

MOOG INC
Form 10-Q
August 10, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 3, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 1-5129

MOOG inc.

(Exact name of registrant as specified in its charter)

New York State

(State or other jurisdiction of incorporation or
organization)

16-0757636

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

East Aurora, New York

(Address of principal executive offices)

14052-0018

(Zip Code)

Telephone number including area code: **(716) 652-2000**

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
----------------------------------------------------------------	-----------------------------------------------	----------------------------------------------------------------------------------------------------	-------------------------------------------------------

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

The number of shares outstanding of each class of common stock as of August 5, 2010 was:

Class A common stock, \$1.00 par value 41,251,138 shares

Class B common stock, \$1.00 par value 4,130,643 shares

MOOG inc.
QUARTERLY REPORT ON FORM 10-Q
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MOOG inc.
Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)	July 3, 2010	October 3, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 91,116	\$ 81,493
Receivables	575,982	547,571
Inventories	474,714	484,261
Other current assets	98,642	97,073
TOTAL CURRENT ASSETS	1,240,454	1,210,398
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$470,619 and \$445,426, respectively	474,220	481,726
GOODWILL	697,704	698,459
INTANGIBLE ASSETS, net	207,209	220,311
OTHER ASSETS	20,818	23,423
TOTAL ASSETS	\$2,640,405	\$2,634,317
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 3,333	\$ 16,971
Current installments of long-term debt	1,745	1,541
Accounts payable	129,701	125,257
Customer advances	80,566	66,811
Contract loss reserves	37,899	50,190
Other accrued liabilities	201,609	185,491
TOTAL CURRENT LIABILITIES	454,853	446,261
LONG-TERM DEBT, excluding current installments		
Senior debt	398,580	435,944
Senior subordinated notes	378,618	378,630
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	206,537	225,747
DEFERRED INCOME TAXES	81,317	76,910
OTHER LONG-TERM LIABILITIES	3,146	5,792

TOTAL LIABILITIES	1,523,051	1,569,284
SHAREHOLDERS' EQUITY		
Common stock	51,280	51,280
Other shareholders' equity	1,066,074	1,013,753
TOTAL SHAREHOLDERS' EQUITY	1,117,354	1,065,033
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,640,405	\$2,634,317

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG inc.
Consolidated Condensed Statements of Earnings
(Unaudited)

(dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
NET SALES	\$ 536,775	\$ 445,160	\$ 1,542,441	\$ 1,344,583
COST OF SALES	380,828	319,410	1,094,191	945,213
GROSS PROFIT	155,947	125,750	448,250	399,370
Research and development	25,780	22,805	75,166	72,127
Selling, general and administrative	79,296	70,545	233,521	208,550
Restructuring	1,653	9,946	4,792	9,946
Interest	9,387	9,471	29,363	28,494
Equity in earnings of LTi and other	(163)	(3,409)	467	(9,014)
EARNINGS BEFORE INCOME TAXES	39,994	16,392	104,941	89,267
INCOME TAXES	10,762	496	29,147	19,409
NET EARNINGS	\$ 29,232	\$ 15,896	\$ 75,794	\$ 69,858
NET EARNINGS PER SHARE				
Basic	\$.64	\$.37	\$ 1.67	\$ 1.64
Diluted	\$.64	\$.37	\$ 1.66	\$ 1.63
AVERAGE COMMON SHARES				
OUTSTANDING				
Basic	45,371,995	42,571,843	45,356,752	42,571,608
Diluted	45,753,917	42,837,237	45,692,348	42,882,372

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG inc.
Consolidated Condensed Statements of Cash Flows
(Unaudited)

	Nine Months Ended	
	July 3, 2010	June 27, 2009
(dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 75,794	\$ 69,858
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	45,330	40,777
Amortization	22,386	14,671
Provisions for non-cash losses on contracts, inventories and receivables	34,410	30,148
Equity-based compensation expense	4,669	4,651
Other	2,454	(5,841)
Changes in assets and liabilities providing cash, excluding the effects of acquisitions:		
Receivables	(35,364)	29,931
Inventories	(6,641)	(29,542)
Accounts payable	4,674	(23,703)
Customer advances	14,361	(5,599)
Accrued expenses	(27,393)	(21,021)
Accrued income taxes	10,833	(4,990)
Pension assets and liabilities	(10,585)	(13,700)
Other assets and liabilities	28	(1,739)
NET CASH PROVIDED BY OPERATING ACTIVITIES	134,956	83,901
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of acquired cash	(28,569)	(170,681)
Purchase of property, plant and equipment	(44,717)	(63,983)
Supplemental retirement plan investment redemption		18,071
Other	(2,247)	(1,144)
NET CASH USED BY INVESTING ACTIVITIES	(75,533)	(217,737)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments of) proceeds from notes payable	(14,260)	5,658
Net (repayments of) proceeds from revolving lines of credit	(29,724)	145,310
Payments on long-term debt	(2,457)	(2,775)
Redemption of senior subordinated notes		(18,071)
Excess tax benefits from equity-based payment arrangements	58	43
Other	1,081	(3,801)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(45,302)	126,364

