from continuing operations may not be comparable with EBITDA from continuing operations as defined by other companies. We believe EBITDA is commonly used by financial analysts and others in the aerospace and defense industries and thus provides useful information to investors. Our management and certain financial creditors use EBITDA as one measure of our leverage capacity and debt servicing ability, and is shown here with respect to Esterline for comparative purposes. EBITDA is not necessarily indicative of amounts that may be available for discretionary uses by us. The following table reconciles operating earnings from continuing operations to EBITDA from continuing operations.

In Thousands

| For Fiscal Years   | 2009       | 2008       | 2007       | 2006       | 2005       |
|--|------------|------------|------------|------------|------------|
| Operating earnings from continuing operations            | \$ 147,979 | \$ 164,153 | \$ 143,786 | \$ 91,255  | \$ 78,299  |
| Depreciation and amortization from continuing operations | 69,731     | 63,444     | 52,793     | 40,107     | 32,801     |
| EBITDA from continuing operations                        | \$ 217,710 | \$ 227,597 | \$ 196,579 | \$ 131,362 | \$ 111,100 |

<sup>3</sup> Excludes capital expenditures accounted for as a capitalized lease obligation of \$28,202 and \$7,981 in fiscal 2009 and 2008, respectively.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations OVERVIEW

We operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. Our segments are structured around our technical capabilities. The Avionics & Controls segment includes avionics systems, control systems, interface technologies and communication systems capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and gaming industries. Communication systems designs and manufactures military audio and data products for severe battlefield environments. In addition, communication systems designs and manufactures communication control systems to enhance security and aural clarity in military applications.

The Sensors & Systems segment includes power systems and advanced sensors capabilities. Power systems develops and manufactures electrical power switching and other related systems, principally for aerospace and defense customers. Advanced sensors develops and manufactures high precision temperature and pressure sensors for aerospace and defense customers.

The Advanced Materials segment includes engineered materials and defense technologies capabilities. Engineered materials develops and manufactures thermally engineered components and high-performance elastomer products used in a wide range of commercial aerospace and military applications. Defense technologies develops and manufactures combustible ordnance components and warfare countermeasure devices for military customers. Sales in all segments include domestic, international, defense and commercial customers.

Our current business and strategic plan focuses on the continued development of our products principally for aerospace and defense markets. We continue to concentrate our efforts to expand our capabilities in these markets and

to anticipate the global needs of our customers and respond to such



needs with comprehensive solutions. These efforts focus on continuous research and new product development, acquisitions and strategic realignments of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering.

On November 3, 2008, we sold Muirhead Aerospace (Muirhead) and Traxsys Input Products Limited (Traxsys) for \$63.4 million, which resulted in an after tax gain of \$12.6 million. Muirhead and Traxsys were included in the Sensors & Systems segment. The results of Muirhead and Traxsys were accounted for as discontinued operations in the consolidated income statement.

On December 15, 2008, we acquired NMC Group, Inc. (NMC). NMC designs and manufactures specialized light-weight fasteners principally for commercial aviation applications. NMC is included in our Advanced Materials segment and the results of its operations were included from the effective date of the acquisition. On January 26, 2009, we acquired Racal Acoustics Global Ltd. (Racal Acoustics). Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics market. Racal Acoustics is included in our Avionics & Controls segment and the results of its operations were included from the effective date of the acquisition.

During fiscal 2009, our operating results have been affected by volatility in foreign currency exchange rates, reductions in our after-market spares sales due to reduced air traffic and operating losses at our countermeasure flare units. Additionally, fiscal 2009 contained 52 weeks, while fiscal 2008 contained 53 weeks. While our operating results were impacted by these factors, we have benefited from significantly improved results at our avionics systems operations, incremental earnings from our Racal Acoustics acquisition and consistent results at our control systems, power systems and combustible ordnance operations. These operations benefited from continued demand for defense applications, reduced research and development expenditures and increased funding from customers and governments as well as effective cost control.

Our year end backlog of \$1.1 billion benefited from the addition of NMC and Racal Acoustics acquired backlog. Orders declined 12.5% from fiscal 2008. The decrease in orders in 2009 reflected a significant avionics systems retrofit order in 2008, the effect of foreign currency rates and lower demand for commercial aviation and industrial commercial applications. As we look to fiscal 2010, we will continue to invest in research, development and engineering and focus on cost control in light of current market conditions in commercial aviation as well as strong competition in our advanced sensors, engineered materials and countermeasure flare operations.

Income from continuing operations for fiscal 2009 was \$107.2 million, or \$3.58 per diluted share, compared with \$113.5 million, or \$3.80 per diluted share in fiscal 2008. Income from continuing operations in fiscal 2009 was impacted by a foreign currency loss of \$7.9 million or \$1.7 million after tax, or \$0.06 per diluted share, relating to the pound sterling-denominated funding of our acquisition of Racal Acoustics in January 2009.

The effective income tax rate for fiscal 2009 was 15.3% (before a \$5.0 million tax benefit or \$0.17 per diluted share) compared with 23.5% (before a \$6.5 million tax benefit or \$0.22 per diluted share) for fiscal 2008.

Income from discontinued operations was \$0.42 per diluted share, compared with \$0.23 per diluted share in fiscal 2008, reflecting the gain on sale of our U.K.-based Muirhead and Traxsys subsidiaries in November 2008. Net income was \$119.8 million or \$4.00 per diluted share, compared with net income of \$120.5 million or \$4.03 per diluted share in fiscal 2008.

## Results of Continuing Operations

### Fiscal 2009 Compared with Fiscal 2008

Sales for fiscal 2009 decreased 3.9% over the prior year. Sales by segment were as follows:

| Dollars In Thousands | <b>Increase (Decrease)<br/>From Prior Year</b> | <b>2009</b>         | <b>2008</b>         |
|----------------------|--|---------------------|---------------------|
| Avionics & Controls  | 10.0%  | \$ 672,828          | \$ 611,467          |
| Sensors & Systems    | (11.6)%  | 339,732             | 384,180             |
| Advanced Materials   | (15.3)%  | 412,878             | 487,525             |
| <b>Total</b>         |  | <b>\$ 1,425,438</b> | <b>\$ 1,483,172</b> |

The 10.0% increase in Avionics & Controls reflected incremental sales from the Racal Acoustics acquisition and higher sales of cockpit avionics systems for military aviation. These increases were partially offset by lower sales of cockpit controls for commercial aviation OEM and after-market customers. Stronger sales of interface technologies devices to the gaming industry partially offset weakness in the medical market.

The 11.6% decrease in Sensors & Systems principally reflected the effect of foreign currency exchange rates at our non-U.S. operations, lower OEM sales of temperature sensors, certain power system devices, and the decrease in the number of weeks contained in fiscal 2009 compared to fiscal 2008. The decline in Sensors & Systems sales for commercial aviation was partially offset by increased sales for military aviation. Sales through much of fiscal 2009 reflected a weaker euro relative to the U.S. dollar. The average exchange rate for the euro decreased from 1.50 in fiscal 2008 to 1.37 in fiscal 2009. The average exchange rate for the pound sterling to the U.S. dollar decreased from 1.95 in fiscal 2008 to 1.55 in fiscal 2009.

The 15.3% decrease in Advanced Materials reflected weak sales across the segment due to lower commercial aviation build rates, weakened industrial commercial demand, delays in shipments at our U.S. and U.K. countermeasure flare operations and the effect of foreign currency exchange rates. These decreases were partially offset by incremental sales from the acquisition of NMC. The decrease in sales at our U.S. countermeasure flare operations reflected a one-month factory shutdown resulting from an incident in a cross blending facility. The factory resumed operation in August 2009 but was further impacted by the delay in issuance of a multi-year flare order from the U.S. DoD.

Sales to foreign customers, including export sales by domestic operations, totaled \$797.1 million and \$808.0 million, and accounted for 56.0% and 54.5% of our sales for fiscal 2009 and 2008, respectively.

Overall, gross margin as a percentage of sales was 32.4% and 33.1% in fiscal 2009 and 2008, respectively.

Avionics & Controls segment gross margin was 35.4% and 35.0% for fiscal 2009 and 2008, respectively. Avionics systems gross margins in fiscal 2009 were enhanced by T-6B production sales and a military transport cockpit retrofit program, which offset weak results from our commercial aviation business. Gross margins in both fiscal 2009 and 2008 were impacted by estimate-to-complete adjustments on certain long-term contracts of \$7.3 million and \$5.0 million, respectively. These adjustments were principally due to higher engineering costs as a result of resource constraints to develop upgraded commercial and military flight management systems. Control systems gross



margins benefited from strong cost control actions taken early in the fiscal year, which offset the impact of lower commercial aviation sales and decreased after-market spare sales.

Sensors & Systems segment gross margin was 33.1% and 35.3% for fiscal 2009 and 2008, respectively. Gross margins were impacted by lower sales of temperature sensors and power systems to commercial aviation customers and a \$1.2 million write off of inventory due to the bankruptcy of Eclipse.

Advanced Materials segment gross margin was 26.9% and 28.9% for fiscal 2009 and 2008, respectively, principally reflecting reduced gross margins at our U.S. and U.K. countermeasure flare operations. Our U.S. countermeasure flare operations gross margin was impacted by a one-month shutdown of the factory due to an incident referred to above and a delayed receipt of a multi-year flare award. Our U.K. countermeasure flare operations gross margin was impacted by a delayed shipment to an international customer. Accordingly, our recovery of fixed expenses at both our U.S. and U.K. operations decreased compared to the prior year.

Selling, general and administrative expenses (which include corporate expenses) slightly increased to \$239.6 million in fiscal 2009 compared with \$239.3 million in fiscal 2008. The increase in selling, general and administrative expenses from the Racal Acoustics and NMC acquisitions and higher pension cost was substantially offset by the effect of exchange rates at our non-U.S. operations as well as lower incentive compensation expense, professional fees and effective cost control. As a percentage of sales, selling, general and administrative expenses were 16.8% and 16.1% in fiscal 2009 and 2008, respectively.

Research, development and related engineering spending decreased to \$66.3 million, or 4.6% of sales, in fiscal 2009 compared with \$86.8 million, or 5.9% of sales, in fiscal 2008. The decrease in research, development and engineering principally reflected decreased spending on the development of the integrated cockpit system for the T-6B military trainer, the A400M, increased customer and government assistance and the effect of foreign currency exchange rates.

Segment earnings (which exclude corporate expenses and other income and expense) decreased 6.4% during fiscal 2009 to \$187.2 million compared to \$200.0 million in the prior year. Segment earnings as a percent of sales were 13.1% and 13.5% in fiscal 2009 and 2008, respectively.

Avionics & Controls segment earnings were \$99.3 million or 14.8% of sales in fiscal 2009 compared with \$77.9 million or 12.7% of sales in fiscal 2008, reflecting strong earnings from our avionics systems operations and incremental earnings from our Racal Acoustics acquisition. The improvement in avionics systems operating earnings principally reflected lower research, development and engineering expense for the T-6B military trainer. Our avionics systems business also benefited from strong earnings from production sales of our T-6B military trainer and a military transport cockpit retrofit program, which offset weakness in commercial aviation.

Approximately 85% of avionics systems Canada-based operations sales are denominated in U.S. dollars and about 50% of these sales are covered by forward contracts. Accounts receivable and the accounts payable denominated in U.S. dollars and backlog denominated in a currency other than the functional currency of the Company or its customer (embedded derivatives) are marked to market each period. While the average exchange rate for the U.S. dollar relative to the Canadian dollar increased from 1.02 in fiscal 2008 to 1.17 in fiscal 2009, our Canadian operations were not favorably impacted by foreign currency exchange in fiscal 2009 to the extent our sales were covered by foreign currency forward contracts executed before the drop in the Canadian dollar. Fiscal 2008 was favorably

impacted by the significant strengthening of the U.S. dollar relative to the Canadian dollar from the end of our third fiscal quarter of 2008 to the end of our fourth quarter from marking to market our monetary assets and embedded derivatives.

Control systems earnings benefited from cost control actions and strong earnings from sales of military aviation applications, which partially offset weak earnings from commercial aviation. In connection with a control systems business unit relocation, we will incur lease termination costs of \$1.3 million in the first quarter of fiscal 2010. Earnings from our interface technologies operations decreased from the prior-year period due to lower earnings from a new product development with introductory pricing for a limited number of shipments and reduced earnings from our medical business.

Sensors & Systems segment earnings were \$34.3 million or 10.1% of sales in fiscal 2009 compared with \$43.4 million or 11.3% of sales in fiscal 2008. The decrease in segment earnings principally reflected lower gross margins at our temperature and pressure sensors operations, start-up costs at our Mexico operation, a \$1.2 million inventory write off, and a \$3.0 million impairment on a subsidiary trade name. Management determined that a certain trade name useful life was no longer indefinite as a result of further integration of advanced sensors units and promotion of the Advanced Sensors brand name. An impairment test was required to be performed to value the trade name at fair value, which resulted in the impairment charge. The remaining book value of the trade name will be amortized to expense over its remaining five-year useful life. Advanced sensors successfully negotiated a retroactive price increase in fiscal 2009; however, the business continues to be impacted by a very competitive business environment in a down commercial aircraft market. Management has taken actions to reduce cost including but not limited to setting up operations in Mexico. Our power systems earnings were consistent with fiscal 2008. Lower gross margins at our power systems operations were substantially offset by decreased research, engineering and development due to increased governmental assistance and customer development funding and decreased A400M program development expenses.

Advanced Materials segment earnings were \$53.6 million or 13.0% of sales in fiscal 2009 compared with \$78.6 million or 16.1% of sales in fiscal 2008, principally reflecting lower earnings from our countermeasure flare and engineered materials operations. As stated above, our U.S. countermeasure flare operations were impacted by a one-month factory closure due to an incident in the cross blending facility and a delay in a multi-year flare order. Additionally, earnings at our U.K. countermeasure flare operations were impacted by a delayed shipment to an international customer. Our U.S. and U.K. countermeasure flare operations incurred operating losses in both fiscal 2009 and 2008. Accordingly, management is focused on improving margins on existing products. The decrease in earnings at our engineered materials operations mainly reflected lower sales volumes and gross margins due to sales mix and a decreased recovery of fixed costs in a very competitive market in a down business cycle.

Interest expense decreased to \$28.7 million during fiscal 2009 compared with \$29.9 million in the prior year, reflecting a lower interest rate.

On January 26, 2009, we acquired Racal Acoustics for £122.3 million or \$170.9 million. Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense market segment. The acquisition was funded with cash proceeds from the sale of U.K.-based Muirhead and Traxsys and our line of credit. To facilitate the acquisition of Racal Acoustics, we executed a \$159.7 million U.S.-dollar denominated intercompany loan with a wholly-owned subsidiary, for which its functional currency is the pound sterling. Due to our holding of pounds sterling to fund the acquisition during a period of foreign exchange volatility, we incurred a \$7.9 million foreign currency transaction loss in January 2009, which was recorded in other expense.

The effective income tax rate for fiscal 2009 was 11.2% compared with 18.9% in fiscal 2008. The effective tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense deductions. In fiscal 2009, we recognized \$5.0 million in net discrete tax benefits. The \$5.0 million discrete tax benefits were the result of five events. The first event was a \$2.0 million tax benefit for the reduction of previously recorded withholding tax liabilities as a result of the enactment of a U.S.-Canadian tax treaty. The second event was a \$0.6 million expense resulting from the reversal of previously recorded tax benefits associated with the implementation of CMC's SADI program. The third event was a \$1.5 million tax benefit associated with the reconciliation of the prior year's U.S. income tax return to the U.S. income tax provision. The fourth event was an adjustment that resulted in a reclassification of \$3.4 million of tax benefits from discontinued operations to continued operations offset by a \$1.0 million tax expense to establish a valuation allowance for U.S. foreign tax credits that are not expected to result in a current or future reduction in U.S. income taxes. The fifth event was a \$0.3 million tax expense associated with the reconciliation of the prior year's foreign income tax returns to the foreign income tax provisions. In fiscal 2008, we recognized \$6.5 million in discrete tax benefits. The \$6.5 million in discrete tax adjustments were the result of five items. The first item was the settlement of an examination of the U.S. income tax returns for fiscal years 2003 through 2005, which resulted in a \$2.8 million reduction of previously estimated income tax liabilities. The second item was the enactment of tax laws reducing the Canadian statutory corporate income tax rate, which resulted in a \$4.1 million net reduction of deferred income tax liabilities. The third item was the accrual of \$0.7 million of tax reserves and interest related to the finalization of CMC's uncertain tax position analysis. The fourth item was recording \$0.8 million of tax expense associated with the reconciliation of fiscal 2007's U.S. income tax return provision for income taxes. The fifth item was the recording of \$1.2 million of tax benefits associated with the extension of the U.S. Research Experimentation tax credit.

To the extent that sales are transacted in a currency other than the functional currency of the operating unit, we are subject to foreign currency fluctuation risk.

We use forward contracts to hedge our foreign currency exchange risk. To the extent that these hedges qualify under U.S. GAAP, the amount of gain or loss is deferred in Accumulated Other Comprehensive Income (AOCI) until the related sale occurs. Also, we are subject to foreign currency gains or losses from embedded derivatives on backlog denominated in a currency other than the functional currency of our operating companies or its customers. Gains and losses on forward contracts, embedded derivatives, and revaluation of assets and liabilities denominated in currency other than the functional currency of the Company for fiscal 2009 and 2008 are as follows:

(In thousands)

|   | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|
| Forward foreign currency contracts gain (loss)            | \$ 7,031    | \$ (6,871)  |
| Forward foreign currency contracts reclassified from AOCI | (11,610)    | 1,271       |
| Embedded derivatives gain (loss)                          | (2,666)     | 5,039       |
| Revaluation of monetary assets/liabilities gain (loss)    | (5,334)     | 4,230       |
| Total   | \$ (12,579) | \$ 3,669    |

New orders for fiscal 2009 were \$1.4 billion compared with \$1.6 billion for fiscal 2008. Orders in fiscal 2009 include \$41.0 million in backlog acquired from the Racal Acoustics and NMC acquisitions. New



orders declined by \$243.2 million if Racal Acoustics and NMC acquired backlog is excluded. Avionics & Controls orders for fiscal 2009 decreased 16.2% from the prior-year period, excluding acquired backlog from the Racal Acoustics acquisition. The decrease in Avionics & Controls reflects a \$120.0 million order for a military transport cockpit upgrade booked in October 2008 and reduced requirements for commercial aviation. Sensors & Systems orders for fiscal 2009 decreased 22.4% from the prior-year period, principally reflecting reduced requirements for commercial aviation and the effects of foreign currency exchange rates. Advanced Materials orders for fiscal 2009 decreased 6.6% from the prior-year period, excluding acquired backlog from the NMC acquisition. The decrease principally reflected reduced requirements for defense, commercial aviation and industrial commercial requirements. Backlog at the end of both fiscal 2009 and 2008 was \$1.1 billion. Approximately \$366.0 million is scheduled to be delivered after fiscal 2010. Backlog is subject to cancellation until delivery.

### Fiscal 2008 Compared with Fiscal 2007

Sales for fiscal 2008 increased 22.9% over the prior year. Sales by segment were as follows:

| Dollars In Thousands | Increase (Decrease)<br>From Prior Year | 2008         | 2007         |
|----------------------|--|--------------|--------------|
| Avionics & Controls  | 32.4%                                  | \$ 611,467   | \$ 461,990   |
| Sensors & Systems    | 21.4%                                  | 384,180      | 316,485      |
| Advanced Materials   | 13.8%                                  | 487,525      | 428,558      |
| Total                |  | \$ 1,483,172 | \$ 1,207,033 |

The 32.4% increase in Avionics & Controls reflected incremental sales from the CMC acquisition and higher sales of cockpit controls and medical equipment devices from new OEM programs as well as strong after-market sales.

The 21.4% increase in Sensors & Systems principally reflected growth in OEM programs for power systems and strong after-market sales of temperature and pressure sensors, as well as the effect of exchange rates. Sales through much of fiscal 2008 reflected a stronger euro relative to the U.S. dollar. The average exchange rate for the euro increased from 1.34 in fiscal 2007 to 1.50 in fiscal 2008. This relationship changed significantly in the fourth fiscal quarter of 2008 when the spot rate declined from 1.55 at August 1, 2008, to 1.27 at October 31, 2008.

The 13.8% increase in Advanced Materials reflected strong sales across the segment and reflected higher sales at our engineered materials operations due to increased demand from commercial aviation customers. Additionally, sales of combustible ordnance and countermeasure flare devices at our U.K. operations were strong in fiscal 2008. These increases were partially offset by lower sales of countermeasure flare devices at our U.S. operations.

Sales to foreign customers, including export sales by domestic operations, totaled \$808.0 million and \$612.9 million, and accounted for 54.5% and 50.8% of our sales for fiscal 2008 and 2007, respectively.

Overall, gross margin as a percentage of sales was 33.1% and 30.9% in fiscal 2008 and 2007, respectively. Avionics & Controls segment gross margin was 35.0% and 32.2% for fiscal 2008 and 2007, respectively, principally reflecting the effect of exchange rates on our Canadian operations in the fourth fiscal quarter of 2008.



The U.S. dollar strengthened against the Canadian dollar from 1.03 at the end of our third fiscal quarter of 2008 to 1.21 at the end of our fourth fiscal quarter. Changes in exchange rates mainly affected avionics systems U.S. dollar-denominated accounts receivable, foreign exchange contracts and backlog. The impact of exchange rates on U.S. dollar-denominated accounts receivable, backlog and forward exchange contracts favorably impacted gross margin in the fourth fiscal quarter of 2008 by approximately \$5.0 million compared to a \$2.0 million loss in the prior-year period. The effect of foreign exchange on CMC's gross margin was a gain of approximately \$7.0 million in fiscal 2008 and a loss in fiscal 2007 of approximately \$5.0 million.

Approximately \$213.4 million of avionics systems U.S. dollar-denominated backlog at October 31, 2008, is covered by forward exchange contracts, which are accounted for as a cash flow hedge. Approximately \$54.1 million of backlog covered by forward exchange contracts were executed before the strengthening of the U.S. dollar against the Canadian dollar. Accordingly, the strengthening of the U.S. dollar against the Canadian dollar will not be realized on U.S. dollar-denominated sales covered by forward contracts executed before the dollar began to strengthen against the Canadian dollar.

Avionics systems gross margins in fiscal 2008 were also enhanced by an improved recovery of fixed overhead due to higher sales volumes, cost reductions and productivity improvements. The increase in avionics systems gross margin was partially offset by a \$5.0 million estimate-to-complete adjustment for long-term contracts recorded in the third fiscal quarter of 2008. The adjustment was principally due to higher engineering costs as a result of resource constraints, increased scope and additional certification requirements to develop upgraded commercial aviation flight management systems. Excluding avionics systems, Avionics & Controls gross margin was 35.6% and 35.4% for fiscal 2008 and 2007, respectively, reflecting increased after-market spares sales and pricing strength on certain cockpit control devices, partially offset by an increase in excess and obsolete inventory reserves and a \$1.2 million and a \$2.0 million unfavorable estimate-to-complete adjustment on certain firm fixed-price long-term contracts for the development and manufacture of secure military communications products in fiscal 2008 and 2007, respectively.

Sensors & Systems segment gross margin was 35.3% and 35.1% for fiscal 2008 and 2007, respectively. Gross margins mainly reflected strong after-market sales, partially offset by the effect of a weaker U.S. dollar compared with the euro on U.S.-denominated sales and euro-denominated cost of sales for most of fiscal 2008. The impact of exchange rates on forward foreign exchange contracts impacted gross margin at our euro-based operations by a gain of approximately \$2.8 million and \$3.0 million in fiscal 2008 and 2007, respectively. Forward exchange contracts at our non-U.S. Sensor & Systems units are principally accounted for as a cash flow hedge and, accordingly, unrealized gains or losses are recognized upon settlement of the forward exchange contract.

Advanced Materials segment gross margin was 28.9% and 26.5% for fiscal 2008 and 2007, respectively. The increase in Advanced Materials gross margin was due to increased gross margins at our combustible ordnance and U.K.-countermeasure flare operations as well as our elastomer and thermally engineered component operations resulting from pricing strength on certain products and an improved recovery of overhead due to higher product sales and a more favorable mix of product shipments.

Selling, general and administrative expenses (which include corporate expenses) increased to \$239.3 million in fiscal 2008 compared with \$199.8 million in fiscal 2007. The increase in selling, general and administrative expenses mainly reflected incremental selling, general and administrative expenses from the CMC acquisition, which was acquired in March 2007, higher incentive compensation expense, and the effect of exchange rates at our non-U.S. operations. The effect of

exchange rates on cash held by the corporate office and certain intercompany advances denominated in currencies other than the U.S. dollar resulted in an exchange loss of \$1.4 million in fiscal 2008 compared to a \$0.6 million gain in fiscal 2007. As a percentage of sales, selling, general and administrative expenses were 16.1% and 16.6% in fiscal 2008 and 2007, respectively.

Research, development and related engineering spending increased to \$86.8 million, or 5.9% of sales, in fiscal 2008 compared with \$66.9 million, or 5.5% of sales, in fiscal 2007. The increase in research, development and engineering principally reflected incremental spending from the CMC acquisition and increased spending on the development of the integrated cockpit system for the T-6B military trainer. Research, development and engineering expense in fiscal 2008 and 2007 is net of \$5.2 million and \$6.7 million, respectively, in government assistance.

Segment earnings (which exclude corporate expenses and other income and expense) increased 12.7% during fiscal 2008 to \$200.0 million compared to \$177.5 million in the prior year. Segment earnings as a percent of sales were 13.5% and 14.7% in fiscal 2008 and 2007, respectively. The decrease in segment earnings as a percent of sales from fiscal 2007 reflects business insurance recoveries of \$37.5 million recorded in fiscal 2007.

Avionics & Controls segment earnings were \$77.9 million or 12.7% of sales in fiscal 2008 compared with \$47.8 million or 10.4% of sales in fiscal 2007, reflecting strong earnings from our avionics, cockpit control and medical equipment devices operations, partially offset by the shipment in fiscal 2007 of acquired inventory of CMC, which was valued at fair value at acquisition. In addition, CMC's earnings in fiscal 2008 were favorably affected by the effect of a stronger U.S. dollar compared with the Canadian dollar, particularly in the fourth quarter, which resulted in a foreign currency transaction gain on U.S. dollar-denominated accounts receivable and backlog in the fourth quarter of fiscal 2008. Avionics & Controls earnings were impacted by significant research and development expenses, principally related to the development of the T-6B and a gross profit reduction of \$6.2 million due to an estimate-to-complete adjustment on long-term contracts compared to a \$2.0 million adjustment in the prior-year period. The prior-year period was also impacted by \$3.4 million in contract overruns and additional research and development expense at a small unit which manufactures precision gears and data concentrators.

CMC's results of operations are not in accordance with our expectations since acquisition. As indicated above, avionics systems results of operations were impacted by the weak U.S. dollar relative to the Canadian dollar for most of the period since our acquisition of the business and higher than expected research and development expenses related to the T-6B development. Recognizing the impact of these issues, management is focused on a broad array of initiatives designed to improve avionics systems results of operations.

Sensors & Systems segment earnings were \$43.4 million or 11.3% of sales in fiscal 2008 compared with \$32.4 million or 10.2% of sales in fiscal 2007. The increase in Sensors & Systems earnings reflected strong results across all operations helped by increased sales from new OEM programs, as well as strong after-market sales. Sensors & Systems segment earnings in the fourth quarter for fiscal 2008 and 2007 were \$8.6 million and \$9.2 million, respectively. The decrease in segment earnings principally reflected lower gross margin due to start-up costs of a manufacturing operation in a low-cost country, a less favorable product mix and the purchase of a technology license, which was recorded as research and development expense. Certain temperature, pressure, and speed sensors are not achieving profit margins the Company projects for the long term. Management is focused on improving its operational efficiency and negotiating with customers to increase pricing where price increases can be justified. The impact of exchange rates on U.S. dollar-denominated accounts

receivable and foreign exchange contracts impacted Sensors & Systems earnings by a gain of approximately \$2.5 million and \$4.0 million in fiscal 2008 and 2007, respectively.

Advanced Materials segment earnings were \$78.6 million or 16.1% of sales in fiscal 2008 compared with \$97.3 million or 22.7% of sales in fiscal 2007, principally reflecting \$37.5 million in business interruption insurance recoveries in fiscal 2007. The impact of exchange rates on U.S. dollar-denominated accounts receivable and forward foreign exchange contracts impacted Advanced Material earnings at our U.K. operations by a loss of approximately \$2.9 million and \$1.2 million in fiscal 2008 and 2007, respectively.