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Effect of exchange rate changes on cash	(4,498)	(2,328)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,623	(9,800)
Cash and cash equivalents at beginning of period	81,493	86,814
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 91,116	\$ 77,014
CASH PAID FOR:		
Interest	\$ 29,018	\$ 29,542
Income taxes, net of refunds	17,377	19,148

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG inc.
Notes to Consolidated Condensed Financial Statements
Nine Months Ended July 3, 2010
(Unaudited)
(dollars in thousands, except per share data)

Note 1 Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for the fair presentation of results for the interim period have been included. The results of operations for the three and nine months ended July 3, 2010 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the fiscal year ended October 3, 2009. All references to years in these financial statements are to fiscal years.

Note 2 Acquisitions

During the nine months ended July 3, 2010, we completed three business combinations within two of our segments. We completed one acquisition in our Aircraft Controls segment for \$8,100 in cash, issuance of a \$1,200 unsecured note and contingent consideration with an initial fair value of \$1,400. This acquisition complements our military aftermarket business. We acquired two businesses in our Space and Defense Controls segment for \$20,107 net of cash acquired, issuance of a \$1,000 unsecured note and contingent consideration with an initial fair value of \$1,600. One business specializes in turret design, fire control systems and vehicle electronics and the other expands our capabilities in the security and surveillance market.

The purchase price allocations for the 2010 acquisitions are substantially complete. Those allocations are subject to subsequent adjustment as we obtain additional information for our estimates during the respective measurement periods.

In 2009, we completed eight business combinations within four of our segments. We completed two acquisitions in our Aircraft Controls segment, both of which are located in the U.K., for a total purchase price of \$136,584. We acquired the flight control actuation business of GE Aviation Systems which complements our flight control actuation business and Fernau Avionics Limited that expands our business in ground-based air navigation systems. We acquired one business, Videolarm Inc., based in Georgia, in our Space and Defense Controls segment for \$44,853 that expands our capabilities in the security and surveillance markets. We completed three acquisitions in our Industrial Systems segment for a total of \$109,617, which includes \$28,288 for a 40% ownership paid in 2008 for one of the acquired companies: LTi REEnergy GmbH, with operations in Germany and China and Insensys Ltd., a UK-based company both specialize in systems and blade controls of turbines for the wind energy market; Berkeley Process Control, Inc., based in California manufactures motion control software and hardware. We also completed two acquisitions in our Medical Devices segment for a total purchase price of \$36,510, which includes \$6,814 of assumed debt: Aitecs Medical UAB, a Lithuanian-based manufacturer expands our portfolio to include syringe style pumps and Ethox International, based in New York, produces proprietary medical devices and contract manufacturing of disposables as well as microbiology, toxicology and sterilization services.

Our purchase price allocations for the 2009 acquisitions are substantially complete.

Note 3 Inventories

	July 3, 2010	October 3, 2009
Raw materials and purchased parts	\$179,643	\$206,414
Work in progress	227,291	214,021
Finished goods	67,780	63,826

Total

\$474,714

\$484,261

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The changes in the carrying amount of goodwill for the nine months ended July 3, 2010 are as follows:

	Balance as of October 3, 2009	Current Year Acquisitions	Adjustment To Prior Year Acquisitions	Foreign Currency Translation	Balance as of July 3, 2010
Aircraft Controls	\$ 180,694	\$ 4,766	\$ (8,279)	\$ (1,312)	\$ 175,869
Space and Defense Controls	106,802	14,057		(86)	120,773
Industrial Systems Components	124,155			(8,474)	115,681
	159,359			429	159,788
Medical Devices	127,449		(82)	(1,774)	125,593
Total	\$ 698,459	\$ 18,823	\$ (8,361)	\$ (11,217)	\$ 697,704