On June 26, 2006, an explosion occurred at the Company's Wallop facility, which resulted in one fatality and several minor injuries. The incident destroyed an oven complex for the production of advanced flares and significantly damaged a portion of the facility. The advanced flare facility has been closed due to the requirements of the Health and Safety Executive (HSE) to review the cause of the accident, but normal operations are continuing at unaffected portions of the facility. The HSE investigation will not be completed until the Coroner's Inquest is filed. Although it is not possible to determine the results of the HSE investigation or how the Coroner will rule, management does not expect to be found in breach of the Health and Safety at Work Act related to the accident and, accordingly, no amounts have been recorded for any potential fines that may be assessed by the HSE.

Excluding the business insurance recovery, results of operations at our U.K. countermeasure flare operation improved by \$7.4 million over fiscal 2007. This trend is expected to continue; however, poor product mix in fiscal 2008 resulted in our U.S. and U.K. countermeasure flare operations recording an operating loss. The decrease in earnings described above was partially offset by strong earnings from our thermally engineered components, elastomer and combustible ordnance operations.

Interest expense decreased to \$29.9 million during fiscal 2008 compared with \$35.3 million in the prior year, reflecting reduced borrowings.

Non-operating expenses included a \$1.9 million gain from a terminated interest rate swap on our £57.0 million term loan, resulting from a £33.2 million or \$68.0 million repayment.

Non-operating expenses in fiscal 2007 included a \$1.1 million write off of debt issuance costs as a result of the prepayment of our \$100.0 million U.S. term loan.

The effective income tax rate for fiscal 2008 was 18.9% compared with 20.4% in fiscal 2007. The effective tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense deductions. In addition, in fiscal 2008, we recognized \$6.5 million in discrete tax benefits. The \$6.5 million in discrete tax adjustments were the result of five items. The first item was the settlement of an examination of the U.S. income tax returns for fiscal years 2003 through 2005, which resulted in a \$2.8 million reduction of previously estimated income tax liabilities. The second item was the enactment of tax laws reducing the Canadian statutory corporate income tax rate, which resulted in a \$4.1 million net reduction of deferred income tax liabilities. The third item was the accrual of \$0.7 million of tax reserves and interest related to the finalization of CMC's uncertain tax position analysis. The fourth item was recording \$0.8 million of tax expense associated with the reconciliation of fiscal 2007's U.S. income tax return provision for income taxes. The fifth item was the recording of \$1.2 million of tax benefits associated with the extension of the U.S. Research Experimentation tax credit. In fiscal 2007, we recognized \$2.6 million in net discrete tax benefits. The \$2.6 million in net discrete tax benefits were the result of three items. The first item was the enactment of tax laws reducing U.K., Canadian, and German statutory corporate income tax rates which resulted in a



\$2.8 million net reduction in deferred income tax liabilities. The second item was the retroactive extension of the U.S. Research Experimentation tax credit, which resulted in a \$1.0 million tax benefit. The third item was recording \$1.2 million of additional income tax resulting from the reconciliation of fiscal 2007's U.S. and foreign income tax returns to the provisions for income taxes.

New orders for fiscal 2008 were \$1.6 billion compared with \$1.5 billion for fiscal 2007. Avionics & Controls orders for fiscal 2008 increased 3.4% from the prior-year period. Avionics & Controls orders in fiscal 2007 included CMC's acquired backlog at March 14, 2007, of \$264.8 million. Sensors & Systems orders for fiscal 2008 increased 16.8% from the prior-year period. Advanced Materials orders for fiscal 2008 decreased 0.4% from the prior-year period due to the timing of receiving defense system orders. Backlog at the end of fiscal 2008 was \$1.1 billion compared with \$958.0 million at the end of the prior year.

## **Liquidity and Capital Resources**

### ***Working Capital and Statement of Cash Flows***

Cash and cash equivalents at the end of fiscal 2009 totaled \$176.8 million, an increase of \$16.1 million from the prior year. Net working capital increased to \$502.4 million at the end of fiscal 2009 from \$456.2 million at the end of the prior year. Sources of cash flows from operating activities principally consist of cash received from the sale of products offset by cash payments for material, labor and operating expenses.

Cash flows from operating activities were \$156.7 million and \$118.9 million in fiscal 2009 and 2008, respectively. The increase principally reflected higher cash receipts from customers and lower payments for inventory, income taxes, and interest. This increase was partially offset by an increase in pension plan contributions.

Cash flows used by investing activities were \$250.4 million and \$30.1 million in fiscal 2009 and 2008, respectively. The increase in the use of cash for investing activities mainly reflected cash paid for acquisitions in fiscal 2009, partially offset by cash proceeds from the sale of Muirhead and Traxsys.

Cash flows provided by financing activities were \$103.5 million in fiscal 2009 and cash flows used by financing activities were \$63.3 million in fiscal 2008. The increase principally reflected a \$125 million term loan due in 2012 to finance the Racal Acoustics acquisition, offset by \$35.4 million in repayments on our U.K. term loan. Cash used by financing activities in fiscal 2008 principally reflected a \$68.0 million or £33.2 million principal payment on our U.K. term loan.

### ***Capital Expenditures***

Net property, plant and equipment was \$263.3 million at the end of fiscal 2009 compared with \$204.5 million at the end of the prior year. Capital expenditures for fiscal 2009 and 2008 were \$87.4 million and \$48.6 million, respectively (excluding acquisitions) and included facilities, machinery and equipment and enhancements to information technology systems. Capital expenditures for fiscal 2009 and 2008 also included \$28.2 million and \$8.0 million, respectively, under a capitalized lease obligation related to the construction of a new facility for an avionics controls operation and a facility expansion for an interface technologies facility. Capital expenditures are anticipated to approximate \$50.0 million for fiscal 2010. We will continue to support expansion through investments in infrastructure including machinery, equipment, buildings and information systems.

### ***Acquisitions***

On December 15, 2008, we acquired all of the outstanding capital stock of NMC Group, Inc. (NMC) for approximately \$90.1 million in cash, including acquisition costs. NMC designs and manufactures specialized light weight fasteners principally for commercial aviation applications. NMC is included in our Advanced Materials segment.

On January 26, 2009, we acquired all of the outstanding capital stock of Racal Acoustics Global Ltd. (Racal Acoustics) for £122.3 million or \$170.9 million in cash, including acquisition costs. Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics market segment. Racal Acoustics is included in our Avionics & Controls segment.

### ***Debt Financing***

Total debt increased \$129.6 million from the prior year to \$531.4 million at the end of fiscal 2009. Total debt outstanding at the end of fiscal 2009, consisted of \$175.0 million of Senior Notes due in 2017, \$174.7 million of Senior Subordinated Notes due in 2013, \$125.0 million of the U.S. Term Loan, \$2.3 million of deferred gain on a terminated interest rate swap, \$36.2 million under capital lease obligations, and \$18.2 million in borrowings under our credit facility and various foreign currency debt agreements and other debt agreements.

The Senior Notes are due in 2017 and bear an interest rate of 6.625%. The Senior Notes are general unsecured senior obligations of the Company. The Senior Notes are guaranteed, jointly and severally on a senior basis, by all the existing and future domestic subsidiaries of the Company unless designated as an unrestricted subsidiary, and those foreign subsidiaries that executed related subsidiary guarantees under the indenture covering the Senior Notes. The Senior Notes are subject to redemption at the option of the Company at any time prior to March 1, 2012, at a price equal to 100% of the principal amount, plus any accrued interest to the date of redemption and a make-whole provision. In addition, before March 1, 2010, the Company may redeem up to 35% of the principal amount at 106.625% plus accrued interest with proceeds of one or more Public Equity Offerings. The Senior Notes are also subject to redemption at the option of the Company, in whole or in part, on or after March 1, 2012, at redemption prices starting at 103.3125% of the principal amount plus accrued interest during the period beginning March 1, 2007, and declining annually to 100% of principal and accrued interest on or after March 1, 2015.

The Senior Subordinated Notes are due in 2013 and bear an interest rate of 7.75%. The Senior Subordinated Notes are general unsecured obligations of the Company and are subordinated to all existing and future senior debt of the Company. In addition, the Senior Subordinated Notes are effectively subordinated to all existing and future senior debt and other liabilities (including trade payables) of the Company's foreign subsidiaries. The Senior Subordinated Notes are guaranteed, jointly and severally, by all the existing and future domestic subsidiaries of the Company unless designated as an unrestricted subsidiary under the indenture covering the Senior Subordinated Notes. The Senior Subordinated Notes are subject to redemption at the option of the Company, in whole or in part, on or after June 15, 2008, at redemption prices starting at 103.875% of the principal amount and declining annually to 100% of the principal amount on June 15, 2011, together with accrued interest.

In April 2009, we amended our credit facility to provide for a \$125.0 million term loan. We used the proceeds from the loan to repay our outstanding borrowings under the revolving credit facility and provide for enhanced liquidity. Borrowings under the U.S. Term Loan Facility bear interest at a rate equal to either: (a) the LIBOR rate plus 2.50% or (b) the Base Rate (defined as the higher of Wachovia Bank, National Association's prime rate and the Federal funds rate plus 0.50%) plus 1.5%. The loan is accruing interest at a variable rate based on LIBOR plus 2.5% and was 2.75% on



October 30, 2009. The principal amount of the U.S. Term Loan Facility is payable quarterly commencing on March 31, 2010, the first four payments equal to 1.25% of the original loan balance, the following four payments equal to 2.50%, with a final payment equal to 85.0% on March 13, 2012.

During fiscal 2009, we repaid the remaining balance of \$35.4 million of our £57.0 million U.K. term loan. During fiscal 2008 we paid down £33.2 million, or \$68.0 million, of our £57.0 million U.K. term loan and terminated an interest rate swap for a gain of \$1.9 million. The interest rate swap exchanged the variable interest rate for a fixed interest rate of 4.75% plus an additional margin amount determined by reference to our leverage ratio.

We believe cash on hand, funds generated from operations and other available debt facilities are sufficient to fund operating cash requirements and capital expenditures through fiscal 2010; however, we may periodically utilize our lines of credit for working capital requirements. Current conditions in the capital markets are uncertain; however, we believe we will have adequate access to capital markets to fund future acquisitions.

### ***Pension and Other Post-Retirement Benefit Obligations***

Our pension plans principally include a U.S. pension plan maintained by Esterline and non-U.S. plans maintained by CMC. A U.S. plan maintained by Leach was merged into the U.S. pension plan maintained by Esterline as of March 31, 2008. Our principal post-retirement plans include non-U.S. plans maintained by CMC, which are non-contributory health care and life insurance plans.

We account for pension expense using the end of the fiscal year as our measurement date and we make actuarially computed contributions to our pension plans as necessary to adequately fund benefits. Our funding policy is consistent with the minimum funding requirements of ERISA. In fiscal 2009 and 2008, operating cash flow included \$24.8 million and \$4.8 million, respectively, of cash funding to these pension plans. We expect pension funding requirements for the plans maintained by Esterline and CMC to be approximately \$9.0 million and \$5.3 million, respectively, in fiscal 2010. The rate of increase in future compensation levels is consistent with our historical experience and salary administration policies. The expected long-term rate of return on plan assets is based on long-term target asset allocations of 70% equity and 30% fixed income. We periodically review allocations of plan assets by investment type and evaluate external sources of information regarding long-term historical returns and expected future returns for each investment type and, accordingly, believe a 7.5 to 8.25% assumed long-term rate of return on plan assets is appropriate. Current allocations are consistent with the long-term targets.

We made the following assumptions with respect to our pension obligation in 2009 and 2008:

|   | <b>2009</b> |       | <b>2008</b> |        |
|---|-------------|-------|-------------|--------|
| <i>Principal assumptions as of fiscal year end:</i> |             |       |             |        |
| Discount rate                                       | 5.875       | 6.25% | 5.6         | 8.375% |
| Rate of increase in future compensation levels      | 3.2         | 4.5%  | 3.3         | 4.5%   |
| Assumed long-term rate of return on plan assets     | 7.5         | 8.25% | 7.0         | 8.25%  |



We use a discount rate for expected returns that is a spot rate developed from a yield curve established from high-quality corporate bonds and matched to plan-specific projected benefit payments. Although future changes to the discount rate are unknown, had the discount rate increased or decreased by 25 basis points in 2009, pension liabilities in total would have decreased \$8.0 million or increased \$8.4 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2009 pension expense from a hypothetical 25 basis point increase or decrease in both the discount rate and expected long-term rate of return on plan assets would not have a material effect on our pension expense.

We made the following assumptions with respect to our post-retirement obligation in 2009 and 2008:

|   | 2009  |       | 2008 |       |
|---|-------|-------|------|-------|
| <i>Principal assumptions as of fiscal year end:</i> |       |       |      |       |
| Discount rate                                       | 5.875 | 6.25% | 6.25 | 6.75% |
| Initial weighted average health care trend rate     | 4.08  | 9%    | 4.8  | 10%   |
| Ultimate weighted average health care trend rate    | 3.38  | 9%    | 3.3  | 10%   |

The assumed health care trend rate has a significant impact on our post-retirement benefit obligations. Our health care trend rate was based on the experience of our plan and expectations for the future. A 100 basis point increase in the health care trend rate would increase our post-retirement benefit obligation by \$0.7 million. A 100 basis point decrease in the health care trend rate would decrease our post-retirement benefit obligation by \$0.7 million. Assuming all other assumptions are held constant, the estimated effect on fiscal 2009 post-retirement benefit expense from a hypothetical 100 basis point increase or decrease in the health care trend rate would not have a material effect on our post-retirement benefit expense.

### ***Research and Development Expense***

For the three years ended October 30, 2009, research and development expense has averaged 5.3% of sales. We estimate that research and development expense in fiscal 2010 will be 4.5% to 5.0% of sales for the full year.

### **Contractual Obligations**

The following table summarizes our outstanding contractual obligations as of fiscal year end. Liabilities for income taxes were excluded from the table, as we are not able to make a reasonably reliable estimate of the amount and period of related future payments.

In Thousands

|                               | Total      | Less than<br>1 year | 1-3<br>years | 4-5<br>years | After 5<br>years |
|-------------------------------|------------|---------------------|--------------|--------------|------------------|
| Long-term debt                | \$ 487,312 | \$ 5,250            | \$ 122,202   | \$ 175,034   | \$ 184,826       |
| Credit facilities             | 5,896      | 5,896               |              |              |                  |
| Operating lease obligations   | 54,496     | 13,376              | 19,475       | 13,781       | 7,864            |
| Capital lease obligations     | 109,111    | 3,396               | 6,402        | 6,640        | 92,673           |
| Purchase obligations          | 229,080    | 193,059             | 33,369       | 1,842        | 810              |
| Total contractual obligations | \$ 885,895 | \$ 220,977          | \$ 181,448   | \$ 197,297   | \$ 286,173       |



## Seasonality

The timing of our revenues is impacted by the purchasing patterns of our customers and, as a result, we do not generate revenues evenly throughout the year. Moreover, our first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America. This leads to decreased order and shipment activity; consequently, first quarter results are typically weaker than other quarters and not necessarily indicative of our performance in subsequent quarters.

## Disclosures About Market Risk

### *Interest Rate Risks*

Our debt includes fixed rate and variable rate obligations. We are not subject to interest rate risk on the fixed rate obligations. We are subject to interest rate risk on \$175.0 million of our Senior Subordinated Notes due in 2013. We hold an interest rate swap agreement, which exchanged the fixed interest rate for a variable rate on the \$175.0 million principal amount outstanding under our Senior Subordinated Notes due in 2013.

Inclusive of the effect of the interest rate swaps, a hypothetical 10% increase or decrease in average market interest rates would not have a material effect on our pretax income.

The following table provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. For long-term debt, the table presents principal cash flows and the related weighted-average interest rates by contractual maturities. For our interest rate swap, the following tables present notional amounts and, as applicable, the interest rate by contractual maturity date at October 30, 2009, and October 31, 2008.

At October 30, 2009

Dollars In Thousands

|                             | Long-Term Debt |         | Interest Rate Swap |                         | Average |
|-----------------------------|----------------|---------|--------------------|-------------------------|---------|
|                             | Principal      | Average | Notional           | Average                 | Receive |
| Maturing in:                | Amount         | Rates   | Amount             | Pay Rate <sup>(1)</sup> | Rate    |
| 2010                        | \$             | 7.75%   | \$                 | *                       | 7.75%   |
| 2011                        |                | 7.75%   |                    | *                       | 7.75%   |
| 2012                        |                | 7.75%   |                    | *                       | 7.75%   |
| 2013                        | 175,000        | 7.75%   | 175,000            | *                       | 7.75%   |
| Total                       | \$ 175,000     |         | \$ 175,000         |                         |         |
| Fair Value at<br>10/30/2009 | \$ 179,750     |         | \$ (269)           |                         |         |

<sup>1</sup> The average pay rate is LIBOR plus 5.37%.

At October 31, 2008

Dollars In Thousands

|                             | Long-Term Debt |         | Interest Rate Swap |                         | Average |
|-----------------------------|----------------|---------|--------------------|-------------------------|---------|
|                             | Principal      | Average | Notional           | Average                 | Receive |
| Maturing in:                | Amount         | Rates   | Amount             | Pay Rate <sup>(1)</sup> | Rate    |
| 2009                        | \$             | 7.75%   | \$                 | *                       | 7.75%   |
| 2010                        |                | 7.75%   |                    | *                       | 7.75%   |
| 2011                        |                | 7.75%   |                    | *                       | 7.75%   |
| 2012                        |                | 7.75%   |                    | *                       | 7.75%   |
| 2013                        | 175,000        | 7.75%   | 75,000             | *                       | 7.75%   |
| Total                       | \$ 175,000     |         | \$ 75,000          |                         |         |
| Fair Value at<br>10/31/2008 | \$ 176,629     |         | \$ 1,561           |                         |         |

<sup>1</sup> The average pay rate is LIBOR plus 2.56%.

|                             | Long-Term Debt | Variable Rate        |
|-----------------------------|----------------|----------------------|
|                             | Principal      | Average              |
| Maturing in:                | Amount         | Rates <sup>(1)</sup> |
| 2009                        | \$ 6,983       | *                    |
| 2010                        | 21,448         | *                    |
| 2011                        | 6,484          | *                    |
| 2012                        |                | *                    |
| Total                       | \$ 34,915      |                      |
| Fair Value at<br>10/31/2008 | \$ 34,915      |                      |

<sup>1</sup> The average rate on the long-term debt and the average receive rate on the interest rate swap is the British Bankers Association Interest Settlement Rate for deposits in U.K. pounds plus an additional margin of 1.13% to 0.50% depending on the Company's leverage ratio.

### **Currency Risks**

We own significant operations in Canada, France and the United Kingdom. To the extent that sales are transacted in a foreign currency, we are subject to foreign currency fluctuation risk. Furthermore, we have assets denominated in foreign currencies that are not offset by liabilities in such foreign currencies. At October 30, 2009, we had the

following monetary assets subject to foreign currency fluctuation risk: U.S. dollar-denominated backlog with customers whose functional currency is other than the U.S. dollar; U.S. dollar-denominated accounts receivable and payable; and certain forward contracts, which are not accounted for as a cash flow hedge. The foreign exchange rate for the dollar relative to the euro decreased to 0.679 at October 30, 2009, from 0.785 at October 31, 2008; the dollar relative to the U.K. pound decreased to 0.609 from 0.621; and the dollar relative to the Canadian dollar decreased to 1.08 from 1.21. Foreign currency transactions affecting monetary assets and forward contracts resulted in a \$12.6 million loss in fiscal 2009, a \$3.7 million gain in fiscal 2008, and a \$1.6 million loss in fiscal 2007. The \$12.6 million loss in fiscal 2009 was principally due to our holding of pounds sterling to fund the Racal Acoustics acquisition during a period of foreign exchange volatility, resulting in a \$7.9 million foreign currency transaction loss in January 2009.

Our policy is to hedge a portion of our forecasted transactions using forward exchange contracts with maturities up to 29 months. The Company does not enter into any forward contracts for trading purposes. At October 30, 2009, and October 31, 2008, the notional value of foreign currency forward contracts was \$275.3 million and \$313.4 million, respectively. The net fair value of these contracts was a \$15.4 million asset and a \$24.1 million liability at October 30, 2009, and October 31, 2008, respectively. If the U.S. dollar increased or decreased by a hypothetical 5%, the effect on the fair value of the foreign currency contracts would be \$5.0 million.

The following tables provide information about our derivative financial instruments, including foreign currency forward exchange agreements and certain firmly committed sales transactions denominated in currencies other than the functional currency at October 30, 2009, and October 31, 2008. The information about certain firmly committed sales contracts and derivative financial instruments is in U.S. dollar equivalents. For forward foreign currency exchange agreements, the following tables present the notional amounts at the current exchange rate and weighted-average contractual foreign currency exchange rates by contractual maturity dates.

Firmly Committed Sales Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Principal Amount by Expected Maturity

| In Thousands<br>Fiscal Years | Firmly Committed Sales Contracts in United States Dollar |           |            |
|------------------------------|--|-----------|------------|
|                              | Canadian Dollar  | Euro      | U.K. Pound |
| 2010                         | \$ 126,982   | \$ 52,951 | \$ 36,276  |
| 2011                         | 69,028   | 11,933    | 3,756      |
| 2012                         | 28,052   |           | 177        |
| 2013                         | 9,539  |           | 637        |
| 2014                         | 25,067   |           | 116        |
| Total                        | \$ 258,668   | \$ 64,884 | \$ 40,962  |

Derivative Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) <sup>1</sup>

Related Forward Contracts to Sell U.S. Dollar for Euro

| Dollars in Thousands, Except for Average Contract Rate<br>Fiscal Years | Notional Amount | United States Dollar |
|--|-----------------|----------------------|
|  |                 | Avg. Contract Rate   |
| 2010   | \$ 31,840       | 1.365                |
| 2011   | 2,850           | 1.442                |
| Total  | \$ 34,690       |                      |
| Fair Value at 10/30/2009   | \$ 2,493        |                      |

<sup>1</sup> The Company has no derivative contracts maturing after fiscal 2011.

Derivative Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) <sup>1</sup>

Related Forward Contracts to Sell U.S. Dollar for U.K. Pound

| Dollars in Thousands, Except for Average Contract Rate<br>Fiscal Years | Notional Amount | United States Dollar |
|--|-----------------|----------------------|
|  |                 | Avg. Contract Rate   |
| 2010   | \$ 57,700       | 1.648                |
| 2011   | 4,365           | 1.641                |
| Total  | \$ 62,065       |                      |



Fair Value at 10/30/2009

\$ (87)

<sup>1</sup> The Company has no derivative contracts maturing after fiscal 2011.

Derivative Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) <sup>1</sup>

Related Forward Contracts to Sell U.S. Dollar for Canadian Dollar

| Dollars in Thousands, Except for Average Contract Rate<br>Fiscal Years | United States Dollar |                    |
|--|----------------------|--------------------|
|  | Notional Amount      | Avg. Contract Rate |
| 2010   | \$ 100,141           | .859               |
| 2011   | 73,780               | .813               |
| 2012   | 4,620                | .842               |
| Total  | \$ 178,541           |                    |
| Fair Value at 10/30/2009   | \$ 13,284            |                    |

<sup>1</sup> The Company has no derivative contracts maturing after fiscal 2012.

Firmly Committed Sales Contracts

Operations with Foreign Functional Currency

At October 31, 2008

Principal Amount by Expected Maturity

| In Thousands<br>Fiscal Years | Firmly Committed Sales Contracts in United States Dollar |           |               |
|------------------------------|--|-----------|---------------|
|                              | Canadian<br>Dollar                                       | Euro      | U.K.<br>Pound |
| 2009                         | \$ 179,233   | \$ 64,749 | \$ 35,036     |
| 2010                         | 61,688   | 7,759     | 5,628         |
| 2011                         | 51,349   | 126       |               |
| 2012                         | 8,083  |           | 108           |
| 2013                         | 23,729   |           | 464           |
| Total                        | \$ 324,082   | \$ 72,634 | \$ 41,236     |



Derivative Contracts

Operations with Foreign Functional Currency

At October 31, 2008

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) <sup>1</sup>

Related Forward Contracts to Sell U.S. Dollar for Euro

| Dollars in Thousands, Except for Average Contract Rate<br>Fiscal Years | Notional Amount | United States Dollar<br>Avg. Contract Rate |
|--|-----------------|--|
| 2009   | \$ 40,855       | 1.4545                                     |
| 2010   | 3,760           | 1.4044                                     |
| Total  | \$ 44,615       |  |
| Fair Value at 10/31/2008   | \$ (5,324)      |  |

<sup>1</sup> The Company had no derivative contracts maturing after fiscal 2010.

Derivative Contracts

Operations with Foreign Functional Currency

At October 31, 2008

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) <sup>1</sup>

Related Forward Contracts to Sell U.S. Dollar for U.K. Pound

| Dollars in Thousands, Except for Average Contract Rate<br>Fiscal Years | Notional Amount | United States Dollar<br>Avg. Contract Rate |
|--|-----------------|--|
| 2009   | \$ 43,321       | 1.8763                                     |
| 2010   | 11,990          | 1.7363                                     |
| Total  | \$ 55,311       |  |

Fair Value at 10/31/2008

\$ (6,630)

<sup>1</sup> The Company had no derivative contracts maturing after fiscal 2010.

## Derivative Contracts

## Operations with Foreign Functional Currency

At October 31, 2008

## Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) <sup>1</sup>

## Related Forward Contracts to Sell U.S. Dollar for Canadian Dollar

| Dollars in Thousands, Except for Average Contract Rate<br>Fiscal Years | United States Dollar |                    |
|--|----------------------|--------------------|
|  | Notional Amount      | Avg. Contract Rate |
| 2009   | \$ 122,546           | .9045              |
| 2010   | 90,889               | .8589              |
| Total  | \$ 213,435           |                    |
| Fair Value at 10/31/2008   | \$ (12,117)          |                    |

<sup>1</sup> The Company had no derivative contracts maturing after fiscal 2010.

As more fully described under Note 12 of the Consolidated Financial Statements under Item 8 of this report, on February 10, 2006, we borrowed £57.0 million, or approximately \$100.0 million, under our term loan facility. We designated the £57.0 million loan as a hedge of the investment in a certain U.K. business unit. On June 30, 2009, we repaid the outstanding balance of £19.8 million of the U.K. term loan. The foreign currency gain or loss that is effective as a hedge is reported as a component of Other Comprehensive Income in shareholders' equity.

**Critical Accounting Policies**

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates under different assumptions or conditions. These estimates and assumptions are affected by our application of accounting policies. Our critical accounting policies include revenue recognition, accounting for the allowance for doubtful accounts receivable, accounting for inventories at the lower of cost or market, accounting for goodwill and intangible assets in business combinations, impairment of goodwill and intangible assets, accounting for legal contingencies, accounting for pension benefits, and accounting for income taxes.

*Revenue Recognition*

We recognize revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an agreement, delivery has occurred or services have been rendered, the price is determinable, and the collectibility is reasonably assured. We recognize product revenues at the point of shipment or delivery in accordance with the terms of sale. Sales are net of returns and allowances. Returns and allowances are not significant because products are

manufactured to customer specification and are covered by the terms of the product warranty.

Revenues and profits on fixed-price contracts with significant engineering as well as production requirements are recorded based on the achievement of contractual milestones and the ratio of total actual incurred costs to date to total estimated costs for each contract (cost-to-cost method) in

accordance with ASC 605, formerly the American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. We review cost performance and estimates to complete on our ongoing contracts at least quarterly. The impact of revisions of profit estimates are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period they become evident. Amounts representing contract change orders are included in revenue only when they can be reliably estimated and realization is probable, and are determined on a percentage-of-completion basis measured by the cost-to-cost method. Claims are included in revenue only when they are probable of collection.

#### *Allowance for Doubtful Accounts*

We establish an allowance for doubtful accounts for losses expected to be incurred on accounts receivable balances. Judgment is required in estimation of the allowance and is based upon specific identification, collection history and creditworthiness of the debtor.

#### *Inventories*

We account for inventories on a first-in, first-out or average cost method of accounting at the lower of its cost or market. The determination of market requires judgment in estimating future demand, selling prices and cost of disposal. Judgment is required when determining inventory reserves. These reserves are provided when inventory is considered to be excess or obsolete based upon an analysis of actual on-hand quantities on a part level basis to forecasted product demand and historical usage. Inventory reserves are released based upon shipment or disposal of the related inventory.