The components of acquired intangible assets are as follows:

	Weighted - Average Life (years)	July 3, 2010		October 3, 2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	10	\$ 144,082	\$ (44,756)	\$ 142,555	\$ (34,748)
Program-related	18	62,512	(4,223)	61,599	(1,475)
Technology-related	9	53,584	(20,212)	50,698	(15,955)
Marketing-related	9	22,858	(11,753)	22,616	(10,109)
Contract-related	3	3,312	(828)	3,000	
Artistic-related	10	25	(22)	25	(20)
Acquired intangible assets	11	\$ 286,373	\$ (81,794)	\$ 280,493	\$ (62,307)

All acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Program-related intangible assets consist of long-term programs.

Technology-related intangible assets primarily consist of technology, patents, intellectual property and engineering drawings. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements. Contract-related intangible assets consist of favorable operating lease terms.

Amortization of acquired intangible assets was \$7,090 and \$21,067 for the three and nine months ended July 3, 2010 and \$5,462 and \$13,313 for the three and nine months ended June 27, 2009, respectively. Based on acquired intangible assets recorded at July 3, 2010, amortization is expected to be approximately \$28,000 in 2010, \$27,000 in 2011, \$26,000 in 2012, \$23,000 in 2013 and \$20,000 in 2014.

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In the ordinary course of business, we warrant our products against defects in design, materials and workmanship typically over periods ranging from twelve to thirty-six months. We determine warranty reserves needed by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Warranty accrual at beginning of period	\$ 14,182	\$ 11,472	\$ 14,675	\$ 10,015
Additions from acquisitions	148	2,253	148	2,935
Warranties issued during current period	1,580	1,471	5,007	4,302
Adjustments to pre-existing warranties	(158)	(56)	(259)	1,671
Reductions for settling warranties	(1,520)	(2,934)	(4,945)	(6,238)
Foreign currency translation	(261)	1,575	(655)	1,096
Warranty accrual at end of period	\$ 13,971	\$ 13,781	\$ 13,971	\$ 13,781

Note 6 Derivative Financial Instruments

We principally use derivative financial instruments to manage interest rate risk associated with long-term debt and foreign exchange risk related to foreign operations and foreign currency transactions. We enter into derivative financial instruments with a number of major financial institutions to minimize counterparty credit risk.

Derivatives designated as hedging instruments

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At July 3, 2010, we had interest rate swaps with notional amounts totaling \$50,000. The interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 3.8%, including the applicable margin of 200 basis points as of July 3, 2010. The interest will revert back to variable rates based on LIBOR plus the applicable margin upon the maturity of the interest rate swaps in 2012.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments. To mitigate exposure in movements between various currencies, primarily the British pound and Philippine peso, we had outstanding foreign currency forwards with notional amounts of \$22,896 at July 3, 2010. These contracts mature at various times through the first quarter of 2012.

These interest rate swaps and foreign currency forwards are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in 2010 or 2009.

Activity in Accumulated Other Comprehensive Income (Loss) (AOCI) related to these derivatives during the first nine months of 2010 is summarized below:

	Pre-tax Amount	Income Tax	After-Tax Amount
Balance at October 3, 2009	\$ (262)	\$ 73	\$ (189)

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Net decrease in fair value of derivatives	(736)	255	(481)
Net reclassification from AOCI into earnings	206	(63)	143
Accumulated loss at July 3, 2010	\$(792)	\$265	\$(527)

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Activity and classification of derivatives for the nine months ended July 3, 2010 are as follows:

	Classification of net gain (loss) recognized in earnings	Net reclassification from AOCI into earnings (effective portion)	Net deferral in AOCI of derivatives (effective portion)
Interest rate swaps	Interest expense	\$ (530)	\$ (512)
Foreign currency forwards	Cost of sales	324	(224)
Net loss		\$ (206)	\$ (736)

Derivatives not designated as hedging instruments

We also have foreign currency exposure on intercompany balances that are denominated in a foreign currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the statement of earnings. To minimize foreign currency exposure, we had foreign currency forwards with notional amounts of \$124,194 at July 3, 2010. The foreign currency forwards are recorded in the consolidated balance sheet at fair value and resulting gains or losses are recorded in the statements of earnings. We recorded a net gain of \$3,178 for the three months ended July 3, 2010 and a net loss of \$326 for the nine months ended July 3, 2010 on the foreign currency forwards which are included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances.

Summary of derivatives

The fair value and classification of derivatives on the consolidated balance sheet as of July 3, 2010 are summarized as follows:

	Other current assets	Other assets	Other accrued liabilities	Other long-term liabilities
Derivatives designated as hedging instruments:				
Foreign currency forwards	\$ 129	\$	\$ (567)	\$(117)
Interest rate swaps			(188)	(78)
	\$ 129	\$	\$ (755)	\$(195)
Derivatives not designated as hedging instruments:				
Foreign currency forwards	\$1,904	\$	\$(2,325)	\$

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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. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

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

Level 2 Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.

Our derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market data, such as interest rate yield curves and currency rates, classified as Level 2 within the valuation hierarchy. The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis as of July 3, 2010:

	Classification	Level 1	Level 2	Level 3	Total
Foreign currency forwards	Other current assets	\$	\$ 2,033	\$	\$ 2,033
Foreign currency forwards	Other accrued liabilities		(2,892)		(2,892)
Foreign currency forwards	Other long-term liabilities		(117)		(117)
Interest rate swaps	Other accrued liabilities		(188)		(188)
Interest rate swaps	Other long-term liabilities		(78)		(78)
Acquisition contingent consideration	Other accrued liabilities			(1,057)	(1,057)
Acquisition contingent consideration	Other long-term liabilities			(1,943)	(1,943)
Net fair value		\$	\$(1,242)	\$(3,000)	\$(4,242)

Our only financial instrument for which the carrying value differs from its fair value is long-term debt. At July 3, 2010, the fair value of long-term debt was \$768,980 compared to its carrying value of \$778,943. The fair value of long-term debt was estimated based on quoted market prices.

Note 8 Restructuring

We initiated restructuring plans to better align our cost structure with lower sales activity associated with the global recession. The restructuring actions taken have or will result in workforce reductions, primarily in the U.S., the Philippines and Europe.

Restructuring expense by segment related to severance is summarized as follows:

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Aircraft Controls	\$ 144	\$2,136	\$2,308	\$2,136

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Space and Defense Controls	1,039	48	1,039	48
Industrial Systems	85	7,685	566	7,685
Components	95	77	512	77
Medical Devices	290		367	
Total	\$1,653	\$9,946	\$4,792	\$9,946

Restructuring expense related to these actions was \$15,067 in 2009. We do not anticipate additional amounts for the remainder of 2010. Payments related to these severance benefits are expected to be paid in full by the end of 2010.

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Restructuring activity for the nine months ended July 3, 2010 is as follows:

	Severance
Restructuring accrual at beginning of period	\$ 14,332
Restructuring charges	5,052
Expense adjustments for prior year accruals	(260)
Cash payments	(12,241)
Foreign currency translation	(505)
Restructuring accrual at end of period	\$ 6,378

Note 9 Employee Benefit Plans

Net periodic benefit costs for U.S. pension plans consist of:

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Service cost	\$ 4,680	\$ 3,494	\$ 14,039	\$ 10,482
Interest cost	6,767	6,383	20,300	19,147
Expected return on plan assets	(8,836)	(7,981)	(26,508)	(23,943)
Amortization of prior service cost	51	73	152	221
Amortization of actuarial loss	1,236	211	3,711	633
Pension expense for defined benefit plans	3,898	2,180	11,694	6,540
Pension expense for defined contribution plans	1,704	1,632	5,177	4,612
Total pension expense for U.S. plans	\$ 5,602	\$ 3,812	\$ 16,871	\$ 11,152

Net periodic benefit costs for non-U.S. pension plans consist of:

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Service cost	\$ 754	\$ 867	\$ 2,358	\$ 2,622
Interest cost	1,389	1,435	4,431	4,240
Expected return on plan assets	(864)	(867)	(2,710)	(2,567)
Amortization of prior service credit	(13)	(11)	(40)	(35)
Amortization of actuarial loss	126	116	387	344
Curtailement loss		54		54
Pension expense for defined benefit plans	1,392	1,594	4,426	4,658
Pension expense for defined contribution plans	1,980	443	4,859	1,283
Total pension expense for non-U.S. plans	\$3,372	\$2,037	\$ 9,285	\$ 5,941

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During the nine months ended July 3, 2010, we made contributions to our defined benefit pension plans of \$21,000 to the U.S. plans and \$3,100 to the non-U.S. plans. We anticipate contributing approximately \$9,000 more to the U.S. plans and approximately \$1,000 more to the non-U.S. plans for a total of approximately \$34,000 in 2010.