#### *Goodwill and Intangible Assets in Business Combinations*

We account for business combinations, goodwill and intangible assets in accordance with ASC 805, formerly Financial Accounting Standards No. 141, Business Combinations, (Statement No. 141) and ASC 350, formerly Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (Statement No. 142). ASC 805 specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill.

#### *Impairment of Goodwill and Intangible Assets*

Goodwill and indefinite-lived intangible assets are required to be tested for impairment at least annually. We are also required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors.

Goodwill is tested for impairment in a two-step process. The first step (Step One) of the goodwill impairment test involves estimating the fair value of a reporting unit. Fair value (Fair Value) is defined as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced liquidation sale. A reporting unit is generally defined at the operating segment level or at the component level one level below the operating segment, if said component constitutes a business. The Fair Value of a reporting unit is then compared to its carrying value, which is defined as the book basis of total assets less total





liabilities. In the event a reporting unit's carrying value exceeds its estimated Fair Value, evidence of potential impairment exists. In such a case, the second step (Step Two) of the impairment test is required, which involves allocating the Fair Value of the reporting unit to all of the assets and liabilities of that unit, with the excess of Fair Value over allocated net assets representing the Fair Value of goodwill. An impairment loss is measured as the amount by which the carrying value of the reporting unit's goodwill exceeds the estimated Fair Value of goodwill.

As we have grown through acquisitions, we have accumulated \$736.8 million of goodwill and \$48.3 million of indefinite-lived intangible assets out of total assets of \$2.3 billion at October 30, 2009. The amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. We performed our impairment review for fiscal 2009 as of August 1, 2009, and our Step One analysis indicates that no impairment of goodwill or other indefinite-lived assets exists at any of our reporting units except for a trade name of a certain subsidiary. Management determined that the trade name useful life was no longer indefinite as a result of further integration of advanced sensors units and promotion of the Advanced Sensors brand name. An impairment test was required to be performed to value the trade name at fair value, which resulted in the impairment charge of \$3.0 million.

The valuation of reporting units requires judgment in estimating future cash flows, discount rates and estimated product life cycles. In making these judgments, we evaluate the financial health of the business, including such factors as industry performance, changes in technology and operating cash flows.

We used available market data and a discounted cash flow analysis in completing our 2009 annual impairment test. We believe that our cash flow estimates are reasonable based upon the historical cash flows and future operating and strategic plans of our reporting units. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions. A 0.5% change in the discount rate used in the cash flow analysis would result in a change in the fair value of our reporting units of approximately \$55.6 million. A 0.5% change in the growth rate assumed in the calculation of the terminal value of cash flows would result in a change in the fair value of our reporting units by \$40.6 million. None of these changes would have resulted in any of our reporting units to be impaired.

#### *Impairment of Long-lived Assets*

We account for the impairment of long-lived assets to be held and used in accordance with ASC 360, formerly Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (Statement No. 144). Long-lived assets that are to be disposed of are required to be reported at the lower of its carrying amount or fair value less cost to sell. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows.

As we have grown through acquisitions, we have accumulated \$373.8 million of definite-lived intangible assets. The amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

### *Contingencies*

We are party to various lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business. We are covered by insurance for general liability, product liability, workers compensation and certain environmental exposures, subject to certain deductible limits. We are self-insured for amounts less than our deductible and where no insurance is available. ASC 450, formerly Financial Accounting Standards No. 5, Accounting for Contingencies, requires that an estimated loss from a contingency should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

### *Pension and Other Post-Retirement Benefits*

We account for employee pension and post-retirement benefit costs in accordance with ASC 715, formerly Statement of Financial Accounting Standards Board No. 87, 88, and 158. We select appropriate assumptions including discount rate, rate of increase in future compensation levels and assumed long-term rate of return on plan assets and expected annual increases in costs of medical and other health care benefits in regard to our post-retirement benefit obligations. Our assumptions are based upon historical results, the current economic environment and reasonable expectations of future events. Actual results which vary from our assumptions are accumulated and amortized over future periods and, accordingly, are recognized in expense in these periods. Significant differences between our assumptions and actual experience or significant changes in assumptions could impact the pension costs and the pension obligation.

### *Income Taxes*

We account for income taxes in accordance with ASC 740, formerly Financial Accounting Standards No. 109, Accounting for Income Taxes, and FIN 48, Accounting for Uncertainties in Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position and results of operations.

### **Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board issued ASC 105, formerly Financial Accounting Standard No. 168, FASB Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (ASC 105). The purpose of the Codification is to provide a single source of authoritative U.S. GAAP. The Company adopted ASC 105 in the fourth quarter of 2009. The adoption of ASC 105 did not affect the Company's financial statements; however, it did impact how the authoritative references are disclosed by referencing the applicable Codification section.

On December 4, 2007, the Financial Accounting Standards Board issued ASC 805, formerly Financial Accounting Standard No. 141(R), Business Combinations, (ASC 805) and ASC 810, formerly Financial Accounting Standard No. 160, Accounting and Reporting of Non-controlling Interest in

Consolidated Financial Statements, an amendment of ARB No. 51, (ASC 810). These new standards will significantly change the accounting for and reporting of business combination transactions and non-controlling (minority) interests in consolidated financial statements. ASC 805 and ASC 810 are required to be adopted simultaneously and are effective for fiscal 2010.

The significant changes in the accounting for business combination transactions under ASC 805 include:

Recognition, with certain exceptions, of 100% of the fair values of assets acquired, liabilities assumed, and non-controlling interests of acquired businesses.

Measurement of all acquirer shares issued in consideration for a business combination at fair value on the acquisition date. With the effectiveness of ASC 805, the agreement and announcement date measurement principles will be nullified.

Recognition of contingent consideration arrangements at their acquisition-date fair values, with subsequent changes in fair value generally reflected in earnings.

With the one exception described in the last sentence of this section, recognition of pre-acquisition gain and loss contingencies at their acquisition-date fair values. Subsequent accounting for pre-acquisition loss contingencies is based on the greater of acquisition-date fair value or the amount calculated pursuant to ASC 450, formerly Financial Accounting Standard No. 5, Accounting for Contingencies, (ASC 450). Subsequent accounting for pre-acquisition gain contingencies is based on the lesser of acquisition-date fair value or the best estimate of the future settlement amount. Adjustments after the acquisition date are made only upon the receipt of new information on the possible outcome of the contingency, and changes to the measurement of pre-acquisition contingencies are recognized in ongoing results of operations. Absent new information, no adjustments to the acquisition-date fair value are made until the contingency is resolved. Pre-acquisition contingencies that are both (1) non-contractual and (2) as of the acquisition date are not more likely than not of materializing are not recognized in acquisition accounting and, instead, are accounted for based on the guidance in ASC 450, Accounting for Contingencies.

Capitalization of in-process research and development (IPR&D) assets acquired at acquisition date fair value. After acquisition, apply the indefinite-lived impairment model (lower of basis or fair value) through the development period to capitalized IPR&D without amortization. Charge development costs incurred after acquisition to results of operations. Upon completion of a successful development project, assign an estimated useful life to the amount then capitalized, amortize over that life, and consider the asset a definite-lived asset for impairment accounting purposes.

Recognition of acquisition-related transaction costs as expense when incurred.

Recognition of acquisition-related restructuring cost accruals in acquisition accounting only if the criteria are met as of the acquisition date. With the effectiveness of ASC 805, the concepts of assessing, formulating, finalizing and committing/communicating that currently pertain to recognition in purchase

accounting of an acquisition-related restructuring plan will be nullified.

Recognition of changes in the acquirer's income tax valuation allowance resulting from the business combination separately from the business combination as adjustments to income tax expense. Also, changes after the acquisition date in an acquired entity's valuation allowance or tax uncertainty established at the acquisition date are accounted for as adjustments to income tax expense.

The adoption of ASC 805 is not expected to have a material effect on the date of adoption; however, the standard will have a significant effect on business combinations occurring after adoption of the standard.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We hereby incorporate by reference the information set forth under the section "Disclosures About Market Risk" under Item 7.

**Item 8. Financial Statements and Supplementary Data*****Consolidated Statement of Operations***

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years  
in the Period Ended October 30, 2009

|   | <b>2009</b>  | <b>2008</b>  | <b>2007</b>  |
|---|--------------|--------------|--------------|
| Net Sales   | \$ 1,425,438 | \$ 1,483,172 | \$ 1,207,033 |
| Cost of Sales   | 963,589      | 992,853      | 833,973      |
|   | 461,849      | 490,319      | 373,060      |
| Expenses  |              |              |              |
| Selling, general and administrative                           | 239,630      | 239,282      | 199,826      |
| Research, development<br>and engineering                      | 66,270       | 86,798       | 66,891       |
| Total Expenses  | 305,900      | 326,080      | 266,717      |
| Other   |              |              |              |
| Other expense   | 7,970        | 86           | 24           |
| Insurance recovery  |              |              | (37,467)     |
| Total Other   | 7,970        | 86           | (37,443)     |
| Operating Earnings From<br>Continuing Operations              | 147,979      | 164,153      | 143,786      |
| Interest income   | (1,634)      | (4,374)      | (3,093)      |
| Interest expense  | 28,689       | 29,922       | 35,299       |
| Gain on derivative financial instrument                       |              | (1,850)      |              |
| Loss on extinguishment of debt                                |              |              | 1,100        |
| Other Expense, Net  | 27,055       | 23,698       | 33,306       |
| Income From Continuing Operations<br>Before Income Taxes      | 120,924      | 140,455      | 110,480      |
| Income Tax Expense  | 13,511       | 26,563       | 22,565       |
| Income From Continuing Operations<br>Before Minority Interest | 107,413      | 113,892      | 87,915       |
| Minority Interest   | (217)        | (383)        | (153)        |
| Income From Continuing Operations                             | 107,196      | 113,509      | 87,762       |
| Income From Discontinued                                      |              |              |              |

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|                        |            |            |           |
|------------------------|------------|------------|-----------|
| Operations, Net of Tax | 12,602     | 7,024      | 4,522     |
| Net Earnings           | \$ 119,798 | \$ 120,533 | \$ 92,284 |



**Consolidated Statement of Operations**

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years  
in the Period Ended October 30, 2009

|                                | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--------------------------------|-------------|-------------|-------------|
| Earnings Per Share Basic:      |             |             |             |
| Continuing operations          | \$ 3.61     | \$ 3.85     | \$ 3.40     |
| Discontinued operations        | .42         | 0.23        | 0.17        |
| <br>Earnings Per Share Basic   | <br>\$ 4.03 | <br>\$ 4.08 | <br>\$ 3.57 |
| Earnings Per Share Diluted:    |             |             |             |
| Continuing operations          | \$ 3.58     | \$ 3.80     | \$ 3.34     |
| Discontinued operations        | .42         | 0.23        | 0.18        |
| <br>Earnings Per Share Diluted | <br>\$ 4.00 | <br>\$ 4.03 | <br>\$ 3.52 |

See Notes to Consolidated Financial Statements.

**Consolidated Balance Sheet**

In Thousands, Except Share and Per Share Amounts

| As of October 30, 2009 and October 31, 2008                                    | 2009         | 2008         |
|--|--------------|--------------|
| <b>Assets</b>  |              |              |
| <b>Current Assets</b>  |              |              |
| Cash and cash equivalents  | \$ 176,794   | \$ 160,645   |
| Accounts receivable, net of allowances<br>of \$5,297 and \$5,191               | 270,976      | 297,506      |
| Inventories  | 275,282      | 261,973      |
| Income tax refundable  | 7,638        | 5,567        |
| Deferred income tax benefits   | 31,434       | 37,702       |
| Prepaid expenses   | 17,425       | 13,040       |
| Other current assets   | 17,048       | 897          |
| Total Current Assets   | 796,597      | 777,330      |
| <b>Property, Plant and Equipment</b>   |              |              |
| Land   | 23,656       | 22,340       |
| Buildings  | 179,758      | 123,542      |
| Machinery and equipment  | 312,414      | 284,942      |
|  | 515,828      | 430,824      |
| Accumulated depreciation   | 252,577      | 226,362      |
|  | 263,251      | 204,462      |
| <b>Other Non-Current Assets</b>  |              |              |
| Goodwill   | 736,808      | 576,861      |
| Intangibles, net   | 422,082      | 290,440      |
| Debt issuance costs, net of accumulated<br>amortization of \$7,842 and \$6,132 | 7,136        | 7,587        |
| Deferred income tax benefits   | 79,114       | 55,821       |
| Other assets   | 9,259        | 9,601        |
| Total Assets   | \$ 2,314,247 | \$ 1,922,102 |

See Notes to Consolidated Financial Statements.

| As of October 30, 2009 and October 31, 2008  | 2009         | 2008         |
|--|--------------|--------------|
| <b>Liabilities and Shareholders Equity</b>   |              |              |
| <b>Current Liabilities</b>   |              |              |
| Accounts payable   | \$ 82,304    | \$ 89,807    |
| Accrued liabilities  | 191,667      | 210,422      |
| Credit facilities  | 5,896        | 5,171        |
| Current maturities of long-term debt   | 5,409        | 8,388        |
| Deferred income tax liabilities  | 7,294        | 2,889        |
| Federal and foreign income taxes   | 1,669        | 4,442        |
| Total Current Liabilities  | 294,239      | 321,119      |
| <b>Long-Term Liabilities</b>   |              |              |
| Long-term debt, net of current maturities  | 520,158      | 388,248      |
| Deferred income taxes  | 130,456      | 97,830       |
| Pension and post-retirement obligations  | 93,615       | 69,641       |
| Other liabilities  | 20,027       | 16,126       |
| Minority Interest  | 2,731        | 2,797        |
| <b>Shareholders Equity</b>   |              |              |
| Common stock, par value \$.20 per share,<br>authorized 60,000,000 shares, issued and<br>outstanding 29,773,630 and 29,636,481 shares | 5,955        | 5,927        |
| Additional paid-in capital   | 504,549      | 493,972      |
| Retained earnings  | 732,861      | 613,063      |
| Accumulated other comprehensive income (loss)  | 9,656        | (86,621)     |
| Total Shareholders Equity  | 1,253,021    | 1,026,341    |
| Total Liabilities and Shareholders Equity  | \$ 2,314,247 | \$ 1,922,102 |

See Notes to Consolidated Financial Statements.

**Consolidated Statement of Cash Flows**

In Thousands

For Each of the Three Fiscal Years  
in the Period Ended October 30, 2009

|  | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|-------------|
| <b>Cash Flows Provided (Used)</b>                          |             |             |             |
| <b>by Operating Activities</b>                             |             |             |             |
| Net earnings   | \$ 119,798  | \$ 120,533  | \$ 92,284   |
| Minority interest  | 217         | 383         | 153         |
| Depreciation and amortization                              | 71,511      | 66,299      | 55,820      |
| Deferred income tax  | (11,621)    | (22,906)    | (15,432)    |
| Share-based compensation                                   | 7,349       | 8,711       | 6,902       |
| Gain on sale of discontinued operations                    | (26,481)    |             |             |
| Working capital changes, net of effect of acquisitions     |             |             |             |
| Accounts receivable  | 54,546      | (54,602)    | (8,021)     |
| Inventories  | 6,054       | (28,424)    | (12,072)    |
| Prepaid expenses   | (3,890)     | (1,624)     | (929)       |
| Other current assets                                       | (15,428)    | (1,058)     |             |
| Accounts payable   | (18,787)    | 12,784      | 7,520       |
| Accrued liabilities  | (11,933)    | 18,724      | (3,434)     |
| Federal and foreign income taxes                           | 890         | (3,362)     | 4,713       |
| Other liabilities  | (7,663)     | (151)       | (3,874)     |
| Other, net   | (7,893)     | 3,586       | (1,906)     |
|  | 156,669     | 118,893     | 121,724     |
| <b>Cash Flows Provided (Used)</b>                          |             |             |             |
| <b>by Investing Activities</b>                             |             |             |             |
| Purchases of capital assets                                | (59,184)    | (40,665)    | (30,467)    |
| Proceeds from sale of discontinued operations, net of cash | 62,944      |             |             |
| Proceeds from sale of capital assets                       | 1,089       | 1,101       | 3,075       |
| Acquisitions of businesses, net of cash acquired           | (255,206)   | 9,425       | (354,948)   |
|  | (250,357)   | (30,139)    | (382,340)   |

| For Each of the Three Fiscal Years<br>in the Period Ended October 30, 2009 | 2009       | 2008       | 2007       |
|--|------------|------------|------------|
| <b>Cash Flows Provided (Used)<br/>by Financing Activities</b>              |            |            |            |
| Proceeds provided by stock issuance<br>under employee stock plans          | 3,137      | 7,516      | 9,742      |
| Excess tax benefits from stock<br>option exercises                         | 119        | 1,983      | 2,728      |
| Proceeds provided by sale of common stock                                  |            |            | 187,145    |
| Net change in credit facilities  | 99         | (2,191)    | 144        |
| Repayment of long-term debt  | (34,444)   | (70,032)   | (105,673)  |
| Proceeds from issuance of long-term debt                                   | 125,000    |            | 275,000    |
| Proceeds from government assistance  | 11,145     |            |            |
| Dividends paid to minority interest  | (283)      | (554)      | (763)      |
| Debt and other issuance costs  | (1,258)    |            | (6,409)    |
|  | 103,515    | (63,278)   | 361,914    |
| Effect of Foreign Exchange Rates on Cash                                   | 6,322      | (11,900)   | 3,133      |
| Net Increase in Cash<br>and Cash Equivalents                               | 16,149     | 13,576     | 104,431    |
| Cash and Cash Equivalents<br>Beginning of Year                             | 160,645    | 147,069    | 42,638     |
| Cash and Cash Equivalents End of Year                                      | \$ 176,794 | \$ 160,645 | \$ 147,069 |
| <b>Supplemental Cash Flow Information</b>                                  |            |            |            |
| Cash paid for interest   | \$ 27,988  | \$ 29,119  | \$ 32,091  |
| Cash paid for taxes  | 40,293     | 47,359     | 28,140     |
| <b>Supplemental Non-cash Investing and<br/>Financing Activities</b>        |            |            |            |
| Capital asset and lease obligation additions                               | 28,202     | 7,981      |            |
| See Notes to Consolidated Financial Statements.                            |            |            |            |

**Consolidated Statement of Shareholders****Equity and Comprehensive Income (Loss)**

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years  
in the Period Ended October 30, 2009

|  | <b>2009</b>  | <b>2008</b>  | <b>2007</b>  |
|--|--------------|--------------|--------------|
| <b>Common Stock, Par Value \$.20 Per Share</b>   |              |              |              |
| Beginning of year  | \$ 5,927     | \$ 5,873     | \$ 5,098     |
| Shares issued under stock option plans   | 28           | 54           | 85           |
| Shares issued under equity offering  |              |              | 690          |
| End of year  | 5,955        | 5,927        | 5,873        |
| <b>Additional Paid-in Capital</b>  |              |              |              |
| Beginning of year  | 493,972      | 475,816      | 270,074      |
| Shares issued under stock option plans   | 3,228        | 9,445        | 12,385       |
| Shares issued under equity offering  |              |              | 186,455      |
| Share-based compensation expense   | 7,349        | 8,711        | 6,902        |
| End of year  | 504,549      | 493,972      | 475,816      |
| <b>Retained Earnings</b>   |              |              |              |
| Beginning of year  | 613,063      | 493,269      | 400,985      |
| Net earnings   | 119,798      | 120,533      | 92,284       |
| Change in accounting for tax contingencies   |              | (739)        |              |
| End of year  | 732,861      | 613,063      | 493,269      |
| <b>Accumulated Other Comprehensive Income (Loss)</b>   |              |              |              |
| Beginning of year  | (86,621)     | 146,868      | 31,832       |
| Defined benefit retirement plan recognition<br>adjustment, net of tax expense of \$334   |              |              | 1,172        |
| Change in fair value of derivative<br>financial instruments, net of tax (expense)<br>benefit of \$(11,072), \$7,881, and \$(860) | 24,179       | (15,607)     | 1,501        |
| Change in pension and post-retirement<br>obligations, net of tax (expense) benefit<br>of \$11,636, \$17,558, and \$(461)         | (20,265)     | (33,635)     | 938          |
| Foreign currency translation adjustment  | 92,363       | (184,247)    | 111,425      |
| End of year  | 9,656        | (86,621)     | 146,868      |
| Total Shareholders Equity  | \$ 1,253,021 | \$ 1,026,341 | \$ 1,121,826 |



**Consolidated Statement of Shareholders****Equity and Comprehensive Income (Loss)**

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years  
in the Period Ended October 30, 2009

|   | <b>2009</b> | <b>2008</b>  | <b>2007</b> |
|---|-------------|--------------|-------------|
| <b>Comprehensive Income (Loss)</b>                                      |             |              |             |
| Net earnings  | \$ 119,798  | \$ 120,533   | \$ 92,284   |
| Change in fair value of derivative<br>financial instruments, net of tax | 24,179      | (15,607)     | 1,501       |
| Change in pension and post-retirement<br>obligations, net of tax        | (20,265)    | (33,635)     | 938         |
| Foreign currency translation adjustment                                 | 92,363      | (184,247)    | 111,425     |
| Comprehensive Income (Loss)   | \$ 216,075  | \$ (112,956) | \$ 206,148  |

See Notes to Consolidated Financial Statements.



## ***Notes to Consolidated Financial Statements***

### **NOTE 1: Accounting Policies**

#### **Nature of Operations**

Esterline Technologies Corporation (the Company) designs, manufactures and markets highly engineered products. The Company serves the aerospace and defense industry, primarily in the United States and Europe. The Company also serves the industrial/commercial and medical markets.

#### **Principles of Consolidation and Basis of Presentation**

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated. Classifications have been changed for certain amounts in prior periods to conform with the current year's presentation. The Company's fiscal year ends on the last Friday of October. The fiscal years ended October 30, 2009, and October 26, 2007, contained 52 weeks, while the October 31, 2008, period contained 53 weeks.

#### **Management Estimates**

To prepare financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Concentration of Risks**

The Company's products are principally focused on the aerospace and defense industry, which includes military and commercial aircraft original equipment manufacturers and their suppliers, commercial airlines, and the United States and foreign governments. Accordingly, the Company's current and future financial performance is dependent on the economic condition of the aerospace and defense industry. The commercial aerospace market has historically been subject to cyclical downturns during periods of weak economic conditions or material changes arising from domestic or international events. Management believes that the Company's sales are fairly well balanced across its customer base, which includes not only aerospace and defense customers but also medical and industrial commercial customers. However, material changes in the economic conditions of the aerospace industry could have a material effect on the Company's results of operations, financial position or cash flows.

#### **Revenue Recognition**

The Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an agreement, delivery has occurred or services have been rendered, the price is determinable, and the collectibility is reasonably assured. The Company recognizes product revenues at the point of shipment or delivery in accordance with the terms of sale. Sales are net of returns and allowances. Returns and allowances are not significant because products are manufactured to customer specification and are covered by the terms of the product warranty.

Revenues and profits on fixed-price contracts with significant engineering as well as production requirements are recorded based on the achievement of contractual milestones and the ratio of total actual incurred costs to date to total estimated costs for each contract (cost-to-cost method) in accordance with ASC 605, formerly the American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance of Construction-Type and Production-Type Contracts. Types of milestones include design review and prototype completion. The Company

reviews cost

performance and estimates to complete on its ongoing contracts at least quarterly. The impact of revisions of profit estimates are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period they become evident. Amounts representing contract change orders are included in revenue only when they can be reliably estimated and realization is probable, and are determined on a percentage-of-completion basis measured by the cost-to-cost method. Claims are included in revenue only when they are probable of collection.

## **Research and Development**

Expenditures for internally-funded research and development are expensed as incurred. Customer-funded research and development projects performed under contracts are accounted for as work in process as work is performed and recognized as cost of sales and sales under the proportional performance method. Research and development expenditures are net of government assistance and tax subsidies, which are not contingent upon paying income tax.

## **Financial Instruments**

### *Fair Value of Financial Instruments*

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings, long-term debt, foreign currency forward contracts, and interest rate swap agreements. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their respective fair values because of the short-term maturities or expected settlement dates of these instruments. The fair market value of the Company's long-term debt and short-term borrowings was estimated at \$527.6 million and \$393.0 million at fiscal year end 2009 and 2008, respectively. These estimates were derived using discounted cash flows with interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities.

### *Foreign Currency Exchange Risk Management*

The Company is subject to risks associated with fluctuations in foreign currency exchange rates from the sale of products in currencies other than its functional currency. Furthermore, the Company has assets denominated in foreign currencies that are not offset by liabilities in such foreign currencies. The Company has significant operations in Canada, France, Germany and the United Kingdom and, accordingly, we may experience gains or losses due to foreign exchange fluctuations.

The Company's policy is to hedge a portion of its forecasted transactions using forward exchange contracts, with maturities up to 29 months. These forward contracts have been designated as cash flow hedges. The portion of the net gain or loss on a derivative instrument that is effective as a hedge is reported as a component of other comprehensive income in shareholders' equity and is reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining net gain or loss on the derivative in excess of the present value of the expected cash flows of the hedged transaction is recorded in earnings immediately. If a derivative does not qualify for hedge accounting, or a portion of the hedge is deemed ineffective, the change in fair value is recorded in earnings. The amount of hedge ineffectiveness has not been material in any of the three fiscal years in the period ended October 30, 2009. At October 30, 2009, and October 31, 2008, the notional value of foreign currency forward contracts accounted for as a cash flow hedge was \$234.1 million and \$273.0 million, respectively. The fair value of these contracts was a \$16.4 million asset and a \$19.3 million liability at October 30, 2009, and October 31, 2008, respectively. The Company does not enter into any forward contracts for trading purposes.



In February 2006, the Company entered into a term loan for £57.0 million. The Company designated the term loan as a hedge of the investment in a certain U.K. business unit. The foreign currency gain or loss that is effective as a hedge is reported as a component of other comprehensive income in shareholders' equity. The amount of foreign currency translation included in Other Comprehensive Income was a loss of \$4.8 million and a loss of \$4.6 million net of taxes at October 30, 2009, and October 31, 2008, respectively. To the extent that this hedge is ineffective, the foreign currency gain or loss is recorded in earnings. There was no ineffectiveness in 2009. The term loan was paid off in fiscal 2009. The loss included in Accumulated Other Comprehensive Income will remain until the underlying investment in a certain U.K. business unit is liquidated.

#### *Interest Rate Risk Management*

Depending on the interest rate environment, the Company may enter into interest rate swap agreements to convert the fixed interest rates on notes payable to variable interest rates or terminate any swap agreements in place. These interest rate swap agreements have been designated as fair value hedges. Accordingly, gain or loss on swap agreements as well as the offsetting loss or gain on the hedged portion of notes payable are recognized in interest expense during the period of the change in fair values. The Company attempts to manage exposure to counterparty credit risk by only entering into agreements with major financial institutions which are expected to be able to fully perform under the terms of the agreement.

In June 2009, the Company entered into an interest rate swap agreement on the \$175.0 million Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate of 7.75% for a variable interest rate on the \$175.0 million principal amount outstanding. The variable interest rate is based upon LIBOR plus 5.37% and was 5.61% at October 30, 2009. The fair value of the Company's interest rate swap was \$269,000 liability at October 30, 2009.

In September 2003, the Company entered into an interest rate swap agreement on \$75.0 million of its Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate for a variable interest rate on \$75.0 million of the \$175.0 million principal amount outstanding. The fair market value of the Company's interest rate swap was an asset of \$1.6 million at October 31, 2008. The interest rate swap was terminated in 2009 for a deferred gain of \$2.9 million and is being amortized in proportion to the repayment of the underlying debt.

Depending on the interest rate environment, the Company may enter into interest rate swap agreements to convert the variable interest rates on notes payable to fixed interest rates. These swap agreements are accounted for as cash flow hedges and the fair market value of the hedge instrument is included in Other Comprehensive Income. In February 2006, the Company entered into an interest rate swap agreement on the full principal amount of its £57.0 million term loan facility. The swap agreement exchanged the variable interest rate for a fixed interest rate of 4.75% plus an additional margin amount determined by reference to the Company's leverage ratio. The fair value of the interest rate swap was an asset of \$2.1 million at October 26, 2007. The swap was terminated in 2008 for a gain of \$1.9 million.

The fair market value of the interest rate swaps was estimated by discounting expected cash flows using quoted market interest rates.

### **Foreign Currency Translation**

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on year end exchange rates. Revenue and expense accounts are translated at average exchange rates. Aggregate exchange gains and losses arising from the translation of foreign assets and liabilities are included in shareholders' equity as a component of comprehensive income. Accumulated gain or (loss) on foreign currency translation adjustment was \$53.2 million, \$(39.2) million and \$145.1 million as of the fiscal years ended October 30, 2009, October 31, 2008, and October 26, 2007, respectively.

### **Foreign Currency Transaction Gains and Losses**

Foreign currency transaction gains and losses are included in results of operations and are primarily the results of revaluing assets and liabilities denominated in a currency other than the functional currency, gains and losses on forward exchange contracts and the change in value of foreign currency embedded derivatives in backlog. These foreign currency transactions resulted in a \$12.6 million loss in fiscal 2009, a \$3.7 million gain in fiscal 2008, and a \$1.6 million loss in fiscal 2007.

### **Cash Equivalents**

Cash equivalents consist of highly liquid investments with original maturities of three months or less at the date of purchase. Fair value of cash equivalents approximates carrying value. Cash equivalents included \$15.0 million and \$10.0 million in cash under a letter of credit facility at October 30, 2009, and October 31, 2008, respectively.

### **Accounts Receivable**

Accounts receivable are recorded at the net invoice price for sales billed to customers. Accounts receivable are considered past due when outstanding more than normal trade terms allow. An allowance for doubtful accounts is established when losses are expected to be incurred. Accounts receivable are written off to the allowance for doubtful accounts when the balance is considered to be uncollectible.

### **Inventories**

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) or average cost method. Inventory cost includes material, labor and factory overhead. The Company defers pre-production engineering costs as work-in-process inventory in connection with long-term supply arrangements that include contractual guarantees for reimbursement from the customer. Inventory is considered to be excess or obsolete based upon an analysis of actual on-hand quantities on a part level basis to forecasted product demand and historical usage. Inventory reserves are released upon shipment or disposal of the related inventory.

### **Property, Plant and Equipment, and Depreciation**

Property, plant and equipment is carried at cost and includes expenditures for major improvements. Depreciation is generally provided on the straight-line method based upon estimated useful lives ranging from 15 to 30 years for buildings, and 3 to 10 years for machinery and equipment. Depreciation expense was \$39,189,000, \$41,095,000 and \$34,273,000 for fiscal years 2009, 2008 and 2007, respectively. Assets under capital leases were \$36.2 million at October 30, 2009, and \$8.0 million at October 31, 2008. Amortization expense of assets accounted for as capital leases is included with depreciation expense. The fair value of liabilities related to the retirement of property is recorded when there is a legal or contractual obligation to incur asset retirement costs and the costs can be estimated. The Company records the asset retirement cost by increasing the carrying cost of the underlying property by the amount of the asset retirement obligation. The asset retirement cost is depreciated over the estimated useful life of the

underlying property.

### **Debt Issuance Costs**

Costs incurred to issue debt are deferred and amortized as interest expense over the term of the related debt using a method that approximates the effective interest method.

### **Long-lived Asset Impairments**

The carrying amount of long-lived assets is reviewed periodically for impairment. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows.

### **Goodwill and Intangibles**

Goodwill is not amortized, but is tested for impairment at least annually. A reporting unit is generally defined at the operating segment level or at the component level one level below the operating segment, if said component constitutes a business. Goodwill is allocated to reporting units based upon the purchase price of the acquired unit, the valuation of acquired tangible and intangible assets, and liabilities assumed. When a reporting unit's carrying value exceeds its estimated fair value, an impairment test is required. This test involves allocating the fair value of the reporting unit to all of the assets and liabilities of that unit, with the excess of fair value over allocated net assets representing the fair value of goodwill. An impairment loss is measured as the amount by which the carrying value of goodwill exceeds the estimated fair value of goodwill.

Intangible assets are amortized over their estimated period of benefit, ranging from 2 to 20 years. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists.

Indefinite-lived intangible assets (other than goodwill) are tested annually for impairment or more frequently on an interim basis if circumstances require.

### **Environmental**

Environmental exposures are provided for at the time they are known to exist or are considered probable and reasonably estimable. No provision has been recorded for environmental remediation costs which could result from changes in laws or other circumstances currently not contemplated by the Company. Costs provided for future expenditures on environmental remediation are not discounted to present value.

### **Pension Plan and Post-Retirement Benefit Plan Obligations**

The Company accounts for the obligations of its employee pension benefit costs and post-retirement benefits in accordance with ASC 715, formerly Statement of Financial Accounting Standards Board Nos. 87, 88, and 158. In accordance with this topic, management selects appropriate assumptions including discount rate, rate of increase in future compensation levels and assumed long-term rate of return on plan assets and expected annual increases in costs of medical and other health care benefits in regard to the Company's post-retirement benefit obligations. These assumptions are based upon historical results, the current economic environment and reasonable expectations of future events. Actual results which vary from assumptions are accumulated and amortized over future periods and, accordingly, are recognized in expense in these periods. Significant differences between our assumptions and actual experience or significant changes in assumptions could impact the pension costs and the pension obligation.





### **Share-Based Compensation**

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

### **Product Warranties**

Estimated product warranty expenses are recorded when the covered products are shipped to customers and recognized as revenue. Product warranty expense is estimated based upon the terms of the warranty program.

### **Income Taxes**

Income taxes and reserves for income taxes are accounted for in accordance with ASC 740, formerly Financial Accounting Standard 109, *Accounting for Income Taxes* and FIN 48, *Uncertainty in Income Taxes*. The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns.

### **Earnings Per Share**

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share also includes the dilutive effect of stock options. Common shares issuable from stock options that are excluded from the calculation of diluted earnings per share because they were anti-dilutive were 1,385,596, 499,850, and 96,048 for fiscal 2009, 2008 and 2007, respectively. The weighted average number of shares outstanding used to compute basic earnings per share was 29,717,000, 29,507,000, and 25,824,000 for fiscal years 2009, 2008 and 2007, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 29,951,000, 29,908,000, and 26,252,000 for fiscal years 2009, 2008 and 2007, respectively.

### **Subsequent Events**

The Company has evaluated subsequent events through the date the Consolidated Financial Statements were issued on December 22, 2009.

Subsequent to year end, the Company decided to close its Taunton, Massachusetts, engineered materials unit. The Taunton operations will be transferred to the Company's engineered materials operations in California. The Company expects to record a \$0.6 million charge related to the write off of leasehold improvements in the first fiscal quarter of 2010.

### **Recent Accounting Pronouncements**

On December 4, 2007, the Financial Accounting Standards Board issued ASC 805, formerly Financial Accounting Standard No. 141(R), *Business Combinations*, (ASC 805) and ASC 810, formerly Financial Accounting Standard No. 160, *Accounting and Reporting of Non-controlling Interest in Consolidated Financial Statements*, an amendment of ARB No. 51, (ASC 810). These new standards will significantly change the accounting for and reporting of business combination transactions and non-controlling (minority) interests in consolidated financial statements. ASC 805 and ASC 810 are required to be adopted simultaneously and are effective for fiscal 2010.

The significant changes in the accounting for business combination transactions under ASC 805 include:

Recognition, with certain exceptions, of 100% of the fair values of assets acquired, liabilities assumed, and non-controlling interests of acquired businesses.

Measurement of all acquirer shares issued in consideration for a business combination at fair value on the acquisition date. With the effectiveness of ASC 805, the agreement and announcement date measurement principles will be nullified.

Recognition of contingent consideration arrangements at their acquisition-date fair values, with subsequent changes in fair value generally reflected in earnings.

With the one exception described in the last sentence of this section, recognition of pre-acquisition gain and loss contingencies at their acquisition-date fair values. Subsequent accounting for pre-acquisition loss contingencies is based on the greater of acquisition-date fair value or the amount calculated pursuant to ASC 450, formerly Financial Accounting Standard No. 5, Accounting for Contingencies, (ASC 450). Subsequent accounting for pre-acquisition gain contingencies is based on the lesser of acquisition-date fair value or the best estimate of the future settlement amount. Adjustments after the acquisition date are made only upon the receipt of new information on the possible outcome of the contingency, and changes to the measurement of pre-acquisition contingencies are recognized in ongoing results of operations. Absent new information, no adjustments to the acquisition-date fair value are made until the contingency is resolved. Pre-acquisition contingencies that are both (1) non-contractual and (2) as of the acquisition date are not more likely than not of materializing are not recognized in acquisition accounting and, instead, are accounted for based on the guidance in ASC 450, Accounting for Contingencies.

Capitalization of in-process research and development (IPR&D) assets acquired at acquisition date fair value. After acquisition, apply the indefinite-lived impairment model (lower of basis or fair value) through the development period to capitalized IPR&D without amortization. Charge development costs incurred after acquisition to results of operations. Upon completion of a successful development project, assign an estimated useful life to the amount then capitalized, amortize over that life, and consider the asset a definite-lived asset for impairment accounting purposes.

Recognition of acquisition-related transaction costs as expense when incurred.

Recognition of acquisition-related restructuring cost accruals in acquisition accounting only if the criteria are met as of the acquisition date. With the effectiveness of ASC 805, the concepts of assessing, formulating, finalizing and committing/communicating that currently pertain to recognition in purchase accounting of an acquisition-related restructuring plan will be nullified.

Recognition of changes in the acquirer's income tax valuation allowance resulting from the business combination separately from the business combination as adjustments to income tax expense. Also,

changes after the acquisition date in an acquired entity's valuation allowance or tax uncertainty established at the acquisition date are accounted for as adjustments to income tax expense.

The adoption of ASC 805 is not expected to have a material effect on the date of adoption; however, the standard will have a significant effect on business combinations occurring after adoption of the standard.

**NOTE 2: Recovery of Insurance Claims**

On June 26, 2006, an explosion occurred at the Company's Wallop facility, which resulted in one fatality and several minor injuries. The incident destroyed an oven complex for the production of advanced flares and significantly damaged a portion of the facility. The advanced flare facility has been closed due to the requirements of the Health and Safety Executive (HSE) to review the cause of the accident, but normal operations are continuing at unaffected portions of the facility. The Coroner's Inquest was held in April 2009, and a verdict of Accidental Death with a narrative was recorded; no liability was attached to the Company or individuals.

The HSE investigation is on-going and is expected to be completed in 2010. It is not possible to determine if any breaches of the Health and Safety at Work Act (or relevant regulations) will be brought against the Company. No amounts have been recorded for any potential fines that may be assessed by the HSE.

The operation was insured under a property, casualty and business interruption insurance policy and in June 2007, the Company settled its insurance claim for £24.0 million, including payments already received. In fiscal 2007, insurance recoveries totaled \$37.5 million, net of the write off of the damaged facility.

**NOTE 3: Discontinued Operations**

On November 3, 2008, the Company sold U.K.-based Muirhead Aerospace Limited and Traxsys Input Products Limited, which were included in the Sensors & Systems segment, for approximately £40.0 million or \$63.4 million, resulting in an after-tax gain of \$12.6 million. As a result, the consolidated income statement presents Muirhead Aerospace Limited and Traxsys Input Products Limited as discontinued operations.

The operating results of the discontinued operations for fiscal year 2009, 2008 and 2007 consisted of the following:

| In Thousands                        | 2009      | 2008      | 2007      |
|-------------------------------------|-----------|-----------|-----------|
| Sales                               | \$        | \$ 64,158 | \$ 59,522 |
| Income before taxes                 | 26,481    | 8,906     | 4,477     |
| Tax expense (benefit)               | 13,879    | 1,882     | (45)      |
| Income from discontinued operations | \$ 12,602 | \$ 7,024  | \$ 4,522  |

In the fourth quarter of fiscal 2009, the Company recorded an adjustment that resulted in a reclassification of \$3,392,000 of tax benefits from discontinued operations to continued operations offset by a \$1,026,000 tax expense to establish a valuation allowance for U.S. foreign tax credits that are not expected to result in a current or future reduction in U.S. income taxes.

Net assets related to discontinued operations at October 31, 2008, were \$33.7 million and consisted of the following:

In Thousands

|  |                  |
|--|------------------|
| Cash and cash equivalent               | \$ 421           |
| Accounts receivable, net of allowances | 8,917            |
| Inventories                            | 9,779            |
| Deferred income tax benefits           | 69               |
| Prepaid expenses                       | 998              |
| Property, plant and equipment, net     | 4,357            |
| Goodwill                               | 17,029           |
| <b>Total assets</b>                    | <b>41,570</b>    |
| Accounts payable                       | 2,522            |
| Accrued liabilities                    | 4,203            |
| Federal and foreign income taxes       | 627              |
| Deferred income taxes                  | 529              |
| <b>Total liabilities</b>               | <b>7,881</b>     |
| <b>Net assets</b>                      | <b>\$ 33,689</b> |

**NOTE 4: Inventories**

Inventories, net of reserves, at the end of fiscal 2009 and 2008 consisted of the following:

| In Thousands                              | <b>2009</b>       | <b>2008</b>       |
|---|-------------------|-------------------|
| Raw materials and purchased parts         | \$ 113,521        | \$ 110,984        |
| Work in process                           | 82,952            | 89,936            |
| Inventory costs under long-term contracts | 17,083            | 15,650            |
| Finished goods                            | 61,726            | 45,403            |
|   | <b>\$ 275,282</b> | <b>\$ 261,973</b> |

Inventory Reserve Rollforward:

| In Thousands                     | <b>2009</b> | <b>2008</b> |
|----------------------------------|-------------|-------------|
| Beginning balance                | \$ 41,496   | \$ 43,857   |
| Reserves related to acquisitions | 724         |             |
| Accruals                         | 12,545      | 7,892       |
| Write-offs                       | (5,197)     | (4,075)     |

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|                                  |           |           |
|----------------------------------|-----------|-----------|
| Release of reserves on shipments | (1,367)   | (815)     |
| Release of other reserves        |           | (503)     |
| Currency translation adjustment  | 3,169     | (4,860)   |
|                                  | \$ 51,370 | \$ 41,496 |

**NOTE 5: Goodwill**

The following table summarizes the changes in goodwill by segment for fiscal 2009 and 2008:

| In Thousands                               | Avionics &<br>Controls | Sensors &<br>Systems | Advanced<br>Materials | Total      |
|--|------------------------|----------------------|-----------------------|------------|
| Balance, October 26, 2007                  | \$ 356,838             | \$ 100,502           | \$ 199,525            | \$ 656,865 |
| Goodwill from acquisitions                 | 219                    |                      |                       | 219        |
| Goodwill adjustments                       | (6,302)                | 20,016               | (669)                 | 13,045     |
| Foreign currency translation<br>adjustment | (53,741)               | (14,567)             | (24,960)              | (93,268)   |
| Balance, October 31, 2008                  | 297,014                | 105,951              | 173,896               | 576,861    |
| Goodwill from acquisitions                 | 93,416                 |                      | 40,796                | 134,212    |
| Goodwill adjustments                       | (3,713)                | 157                  | (282)                 | (3,838)    |
| Sale of businesses                         |                        | (17,029)             |                       | (17,029)   |
| Foreign currency translation<br>adjustment | 41,261                 | 3,543                | 1,798                 | 46,602     |
| Balance, October 30, 2009                  | \$ 427,978             | \$ 92,622            | \$ 216,208            | \$ 736,808 |

Adjustments to goodwill primarily relate to acquired tax benefits.

**NOTE 6: Intangible Assets**

Intangible assets at the end of fiscal 2009 and 2008 were as follows:

| In Thousands                              | Weighted<br>Average Years<br>Useful Life | 2009                        |                  | 2008                        |                  |
|---|--|-----------------------------|------------------|-----------------------------|------------------|
|   |  | Gross<br>Carrying<br>Amount | Accum.<br>Amort. | Gross<br>Carrying<br>Amount | Accum.<br>Amort. |
| <b>Amortized Intangible Assets</b>        |  |                             |                  |                             |                  |
| Programs                                  | 16                                       | \$ 444,275                  | \$ 93,550        | \$ 268,667                  | \$ 60,018        |
| Core technology                           | 16                                       | 9,689                       | 4,364            | 8,896                       | 3,710            |
| Patents and other                         | 13                                       | 43,484                      | 25,769           | 49,507                      | 22,986           |
| Total                                     |  | \$ 497,448                  | \$ 123,683       | \$ 327,070                  | \$ 86,714        |
| <b>Indefinite-lived Intangible Assets</b> |  |                             |                  |                             |                  |
| Trademark                                 |  | \$ 48,317                   |                  | \$ 50,084                   |                  |



In fiscal 2009, management determined that a certain trade name useful life was no longer indefinite as a result of further integration of advanced sensors units and promotion of the Advanced Sensors brand name. An impairment test was required to be performed to value the trade name at fair value, which resulted in a \$3.0 million impairment charge. The remaining book value of the trade name will be amortized to expense over its remaining five-year useful life.

Amortization of intangible assets was \$30,613,000, \$23,689,000 and \$20,133,000 in fiscal years 2009, 2008 and 2007, respectively.

Estimated amortization expense related to intangible assets for each of the next five fiscal years is as follows:

In Thousands

Fiscal Year

|      |           |
|------|-----------|
| 2010 | \$ 31,277 |
| 2011 | 30,959    |
| 2012 | 30,324    |
| 2013 | 29,539    |
| 2014 | 28,839    |

**NOTE 7: Accrued Liabilities**

Accrued liabilities at the end of fiscal 2009 and 2008 consisted of the following:

| In Thousands                       | 2009       | 2008       |
|------------------------------------|------------|------------|
| Payroll and other compensation     | \$ 72,705  | \$ 76,725  |
| Commissions                        | 3,994      | 3,346      |
| Casualty and medical               | 14,244     | 13,194     |
| Interest                           | 5,981      | 6,720      |
| Warranties                         | 14,685     | 10,596     |
| State and other tax accruals       | 4,956      | 5,455      |
| Customer deposits                  | 23,656     | 25,061     |
| Deferred revenue                   | 9,038      | 13,968     |
| Contract reserves                  | 9,189      | 6,618      |
| Forward foreign exchange contracts | 2,192      | 22,482     |
| Unclaimed property - non-U.S.      | 10,874     | 9,755      |
| Environmental reserves             | 2,539      | 2,539      |
| Asset retirement obligations       | 2,019      | 393        |
| Rent and future lease obligations  | 1,790      | 1,292      |
| Other                              | 13,805     | 12,278     |
|                                    | \$ 191,667 | \$ 210,422 |

Accrued liabilities are recorded to reflect the Company's contractual obligations relating to warranty commitments to customers. Warranty coverage of various lengths and terms is provided to customers depending on standard offerings and negotiated contractual agreements. An estimate for warranty expense is recorded at the time of sale based on the length of the warranty and historical warranty return rates and repair costs.

Changes in the carrying amount of accrued product warranty costs are summarized as follows:

| In Thousands                            | 2009      | 2008      |
|---|-----------|-----------|
| Balance, beginning of year              | \$ 10,596 | \$ 15,667 |
| Warranty costs incurred                 | (3,406)   | (5,171)   |
| Product warranty accrual                | 5,811     | 7,191     |
| Acquisitions                            | 2,223     |           |
| Release of reserves                     | (1,146)   | (1,892)   |
| Reclass of reserves <sup>1</sup>        |           | (3,124)   |
| Sale of businesses                      | (237)     |           |
| Foreign currency translation adjustment | 844       | (2,075)   |
| Balance, end of year                    | \$ 14,685 | \$ 10,596 |

<sup>1</sup> Reclass of reserve to goodwill upon completion of the acquisition accounting related to CMC Electronics, Inc.

**NOTE 8: Retirement Benefits**

Approximately 47% of U.S. employees have a defined benefit earned under the Esterline pension plan. The Leach pension plan was frozen as of December 31, 2003, and was merged into the Esterline plan on March 31, 2008.

Under the Esterline plan, pension benefits are based on years of service and five-year average compensation or the highest five consecutive years' compensation during the last ten years of employment. Esterline amended its defined benefit plan to add the cash balance formula with annual pay credits ranging from 2% to 6% effective January 1, 2003. Participants elected either to continue earning benefits under the current plan formula or to earn benefits under the cash balance formula. Effective January 1, 2003, all new participants are enrolled in the cash balance formula. Esterline also has an unfunded supplemental retirement plan for key executives providing for periodic payments upon retirement.

CMC sponsors defined benefit pension plans and other retirement benefit plans for its non-U.S. employees. Pension benefits are based upon years of service and final average salary. Other retirement benefit plans are non-contributory health care and life insurance plans.

In October 2006, the Financial Accounting Standards Board issued ASC 715, formerly Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of FASB Statement Nos. 87, 88, 106 and 123(R), (ASC 715). ASC 715 requires an entity to:

Recognize in its statements of financial position an asset for a defined benefit post-retirement plan's overfunded status or a liability for a plan's underfunded status.

Measure a defined benefit post-retirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year.

Recognize changes in the funded status of a defined benefit post-retirement plan in comprehensive income in the year in which the changes occur.

ASC 715 does not change the amount of net periodic benefit cost included in net income or address the various measurement issues associated with post-retirement benefit plan accounting. The Company adopted the recognition and disclosure provisions of ASC 715 effective at the end of its 2007 fiscal year.

The following table presents the balance sheet balances at October 26, 2007, prior to the initial adoption of ASC 715, the amount of the adjustment and the balances after the adoption of ASC 715.

| In Thousands                                   | Before<br>Application of<br>ASC 715 | Adjustments | After<br>Application of<br>ASC 715 |
|--|-------------------------------------|-------------|------------------------------------|
| Deferred income taxes                          | \$ 8,204                            | \$ (334)    | \$ 7,870                           |
| Intangible assets                              | 39                                  | (39)        |                                    |
| Liabilities                                    | (26,994)                            | 1,545       | (25,449)                           |
| Accumulated other<br>comprehensive loss (gain) | 775                                 | (1,172)     | (397)                              |

The Company accounts for pension expense using the end of the fiscal year as its measurement date. In addition, the Company makes actuarially computed contributions to these plans as necessary to adequately fund benefits. The Company's funding policy is consistent with the minimum funding requirements of ERISA. The accumulated benefit obligation and projected benefit obligation for the Esterline plans are \$199,979,000 and \$208,556,000, respectively, with plan assets of \$144,465,000 as of October 30, 2009. The underfunded status for the Esterline plans is \$64,091,000 at October 30, 2009. Contributions to the Esterline plans totaled \$21,868,000 and \$1,265,000 in fiscal years 2009 and 2008, respectively. The expected funding requirement for fiscal 2010 for the U.S. pension plans maintained by Esterline is \$9,048,000. The accumulated benefit obligation and projected benefit obligation for the CMC plans are \$91,550,000 and \$94,063,000, respectively, with plan assets of \$83,612,000 as of October 30, 2009. The underfunded status for these CMC plans is \$10,451,000 at October 30, 2009. Contributions to the CMC plans totaled \$2,933,000 and \$3,503,000 in fiscal 2009 and 2008, respectively. The expected funding requirement for fiscal 2010 for the CMC plans is \$5,316,000.

|   | Defined Benefit<br>Pension Plans |       |      |        | Post-Retirement<br>Benefit Plans |       |      |       |
|---|----------------------------------|-------|------|--------|----------------------------------|-------|------|-------|
|   | 2009                             |       | 2008 |        | 2009                             |       | 2008 |       |
| <i>Principal assumptions as<br/>of fiscal year end:</i> |                                  |       |      |        |                                  |       |      |       |
| Discount Rate   | 5.875                            | 6.25% | 5.6  | 8.375% | 5.875                            | 6.25% | 6.25 | 6.75% |
| Rate of increase in future<br>compensation levels       | 3.2                              | 4.5%  | 3.3  | 4.5%   |                                  |       |      |       |
| Assumed long-term rate<br>of return on plan assets      | 7.5                              | 8.25% | 7.0  | 8.25%  |                                  |       |      |       |
| Initial weighted average<br>health care trend rate      |                                  |       |      |        | 4.08                             | 9%    | 4.8  | 10.0% |
| Ultimate weighted average<br>health care trend rate     |                                  |       |      |        | 3.38                             | 9%    | 3.3  | 10.0% |



The Company uses a discount rate for expected returns that is a spot rate developed from a yield curve established from high-quality corporate bonds and matched to plan-specific projected benefit payments. Although future changes to the discount rate are unknown, had the discount rate increased or decreased by 25 basis points, pension liabilities in total would have decreased \$8.0 million or increased \$8.4 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2009 pension expense from a hypothetical 25 basis point increase or decrease in both the discount rate and expected long-term rate of return on plan assets would not have a material effect on our pension expense. Management is not aware of any legislative or other initiatives or circumstances that will significantly impact the Company's pension obligations in fiscal 2010.

The assumed health care trend rate has a significant impact on the Company's post-retirement benefit obligations. The Company's health care trend rate was based on the experience of its plan and expectations for the future. A 100 basis point increase in the health care trend rate would increase the post-retirement benefit obligation by \$0.7 million. A 100 basis point decrease in the health care trend rate would decrease the post-retirement benefit obligation by \$0.7 million. Assuming all other assumptions are held constant, the estimated effect on fiscal 2009 post-retirement benefit expense from a hypothetical 100 basis point increase or decrease in the health care trend rate would not have a material effect on our post-retirement benefit expense.

Plan assets are invested in a diversified portfolio of equity and debt securities, consisting primarily of common stocks, bonds and government securities. The objective of these investments is to maintain sufficient liquidity to fund current benefit payments and achieve targeted risk-adjusted returns. Management periodically reviews allocations of plan assets by investment type and evaluates external sources of information regarding the long-term historical returns and expected future returns for each investment type and, accordingly, believes a 7.5% to 8.25% assumed long-term rate of return on plan assets is appropriate. Allocations by investment type are as follows:

|  | Target | Actual<br>2009 | 2008   |
|--|--------|----------------|--------|
| <i>Plan assets allocation as of fiscal year end:</i> |        |                |        |
| Equity securities                                    | 55 75% | 58.0%          | 60.0%  |
| Debt securities                                      | 25 45% | 36.0%          | 38.0%  |
| Cash   | 0%     | 6.0%           | 2.0%   |
| Total  |        | 100.0%         | 100.0% |

Net periodic pension cost for the Company's defined benefit plans at the end of each fiscal year consisted of the following:

| In Thousands                           | Defined Benefit Pension Plans |          |          | Post-Retirement Benefit Plans |        |          |
|--|-------------------------------|----------|----------|-------------------------------|--------|----------|
|  | 2009                          | 2008     | 2007     | 2009                          | 2008   | 2007     |
| <b>Components of Net Periodic Cost</b> |                               |          |          |                               |        |          |
| Service cost                           | \$ 5,413                      | \$ 6,217 | \$ 5,474 | \$ 428                        | \$ 280 | \$ 205   |
| Interest cost                          | 19,151                        | 16,736   | 14,470   | 774                           | 635    | 430      |
| Expected return on plan assets         | (14,878)                      | (20,982) | (18,283) |                               |        |          |
| Amortization of prior service cost     | 18                            | 18       | 18       |                               |        |          |
| Amortization of actuarial (gain) loss  | 3,961                         | 330      | 252      | (90)                          | 12     |          |
| Other                                  |                               |          |          |                               | (10)   | 1,655    |
| Net periodic cost                      | \$ 13,665                     | \$ 2,319 | \$ 1,931 | \$ 1,112                      | \$ 917 | \$ 2,290 |

The funded status of the defined benefit pension and post-retirement plans at the end of fiscal 2009 and 2008 were as follows:

| In Thousands                    | Defined Benefit Pension Plans |            | Post-Retirement Benefit Plans |           |
|---------------------------------|-------------------------------|------------|-------------------------------|-----------|
|                                 | 2009                          | 2008       | 2009                          | 2008      |
| <b>Benefit Obligation</b>       |                               |            |                               |           |
| Beginning balance               | \$ 244,805                    | \$ 301,101 | \$ 11,020                     | \$ 13,864 |
| Currency translation adjustment | 10,369                        | (23,320)   | 1,289                         | (2,537)   |
| Service cost                    | 5,413                         | 6,217      | 366                           | 280       |
| Interest cost                   | 19,151                        | 16,736     | 773                           | 635       |
| Other adjustment                |                               | 1,650      |                               | 71        |
| Plan participants contributions | 127                           | 162        |                               |           |
| Actuarial (gain) loss           | 50,125                        | (41,479)   | (155)                         | (684)     |
| Acquisitions                    | 343                           |            |                               |           |
| Benefits paid                   | (17,262)                      | (16,262)   | (722)                         | (609)     |
| Ending balance                  | \$ 313,071                    | \$ 244,805 | \$ 12,571                     | \$ 11,020 |



| In Thousands  | Defined Benefit<br>Pension Plans |             | Post-Retirement<br>Benefit Plans |             |
|---|----------------------------------|-------------|----------------------------------|-------------|
|   | 2009                             | 2008        | 2009                             | 2008        |
| <b>Plan Assets Fair Value</b>                         |                                  |             |                                  |             |
| Beginning balance                                     | \$ 184,737                       | \$ 289,516  | \$                               | \$          |
| Currency translation<br>adjustment                    | 7,948                            | (21,978)    |                                  |             |
| Realized and unrealized gain<br>(loss) on plan assets | 29,739                           | (71,579)    |                                  |             |
| Acquisitions  |                                  |             |                                  |             |
| Plan participants contributions                       | 127                              | 162         |                                  |             |
| Company contribution                                  | 25,531                           | 5,621       | 722                              | 609         |
| Expenses paid   | (634)                            | (743)       |                                  |             |
| Benefits paid   | (17,262)                         | (16,262)    | (722)                            | (609)       |
| Ending balance  | \$ 230,186                       | \$ 184,737  | \$                               | \$          |
| <b>Funded Status</b>                                  |                                  |             |                                  |             |
| Fair value of plan assets                             | \$ 230,186                       | \$ 184,737  | \$                               | \$          |
| Benefit obligations                                   | (313,071)                        | (244,805)   | (12,571)                         | (11,020)    |
| Net amount recognized                                 | \$ (82,885)                      | \$ (60,068) | \$ (12,571)                      | \$ (11,020) |
| <b>Amount Recognized in the</b>                       |                                  |             |                                  |             |
| <b>Consolidated Balance Sheet</b>                     |                                  |             |                                  |             |
| Current liability                                     | \$ (975)                         | \$ (714)    | \$ (866)                         | \$ (733)    |
| Non-current liability                                 | (81,910)                         | (59,354)    | (11,705)                         | (10,287)    |
| Net amount recognized                                 | \$ (82,885)                      | \$ (60,068) | \$ (12,571)                      | \$ (11,020) |
| <b>Amounts Recognized in</b>                          |                                  |             |                                  |             |
| <b>Accumulated Other</b>                              |                                  |             |                                  |             |
| <b>Comprehensive Income</b>                           |                                  |             |                                  |             |
| Net actuarial loss (gain)                             | \$ 87,386                        | \$ 55,081   | \$ (1,260)                       | \$ (1,766)  |
| Prior service cost                                    | 239                              | (20)        |                                  |             |
| Transition asset (obligation)                         |                                  |             | (997)                            |             |
| Ending balance  | \$ 87,625                        | \$ 55,061   | \$ (2,257)                       | \$ (1,766)  |

The accumulated benefit obligation for all pension plans was \$300,615,000 at October 30, 2009, and \$235,102,000 at October 31, 2008.