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Net periodic benefit costs for the post-retirement health care benefit plan consist of:

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Service cost	\$ 142	\$ 104	\$ 428	\$ 313
Interest cost	337	342	1,009	1,025
Amortization of transition obligation	98	99	296	296
Amortization of prior service cost	53	66	161	200
Amortization of actuarial loss	211	96	631	288
Total periodic post-retirement benefit cost	\$ 841	\$ 707	\$ 2,525	\$ 2,122

Note 10 Income Taxes

The effective tax rate for the three and nine months ended July 3, 2010 is lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes as a significant portion of earnings came from foreign operations with lower tax rates. The effective tax rate for the three months ended June 27, 2009 is lower than would be expected as a result of a cumulative adjustment from lower projected earnings for the year. In addition, our effective tax rate benefited from reversing \$1,869 of accruals primarily as a result of the expiration of the U.S. Federal statute of limitations from 2005 and \$759 from the closing of the U.S. Federal income tax examination audit of 2007. The effective tax rate for the nine months ended June 27, 2009 is also lower than would be expected as a result of our decision to repatriate approximately \$31,000 of cash to the U.S. from our Japanese subsidiary, resulting in a \$4,850 foreign tax credit, which reduced our U.S. tax provision. In addition, we recorded a benefit in the first quarter of 2009 related to our 2008 tax year as a result of the reinstatement of the U.S. research and development tax credit under the TARP legislation.

Table of Contents**Note 11 Shareholders Equity**

The changes in shareholders equity for the nine months ended July 3, 2010 are summarized as follows:

		Number of Shares	
	Amount	Class A Common Stock	Class B Common Stock
COMMON STOCK			
Beginning and end of period	\$ 51,280	43,471,373	7,808,340
Conversion of Class B to Class A		1,400	(1,400)
End of Period	51,280	43,472,773	7,806,940
ADDITIONAL PAID-IN CAPITAL			
Beginning of period	381,099		
Equity-based compensation expense	4,669		
Issuance of treasury shares at more than cost	433		
Income tax effect of equity-based compensation	58		
Adjustment to market SECT	1,136		
End of period	387,395		
RETAINED EARNINGS			
Beginning of period	772,639		
Net earnings	75,794		
End of period	848,433		
TREASURY STOCK			
Beginning of period	(47,733)	(2,303,699)	(3,305,971)
Issuance of treasury shares	543	101,825	
Purchase of treasury shares	(534)	(19,761)	
End of period	(47,724)	(2,221,635)	(3,305,971)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)			
Beginning of period	(11,426)		(398,552)
Issuance of shares	1,404		49,775
Purchase of shares	(766)		(21,548)
Adjustment to market SECT	(1,136)		
End of period	(11,924)		(370,325)

ACCUMULATED OTHER COMPREHENSIVE
(LOSS) INCOME

Beginning of period	(80,826)
Foreign currency translation adjustment	(31,022)
Retirement liability adjustment	2,080
Increase in accumulated loss on derivatives	(338)
End of period	(110,106)

TOTAL SHAREHOLDERS EQUITY	\$ 1,117,354	41,251,138	4,130,644
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Table of Contents**Note 12 Stock Employee Compensation Trust**

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for equity-based compensation plans and benefit programs, including the Moog Inc. Retirement Savings Plan. The shares in the SECT are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreement governing the SECT, the SECT trustee votes all shares held by the SECT on all matters submitted to shareholders.

Note 13 Earnings per Share

Basic and diluted weighted-average shares outstanding are as follows:

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Weighted-average shares outstanding				
Basic	45,371,995	42,571,843	45,356,752	42,571,608
Dilutive effect of equity-based awards	381,922	265,394	335,596	310,764
Weighted-average shares outstanding				
Diluted	45,753,917	42,837,237	45,692,348	42,882,372

On October 2, 2009, we completed the offering and sale of 2,675,000 shares of Class A common stock at a price of \$29.50 per share.