Estimated future benefit payments expected to be paid from the plan or from the Company's assets are as follows:

In Thousands

Fiscal Year

|             |           |
|-------------|-----------|
| 2010        | \$ 20,059 |
| 2011        | 20,982    |
| 2012        | 21,844    |
| 2013        | 22,695    |
| 2014        | 23,388    |
| 2015 - 2019 | 128,155   |

Employees may participate in certain defined contribution plans. The Company's contribution expense under these plans totaled \$7,418,000, \$7,256,000 and \$6,835,000 in fiscal 2009, 2008 and 2007, respectively.

#### NOTE 9: Fair Value Measurements

The Company adopted the required portions of ASC 820, formerly Statement of Financial Accounting Standards No. 157, The Fair Value Measurements, on November 1, 2008. This topic applies to all assets and liabilities that are being measured and reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy of fair value measurements is described below:

**Level 1** Valuations are based on quoted prices that the Company has the ability to obtain in actively traded markets for identical assets and liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market or exchange traded market, a valuation of these instruments does not require a significant degree of judgment.

**Level 2** Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

**Level 3** Valuations are based on model-based techniques for which some or all of the assumptions are obtained from indirect market information that is significant to the overall fair value measurement and which require a significant degree of management judgment.

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis by level within the fair value hierarchy at October 30, 2009:

| In Thousands   | Level 2   |
|--|-----------|
| <b>Assets:</b>   |           |
| Derivative contracts designated as hedging instruments     | \$ 16,590 |
| Derivative contracts not designated as hedging instruments | \$ 442    |
| <b>Liabilities:</b>  |           |
| Derivative contracts designated as hedging instruments     | \$ 181    |
| Derivative contracts not designated as hedging instruments | \$ 1,405  |
| Embedded derivatives                                       | \$ 588    |

The Company's embedded derivatives are the result of entering into sales or purchase contracts that are denominated in a currency other than the Company's functional currency or the supplier's or customer's functional currency. The fair value is determined by calculating the difference between quoted exchange rates at the time the contract was entered into and the period-end exchange rate.

The Company's derivative contracts consist of foreign currency exchange contracts and interest rate swap agreements. These derivative contracts are over the counter and their fair value is determined using modeling techniques that include market inputs such as interest rates, yield curves, and currency exchange rates.

The Company adopted ASC 825, formerly Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, effective November 1, 2008. This topic permits entities to elect to measure eligible financial instruments at fair value on an instrument-by-instrument basis. The adoption of this topic had no impact on the consolidated financial position, results of operations or cash flows, as no eligible financial instruments were elected to be measured at fair value under this guidance. The Company adopted ASC 820, formerly Statement of Financial Accounting Standards No. 157, Fair Value Measurements, effective November 1, 2008. The Company elected to defer until October 31, 2009, the adoption of ASC 820 for all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. These nonfinancial assets and nonfinancial liabilities include those measured at fair value in goodwill and indefinite-lived intangible assets impairment testing, and those non-recurring nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. Adoption of ASC 820 for these assets and liabilities is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

#### **NOTE 10: Derivative Financial Instruments**

The Company uses derivative financial instruments in the form of foreign currency forward exchange contracts and interest rate swap contracts for the purpose of minimizing exposure to changes in foreign currency exchange rates on business transactions and interest rates, respectively. The Company's policy is to execute such instruments with banks the Company believes to be credit worthy and not to enter into derivative financial instruments for speculative purposes. These derivative financial instruments do not subject the Company to undue risk, as gains and losses on these instruments generally offset gains and losses on the underlying assets, liabilities, or anticipated transactions that are being hedged.

All derivative financial instruments are recorded at fair value in the Consolidated Balance Sheet. For a derivative that has not been designated as an accounting hedge, the change in the fair value is recognized immediately through earnings. For a derivative that has been designated as an accounting hedge of an existing asset or liability (a fair value hedge), the change in the fair value of both the derivative and underlying asset or liability is recognized immediately through earnings. For a derivative designated as an accounting hedge of an anticipated transaction (a cash flow hedge), the change in the fair value is recorded on the Consolidated Balance Sheet in Accumulated Other Comprehensive Income (AOCI) to the extent the derivative is effective in mitigating the exposure related to the anticipated transaction. The change in the fair value related to the ineffective portion of the hedge, if any, is immediately recognized in earnings. The amount recorded within AOCI is reclassified into earnings in the same period during which the underlying hedged transaction affects earnings.

The fair values of derivative instruments are presented on a gross basis, as the Company does not have any derivative contracts which are subject to master netting arrangements. The Company does not have any hedges with credit-risk-related contingent features or that required the posting of collateral as of October 30, 2009. The cash flows from derivative contracts are recorded in operating activities in the Consolidated Statement of Cash Flows.

#### *Foreign Currency Forward Exchange Contracts*

The Company transacts business in various foreign currencies which subjects the Company's cash flows and earnings to exposure related to changes in foreign currency exchange rates. These exposures arise primarily from purchases or sales of products and services from third parties. Foreign currency forward exchange contracts provide for the purchase or sale of foreign currencies at specified future dates at specified exchange rates and are used to offset changes in the fair value of certain assets or liabilities or forecasted cash flows resulting from transactions denominated in foreign currencies. As of October 30, 2009, and October 31, 2008, the Company had outstanding foreign currency forward exchange contracts principally to sell U.S. dollars with notional amounts of \$275.3 million and \$313.4 million, respectively. These notional values consist primarily of contracts for the European euro, British pound sterling and Canadian dollar, and are stated in U.S. dollar equivalents at spot exchange rates at the respective dates.

#### *Interest Rate Swaps*

The Company manages its exposure to interest rate risk by maintaining an appropriate mix of fixed and variable rate debt, which over time should moderate the costs of debt financing. When considered necessary, the Company may use financial instruments in the form of interest rate swaps to help meet this objective. In June 2009, the Company entered into an interest rate swap agreement on the \$175.0 million Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate of 7.75% for a variable interest rate on the \$175.0 million principal amount outstanding. The variable interest rate is based upon LIBOR plus 5.37% and was 5.61% at October 30, 2009. The fair value of the Company's interest rate swap was a \$269,000 liability at October 30, 2009, and was estimated by discounting expected cash flows using market interest rates. The Company records interest receivable and interest payable on interest rate swaps on a net basis. The Company recognized a net interest receivable of \$1,402,000 at October 30, 2009. A \$2.9 million deferred gain on a terminated interest rate swap is being amortized in proportion to the repayment of the underlying debt. The gain will be amortized through 2013.

*Embedded Derivative Instruments*

The Company's embedded derivatives are the result of entering into sales or purchase contracts that are denominated in a currency other than the Company's functional currency or the supplier's or customer's functional currency.

*Net Investment Hedge*

In February 2006, the Company entered into a term loan for £57.0 million. The Company designated the term loan a hedge of the investment in a certain U.K. business unit. The term loan was fully repaid in June 2009. A cumulative foreign currency loss of \$4.8 million resulting from the accounting of the term loan as a net investment hedge will remain in other comprehensive income in shareholders' equity until the hedged investment is disposed of or sold.

*Fair Value of Derivative Instruments*

Fair values of derivative instruments in the Consolidated Balance Sheet at the end of fiscal 2009 consisted of:

| In Thousands                                | Classification                            | Fair Value |
|---|---|------------|
| Foreign currency forward exchange contracts | Other current assets                      | \$ 17,032  |
| Foreign currency forward exchange contracts | Accrued liabilities                       | \$ 1,586   |
| Embedded derivative instruments             | Accrued liabilities                       | \$ 588     |
| Interest rate swap                          | Long-term debt, net of current maturities | \$ 269     |

The effect of derivative instruments on the Consolidated Statement of Operations for fiscal year 2009 consisted of:

| In Thousands                 | Location of Gain (Loss) | 2009       |
|------------------------------|-------------------------|------------|
| <i>Fair Value Hedges:</i>    |                         |            |
| Interest rate swap contracts | Interest Expense        | \$ 1,967   |
| Embedded derivatives         | Sales                   | \$ (2,666) |

*Cash Flow Hedges:*

Foreign currency forward exchange contracts:

|   |       |             |
|---|-------|-------------|
| Amount of gain recognized in AOCI (effective portion) | AOCI  | \$ 46,861   |
| Amount of loss reclassified from AOCI into income     | Sales | \$ (11,610) |

*Net Investment Hedges:*

U.K. term loan

|  |      |          |
|--|------|----------|
|  | AOCI | \$ (446) |
|--|------|----------|

During fiscal year 2009, the Company recorded gains of \$7.0 million on foreign currency forward exchange contracts that have not been designated as an accounting hedge. These foreign currency exchange gains are included in selling, general and administrative expense.



There was no significant impact to the Company's earnings related to the ineffective portion of any hedging instruments during fiscal year 2009. In addition, there was no significant impact to the Company's earnings when a hedged firm commitment no longer qualified as a fair value hedge or when a hedged forecasted transaction no longer qualified as a cash flow hedge during fiscal year 2009.

Amounts included in AOCI are reclassified into earnings when the hedged transaction settles. The Company expects to reclassify approximately \$11.6 million of net gain into earnings over the next 12 months. The maximum duration of a foreign currency cash flow hedge contract at October 30, 2009, is 29 months.

#### NOTE 11: Income Taxes

Income tax expense from continuing operations for each of the fiscal years consisted of:

| In Thousands       | 2009      | 2008      | 2007      |
|--------------------|-----------|-----------|-----------|
| <b>Current</b>     |           |           |           |
| U.S. Federal       | \$ 12,678 | \$ 36,391 | \$ 18,533 |
| State              | 1,133     | 2,806     | 2,538     |
| Foreign            | 11,321    | 10,272    | 16,851    |
|                    | 25,132    | 49,469    | 37,922    |
| <b>Deferred</b>    |           |           |           |
| U.S. Federal       | (5,655)   | 601       | (50)      |
| State              | 7         | (525)     | (179)     |
| Foreign            | (5,973)   | (22,982)  | (15,128)  |
|                    | (11,621)  | (22,906)  | (15,357)  |
| Income tax expense | \$ 13,511 | \$ 26,563 | \$ 22,565 |

U.S. and foreign components of income from continuing operations before income taxes for each of the fiscal years were:

| In Thousands  | 2009       | 2008       | 2007       |
|---|------------|------------|------------|
| U.S.  | \$ 77,877  | \$ 109,087 | \$ 69,549  |
| Foreign   | 43,047     | 31,368     | 40,931     |
| Income from continuing operations,<br>before income taxes | \$ 120,924 | \$ 140,455 | \$ 110,480 |



Primary components of the Company's deferred tax assets (liabilities) at the end of the fiscal year resulted from temporary tax differences associated with the following:

| In Thousands  | <b>2009</b>        | <b>2008</b>       |
|---|--------------------|-------------------|
| Reserves and liabilities  | \$ 29,703          | \$ 25,300         |
| NOL carryforwards (net of valuation allowances of \$6.8 million and \$6.2 million at fiscal year end 2009 and 2008, respectively) | 1,782              | 110               |
| Tax credit carryforwards (net of valuation allowance of \$3.6 million for fiscal year end 2009)                                   | 31,432             | 31,438            |
| Employee benefits   | 7,145              | 6,895             |
| Retirement benefits   | 32,241             | 24,350            |
| Non-qualified stock options   | 8,818              | 6,514             |
| Hedging activities  |                    | 1,643             |
| Other   | 2,009              | 7,810             |
| <b>Total deferred tax assets</b>  | <b>113,130</b>     | <b>104,060</b>    |
| Depreciation and amortization   | (10,628)           | (12,300)          |
| Intangibles and amortization  | (113,426)          | (85,143)          |
| Deferred costs  | (10,768)           | (7,302)           |
| Retirement benefits   |                    | (3,605)           |
| Hedging activities  | (4,736)            |                   |
| Other   | (774)              | (2,906)           |
| <b>Total deferred tax liabilities</b>   | <b>(140,332)</b>   | <b>(111,256)</b>  |
| <b>Net deferred tax liabilities</b>   | <b>\$ (27,202)</b> | <b>\$ (7,196)</b> |

During fiscal 2009, a subsidiary carried back an acquisition-related capital loss to pre-acquisition years and realized a \$2.1 million current tax benefit. In addition, during fiscal 2009, the Company recorded \$1.6 million of deferred tax benefits related to acquired state tax net operating losses. Both the \$2.1 million and the \$1.6 million of tax benefits were recorded to goodwill.

The Company operates in numerous taxing jurisdictions and is subject to regular examinations by various U.S. federal, state and foreign jurisdictions for various tax periods. Additionally, the Company has retained tax liabilities and the rights to tax refunds in connection with various acquisitions and divestitures of businesses in prior years. The Company's income tax positions are based on research and interpretations of income tax laws and rulings in each of the jurisdictions in which we do business. Due to the subjectivity and complexity of the interpretations of the tax laws and rulings in each jurisdiction, the differences and interplay in the tax laws between those jurisdictions as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company's estimates of income tax liabilities and assets may differ from actual payments, assessments or refunds.

Management believes that it is more likely than not that the Company will realize the current and long-term deferred tax assets as a result of future taxable income. Significant factors management considered in determining the probability of the realization of the deferred tax assets include the reversal of deferred tax liabilities, our historical operating results and expected future earnings. Accordingly, no valuation allowance has been recorded on the deferred

tax assets other than certain net operating losses and foreign tax credits. Both the net operating losses and the foreign tax credits begin to expire in 2018.

The U.S. and various state and foreign income tax returns are open to examination and presently several foreign income tax returns are under examination. Such examinations could result in challenges to tax positions taken and, accordingly, the Company may record adjustments to provisions based on the outcomes of such matters. However, the Company believes that the resolution of these matters, after considering amounts accrued, will not have a material adverse effect on its consolidated financial statements.

The incremental tax benefit received by the Company upon exercise of non-qualified employee stock options was \$0.1 million, \$1.9 million and \$2.7 million in fiscal 2009, 2008 and 2007, respectively.

A reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate for each of the fiscal years was as follows:

|                                  | 2009   | 2008  | 2007  |
|----------------------------------|--------|-------|-------|
| U.S. statutory income tax rate   | 35.0%  | 35.0% | 35.0% |
| State income taxes               | 0.7    | 1.1   | 1.4   |
| Foreign taxes                    | (15.6) | (7.7) | (9.5) |
| Export sales benefit             |        |       | (0.1) |
| Domestic manufacturing deduction | (1.2)  | (1.3) | (0.4) |
| Research & development credits   | (5.9)  | (5.9) | (7.7) |
| Tax accrual adjustment           | 1.0    | (0.5) | 1.5   |
| Suspended losses                 | (5.5)  |       |       |
| U.S. tax on foreign income       | 6.4    |       |       |
| U.S. foreign tax credits         | (6.5)  |       |       |
| Valuation allowance              | 2.2    | (0.1) | 0.4   |
| Change in foreign tax rates      |        | (3.6) | (2.6) |
| Other, net                       | 0.6    | 1.9   | 2.4   |
| Effective income tax rate        | 11.2%  | 18.9% | 20.4% |

No provision for federal income taxes has been made on accumulated earnings of foreign subsidiaries, since such earnings are considered indefinitely reinvested. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries is not practical to determine because of the complexities regarding the calculation of unremitted earnings and the potential for tax credits.

In accordance with ASC 740, formerly Financial Accounting Standard 109, Accounting for Income Taxes, and FIN 48, Uncertainty in Income Taxes, the Company adopted the provisions related to accounting for uncertain income tax positions at the beginning of fiscal year 2008. Of the \$9.2 million cumulative effect of adopting these provisions, \$0.7 million was recorded as a reduction to retained earnings and \$8.5 million was recorded as goodwill. As of the adoption date, the Company had gross unrecognized tax benefits of \$28.7 million and interest of \$2.3 million, of which \$27.7 million was recorded within other liabilities, \$3.1 million was recorded in deferred taxes and \$0.2 million was recorded in federal and foreign income taxes payable in the consolidated balance sheet.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| In Thousands   | <b>Total</b>  |
|--|---------------|
| Unrecognized tax benefits as of October 31, 2008   | \$ 18,953     |
| Unrecognized gross benefit change:   |               |
| Gross increases due to prior-period adjustments  | 19,732        |
| Gross (decrease) due to prior-period adjustments   |               |
| Gross increases due to current-period adjustment   | 2,457         |
| Gross (decrease) due to current-period adjustment  |               |
| Gross (decrease) due to settlements with taxing authorities  | (2,922)       |
| Gross (decrease) due to a lapse with taxing authorities  | (17,649)      |
| <br>Total change in unrecognized gross benefit   | <br>\$ 1,618  |
| <br>Unrecognized tax benefits as of October 30, 2009   | <br>\$ 20,571 |
| <br>Unrecognized tax benefits that, if recognized,<br>would impact the effective tax rate  | <br>\$ 20,571 |
| Total amount of interest:  |               |
| Recognized in the statement of operations  | \$ 472        |
| Recognized in the statement of financial position  | 2,441         |
| During the next 12 months, the amount of previously unrecognized tax benefits is not expected to significantly change. The Company recognizes interest related to unrecognized tax benefits in income tax expense. |               |

The Company is no longer subject to income tax examinations by tax authorities in its major tax jurisdictions as follows:

| Tax Jurisdiction | Years No Longer Subject to Audit |
|------------------|----------------------------------|
| U.S. Federal     | 2005 and prior                   |
| Canada           | 2004 and prior                   |
| France           | 2004 and prior                   |
| Germany          | 2006 and prior                   |
| United Kingdom   | 2003 and prior                   |

**NOTE 12: Debt**

Long-term debt at the end of fiscal 2009 and 2008 consisted of the following:

| In Thousands                                   | 2009       | 2008       |
|--|------------|------------|
| U.K. Term Loan, due November 2010              | \$         | \$ 34,915  |
| U.S. Term Loan, due March 2012                 | 125,000    |            |
| 7.75% Senior Subordinated Notes, due June 2013 | 175,000    | 175,000    |
| 6.625% Senior Notes, due March 2017            | 175,000    | 175,000    |
| Obligations under Capital Leases               | 36,183     | 7,981      |
| Other  | 12,312     | 2,179      |
|  | 523,495    | 395,075    |
| Deferred gain on swap termination              | 2,341      |            |
| Fair value of interest rate swap agreement     | (269)      | 1,561      |
| Less current maturities                        | 5,409      | 8,388      |
| Carrying amount of long-term debt              | \$ 520,158 | \$ 388,248 |

On February 10, 2006, the Company borrowed £57.0 million, or approximately \$100.0 million, under a \$100.0 million term loan facility; the term loan was repaid on June 30, 2009. The Company used the proceeds from the loan as working capital for its U.K. operations and to repay a portion of its outstanding borrowings under the revolving credit facility. The principal amount of the loan was payable quarterly commencing on March 31, 2007, through the termination date of November 14, 2010. In November 2007 the Company terminated an interest rate swap on the GBP term loan for a gain of \$1.9 million. The interest rate swap exchanged the variable interest rate for a fixed interest rate of 4.75% plus an additional margin amount determined by reference to our leverage ratio.

In April 2009, the Company amended its credit facility to provide for a \$125.0 million term loan. The Company used the proceeds from the loan to repay its outstanding borrowings under its revolving credit facility and provide enhanced liquidity. Borrowings under the U.S. Term Loan Facility bear interest at a rate equal to either: (a) the LIBOR rate plus 2.50% or (b) the Base Rate (defined as the higher of Wachovia Bank, National Association's prime rate and the Federal funds rate plus 0.50%) plus 1.50%. The loan is accruing interest at a variable rate based on LIBOR plus 2.5% and was 2.75% on October 30, 2009. The principal amount of the U.S. Term Loan Facility is payable quarterly commencing on March 31, 2010, the first four payments equal to 1.25% of the original loan balance, the following four payments equal to 2.50%, with a final payment equal to 85.00% on March 13, 2012.

In June 2003, the Company sold \$175.0 million of 7.75% Senior Subordinated Notes due in 2013 and requiring semi-annual interest payments in December and June of each year until maturity. The net proceeds from this offering were used to fund acquisitions and for general corporate purposes, including the repayment of debt and possible future acquisitions. The Senior Subordinated Notes are general unsecured obligations of the Company and are subordinated to all existing and future senior debt of the Company. In addition, the Senior Subordinated Notes are effectively subordinated to all existing and future senior debt and other liabilities (including trade payables) of the Company's foreign subsidiaries. The Senior Subordinated Notes are guaranteed, jointly and severally, by all the existing and future domestic subsidiaries of the Company unless designated as an unrestricted subsidiary under the indenture covering the Senior Subordinated Notes. The Senior Subordinated Notes are subject to redemption at the option of the Company, in whole or in part, on or after



June 15, 2008, at redemption prices starting at 103.875% of the principal amount plus accrued interest during the period beginning June 11, 2003, and declining annually to 100% of principal and accrued interest on June 15, 2011.

On March 1, 2007, the Company issued \$175.0 million in 6.625% Senior Notes due March 1, 2017, and requiring semi-annual interest payments in March and September of each year until maturity. The net proceeds from this offering were used to pay a portion of the purchase price of the acquisition of CMC for approximately \$344.5 million. The Senior Notes are general unsecured senior obligations of the Company. The Senior Notes are guaranteed, jointly and severally on a senior basis, by all the existing and future domestic subsidiaries of the Company unless designated as an unrestricted subsidiary, and those foreign subsidiaries that executed related subsidiary guarantees under the indenture covering the Senior Notes. The Senior Notes are subject to redemption at the option of the Company at any time prior to March 1, 2012, at a price equal to 100% of the principal amount, plus any accrued interest to the date of redemption and a make-whole provision. In addition, before March 1, 2010, the Company may redeem up to 35% of the principal amount at 106.625% plus accrued interest with proceeds of one or more Public Equity Offerings. The Senior Notes are also subject to redemption at the option of the Company, in whole or in part, on or after March 1, 2012, at redemption prices starting at 103.3125% of the principal amount plus accrued interest during the period beginning March 1, 2007, and declining annually to 100% of principal and accrued interest on or after March 1, 2015.

In June 2009, the Company entered into an interest rate swap agreement on the \$175.0 million Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate of 7.75% for a variable interest rate on the \$175.0 million principal amount outstanding. The variable interest rate is based upon LIBOR plus 5.37% and was 5.61% at October 30, 2009. The fair value of the Company's interest rate swap was \$269,000 liability at October 30, 2009, and was estimated by discounting expected cash flows using market interest rates.

In September 2003, the Company entered into an interest rate swap agreement on \$75.0 million of its Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate for a variable interest rate on \$75.0 million of the \$175.0 million principal amount outstanding. The Company had a \$2.9 million deferred gain on a terminated interest rate swap and is being amortized in proportion to the repayment of the underlying debt. The gain at October 30, 2009, was \$2,341,000 and will be amortized through 2013.

In fiscal 2008, the Company entered into a land and building lease for a 216,000 square-foot manufacturing facility for a control systems operation. Construction of the building was completed in fiscal 2009. The land and building lease has a fixed term of 30 years and includes an option to purchase the building at fair market value five years after construction is complete. The expected minimum lease payments include a 2% minimum annual rent increase. The fair value of the land and building is \$26.3 million and is accounted for as a capital lease. The imputed interest rate is 8.2%.

In fiscal 2009, the Company amended the building lease for an interface technologies facility to extend the term of the lease to 2027 and provided for the construction of a 54,000 square-foot addition to the existing building. Construction of the building is expected to be completed in fiscal 2010. The value of the building is expected to be \$12.7 million and is accounted for as a capital lease. At October 30, 2009, the amount recorded as a capitalized lease obligation is \$9.6 million. The imputed interest rate is 6.4%.

As of October 30, 2009, maturities of long-term debt and future minimum lease payments under capital lease obligations were as follows:

In Thousands

| Fiscal Year                        | Debt       | Capital Leases |
|------------------------------------|------------|----------------|
| 2010                               | \$ 5,250   | \$ 3,396       |
| 2011                               | 12,611     | 3,172          |
| 2012                               | 109,591    | 3,230          |
| 2013                               | 175,034    | 3,290          |
| 2014                               |            | 3,350          |
| 2015 and thereafter                | 184,826    | 92,673         |
|                                    | \$ 487,312 | 109,111        |
| Less: amount representing interest |            | 72,928         |
| Total principal payments           |            | \$ 36,183      |

Short-term credit facilities at the end of fiscal 2009 and 2008 consisted of the following:

| In Thousands | 2009                   |               | 2008                   |               |
|--------------|------------------------|---------------|------------------------|---------------|
|              | Outstanding Borrowings | Interest Rate | Outstanding Borrowings | Interest Rate |
| U.S.         | \$                     |               | \$                     |               |
| Foreign      | 5,896                  | 1.00%         | 5,171                  | 3.66%         |
|              | \$ 5,896               |               | \$ 5,171               |               |

At October 30, 2009, the Company's primary U.S. dollar credit facility made available through a group of banks totals \$200,000,000. The credit agreement is secured by substantially all of the Company's assets and interest is based on standard inter-bank offering rates. An additional \$31,897,000 of unsecured foreign currency credit facilities have been extended by foreign banks for a total of \$231,897,000 available companywide.

A number of underlying agreements contain various covenant restrictions which include maintenance of net worth, payment of dividends, interest coverage, and limitations on additional borrowings. The Company was in compliance with these covenants at October 30, 2009. Available credit under the above credit facilities was \$203,547,000 at fiscal 2009 year end, when reduced by outstanding borrowings of \$5,896,000 and letters of credit of \$22,454,000.



**NOTE 13: Commitments and Contingencies**

Rental expense for operating leases for engineering, selling, administrative and manufacturing totaled \$16,166,000, \$16,316,000 and \$14,547,000 in fiscal years 2009, 2008 and 2007, respectively.

At October 30, 2009, the Company's rental commitments for noncancelable operating leases with a duration in excess of one year were as follows:

In Thousands

Fiscal Year

|                     |           |
|---------------------|-----------|
| 2010                | \$ 13,376 |
| 2011                | 10,318    |
| 2012                | 9,157     |
| 2013                | 8,094     |
| 2014                | 5,687     |
| 2015 and thereafter | 7,864     |
|                     | \$ 54,496 |

Certain operating lease agreements contain provisions that allow the Company to purchase the underlying properties.

The Company receives government funding under the Technology Partnership Canada program to assist in the development of certain new products. The amounts are reimbursable through royalties on future revenues derived from funded products if and when they are commercialized.

The Company is subject to purchase obligations for goods and services. The purchase obligations include amounts under legally enforceable agreements for goods and services with defined terms as to quantity, price and timing of delivery. As of October 30, 2009, the Company's purchase obligations were as follows:

In Thousands

|                      |            | Less than  | 1-3       | 4-5      | After 5 |
|----------------------|------------|------------|-----------|----------|---------|
|                      | Total      | 1 year     | years     | years    | years   |
| Purchase obligations | \$ 229,080 | \$ 193,059 | \$ 33,369 | \$ 1,842 | \$ 810  |

The Company is a party to various lawsuits and claims, both as plaintiff and defendant, and has contingent liabilities arising from the conduct of business, none of which, in the opinion of management, is expected to have a material effect on the Company's financial position or results of operations. The Company believes that it has made appropriate and adequate provisions for contingent liabilities.

Approximately 767 U.S.-based employees or 16% of total U.S.-based employees were represented by various labor unions. In May 2009, a collective bargaining agreement covering about 160 employees expired and a successor agreement is in the process of negotiation with the labor union. Management believes that the Company has established a good relationship with these employees and their union. The Company's European operations are subject to national trade union agreements and to local regulations governing employment.



**NOTE 14: Employee Stock Plans**

The Company has three share-based compensation plans, which are described below. The compensation cost that has been charged against income for those plans for fiscal 2009, 2008, and 2007 was \$7.3 million, \$8.7 million, and \$6.9 million, respectively. The total income tax benefit recognized in the income statement for the share-based compensation arrangement for fiscal 2009, 2008, and 2007 was \$2.3 million, \$2.6 million, and \$2.0 million, respectively.

*Employee Stock Purchase Plan*

In March 2002, the Company's shareholders approved the establishment of an Employee Stock Purchase Plan (ESPP) under which 300,000 shares of the Company's common stock are reserved for issuance to employees. On March 5, 2008, the Company's shareholders authorized an additional 250,000 shares of the Company's stock under the ESPP. The plan qualifies as a noncompensatory employee stock purchase plan under Section 423 of the Internal Revenue Code. Employees are eligible to participate through payroll deductions subject to certain limitations.

The Company converted the ESPP to a "safe harbor" design on December 16, 2008. Under the safe harbor design, shares are purchased by participants at 95% of the fair market value on the purchase date and, therefore, compensation cost is no longer recorded under the ESPP. During fiscal 2009, employees purchased 90,817 shares at a fair market value price of \$32.09 per share. At the end of fiscal 2009, the Company had reserved 164,199 shares for issuance under its employee share-save scheme for U.K. employees, leaving a balance of 39,994 shares available for issuance in the future. As of October 30, 2009, deductions aggregating \$590,503 were accrued for the purchase of shares on December 15, 2009.

The fair value of the awards under the employee stock purchase plan was estimated using a Black-Scholes pricing model which uses the assumptions noted in the following table. The Company uses historical data to estimate volatility of the Company's common stock. The risk-free rate for the contractual life of the option is based on the U.S. Treasury zero coupon issues in effect the time of grant.

|                         | 2009  | 2008       | 2007       |
|-------------------------|-------|------------|------------|
| Volatility              | 33.8% | 21.4 34.8% | 21.4 39.9% |
| Risk-free interest rate | 3.32% | 3.32       | 5.15%      |
| Expected life (months)  | 6     | 6          | 6          |
| Dividends               |       |            |            |

*Employee Share-Save Scheme*

In April 2009, the Company offered shares under its employee share-save scheme for U.K. employees. This plan allows participants the option to purchase shares at 95% of the market price of the stock as of the beginning of the offering period. The term of these options is three years. The share-save scheme is not a "safe-harbor" design, and, therefore, compensation cost will be recognized on this plan.

Under the employee share-save scheme, option exercise prices are equal to the fair market value of the Company's common stock on the date of grant. The Company granted 164,199 options in fiscal 2009. The weighted-average grant date fair value of options granted in fiscal 2009 was \$7.49 per share.



The fair value of the awards under the employee share-save scheme was estimated using a Black-Scholes pricing model which uses the assumptions noted in the following table. The risk-free rate for the contractual life of the option is based on the U.S. Treasury zero coupon issues in effect the time of grant.

|  |             |
|--|-------------|
|  | <b>2009</b> |
| Volatility                             | 50.08%      |
| Risk-free interest rate                | 0.58%       |
| Expected life (years)                  | 3           |
| Dividends                              |             |
| <i>Non-qualified Stock Option Plan</i> |             |

The Company also provides a nonqualified stock option plan (equity incentive plan) for officers and key employees. On March 5, 2008, the Company's shareholders authorized the issuance of an additional 1,000,000 shares of the Company's common stock under the equity incentive plan. At the end of fiscal 2009, the Company had 3,044,255 shares reserved for issuance to officers and key employees, of which 1,071,980 shares were available to be granted in the future.

The Board of Directors authorized the Compensation Committee to administer awards granted under the equity incentive plan, including option grants, and to establish the terms of such awards. Awards under the equity incentive plan may be granted to eligible employees of the Company over the 10-year period ending March 3, 2014. Options granted become exercisable ratably over a period of four years following the date of grant and expire on the tenth anniversary of the grant. Option exercise prices are equal to the fair market value of the Company's common stock on the date of grant. The weighted-average grant date fair value of the options granted in fiscal 2009 and 2008 was \$15.75 per share and \$25.44 per share, respectively.

The fair value of each option granted by the Company was estimated using a Black-Scholes pricing model which uses the assumptions noted in the following table. The Company uses historical data to estimate volatility of the Company's common stock and option exercise and employee termination assumptions. The range of the expected term reflects the results from certain groups of employees exhibiting different behavior. The risk-free rate for the periods within the contractual life of the grant is based upon the U.S. Treasury zero coupon issues in effect at the time of the grant.

|                         | <b>2009</b> |       | <b>2008</b> |       | <b>2007</b> |        |
|-------------------------|-------------|-------|-------------|-------|-------------|--------|
| Volatility              | 36.8        | 43.1% | 33.0        | 42.9% | 36.15       | 44.26% |
| Risk-free interest rate | 1.43        | 3.12% | 3.24        | 4.53% | 4.31        | 4.82%  |
| Expected life (years)   | 4.5         | 9.5   | 2.0         | 9.5   | 4.5         | 9.5    |
| Dividends               |             |       |             |       |             |        |

The following table summarizes the changes in outstanding options granted under the Company's stock option plans:

|                                | 2009                     |                                 | 2008                     |                                 | 2007                     |                                 |
|--------------------------------|--------------------------|---------------------------------|--------------------------|---------------------------------|--------------------------|---------------------------------|
|                                | Shares Subject to Option | Weighted Average Exercise Price | Shares Subject to Option | Weighted Average Exercise Price | Shares Subject to Option | Weighted Average Exercise Price |
| Outstanding, beginning of year | 1,670,425                | \$ 36.76                        | 1,506,400                | \$ 30.89                        | 1,469,000                | \$ 25.80                        |
| Granted                        | 429,400                  | 31.69                           | 376,300                  | 52.53                           | 420,000                  | 40.24                           |
| Exercised                      | (25,100)                 | 13.61                           | (184,125)                | 20.12                           | (332,950)                | 19.68                           |
| Cancelled                      | (102,450)                | 43.79                           | (28,150)                 | 42.50                           | (49,650)                 | 35.62                           |
| Outstanding, end of year       | 1,972,275                | \$ 35.58                        | 1,670,425                | \$ 36.76                        | 1,506,400                | \$ 30.89                        |
| Exercisable, end of year       | 1,127,425                | \$ 32.80                        | 855,125                  | \$ 28.54                        | 775,300                  | \$ 23.95                        |

The aggregate intrinsic value of the option shares outstanding and exercisable at October 30, 2009, was \$16.5 million and \$11.7 million, respectively.

The number of option shares vested or that are expected to vest at October 30, 2009, was 1.9 million and the aggregate intrinsic value was \$16.1 million. The weighted average exercise price and weighted average remaining contractual term of option shares vested or that are expected to vest at October 30, 2009, was \$35.53 and 6.2 years, respectively. The weighted-average remaining contractual term of option shares currently exercisable is 4.6 years as of October 30, 2009.

The table below presents stock activity related to stock options exercised in fiscal 2009 and 2008:

| In Thousands                                    | 2009   | 2008     |
|---|--------|----------|
| Proceeds from stock options exercised           | \$ 364 | \$ 3,721 |
| Tax benefits related to stock options exercised | \$ 119 | \$ 1,983 |
| Intrinsic value of stock options exercised      | \$ 536 | \$ 6,757 |

Total unrecognized compensation expense for options that have not vested as of October 30, 2009, is \$6.6 million, which will be recognized over a weighted average period of 1.3 years. The total fair value of option shares vested during the year ended October 30, 2009, was \$6.8 million.

The following table summarizes information for stock options outstanding at October 30, 2009:

| Range of<br>Exercise Prices | Options Outstanding |  |                              | Options Exercisable |                              |  |
|-----------------------------|---------------------|--|------------------------------|---------------------|------------------------------|--|
|                             | Shares              | Weighted<br>Average<br>Remaining<br>Life (years) | Weighted<br>Average<br>Price | Shares              | Weighted<br>Average<br>Price |  |
| \$ 14.75 26.24              | 421,250             | 3.12   | \$ 20.68                     | 410,650             | \$ 20.63                     |  |
| 26.25 32.00                 | 426,200             | 8.56   | 31.37                        | 35,000              | 27.45                        |  |
| 32.01 38.91                 | 553,650             | 5.87   | 37.72                        | 416,800             | 37.39                        |  |
| 38.92 50.89                 | 287,675             | 6.43   | 42.38                        | 187,050             | 41.91                        |  |
| 50.90 53.00                 | 283,500             | 7.90   | 53.00                        | 77,925              | 53.00                        |  |

**NOTE 15: Capital Stock**

The authorized capital stock of the Company consists of 25,000 shares of preferred stock (\$100 par value), 475,000 shares of serial preferred stock (\$1.00 par value), each issuable in series, and 60,000,000 shares of common stock (\$.20 par value). At the end of fiscal 2009, there were no shares of preferred stock or serial preferred stock outstanding.

On October 12, 2007, the Company completed an underwritten public offering of 3.5 million shares of common stock, generating proceeds of \$187.1 million. Proceeds from the offering were used to pay off its \$100.0 million U.S. term loan facility and pay down a revolving credit facility of \$27.0 million.

Effective December 5, 2002, the Board of Directors adopted a Shareholder Rights Plan, providing for the distribution of one Series B Serial Preferred Stock Purchase Right (Right) for each share of common stock held as of December 23, 2002. Each Right entitles the holder to purchase one one-hundredth of a share of Series B Serial Preferred Stock at an exercise price of \$161.00, as may be adjusted from time to time.

The Right to purchase shares of Series B Serial Preferred Stock is triggered once a person or entity (together with such person's or entity's affiliates) beneficially owns 15% or more of the outstanding shares of common stock of the Company (such person or entity, an Acquiring Person). When the Right is triggered, the holder may purchase one one-hundredth of a share of Series B Serial Preferred Stock at an exercise price of \$161.00 per share. If after the Rights are triggered, (i) the Company is the surviving corporation in a merger or similar transaction with an Acquiring Person, (ii) the Acquiring Person beneficially owns more than 15% of the outstanding shares of common stock or (iii) the Acquiring Person engages in other self-dealing transactions, holders of the Rights can elect to purchase shares of common stock of the Company with a market value of twice the exercise price. Similarly, if after the Rights are triggered, the Company is not the surviving corporation of a merger or similar transaction or the Company sells 50% or more of its assets to another person or entity, holders of the Rights may elect to purchase shares of common stock of the surviving corporation or that person or entity who purchased the Company's assets with a market value of twice the exercise price.

**NOTE 16: Acquisitions**

On January 26, 2009, the Company acquired all of the outstanding capital stock of Racal Acoustics Global Ltd. (Racal Acoustics) for approximately £122.3 million, or \$170.9 million in cash, including acquisition costs. Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics segment. The acquisition expands the scale of the Company's existing avionics and controls business. Racal Acoustics is included in the Avionics & Controls segment.

The following summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was based upon a preliminary valuation analysis. The Company has not finalized the allocation of the purchase price to tangible and intangible assets and tax basis of acquired assets and liabilities. The Company recorded goodwill of \$93.4 million. The amount allocated to goodwill is not expected to be deductible for income tax purposes.

(In thousands)

As of January 26, 2009

|   |                |
|---|----------------|
| Current assets                                  | \$ 30,366      |
| Property, plant and equipment                   | 3,091          |
| Intangible assets subject to amortization       |                |
| Programs (15 year weighted average useful life) | 90,045         |
| Goodwill  | 93,416         |
| <br>Total assets acquired                       | <br>216,918    |
| <br>Current liabilities assumed                 | <br>20,792     |
| Deferred tax liabilities                        | 25,213         |
| <br>Net assets acquired                         | <br>\$ 170,913 |

On December 15, 2008, the Company acquired all of the outstanding capital stock of NMC Group, Inc. (NMC) for approximately \$90.1 million in cash, including acquisition costs. NMC designs and manufactures specialized light-weight fasteners principally for commercial aviation applications. The acquisition expands the scale of the Company's existing advanced materials business. NMC is included in the Advanced Materials segment.

The following summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was based upon a preliminary valuation analysis. The Company has not finalized the allocation of the purchase price to tangible and intangible assets and tax basis of acquired assets and liabilities. The Company recorded goodwill of \$40.8 million. The amount allocated to goodwill is expected to be deductible for income tax purposes.



(In thousands)

As of December 15, 2008

|   |               |
|---|---------------|
| Current assets                                  | \$ 7,925      |
| Property, plant and equipment                   | 3,246         |
| Intangible assets subject to amortization       |               |
| Programs (15 year weighted average useful life) | 39,580        |
| Goodwill  | 40,796        |
| Other assets                                    | 19            |
| <br>Total assets acquired                       | <br>91,566    |
| <br>Current liabilities assumed                 | <br>1,427     |
| <br>Net assets acquired                         | <br>\$ 90,139 |

On March 14, 2007, the Company acquired all of the outstanding capital stock of CMC Electronics Inc. (CMC), a leading aerospace/defense avionics company, for approximately \$344.5 million in cash, including acquisition costs and an adjustment based on the amount of cash and net working capital as of closing. The acquisition significantly expands the scale of the Company's existing Avionics & Controls business. CMC is included in the Avionics & Controls segment.

The following summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was based upon an independent valuation report. The purchase price includes the value of future development of existing technologies, the introduction of new technologies, and the addition of new customers. These factors resulted in the recording of goodwill of \$204.7 million. The amount allocated to goodwill is not deductible for income tax purposes.

In Thousands

As of March 14, 2007

|   |                |
|---|----------------|
| Current assets                                  | \$ 96,361      |
| Property, plant and equipment                   | 39,136         |
| Intangible assets subject to amortization       |                |
| Programs (15 year weighted average useful life) | 83,189         |
| Trade names                                     | 22,371         |
| Goodwill  | 204,690        |
| Deferred income tax benefit                     | 27,338         |
| <br>Total assets acquired                       | <br>473,085    |
| <br>Current liabilities assumed                 | <br>73,922     |
| Deferred tax liabilities                        | 36,149         |
| Pension and other liabilities                   | 18,481         |
| <br>Net assets acquired                         | <br>\$ 344,533 |

The above acquisitions were accounted for under the purchase method of accounting and the results of operations were included from the effective date of each acquisition.

**NOTE 17: Accumulated Other Comprehensive Income**

The components of Accumulated Other Comprehensive Income:

| In Thousands                                   | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Unrealized gain (loss) on derivative contracts | \$ 16,406   | \$ (18,845) |
| Tax effect                                     | (5,043)     | 6,029       |
|  | 11,363      | (12,816)    |
| Pension and post-retirement obligations        | (85,368)    | (53,467)    |
| Tax effect                                     | 30,501      | 18,865      |
|  | (54,867)    | (34,602)    |
| Currency translation adjustment                | 53,160      | (39,203)    |
| Accumulated other comprehensive income (loss)  | \$ 9,656    | \$ (86,621) |

**NOTE 18: Business Segment Information**

The Company's businesses are organized and managed in three reporting segments: Avionics & Controls, Sensors & Systems and Advanced Materials. Operating segments within each reporting segment are aggregated. Operations within the Avionics & Controls segment focus on integrated cockpit systems, technology interface systems for commercial and military aircraft, and similar devices for land- and sea-based military vehicles, secure communications systems, military audio and data products, specialized medical equipment and other industrial applications. Sensors & Systems includes operations that produce high-precision temperature and pressure sensors, electrical power switching and other related systems principally for aerospace and defense customers. The Advanced Materials segment focuses on thermally engineered components for critical aerospace applications, high-performance elastomer products used in a wide range of commercial aerospace and military applications, and combustible ordnance and electronic warfare countermeasure devices. All segments include sales to domestic, international, defense and commercial customers.

Geographic sales information is based on product origin. The Company evaluates these segments based on segment profits prior to net interest, other income/expense, corporate expenses and federal/foreign income taxes.

Details of the Company's operations by business segment for the last three fiscal years were as follows:

| In Thousands                             | 2009         | 2008         | 2007         |
|--|--------------|--------------|--------------|
| <b>Sales</b>                             |              |              |              |
| Avionics & Controls                      | \$ 672,828   | \$ 611,467   | \$ 461,990   |
| Sensors & Systems                        | 339,732      | 384,180      | 316,485      |
| Advanced Materials                       | 412,878      | 487,525      | 428,558      |
|  | \$ 1,425,438 | \$ 1,483,172 | \$ 1,207,033 |
| <b>Income From Continuing Operations</b> |              |              |              |
| Avionics & Controls                      | \$ 99,313    | \$ 77,892    | \$ 47,821    |
| Sensors & Systems                        | 34,329       | 43,439       | 32,385       |
| Advanced Materials                       | 53,602       | 78,633       | 97,295       |
| Segment Earnings                         | 187,244      | 199,964      | 177,501      |
| Corporate expense                        | (31,295)     | (35,725)     | (33,691)     |
| Other expense                            | (7,970)      | (86)         | (24)         |
| Gain on derivative financial instruments |              | 1,850        |              |
| Loss on extinguishment of debt           |              |              | (1,100)      |
| Interest income                          | 1,634        | 4,374        | 3,093        |
| Interest expense                         | (28,689)     | (29,922)     | (35,299)     |
|  | \$ 120,924   | \$ 140,455   | \$ 110,480   |
| <b>Identifiable Assets</b>               |              |              |              |
| Avionics & Controls                      | \$ 1,168,102 | \$ 782,633   | \$ 856,875   |
| Sensors & Systems                        | 447,325      | 488,829      | 462,558      |
| Advanced Materials                       | 573,284      | 501,494      | 568,475      |
| Corporate <sup>1</sup>                   | 125,536      | 149,146      | 151,151      |
|  | \$ 2,314,247 | \$ 1,922,102 | \$ 2,039,059 |
| <b>Capital Expenditures<sup>2</sup></b>  |              |              |              |
| Avionics & Controls <sup>2</sup>         | \$ 30,698    | \$ 10,287    | \$ 5,852     |
| Sensors & Systems                        | 8,697        | 12,067       | 8,345        |
| Advanced Materials                       | 19,512       | 15,363       | 15,054       |
| Discontinued Operations                  |              | 1,449        | 1,004        |
| Corporate                                | 277          | 1,499        | 212          |
|  | \$ 59,184    | \$ 40,665    | \$ 30,467    |
| <b>Depreciation and Amortization</b>     |              |              |              |
| Avionics & Controls                      | \$ 28,521    | \$ 21,903    | \$ 16,166    |

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|                         |           |           |           |
|-------------------------|-----------|-----------|-----------|
| Sensors & Systems       | 15,792    | 17,110    | 13,818    |
| Advanced Materials      | 24,830    | 23,852    | 22,320    |
| Discontinued Operations |           | 1,340     | 1,613     |
| Corporate               | 2,368     | 2,094     | 1,903     |
|                         | \$ 71,511 | \$ 66,299 | \$ 55,820 |

<sup>1</sup> Primarily cash, prepaid pension expense (see Note 8) and deferred tax assets (see Note 11).

<sup>2</sup> Excludes capital expenditures accounted for as a capitalized lease obligation of \$28,202 and \$7,981 in fiscal 2009 and 2008, respectively.

The Company's operations by geographic area for the last three fiscal years were as follows:

| In Thousands             |        | 2009         | 2008         | 2007         |
|--------------------------|--------|--------------|--------------|--------------|
| <b>Sales</b>             |        |              |              |              |
| <i>Domestic</i>          |        |              |              |              |
| Unaffiliated customers   | U.S.   | \$ 628,320   | \$ 675,187   | \$ 594,154   |
| Unaffiliated customers   | export | 163,890      | 176,985      | 151,041      |
| Intercompany             |        | 17,189       | 12,608       | 10,875       |
|                          |        | 809,399      | 864,780      | 756,070      |
| <i>Canada</i>            |        |              |              |              |
| Unaffiliated customers   |        | 218,177      | 201,604      | 122,087      |
| Intercompany             |        | 4,089        | 4,531        |              |
|                          |        | 222,266      | 206,135      | 122,087      |
| <i>France</i>            |        |              |              |              |
| Unaffiliated customers   |        | 155,494      | 178,511      | 143,599      |
| Intercompany             |        | 20,098       | 27,067       | 19,564       |
|                          |        | 175,592      | 205,578      | 163,163      |
| <i>United Kingdom</i>    |        |              |              |              |
| Unaffiliated customers   |        | 230,164      | 227,830      | 152,319      |
| Intercompany             |        | 12,648       | 13,015       | 13,175       |
|                          |        | 242,812      | 240,845      | 165,494      |
| <i>All Other Foreign</i> |        |              |              |              |
| Unaffiliated customers   |        | 29,393       | 23,055       | 43,833       |
| Intercompany             |        | 2,626        | 5,035        | 2,821        |
|                          |        | 32,019       | 28,090       | 46,654       |
| <i>Eliminations</i>      |        |              |              |              |
|                          |        | (56,650)     | (62,256)     | (46,435)     |
|                          |        | \$ 1,425,438 | \$ 1,483,172 | \$ 1,207,033 |

| In Thousands                           | 2009         | 2008         | 2007         |
|--|--------------|--------------|--------------|
| <b>Segment Earnings<sup>1</sup></b>    |              |              |              |
| Domestic                               | \$ 120,998   | \$ 147,865   | \$ 120,711   |
| Canada                                 | 18,279       | 1,273        | (7,621)      |
| France                                 | 15,209       | 23,170       | 15,025       |
| United Kingdom                         | 28,435       | 23,052       | 45,786       |
| All other foreign                      | 4,323        | 4,604        | 3,600        |
|  | \$ 187,244   | \$ 199,964   | \$ 177,501   |
| <b>Identifiable Assets<sup>2</sup></b> |              |              |              |
| Domestic                               | \$ 760,480   | \$ 661,946   | \$ 641,143   |
| Canada                                 | 565,434      | 478,648      | 568,650      |
| France                                 | 211,152      | 186,482      | 188,430      |
| United Kingdom                         | 586,795      | 388,789      | 430,876      |
| All other foreign                      | 64,850       | 57,091       | 58,809       |
|  | \$ 2,188,711 | \$ 1,772,956 | \$ 1,887,908 |

<sup>1</sup> Before corporate expense, shown on page 94.

<sup>2</sup> Excludes corporate, shown on page 94.

The Company's principal foreign operations consist of manufacturing facilities located in Canada, France, Germany and the United Kingdom, and include sales and service operations located in Singapore and China. Sensors & Systems segment operations are dependent upon foreign sales, which represented \$141.5 million, \$176.1 million and \$200.9 million of Sensors & Systems sales in fiscal 2009, 2008 and 2007, respectively. Intercompany sales are at prices comparable with sales to unaffiliated customers. U.S. government sales as a percent of Advance Materials and Avionics & Controls sales were 23.3% and 5.5%, respectively, in fiscal 2009, and 10.0% of consolidated sales. In fiscal 2008, U.S. government sales as a percent of Advanced Materials and Avionics & Controls sales were 23.6% and 4.9%, respectively, and 10.0% of consolidated sales. In fiscal 2007, U.S. government sales as a percent of Advanced Materials and Avionics & Controls sales were 26.1% and 6.0%, respectively, and 11.2% of consolidated sales.

Product lines contributing sales of 10% or more of total sales in any of the last three fiscal years were as follows:

|                                   | 2009 | 2008 | 2007 |
|-----------------------------------|------|------|------|
| Elastomeric products              | 9%   | 10%  | 12%  |
| Sensors                           | 11%  | 12%  | 12%  |
| Aerospace switches and indicators | 9%   | 10%  | 12%  |
| Avionics                          | 14%  | 11%  | 7%   |

**NOTE 19: Quarterly Financial Data (Unaudited)**

The following is a summary of unaudited quarterly financial information:

In Thousands, Except Per Share Amounts

| Fiscal Year 2009                          | Fourth                  | Third                    | Second                 | First                      |
|---|-------------------------|--------------------------|------------------------|----------------------------|
| Net sales                                 | \$ 394,733              | \$ 361,486               | \$ 359,502             | \$ 309,717                 |
| Gross margin                              | 129,952                 | 117,147                  | 112,598                | 102,152                    |
| Net earnings from continuing operations   | \$ 37,893 <sup>1</sup>  | \$ 32,478                | \$ 25,338              | \$ 11,487                  |
| Net earnings from discontinued operations | \$ (3,392) <sup>1</sup> | \$ 163                   | \$ 375                 | \$ 15,456                  |
| Net earnings                              | \$ 34,501 <sup>2</sup>  | \$ 32,641 <sup>3,4</sup> | \$ 25,713 <sup>5</sup> | \$ 26,943 <sup>6,7,8</sup> |
| Earnings per share basic                  |                         |                          |                        |                            |
| Continuing operations                     | \$ 1.27                 | \$ 1.09                  | \$ .85                 | \$ .39                     |
| Discontinued operations                   | \$ (.11)                | \$ .01                   | \$ .02                 | \$ .52                     |
| Earnings per share basic                  | \$ 1.16                 | \$ 1.10                  | \$ .87                 | \$ .91                     |
| Earnings per share diluted                |                         |                          |                        |                            |
| Continuing operations                     | \$ 1.26                 | \$ 1.09                  | \$ .85                 | \$ .38                     |
| Discontinued operations                   | \$ (.11)                | \$                       | \$ .01                 | \$ .52                     |
| Earnings per share diluted <sup>3</sup>   | \$ 1.15                 | \$ 1.09                  | \$ .86                 | \$ .90                     |
| Fiscal Year 2008                          | Fourth                  | Third                    | Second                 | First                      |
| Net sales                                 | \$ 404,350              | \$ 363,464               | \$ 358,033             | \$ 357,325                 |
| Gross margin                              | 140,361                 | 113,358                  | 121,387                | 115,213                    |
| Net earnings from continuing operations   | \$ 41,437               | \$ 18,400                | \$ 23,947              | \$ 29,725                  |
| Net earnings from discontinued operations | \$ 2,445                | \$ 2,082                 | \$ 1,238               | \$ 1,259                   |
| Net earnings                              | \$ 43,882 <sup>9</sup>  | \$ 20,482 <sup>10</sup>  | \$ 25,185              | \$ 30,984 <sup>11,12</sup> |
| Earnings per share basic                  |                         |                          |                        |                            |
| Continuing operations                     | \$ 1.40                 | \$ .62                   | \$ .81                 | \$ 1.01                    |



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|   |    |      |    |     |    |     |    |      |
|---|----|------|----|-----|----|-----|----|------|
| Discontinued operations                 | \$ | .08  | \$ | .07 | \$ | .05 | \$ | .04  |
| Earnings per share basic                | \$ | 1.48 | \$ | .69 | \$ | .86 | \$ | 1.05 |
| Earnings per share diluted              |    |      |    |     |    |     |    |      |
| Continuing operations                   | \$ | 1.38 | \$ | .61 | \$ | .80 | \$ | 1.00 |
| Discontinued operations                 | \$ | .08  | \$ | .07 | \$ | .04 | \$ | .04  |
| Earnings per share diluted <sup>b</sup> | \$ | 1.46 | \$ | .68 | \$ | .84 | \$ | 1.04 |

- <sup>1</sup> Included a reclassification of \$3.4 million of tax benefits from discontinued operations to continued operations offset by a \$1.0 million tax expense to establish a valuation allowance for U.S. foreign tax credits that are not expected to result in a current or future reduction of U.S. income taxes.
- <sup>2</sup> Included a \$2.2 million, after tax, impairment of a subsidiary trade name.
- <sup>3</sup> Included the reversal of the \$1.6 million tax accrual recorded in the first quarter of fiscal 2009 due to the application of foreign tax laws.
- <sup>4</sup> Included a \$1.5 million tax benefit associated with the reconciliation of the prior year's U.S. income tax return to the U.S. income tax provision.
- <sup>5</sup> Included a \$2.8 million, after tax, estimate-to-complete adjustment on certain firm fixed-price long-term contracts for the development and manufacture of certain cockpit avionics systems.
- <sup>6</sup> Due to the holding of pounds sterling to fund the acquisition of Racal Acoustics during a period of foreign exchange volatility, the Company incurred a \$1.7 million, after tax, foreign currency translation loss in January 2009, which was recorded in other expense.
- <sup>7</sup> Included a \$2.0 million tax benefit for the reduction of previously recorded withholding tax liabilities as a result of the enactment of a U.S.-Canadian tax treaty.
- <sup>8</sup> Included a \$1.6 million tax accrual for a potential penalty due to the application of certain foreign tax laws.
- <sup>9</sup> Included a \$1.2 million tax benefit associated with the extension of the U.S. Research Experimentation tax credit.
- <sup>10</sup> Included a \$3.4 million, after tax, estimate-to-complete adjustment on certain fixed-price long-term contracts for the development and manufacture of certain cockpit avionics systems.
- <sup>11</sup> Included a \$2.8 million reduction of previously estimated income tax liabilities due to the settlement of an examination of the U.S. income tax returns for fiscal years 2003 through 2005.
- <sup>12</sup> Included a \$4.1 million net reduction of deferred income tax liabilities as a result of the enactment of tax laws reducing the Canadian statutory corporate income tax rate.
- <sup>13</sup> The sum of the quarterly per share amounts may not equal per share amounts reported for year-to-date periods. This is due to changes in the number of weighted average shares outstanding and the effects of rounding for each period.