Note 14 Comprehensive Income

The components of comprehensive income, net of tax, are as follows:

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net earnings	\$ 29,232	\$ 15,896	\$ 75,794	\$ 69,858
Other comprehensive income (loss):				
Foreign currency translation adjustment	(17,200)	26,325	(31,022)	(9,533)
Retirement liability adjustment, net of tax of \$704, \$234, \$2,025 and \$706, respectively	398	(68)	2,080	1,553
Pension curtailment and rereasurement, net of tax of \$0, \$292, \$0, and \$292, respectively		97		97
Decrease (increase) in accumulated loss on derivatives	(326)	157	(338)	8
Comprehensive income	\$ 12,104	\$ 42,407	\$ 46,514	\$ 61,983

The components of accumulated other comprehensive loss, net of tax, are as follows:

July 3, 2010	October 3, 2009
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Cumulative foreign currency translation adjustment	\$ 12,700	\$ 43,722
Accumulated retirement liability adjustments	(122,279)	(124,359)
Accumulated loss on derivatives	(527)	(189)
Accumulated other comprehensive loss	\$(110,106)	\$ (80,826)

Table of Contents**Note 15 Segment Information**

Below are sales and operating profit by segment for the three and nine months ended July 3, 2010 and June 27, 2009 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, number of employees or profit.

	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales:				
Aircraft Controls	\$ 191,172	\$ 161,553	\$ 554,985	\$ 486,726
Space and Defense Controls	87,466	64,753	236,041	204,455
Industrial Systems	128,998	102,452	385,791	316,999
Components	95,684	90,413	270,429	256,421
Medical Devices	33,455	25,989	95,195	79,982
Net sales	\$ 536,775	\$ 445,160	\$ 1,542,441	\$ 1,344,583
Operating profit (loss) and margins:				
Aircraft Controls	\$ 17,262 9.0%	\$ 12,988 8.0%	\$ 54,447 9.8%	\$ 41,007 8.4%
Space and Defense Controls	8,367 9.6%	7,110 11.0%	24,564 10.4%	30,496 14.9%
Industrial Systems	12,244 9.5%	812 0.8%	31,564 8.2%	23,171 7.3%
Components	18,315 19.1%	14,689 16.2%	44,833 16.6%	44,739 17.4%
Medical Devices	(683) (2.0%)	(4,360) (16.8%)	(532) (0.6%)	(6,661) (8.3%)
Total operating profit	55,505 10.3%	31,239 7.0%	154,876 10.0%	132,752 9.9%
Deductions from operating profit:				
Interest expense	9,387	9,471	29,363	28,494
Equity-based compensation expense	991	1,031	4,669	4,651
Corporate expenses and other	5,133	4,345	15,903	10,340
Earnings before income taxes	\$ 39,994	\$ 16,392	\$ 104,941	\$ 89,267

Table of Contents**Note 16 Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board (FASB) issued new standards for business combinations as codified in Accounting Standards Codification (ASC) 805-10. The objective of the new standard is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for the acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, the goodwill acquired or a gain from a bargain purchase. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The new standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We have adopted this standard as of October 4, 2009.

In April 2009, the FASB issued new standards on identifiable assets and liabilities assumed in a business combination as codified in ASC 805-20. The new standard amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. The new standard carries forward the requirements in current standards for acquired contingencies, thereby requiring that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with standards codified in ASC 450-10. The new standard is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We have adopted this standard as of October 4, 2009.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820) Improving Disclosures About Fair Value Measurements. ASU Topic 820 requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. This standard is effective for us beginning in 2011 for Level 1 and 2 disclosures and in 2012 for Level 3. Other than requiring additional disclosures, the adoption of this new guidance will not have a material impact on our consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, Amendments to Certain Recognition and Disclosure Requirements, (ASU 2010-09) which amends ASC 855, Subsequent Events, to address certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures. ASU 2010-09 requires SEC filers to evaluate subsequent events through the date the financial statements are issued and exempts SEC filers from disclosing the date through which subsequent events have been evaluated. The ASU was effective immediately upon issuance. The adoption of ASU 2010-09 did not have a material impact on our consolidated financial statements.

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

The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the fiscal year ended October 3, 2009. All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years.