**NOTE 20: Guarantors**

The following schedules set forth condensed consolidating financial information as required by Rule 3-10 of Securities and Exchange Commission Regulation S-X for fiscal 2009, 2008 and 2007 for (a) Esterline Technologies Corporation (the Parent); (b) on a combined basis, the subsidiary guarantors (Guarantor Subsidiaries) of the Credit Agreement, Senior Subordinated Notes due 2013 (Senior Subordinated Notes) and Senior Notes due 2017 (Senior Notes) which include Advanced Input Devices, Inc., Angus Electronics Co., Armtec Countermeasures Co., Armtec Countermeasures TNO Co., Armtec Defense Products Co., AVISTA, Incorporated, BVR Technologies Co., CMC DataComm Inc., CMC Electronics Acton Inc., CMC Electronics Aurora Inc., EA Technologies Corporation, Equipment Sales Co., Esterline Canadian Holding Corporation, Esterline International Company, Esterline Sensors Services Americas, Inc., Esterline Technologies Holdings Limited, Esterline Technologies Ltd. (England), H.A. Sales Co., Hauser Inc., Hytek Finishes Co., Janco Corporation, Kirkhill-TA Co., Korry Electronics Co., Leach Holding Corporation, Leach International Corporation, Leach International Mexico S. de R.L. de C.V. (Mexico), Leach Technology Group, Inc., Mason Electric Co., MC Tech Co., Memtron Technologies Co., NMC Group, Inc., Norwich Aero Products, Inc., Palomar Products, Inc., Pressure Systems, Inc., Pressure Systems International, Inc., Racal Acoustics Inc., UMM Electronics Inc., and (c) on a combined basis, the subsidiary non-guarantors (Non-Guarantor Subsidiaries), which include Acoustics Holdco Limited, Auxitrol S.A., BAE Systems Canada/Air TV LLC, CMC Electronics Inc., CMC Electronics ME Inc., Darchem Engineering Ltd., Darchem Holding Ltd., Esterline Acquisition Ltd., Esterline Canadian Acquisition Corporation, Esterline Canada Limited Partnership, Esterline Foreign Sales Corporation, Esterline Input Devices Asia Ltd., Esterline Input Devices (Shanghai) Ltd., Esterline Mexico S. de R.L. de C.V., Esterline Sensors Services Asia PTE Ltd., Esterline Technologies Acquisition Ltd., Esterline Technologies Denmark ApS, Esterline Technologies Europe Limited, Guizhou Leach-Tianyi Aviation Electrical Company Ltd., Leach International Asia-Pacific Ltd., Leach International Europe S.A., Leach International Germany GmbH, Leach International U.K. Ltd., Leach Italia Srl., LRE Medical GmbH, Pressure Systems International Ltd., Rag Newco Ltd., Racal Acoustics Global Ltd., Racal Acoustics Group Ltd., Racal Acoustics Holdings Limited, Racal Acoustics Limited, TA Mfg. Ltd., UKCI Limited, Wallop Defence Systems Ltd., Wallop Industries Ltd., Weston Aero 2003, and Weston Aerospace Ltd. Muirhead Aerospace Limited (Muirhead), Norcroft Dynamics Ltd. (Norcroft), and Traxsys Input Products Ltd. (Traxsys), were Non-Guarantor Subsidiaries as of October 31, 2008. As explained in Note 3, Muirhead, Norcroft, and Traxsys were sold on November 3, 2008, and, accordingly, Muirhead, Norcroft, and Traxsys were excluded from the Condensed Consolidating Balance Sheet at October 30, 2009, and accounted for as a discontinued operation in the Condensed Consolidating Statement of Operations and Cash Flows. The Guarantor Subsidiaries are direct and indirect wholly-owned subsidiaries of Esterline Technologies Corporation and have fully and unconditionally, jointly and severally, guaranteed the Credit Agreement, the Senior Notes and Senior Subordinated Notes.

## Condensed Consolidating Balance Sheet as of October 30, 2009

| In Thousands                          | Parent              | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Total               |
|---------------------------------------|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| <b>Assets</b>                         |                     |                           |                                   |                       |                     |
| <b>Current Assets</b>                 |                     |                           |                                   |                       |                     |
| Cash and cash equivalents             | \$ 47,907           | \$ 4,621                  | \$ 124,266                        | \$                    | \$ 176,794          |
| Accounts receivable, net              |                     | 119,700                   | 151,276                           |                       | 270,976             |
| Inventories                           |                     | 121,846                   | 153,436                           |                       | 275,282             |
| Income tax refundable                 |                     |                           | 7,638                             |                       | 7,638               |
| Deferred income tax benefits          | 21,417              | (2,172)                   | 12,189                            |                       | 31,434              |
| Prepaid expenses                      |                     | 4,949                     | 12,476                            |                       | 17,425              |
| Other current assets                  |                     |                           | 17,048                            |                       | 17,048              |
| <b>Total Current Assets</b>           | <b>69,324</b>       | <b>248,944</b>            | <b>478,329</b>                    |                       | <b>796,597</b>      |
| Property, Plant &<br>Equipment, Net   | 1,527               | 160,099                   | 101,625                           |                       | 263,251             |
| Goodwill                              |                     | 249,134                   | 487,674                           |                       | 736,808             |
| Intangibles, Net                      |                     | 100,185                   | 321,897                           |                       | 422,082             |
| Debt Issuance Costs, Net              | 7,136               |                           |                                   |                       | 7,136               |
| Deferred Income Tax<br>Benefits       | 43,514              | 3,623                     | 31,977                            |                       | 79,114              |
| Other Assets                          | (72)                | 1,650                     | 7,681                             |                       | 9,259               |
| Amounts Due To (From)<br>Subsidiaries |                     | 159,482                   |                                   | (159,482)             |                     |
| Investment in Subsidiaries            | 1,751,705           | 245,060                   | 248,675                           | (2,245,440)           |                     |
| <b>Total Assets</b>                   | <b>\$ 1,873,134</b> | <b>\$ 1,168,177</b>       | <b>\$ 1,677,858</b>               | <b>\$ (2,404,922)</b> | <b>\$ 2,314,247</b> |

## Condensed Consolidating Balance Sheet as of October 30, 2009

| In Thousands   | Parent              | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Total               |
|--|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| <b>Liabilities and Shareholders Equity</b>           |                     |                           |                                   |                       |                     |
| <b>Current Liabilities</b>                           |                     |                           |                                   |                       |                     |
| Accounts payable                                     | \$ 578              | \$ 22,944                 | \$ 58,782                         | \$                    | \$ 82,304           |
| Accrued liabilities                                  | 13,446              | 61,748                    | 116,473                           |                       | 191,667             |
| Credit facilities                                    |                     |                           | 5,896                             |                       | 5,896               |
| Current maturities of<br>long-term debt              | 4,688               | 351                       | 370                               |                       | 5,409               |
| Deferred income tax<br>liabilities                   | 1,455               | 227                       | 5,612                             |                       | 7,294               |
| Federal and foreign<br>income taxes                  | (12,498)            | (1,386)                   | 15,553                            |                       | 1,669               |
| <b>Total Current Liabilities</b>                     | <b>7,669</b>        | <b>83,884</b>             | <b>202,686</b>                    |                       | <b>294,239</b>      |
| Long-Term Debt, Net                                  | 472,385             | 36,259                    | 11,514                            |                       | 520,158             |
| Deferred Income Tax<br>Liabilities                   | 34,263              | (312)                     | 96,505                            |                       | 130,456             |
| Pension and Post-Retirement<br>Obligations           | 11,892              | 51,825                    | 29,898                            |                       | 93,615              |
| Other Liabilities                                    | 9,020               |                           | 11,007                            |                       | 20,027              |
| Amounts Due To (From)<br>Subsidiaries                | 84,884              |                           | 136,864                           | (221,748)             |                     |
| Minority Interest                                    |                     |                           | 2,731                             |                       | 2,731               |
| Shareholders Equity                                  | 1,253,021           | 996,521                   | 1,186,653                         | (2,183,174)           | 1,253,021           |
| <b>Total Liabilities and<br/>Shareholders Equity</b> | <b>\$ 1,873,134</b> | <b>\$ 1,168,177</b>       | <b>\$ 1,677,858</b>               | <b>\$ (2,404,922)</b> | <b>\$ 2,314,247</b> |

## Condensed Consolidating Statement of Operations for the fiscal year ended October 30, 2009

| In Thousands  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total        |
|---|----------|---------------------------|-----------------------------------|--------------|--------------|
| Net Sales   | \$       | \$ 779,249                | \$ 647,624                        | \$ (1,435)   | \$ 1,425,438 |
| Cost of Sales   |          | 521,518                   | 443,506                           | (1,435)      | 963,589      |
|   |          | 257,731                   | 204,118                           |              | 461,849      |
| Expenses  |          |                           |                                   |              |              |
| Selling, general<br>and administrative                                  |          | 121,930                   | 117,700                           |              | 239,630      |
| Research, development<br>and engineering                                |          | 29,585                    | 36,685                            |              | 66,270       |
| Total Expenses  |          | 151,515                   | 154,385                           |              | 305,900      |
| Other   |          |                           |                                   |              |              |
| Other expense (income)  | 4,202    | 10,652                    | (6,884)                           |              | 7,970        |
| Total Other   | 4,202    | 10,652                    | (6,884)                           |              | 7,970        |
| Operating Earnings from<br>Continuing Operations                        | (4,202)  | 95,564                    | 56,617                            |              | 147,979      |
| Interest income   | (23,125) | (3,717)                   | (35,894)                          | 61,102       | (1,634)      |
| Interest expense  | 26,983   | 23,925                    | 38,883                            | (61,102)     | 28,689       |
| Other Expense, Net  | 3,858    | 20,208                    | 2,989                             |              | 27,055       |
| Income (Loss) from<br>Continuing Operations<br>Before Taxes             | (8,060)  | 75,356                    | 53,628                            |              | 120,924      |
| Income Tax<br>Expense (Benefit)   | (1,231)  | 2,293                     | 12,449                            |              | 13,511       |
| Income (Loss) From<br>Continuing Operations<br>Before Minority Interest | (6,829)  | 73,063                    | 41,179                            |              | 107,413      |
| Minority Interest   |          |                           | (217)                             |              | (217)        |
| Income (Loss) From<br>Continuing Operations                             | (6,829)  | 73,063                    | 40,962                            |              | 107,196      |
| Income From Discontinued<br>Operations, Net of Tax                      |          | 12,602                    |                                   |              | 12,602       |

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|  |            |            |           |              |            |  |
|--|------------|------------|-----------|--------------|------------|--|
| Equity in Net Income of<br>Consolidated Subsidiaries | 126,627    | 22,717     | 5,733     | (155,077)    |            |  |
| Net Income (Loss)                                    | \$ 119,798 | \$ 108,382 | \$ 46,695 | \$ (155,077) | \$ 119,798 |  |



## Condensed Consolidating Statement of Cash Flows for the fiscal year ended October 30, 2009

| In Thousands   | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|------------|---------------------------|-----------------------------------|--------------|------------|
| <b>Cash Flows Provided (Used)<br/>by Operating Activities</b>    |            |                           |                                   |              |            |
| Net earnings (loss)  | \$ 119,798 | \$ 108,382                | \$ 46,695                         | \$ (155,077) | \$ 119,798 |
| Minority interest  |            |                           | 217                               |              | 217        |
| Depreciation & amortization                                      |            | 30,667                    | 40,844                            |              | 71,511     |
| Deferred income tax  | (7,128)    | (1,536)                   | (2,957)                           |              | (11,621)   |
| Share-based compensation   |            | 3,728                     | 3,621                             |              | 7,349      |
| Gain on sale of<br>discontinued operations                       |            | (26,481)                  |                                   |              | (26,481)   |
| Working capital changes, net<br>of effect of acquisitions        |            |                           |                                   |              |            |
| Accounts receivable  | 205        | 10,487                    | 43,854                            |              | 54,546     |
| Inventories  |            | 10,273                    | (4,219)                           |              | 6,054      |
| Prepaid expenses   | 26         | (273)                     | (3,643)                           |              | (3,890)    |
| Other current assets   |            |                           | (15,428)                          |              | (15,428)   |
| Accounts payable   | 68         | (7,854)                   | (11,001)                          |              | (18,787)   |
| Accrued liabilities  | (2,642)    | (7,726)                   | (1,565)                           |              | (11,933)   |
| Federal & foreign<br>income taxes                                | (8,969)    | 9,448                     | 411                               |              | 890        |
| Other liabilities  | 2,928      | (12,038)                  | 1,447                             |              | (7,663)    |
| Other, net   | 1          | 2,102                     | (9,996)                           |              | (7,893)    |
|  | 104,287    | 119,179                   | 88,280                            | (155,077)    | 156,669    |
| <b>Cash Flows Provided (Used)<br/>by Investing Activities</b>    |            |                           |                                   |              |            |
| Purchases of capital assets                                      | (213)      | (36,459)                  | (22,512)                          |              | (59,184)   |
| Proceeds from sale of<br>discontinued operations,<br>net of cash |            | 62,944                    |                                   |              | 62,944     |
| Proceeds from sale of<br>capital assets                          |            | 705                       | 384                               |              | 1,089      |
| Acquisitions of businesses,<br>net of cash acquired              |            | (89,812)                  | (165,394)                         |              | (255,206)  |
|  | (213)      | (62,622)                  | (187,522)                         |              | (250,357)  |

## Condensed Consolidating Statement of Cash Flows for the fiscal year ended October 30, 2009

| In Thousands   | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|-----------|---------------------------|-----------------------------------|--------------|------------|
| <b>Cash Flows Provided (Used)<br/>by Financing Activities</b>        |           |                           |                                   |              |            |
| Proceeds provided by stock<br>issuance under employee<br>stock plans | 3,137     |                           |                                   |              | 3,137      |
| Excess tax benefits from<br>stock option exercises                   | 119       |                           |                                   |              | 119        |
| Net change in credit facilities                                      |           |                           | 99                                |              | 99         |
| Repayment of long-term debt  | (33,019)  | (740)                     | (685)                             |              | (34,444)   |
| Proceeds from issuance<br>of long-term debt                          | 125,000   |                           |                                   |              | 125,000    |
| Proceeds from government<br>assistance                               |           |                           | 11,145                            |              | 11,145     |
| Debt and other issuance costs  | (1,258)   |                           |                                   |              | (1,258)    |
| Dividends paid to<br>minority interest                               |           |                           | (283)                             |              | (283)      |
| Net change in intercompany<br>financing                              | (231,030) | (72,854)                  | 148,807                           | 155,077      |            |
|  | (137,051) | (73,594)                  | 159,083                           | 155,077      | 103,515    |
| Effect of Foreign Exchange<br>Rates on Cash                          |           | (255)                     | 6,577                             |              | 6,322      |
| Net Increase (Decrease) in<br>Cash and Cash Equivalents              | (32,977)  | (17,292)                  | 66,418                            |              | 16,149     |
| Cash and Cash Equivalents<br>Beginning of Year                       | 80,884    | 21,913                    | 57,848                            |              | 160,645    |
| Cash and Cash Equivalents<br>End of Year                             | \$ 47,907 | \$ 4,621                  | \$ 124,266                        | \$           | \$ 176,794 |

## Condensed Consolidating Balance Sheet as of October 31, 2008

| In Thousands                          | Parent              | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Total               |
|---------------------------------------|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| <b>Assets</b>                         |                     |                           |                                   |                       |                     |
| <b>Current Assets</b>                 |                     |                           |                                   |                       |                     |
| Cash and cash equivalents             | \$ 80,884           | \$ 21,913                 | \$ 57,848                         | \$                    | \$ 160,645          |
| Accounts receivable, net              | 205                 | 127,583                   | 169,718                           |                       | 297,506             |
| Inventories                           |                     | 127,216                   | 134,757                           |                       | 261,973             |
| Income tax refundable                 |                     | 13,664                    | (8,097)                           |                       | 5,567               |
| Deferred income tax benefits          | 30,034              | (1)                       | 7,669                             |                       | 37,702              |
| Prepaid expenses                      | 26                  | 4,584                     | 8,430                             |                       | 13,040              |
| Other current assets                  |                     |                           | 897                               |                       | 897                 |
| <b>Total Current Assets</b>           | <b>111,149</b>      | <b>294,959</b>            | <b>371,222</b>                    |                       | <b>777,330</b>      |
| Property, Plant &<br>Equipment, Net   | 1,821               | 112,782                   | 89,859                            |                       | 204,462             |
| Goodwill                              |                     | 209,605                   | 367,256                           |                       | 576,861             |
| Intangibles, Net                      |                     | 70,013                    | 220,427                           |                       | 290,440             |
| Debt Issuance Costs, Net              | 7,587               |                           |                                   |                       | 7,587               |
| Deferred Income Tax<br>Benefits       | 18,082              | 5,810                     | 31,929                            |                       | 55,821              |
| Other Assets                          | 1,490               | 1,857                     | 6,254                             |                       | 9,601               |
| Amounts Due To (From)<br>Subsidiaries |                     | 62,609                    |                                   | (62,609)              |                     |
| Investment in Subsidiaries            | 1,422,684           | 221,267                   | 126,657                           | (1,770,608)           |                     |
| <b>Total Assets</b>                   | <b>\$ 1,562,813</b> | <b>\$ 978,902</b>         | <b>\$ 1,213,604</b>               | <b>\$ (1,833,217)</b> | <b>\$ 1,922,102</b> |

## Condensed Consolidating Balance Sheet as of October 31, 2008

| In Thousands   | Parent              | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Total               |
|--|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| <b>Liabilities and Shareholders<br/>Equity</b>       |                     |                           |                                   |                       |                     |
| <b>Current Liabilities</b>                           |                     |                           |                                   |                       |                     |
| Accounts payable                                     | \$ 510              | \$ 30,077                 | \$ 59,220                         | \$                    | \$ 89,807           |
| Accrued liabilities                                  | 14,796              | 68,924                    | 126,702                           |                       | 210,422             |
| Credit facilities                                    |                     |                           | 5,171                             |                       | 5,171               |
| Current maturities of<br>long-term debt              | 6,983               | 740                       | 665                               |                       | 8,388               |
| Deferred income tax<br>liabilities                   | 2,889               |                           |                                   |                       | 2,889               |
| Federal and foreign<br>income taxes                  | 4,022               | 730                       | (310)                             |                       | 4,442               |
| <b>Total Current Liabilities</b>                     | <b>29,200</b>       | <b>100,471</b>            | <b>191,448</b>                    |                       | <b>321,119</b>      |
| Long-Term Debt, Net                                  | 379,493             | 8,408                     | 347                               |                       | 388,248             |
| Deferred Income Tax<br>Liabilities                   | 28,152              | 6,042                     | 63,636                            |                       | 97,830              |
| Pension and Post-Retirement<br>Obligations           | 9,565               | 32,018                    | 28,058                            |                       | 69,641              |
| Other Liabilities                                    | 7,099               |                           | 9,027                             |                       | 16,126              |
| Amounts Due To (From)<br>Subsidiaries                | 82,963              |                           | 129,217                           | (212,180)             |                     |
| Minority Interest                                    |                     |                           | 2,797                             |                       | 2,797               |
| Shareholders Equity                                  | 1,026,341           | 831,963                   | 789,074                           | (1,621,037)           | 1,026,341           |
| <b>Total Liabilities and<br/>Shareholders Equity</b> | <b>\$ 1,562,813</b> | <b>\$ 978,902</b>         | <b>\$ 1,213,604</b>               | <b>\$ (1,833,217)</b> | <b>\$ 1,922,102</b> |

## Condensed Consolidating Statement of Operations for the fiscal year ended October 31, 2008

| In Thousands  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total        |
|---|----------|---------------------------|-----------------------------------|--------------|--------------|
| Net Sales   | \$       | \$ 851,628                | \$ 654,666                        | \$ (23,122)  | \$ 1,483,172 |
| Cost of Sales   |          | 568,377                   | 447,598                           | (23,122)     | 992,853      |
|   |          | 283,251                   | 207,068                           |              | 490,319      |
| Expenses  |          |                           |                                   |              |              |
| Selling, general<br>and administrative                                  |          | 119,487                   | 119,795                           |              | 239,282      |
| Research, development<br>and engineering                                |          | 26,927                    | 59,871                            |              | 86,798       |
| Total Expenses  |          | 146,414                   | 179,666                           |              | 326,080      |
| Other   |          |                           |                                   |              |              |
| Other expense (income)  | 90       |                           | (4)                               |              | 86           |
| Total Other   | 90       |                           | (4)                               |              | 86           |
| Operating Earnings from<br>Continuing Operations                        | (90)     | 136,837                   | 27,406                            |              | 164,153      |
| Interest income   | (22,118) | (3,803)                   | (39,699)                          | 61,246       | (4,374)      |
| Interest expense  | 28,818   | 21,921                    | 40,429                            | (61,246)     | 29,922       |
| Gain on derivative<br>financial instruments                             | (1,850)  |                           |                                   |              | (1,850)      |
| Other Expense, Net  | 4,850    | 18,118                    | 730                               |              | 23,698       |
| Income (Loss) from<br>Continuing Operations<br>Before Taxes             | (4,940)  | 118,719                   | 26,676                            |              | 140,455      |
| Income Tax<br>Expense (Benefit)   | (1,159)  | 28,621                    | (899)                             |              | 26,563       |
| Income (Loss) From<br>Continuing Operations<br>Before Minority Interest | (3,781)  | 90,098                    | 27,575                            |              | 113,892      |
| Minority Interest   |          |                           | (383)                             |              | (383)        |
| Income (Loss) From<br>Continuing Operations                             | (3,781)  | 90,098                    | 27,192                            |              | 113,509      |

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|   |            |            |           |              |            |
|---|------------|------------|-----------|--------------|------------|
| Income From Discontinued Operations, Net of Tax Equity in Net Income of Consolidated Subsidiaries |            |            | 7,024     |              | 7,024      |
|   | 124,314    | 21,554     | 779       | (146,647)    |            |
| Net Income (Loss)   | \$ 120,533 | \$ 111,652 | \$ 34,995 | \$ (146,647) | \$ 120,533 |

## Condensed Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2008

| In Thousands  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|---|------------|---------------------------|-----------------------------------|--------------|------------|
| <b>Cash Flows Provided (Used)<br/>by Operating Activities</b> |            |                           |                                   |              |            |
| Net earnings (loss)   | \$ 120,533 | \$ 111,652                | \$ 34,995                         | \$ (146,647) | \$ 120,533 |
| Minority interest   |            |                           | 383                               |              | 383        |
| Depreciation & amortization                                   |            | 27,686                    | 38,613                            |              | 66,299     |
| Deferred income tax   | (16,555)   | 235                       | (6,586)                           |              | (22,906)   |
| Share-based compensation                                      |            | 4,873                     | 3,838                             |              | 8,711      |
| Working capital changes, net<br>of effect of acquisitions     |            |                           |                                   |              |            |
| Accounts receivable   | (22)       | (10,188)                  | (44,392)                          |              | (54,602)   |
| Inventories   |            | (7,979)                   | (20,445)                          |              | (28,424)   |
| Prepaid expenses  |            | (49)                      | (1,575)                           |              | (1,624)    |
| Other current assets  |            |                           | (1,058)                           |              | (1,058)    |
| Accounts payable  | (1,288)    | 2,399                     | 11,673                            |              | 12,784     |
| Accrued liabilities   | (3,798)    | 8,038                     | 14,484                            |              | 18,724     |
| Federal & foreign<br>income taxes                             | 1,514      | (8,346)                   | 3,470                             |              | (3,362)    |
| Other liabilities   | 2,899      | (1,357)                   | (1,693)                           |              | (151)      |
| Other, net  | 3,164      | 185                       | 237                               |              | 3,586      |
|   | 106,447    | 127,149                   | 31,944                            | (146,647)    | 118,893    |
| <b>Cash Flows Provided (Used)<br/>by Investing Activities</b> |            |                           |                                   |              |            |
| Purchases of capital assets                                   | (388)      | (19,439)                  | (20,838)                          |              | (40,665)   |
| Proceeds from sale of<br>capital assets                       |            | 470                       | 631                               |              | 1,101      |
| Acquisitions of businesses,<br>net of cash acquired           |            | (1,618)                   | 11,043                            |              | 9,425      |
|   | (388)      | (20,587)                  | (9,164)                           |              | (30,139)   |

## Condensed Consolidating Statement of Cash Flows for the fiscal year ended October 31, 2008

| In Thousands   | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|-----------|---------------------------|-----------------------------------|--------------|------------|
| <b>Cash Flows Provided (Used)<br/>by Financing Activities</b>        |           |                           |                                   |              |            |
| Proceeds provided by stock<br>issuance under employee<br>stock plans | 7,516     |                           |                                   |              | 7,516      |
| Excess tax benefits from<br>stock option exercises                   | 1,983     |                           |                                   |              | 1,983      |
| Net change in credit facilities                                      |           |                           | (2,191)                           |              | (2,191)    |
| Repayment of long-term debt  | (68,020)  | (1,152)                   | (860)                             |              | (70,032)   |
| Dividends paid to<br>minority interest                               |           |                           | (554)                             |              | (554)      |
| Net change in intercompany<br>financing                              | (55,927)  | (85,039)                  | (5,681)                           | 146,647      |            |
|  | (114,448) | (86,191)                  | (9,286)                           | 146,647      | (63,278)   |
| Effect of Foreign Exchange<br>Rates on Cash                          | (2)       | 40                        | (11,938)                          |              | (11,900)   |
| Net Increase (Decrease) in<br>Cash and Cash Equivalents              | (8,391)   | 20,411                    | 1,556                             |              | 13,576     |
| Cash and Cash Equivalents<br>Beginning of Year                       | 89,275    | 1,502                     | 56,292                            |              | 147,069    |
| Cash and Cash Equivalents<br>End of Year                             | \$ 80,884 | \$ 21,913                 | \$ 57,848                         | \$           | \$ 160,645 |



## Condensed Consolidating Statement of Operations for the fiscal year ended October 26, 2007

| In Thousands  | Parent   | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total        |
|---|----------|---------------------------|-----------------------------------|--------------|--------------|
| Net Sales   | \$       | \$ 744,085                | \$ 478,111                        | \$ (15,163)  | \$ 1,207,033 |
| Cost of Sales   |          | 506,178                   | 342,958                           | (15,163)     | 833,973      |
|   |          | 237,907                   | 135,153                           |              | 373,060      |
| Expenses  |          |                           |                                   |              |              |
| Selling, general<br>and administrative                                  |          | 103,775                   | 96,051                            |              | 199,826      |
| Research, development<br>and engineering                                |          | 27,144                    | 39,747                            |              | 66,891       |
| Total Expenses  |          | 130,919                   | 135,798                           |              | 266,717      |
| Other   |          |                           |                                   |              |              |
| Other expense   |          |                           | 24                                |              | 24           |
| Insurance recovery  |          |                           | (37,467)                          |              | (37,467)     |
| Total Other   |          |                           | (37,443)                          |              | (37,443)     |
| Operating Earnings from<br>Continuing Operations                        |          | 106,988                   | 36,798                            |              | 143,786      |
| Interest income   | (20,662) | (4,797)                   | (22,375)                          | 44,741       | (3,093)      |
| Interest expense  | 34,450   | 21,268                    | 24,322                            | (44,741)     | 35,299       |
| Loss on extinguishment<br>of debt                                       | 1,100    |                           |                                   |              | 1,100        |
| Other Expense, Net  | 14,888   | 16,471                    | 1,947                             |              | 33,306       |
| Income (Loss) from<br>Continuing Operations<br>Before Taxes             | (14,888) | 90,517                    | 34,851                            |              | 110,480      |
| Income Tax<br>Expense (Benefit)   | (3,362)  | 20,819                    | 5,108                             |              | 22,565       |
| Income (Loss) From<br>Continuing Operations<br>Before Minority Interest | (11,526) | 69,698                    | 29,743                            |              | 87,915       |
| Minority Interest   |          |                           | (153)                             |              | (153)        |
| Income (Loss) From<br>Continuing Operations                             | (11,526) | 69,698                    | 29,590                            |              | 87,762       |

|   |           |           |           |              |    |        |
|---|-----------|-----------|-----------|--------------|----|--------|
| Income From Discontinued Operations, Net of Tax Equity in Net Income of Consolidated Subsidiaries |           |           |           | 4,522        |    | 4,522  |
|   | 103,810   | 12,658    | (2,063)   | (114,405)    |    |        |
| Net Income (Loss)   | \$ 92,284 | \$ 82,356 | \$ 32,049 | \$ (114,405) | \$ | 92,284 |

## Condensed Consolidating Statement of Cash Flows for the fiscal year ended October 26, 2007

| In Thousands  | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|-----------|---------------------------|-----------------------------------|--------------|-----------|
| <b>Cash Flows Provided (Used)<br/>by Operating Activities</b> |           |                           |                                   |              |           |
| Net earnings (loss)   | \$ 92,284 | \$ 82,356                 | \$ 32,049                         | \$ (114,405) | \$ 92,284 |
| Minority interest   |           |                           | 153                               |              | 153       |
| Depreciation & amortization                                   |           | 27,276                    | 28,544                            |              | 55,820    |
| Deferred income tax   | 3,729     | 23                        | (19,184)                          |              | (15,432)  |
| Share-based compensation                                      |           | 3,764                     | 3,138                             |              | 6,902     |
| Working capital changes, net<br>of effect of acquisitions     |           |                           |                                   |              |           |
| Accounts receivable   | 118       | (7,853)                   | (286)                             |              | (8,021)   |
| Inventories   |           | (4,054)                   | (8,018)                           |              | (12,072)  |
| Prepaid expenses  | 138       | 342                       | (1,409)                           |              | (929)     |
| Accounts payable  | 1,073     | 6,073                     | 374                               |              | 7,520     |
| Accrued liabilities   | 3,148     | (2,886)                   | (3,696)                           |              | (3,434)   |
| Federal & foreign<br>income taxes                             | 1,773     | (1,329)                   | 4,269                             |              | 4,713     |
| Other liabilities   | 145       | (637)                     | (3,382)                           |              | (3,874)   |
| Other, net  | 497       | (7,494)                   | 5,091                             |              | (1,906)   |
|   | 102,905   | 95,581                    | 37,643                            | (114,405)    | 121,724   |
| <b>Cash Flows Provided (Used)<br/>by Investing Activities</b> |           |                           |                                   |              |           |
| Purchases of capital assets                                   | (145)     | (14,735)                  | (15,587)                          |              | (30,467)  |
| Proceeds from sale of<br>capital assets                       | 29        | 836                       | 2,210                             |              | 3,075     |
| Acquisitions of businesses,<br>net of cash acquired           |           | (2,073)                   | (352,875)                         |              | (354,948) |
|   | (116)     | (15,972)                  | (366,252)                         |              | (382,340) |

## Condensed Consolidating Statement of Cash Flows for the fiscal year ended October 26, 2007

| In Thousands   | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|-----------|---------------------------|-----------------------------------|--------------|------------|
| <b>Cash Flows Provided (Used)<br/>by Financing Activities</b>        |           |                           |                                   |              |            |
| Proceeds provided by stock<br>issuance under employee<br>stock plans | 9,742     |                           |                                   |              | 9,742      |
| Excess tax benefits from<br>stock option exercises                   | 2,728     |                           |                                   |              | 2,728      |
| Proceeds provided by sale<br>of common stock                         | 187,145   |                           |                                   |              | 187,145    |
| Net change in credit facilities                                      | (5,000)   |                           | 5,144                             |              | 144        |
| Proceeds from issuance of<br>long-term debt                          | 275,000   |                           |                                   |              | 275,000    |
| Repayment of long-term debt  | (104,291) | (1,065)                   | (317)                             |              | (105,673)  |
| Debt and other issuance costs  | (6,409)   |                           |                                   |              | (6,409)    |
| Dividends paid to<br>minority interest                               |           |                           | (763)                             |              | (763)      |
| Net change in intercompany<br>financing                              | (386,727) | (79,816)                  | 352,138                           | 114,405      |            |
|  | (27,812)  | (80,881)                  | 356,202                           | 114,405      | 361,914    |
| Effect of Foreign Exchange<br>Rates on Cash                          | (45)      | 102                       | 3,076                             |              | 3,133      |
| Net Increase (Decrease) in<br>Cash and Cash Equivalents              | 74,932    | (1,170)                   | 30,669                            |              | 104,431    |
| Cash and Cash Equivalents<br>Beginning of Year                       | 14,343    | 2,672                     | 25,623                            |              | 42,638     |
| Cash and Cash Equivalents<br>End of Year                             | \$ 89,275 | \$ 1,502                  | \$ 56,292                         | \$           | \$ 147,069 |

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Esterline Technologies Corporation

We have audited the accompanying consolidated balance sheets of Esterline Technologies Corporation as of October 30, 2009 and October 31, 2008, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended October 30, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 Esterline Technologies Corporation at October 30, 2009 and October 31, 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 30, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 11 to the financial statements, in 2008 the Company changed its method of accounting for uncertainties in income taxes upon the adoption of Financial Accounting Standards Board ASC Topic 740. As discussed in Note 8 to the financial statements, in 2007 the Company changed its method of accounting for defined pension and other postretirement plans in accordance with Financial Accounting Standards Board ASC Topic 715.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Esterline Technologies Corporation's internal control over financial reporting as of October 30, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 22, 2009 expressed an unqualified opinion thereon.

Ernst & Young LLP

Seattle, Washington

December 22, 2009

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Esterline Technologies Corporation

We have audited Esterline Technologies Corporation's internal control over financial reporting as of October 30, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Esterline Technologies Corporation'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.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Rascal Acoustics Global Ltd. and NMC Group, Inc., which are included in the 2009 consolidated financial statements of Esterline Technologies Corporation and constituted \$335.2 million and \$201.5 million of total and net assets, respectively, as of October 30, 2009, and \$75.5 million and \$5.4 million of revenues and net earnings, respectively, for the year then ended. Our audit of internal control over financial reporting of Esterline Technologies Corporation also did not include an evaluation of the internal control over financial reporting of Rascal Acoustics Global Ltd. and NMC Group, Inc.

In our opinion, Esterline Technologies Corporation maintained, in all material respects, effective internal control over financial reporting as of October 30, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Esterline Technologies Corporation as of October 30, 2009 and October 31, 2008, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended October 30, 2009 of Esterline Technologies Corporation and our report dated December 22, 2009 expressed an unqualified opinion thereon.

Ernst & Young LLP

Seattle, Washington

December 22, 2009

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

Our principal executive and financial officers evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of October 30, 2009. Based upon that evaluation, they concluded as of October 30, 2009, that our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms. In addition, our principal executive and financial officers concluded as of October 30, 2009, that our disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control system over financial reporting is designed by, or under the supervision of, our chief executive officer and chief financial officer, and is effected by our board of directors, management and other personnel 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. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the assets of the company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that transactions are made only in accordance with the authorization of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of Esterline's internal control over financial reporting as of October 30, 2009. In making this assessment, our management used the criteria set forth by the



Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. On December 15, 2008 the Company completed the acquisition of NMC Group, Inc. (NMC) and on January 26, 2009, the Company also completed the acquisition of Racal Acoustics Global Ltd. (Racal Acoustics). As permitted by applicable guidelines established by the Securities and Exchange Commission, our management excluded the NMC and Racal Acoustics operations from its assessment of internal control over financial reporting as of October 30, 2009. NMC and Racal Acoustics constituted \$335.2 million and \$201.5 million of total and net assets, respectively, as of October 30, 2009, and \$75.5 million and \$5.4 million of revenues and net earnings, respectively, for the year then ended. Both NMC and Racal Acoustics will be included in the Company's assessment for the fiscal year ending October 29, 2010. Based on management's assessment and those criteria, our management concluded that our internal control over financial reporting was effective as of October 30, 2009.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our assessment and the effectiveness of our internal control over financial reporting. This report appears on page 114.

/s/ R. Bradley Lawrence  
R. Bradley Lawrence  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ Robert D. George  
Robert D. George  
*Vice President, Chief Financial Officer,*  
*Secretary and Treasurer*  
*(Principal Financial Officer)*

/s/ Gary J. Posner  
Gary J. Posner  
*Corporate Controller and Chief Accounting Officer*  
*(Principal Accounting Officer)*

**Changes in Internal Control Over Financial Reporting**

During the three months ended October 30, 2009, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

### PART III

#### **Item 10. Directors and Executive Officers of the Registrant**

We hereby incorporate by reference the information set forth under Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, Code of Ethics, Other Information as to Directors Board and Board Committees, and Other Information as to Directors Director Nominations and Qualifications in the definitive form of the Company's Proxy Statement, relating to its Annual Meeting of Shareholders to be held on March 3, 2010.

Information regarding our executive officers required by this item appears in Item 1 of this report under Executive Officers of the Registrant.

#### **Item 11. Executive Compensation**

We hereby incorporate by reference the information set forth under Other Information as to Directors Director Compensation, Executive Compensation Compensation Discussion and Analysis, Compensation Committee Report and Compensation Committee Interlocks and Insider Participation in the definitive form of the Company's Proxy Statement, relating to its Annual Meeting of Shareholders to be held on March 3, 2010.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

We hereby incorporate by reference the information set forth under Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in the definitive form of the Company's Proxy Statement, relating to its Annual Meeting of Shareholders to be held on March 3, 2010.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

We hereby incorporate by reference the information set forth under Certain Relationships and Related Transactions and Other Information as to Directors Board and Board Committees in the definitive form of the Company's Proxy Statement, relating to its Annual Meeting of Shareholders to be held on March 3, 2010.

#### **Item 14. Independent Registered Public Accounting Firm Fees and Services**

We hereby incorporate by reference the information set forth under Independent Registered Public Accounting Firm's Fees in the definitive form of the Company's Proxy Statement relating to the Annual Meeting of Shareholders to be held on March 3, 2010.

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**PART IV**
**Item 15. Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements.

Our Consolidated Financial Statements are as set forth under Item 8 of this report on Form 10-K.

(a)(2) Financial Statement Schedules.

The following consolidated financial statement schedule of the Company is included as follows:

## ESTERLINE TECHNOLOGIES CORPORATION AND SUBSIDIARIES

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)

| Reserve for Doubtful<br>Accounts Receivable | Balance at<br>Beginning<br>of Year | Charged<br>to Costs &<br>Expenses | Other <sup>1</sup> | Deductions            | Balance<br>at End<br>of Year |
|---|------------------------------------|-----------------------------------|--------------------|-----------------------|------------------------------|
| <u>Fiscal Years</u>                         |                                    |                                   |                    |                       |                              |
| 2009  | \$ 5,191                           | \$ 738                            | \$ 3               | \$ (635) <sup>2</sup> | \$ 5,297                     |
| 2008  | \$ 5,378                           | \$ 788                            | \$                 | \$ (975) <sup>2</sup> | \$ 5,191                     |
| 2007  | \$ 4,338                           | \$ 791                            | \$ 874             | \$ (625) <sup>2</sup> | \$ 5,378                     |

<sup>1</sup> Acquisition-related addition.

<sup>2</sup> Uncollectible accounts written off, net of recoveries.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits.

See Exhibit Index on pages 122-128.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ESTERLINE TECHNOLOGIES CORPORATION  
(Registrant)

By /s/ Robert D. George  
Robert D. George  
*Vice President,  
Chief Financial Officer,  
Secretary and Treasurer  
(Principal Financial Officer)*

Dated: December 22, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

|  |   |                           |
|--|---|---------------------------|
| /s/ R. Bradley Lawrence<br>(R. Bradley Lawrence) | President and<br>Chief Executive Officer,<br>(Principal Executive Officer)                              | December 22, 2009<br>Date |
| /s/ Robert D. George<br>(Robert D. George)       | Vice President,<br>Chief Financial Officer,<br>Secretary and Treasurer<br>(Principal Financial Officer) | December 22, 2009<br>Date |
| /s/ Gary J. Posner<br>(Gary J. Posner)           | Corporate Controller and<br>Chief Accounting Officer<br>(Principal Accounting Officer)                  | December 22, 2009<br>Date |
| /s/ Robert W. Cremin<br>(Robert W. Cremin)       | Chairman  | December 22, 2009<br>Date |
| /s/ Lewis E. Burns<br>(Lewis E. Burns)           | Director  | December 22, 2009<br>Date |

|  |          |                           |
|--|----------|---------------------------|
| /s/ John F. Clearman<br>(John F. Clearman)               | Director | December 22, 2009<br>Date |
| /s/ Robert S. Cline<br>(Robert S. Cline)                 | Director | December 22, 2009<br>Date |
| /s/ Anthony P. Franceschini<br>(Anthony P. Franceschini) | Director | December 22, 2009<br>Date |
| /s/ Paul V. Haack<br>(Paul V. Haack)                     | Director | December 22, 2009<br>Date |
| /s/ Jerry D. Leitman<br>(Jerry D. Leitman)               | Director | December 22, 2009<br>Date |
| /s/ James J. Morris<br>(James J. Morris)                 | Director | December 22, 2009<br>Date |
| /s/ LeRoy D. Nosbaum<br>(LeRoy D. Nosbaum)               | Director | December 22, 2009<br>Date |
| /s/ Gary E. Pruitt<br>(Gary E. Pruitt)                   | Director | December 22, 2009<br>Date |

| Exhibit Number | Exhibit Index   |
|----------------|---|
| 3.1            | Restated Certificate of Incorporation for Esterline Technologies Corporation, dated June 6, 2002. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 26, 2002 [Commission File Number 1-6357], with Form of Certificate of Designation, dated December 11, 2002.) (Incorporated by reference to Exhibit 4.1 to Esterline's Registration of Securities on Form 8-A filed December 12, 2002 [Commission File Number 1-6357].)   |
| 3.2            | Amended and Restated By-laws of the Company, effective December 10, 2009. (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on December 16, 2009 [Commission File Number 1-6357].)  |
| 4.1            | Rights Agreement dated as of December 11, 2002, between Esterline Technologies Corporation and Mellon Investor Services LLC, as Rights Agent, which includes as Exhibit A the Form of Certificate of Designation of Series B Serial Preferred Stock, as Exhibit B the Form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Preferred Shares. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A, as amended, filed on December 12, 2002 [Commission File Number 1-6357].) |
| 4.2            | Indenture relating to Esterline Technologies Corporation's 7.75% Senior Subordinated Notes due 2013, dated as of June 11, 2003. (Incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2003 [Commission File Number 1-6357].)   |
| 4.3            | Form of Exchange Note for the 7.75% Senior Subordinated Notes due 2013. (Incorporated by reference to Exhibit 4.3 to the Company's Form S-4, as amended, filed on September 30, 2003 [Commission File Number 333-109325].)  |
| 4.4            | Registration Rights Agreement among Esterline Technologies Corporation, its subsidiaries listed on Schedule 1 thereto, Wachovia Capital Markets, LLC, Banc of Americas Securities LLC, KeyBanc Capital Markets, a division of McDonald Investments and Wells Fargo Securities, LLC, dated March 1, 2007 ( 2007 Registration Rights Agreement ). (Incorporated by reference to Exhibit 10.47 to the Company's Current Report on Form 8-K filed on March 7, 2007 [Commission File Number 1- 6357].)   |
| 4.5            | Indenture relating to Esterline Technologies Corporation's 6.625% Senior Notes due 2017, dated as of March 1, 2007. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on March 7, 2007 [Commission File Number 1-6357].)  |
| 4.6            | Form of Exchange Note for the 6.625% Senior Notes due 2017. (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-4 filed on June 29, 2007 [Commission File Number 333-144161].)  |

| Exhibit Number | Exhibit Index  |
|----------------|--|
| 4.7            | Supplemental Indenture, relating to Esterline Technologies Corporation's 7.75% Senior Subordinated Notes due 2013, dated as of June 27, 2007. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 28, 2007 [Commission File Number 1-6357].)   |
| 4.8            | Amendment dated as of July 31, 2007 to 2007 Registration Rights Agreement. (Incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-4/A filed on August 6, 2007 [Commission File Number 333-144161].)   |
| 4.9            | Supplemental Indenture, relating to Esterline Technologies Corporation's 6.625% Senior Notes due 2017, dated as of July 26, 2007. (Incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-4/A filed on August 6, 2007 [Commission File Number 333-144161].)  |
| 10.1           | Amendment No. 7 to Credit Agreement, dated as of April 20, 2009, among Esterline Technologies Corporation, the financial institutions referred to therein and Wachovia Bank, National Association, as Administrative Agent. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 22, 2009 [Commission File Number 1-6357].)  |
| 10.2           | Industrial Lease dated July 17, 1984, between 901 Dexter Associates and Korry Electronics Co., First Amendment to Lease dated May 10, 1985, Second Amendment to Lease dated June 20, 1986, Third Amendment to Lease dated September 1, 1987, and Notification of Option Exercise dated January 7, 1991, relating to the manufacturing facility of Korry Electronics at 901 Dexter Avenue N., Seattle, Washington. (Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].) |
| 10.2a          | Fourth Amendment dated July 27, 1994, to Industrial Lease dated July 17, 1984 between Houg Family Partnership, as successor to 901 Dexter Associates, and Korry Electronics Co. (Incorporated by reference to Exhibit 10.4a to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].)  |
| 10.3           | Industrial Lease dated July 17, 1984, between 801 Dexter Associates and Korry Electronics Co., First Amendment to Lease dated May 10, 1985, Second Amendment to Lease dated June 20, 1986, Third Amendment to Lease dated September 1, 1987, and Notification of Option Exercise dated January 7, 1991, relating to the manufacturing facility of Korry Electronics at 801 Dexter Avenue N., Seattle, Washington. (Incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].) |



| Exhibit Number | Exhibit Index  |
|----------------|--|
| 10.3a          | Fourth Amendment dated March 28, 1994, to Industrial Lease dated July 17, 1984, between Michael Maloney and the Bancroft & Maloney general partnership, as successor to 801 Dexter Associates, and Korry Electronics Co. (Incorporated by reference to Exhibit 10.5a to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].) |
| 10.4*          | Summary of Non-Employee Director Compensation for Services on the Board of Directors of Esterline Technologies Corporation (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 30, 2009 [Commission File Number 1-6357].)  |
| 10.5*          | Esterline Technologies Corporation Supplemental Retirement Income Plan. (Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended October 27, 2006 [Commission File Number 1-6357].)  |
| 10.6*          | Esterline Technologies Corporation Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 30, 2009 [Commission File Number 1-6357].)  |
| 10.7*          | Executive Officer Termination Protection Agreement. (Incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].)  |
| 10.8a*         | Offer Letter from Esterline Technologies Corporation to Frank Houston dated March 4, 2005. (Incorporated by reference to Exhibit 10.19e to the Company's Current Report on Form 8-K dated March 29, 2005 [Commission File Number 1-6357].)   |
| 10.9*          | Offer Letter from Esterline Technologies Corporation to Brad Lawrence dated December 11, 2006. (Incorporated by reference to Exhibit 10.19f to the Company's Current Report on Form 8-K dated January 23, 2007 [Commission File Number 1-6357].)   |
| 10.10          | Real Property Lease and Sublease, dated June 28, 1996, between 810 Dexter L.L.C. and Korry Electronics Co. (Incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].)   |
| 10.11*         | Esterline Technologies Corporation Amended and Restated 1997 Stock Option Plan. (Incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed March 14, 2003 [Commission File Number 333-103846].)  |

| Exhibit Number | Exhibit Index   |
|----------------|---|
| 10.12          | Property lease between Slibail Immobilier and Norbail Immobilier and Auxitrol S.A., dated April 29, 1997, relating to the manufacturing facility of Auxitrol at 5, allée Charles Pathé, 18941 Bourges Cedex 9, France, effective on the construction completed date (December 5, 1997). (Incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].) |
| 10.13          | Industrial and Build-to-Suit Purchase and Sale Agreement between The Newhall Land and Farming Company, Esterline Technologies Corporation and TA Mfg. Co., dated February 13, 1997 including Amendments, relating to premises located at 28065 West Franklin Parkway, Valencia, CA. (Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended October 28, 2005 [Commission File Number 1-6357].)     |
| 10.14          | Lease Agreement, dated as of February 27, 1998, between Glacier Partners and Advanced Input Devices, Inc., as amended by Lease Amendment #1, dated February 27, 1998. (Incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended October 27, 2000 [Commission File Number 1-6357].) Lease Amendment #2, dated July 2, 2002, and Lease Amendment #3, dated September 18, 2009.                         |
| 10.15*         | Esterline Technologies Corporation 2002 Employee Stock Purchase Plan, as amended on March 5, 2008. (Incorporated by reference to Annex D of the Registrant's Definitive Proxy Statement on Schedule 14A, filed on February 4, 2008 [Commission File Number 1-6357].)  |
| 10.16          | Lease Agreement, dated as of August 6, 2003, by and between the Prudential Insurance Company of America and Mason Electric Co., relating to premises located at Sylmar, California. (Incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended October 31, 2003 [Commission File Number 1-6357].)   |
| 10.17          | Occupation Lease of Buildings known as Phases 3 and 4 on the Solartron Site at Victoria Road, Farnborough, Hampshire between J Sainsbury Developments Limited and Weston Aerospace Limited, dated July 21, 2000. (Incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended October 31, 2003 [Commission File Number 1-6357].)  |
| 10.18a*        | Esterline Technologies Corporation 2004 Equity Incentive Plan, as amended on March 5, 2008. (Incorporated by reference to Annex C of the Registrant's Definitive Proxy Statement on Schedule 14A, filed on February 4, 2008 [Commission File Number 1-6357].)   |

| Exhibit Number | Exhibit Index  |
|----------------|--|
| 10.18b*        | Form of Stock Option Agreement. (Incorporated by reference to Exhibit 10.36a to the Company's Quarterly Report on Form 10-Q for the quarter ended January 28, 2005 [Commission File Number 1-6357].)   |
| 10.19          | Lease Agreement dated as of March 19, 1969, as amended, between Leach Corporation and Gin Gor Ju, Trustee of Ju Family Trust, relating to premises located in Orange County. (Incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended October 29, 2004 [Commission File Number 1-6357].)   |
| 10.20          | Lease Agreement, dated November 29, 2005 between Lordbay Investments Limited, Darchem Engineering Limited and Darchem Holdings Limited relating to premises located at Units 4 and 5 Eastbrook Road, London Borough of Gloucestershire Gloucester. (Incorporated by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 28, 2006 [Commission File Number 1-6357].) |
| 10.21*         | Esterline Technologies Corporation Amended and Restated Non-Employee Directors' Stock Compensation Plan. (Incorporated by reference to Exhibit 10.40 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 28, 2005 [Commission File Number 1-6357].)   |
| 10.22          | Amendment No. 1 dated as of November 23, 2005 to Lease Agreement dated as of March 1, 1994 between Highland Industrial Park, Inc. and Armtec Countermeasures Company. (Incorporated by reference to Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 28, 2006 [Commission File Number 1-6357].)  |
| 10.23*         | Esterline Technologies Corporation Fiscal Year 2009 Annual Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 30, 2009 [Commission File Number 1-6357].)   |
| 10.24*         | Esterline Technologies Supplemental Executive Retirement and Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended October 27, 2006 [Commission File Number 1-6357].)   |
| 10.25          | Lease Agreement dated November 4, 2002, between American Ordnance LLC and FR Countermeasures, relating to premises located at 25A Ledbetter Gate Road, Milan, Tennessee. (Incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended October 27, 2006 [Commission File Number 1-6357].)   |
| 10.26          | Lease Agreement between Capstone PF LLC and Korry Electronics Co. dated as of March 26, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 2, 2008 [Commission File Number 1-6357].)  |

| Exhibit Number | Exhibit Index   |
|----------------|---|
| 10.27          | Exhibit C to Lease Agreement between Capstone PF LLC and Korry Electronics Co. dated as of March 26, 2008. (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2008 [Commission File Number 1-6357].)   |
| 10.28          | First Amendment to Building Lease and Sublease, dated June 25, 2008, between Capstone PF LLC and Korry Electronics Co. (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2008 [Commission File Number 1-6357].)   |
| 10.29          | Second Amendment to Building Lease and Sublease, dated July 30, 2008, between Capstone PF LLC and Korry Electronics Co. (Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2008 [Commission File Number 1-6357].)  |
| 10.30          | Subordination, Nondisturbance and Attornment Agreement and Estoppel Certificate, dated July 30, 2008, between Keybank National Association and Korry Electronics Co. (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2008 [Commission File Number 1-6357].)   |
| 10.31          | Agreement for the sale and purchase of the entire issued share capital of Muirhead Aerospace Limited between Esterline Technologies Limited, Esterline Technologies Corporation, EMA Holding UK Limited, and Ametek, Inc. dated November 3, 2008. (Incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended October 31, 2008 [Commission File Number 1-6357].) |
| 10.32          | Stock Purchase Agreement between NMC Group, Inc. and Esterline Technologies Corporation dated November 17, 2008. (Incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended October 31, 2008 [Commission File Number 1-6357].)  |
| 10.33          | Share Sale and Purchase Agreement Relating to Racal Acoustics Global Limited dated December 21, 2008. (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 30, 2009 [Commission File Number 1-6357].)  |
| 11.1           | Schedule setting forth computation of earnings per share for the five fiscal years ended October 30, 2009.  |
| 12.1           | Statement of Computation of Ratio of Earnings to Fixed Charges.   |
| 21.1           | List of subsidiaries.   |
| 23.1           | Consent of Independent Registered Public Accounting Firm.   |

| Exhibit Number | Exhibit Index  |
|----------------|--|
| 31.1           | Certification of Chief Executive Officer.  |
| 31.2           | Certification of Chief Financial Officer.  |
| 32.1           | Certification (of R. Bradley Lawrence) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2           | Certification (of Robert D. George) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.    |

\* Indicates management contract or compensatory plan or arrangement.