OVERVIEW

We are a worldwide designer, manufacturer and integrator of high performance precision motion and fluid controls and control systems for a broad range of applications in aerospace and defense, industrial and medical markets. Our aerospace and defense products and systems include military and commercial aircraft flight controls, satellite positioning controls, controls for steering tactical and strategic missiles, thrust vector controls for space launch vehicles, controls for gun aiming, stabilization and automatic ammunition loading for armored combat vehicles, and security and surveillance products. Our industrial products are used in a wide range of applications, including injection molding machines, pilot training simulators, wind energy, power generation, material and automotive testing, metal forming, heavy industry and oil exploration. Our medical products include infusion therapy pumps, enteral clinical nutrition pumps, slip rings used on CT scanners and motors used in sleep apnea devices. We operate under five segments, Aircraft Controls, Space and Defense Controls, Industrial Systems, Components and Medical Devices. Our principal manufacturing facilities are located in the United States, including facilities in New York, California, Utah, Virginia, North Carolina, Pennsylvania, Ohio, Georgia and Illinois, and in England, Germany, Italy, Japan, the Philippines, Ireland, India and China.

We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls and represent approximately one-third of our sales. We recognize revenue on these contracts using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion. The remainder of our sales are recognized when the risks and rewards of ownership and title to the product are transferred to the customer, principally as units are delivered or as service obligations are satisfied. This method of revenue recognition is predominantly used within the Industrial Systems, Components and Medical Devices segments, as well as with aftermarket activity.

We concentrate on providing our customers with products designed and manufactured to the highest quality standards. In achieving a leadership position in the high performance, precision controls market, we have capitalized on our strengths, which include:

- superior technical competence and customer intimacy breeding market leadership,

- customer diversity and broad product portfolio,

- well-established international presence serving customers worldwide, and

- proven ability to successfully integrate acquisitions.

We intend to increase our revenue base and improve our profitability and cash flows from operations by building on our market leadership positions, by strengthening our niche market positions in the principal markets we serve and by extending our participation on the platforms we supply by providing more systems solutions. We also expect to maintain a balanced, diversified portfolio in terms of markets served, product applications, customer base and geographic presence. Our strategy to achieve our objectives includes:

- maintaining our technological excellence by building upon our systems integration capabilities while solving our customers' most demanding technical problems,

- taking advantage of our global capabilities,

- growing our profitable aftermarket business,

- capitalizing on strategic acquisitions and opportunities,

entering and developing new markets, and

striving for continuing cost improvements.

Challenges facing us include adjusting to global economic conditions, improving shareholder value through increased profitability while experiencing pricing pressures from customers, strong competition and increases in costs such as retirement and health care benefits. We address these challenges by focusing on strategic revenue growth and by continuing to improve operating efficiencies through various process, manufacturing and restructuring initiatives and using low cost manufacturing facilities without compromising quality.

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Acquisitions

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value on the balance sheet. The purchase price described for each acquisition below is net of any cash acquired and includes debt issued or assumed.

For the nine months ended July 3, 2010, we completed three business combinations within two of our segments. We completed one acquisition in our Aircraft Controls segment for a total purchase price of \$11 million. This acquisition complements our military aftermarket business. We acquired two businesses in our Space and Defense Controls segment for a total purchase price of \$23 million. These acquisitions expand our business in the security and surveillance and defense controls markets.

In 2009, we completed eight business combinations within four of our segments. We completed two acquisitions in our Aircraft Controls segment, both of which are located in the U.K., for a total purchase price of \$136 million. These acquisitions complement our flight control actuation business and expand our business in ground-based air navigation systems. We acquired one business in our Space and Defense Controls segment for \$45 million that expands our capabilities in the security and surveillance markets. We completed three acquisitions in our Industrial Systems segment, two of which specialize in systems and blade controls of turbines for the wind energy market, for a total of \$110 million, which includes \$28 million for a 40% ownership paid in 2008 for one of the acquired companies. We also completed two acquisitions in our Medical Devices segment for a total purchase price of \$36 million expanding our portfolio to include syringe style pumps, proprietary medical devices and contract manufacturing of disposables as well as microbiology, toxicology and sterilization services.

CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies in the current year from those disclosed in our 2009 Form 10-K.

Reviews for Impairment of Goodwill

Our most recent test of goodwill for impairment was our annual test as of the beginning of our fourth quarter in 2009. The results of that test indicated that goodwill was not impaired. However, the fair value of our Aircraft Controls reporting unit was not significantly in excess of its carrying value. Its excess of fair value over carrying value was 6%. This reporting unit is one level below our Aircraft Controls segment and excludes the navigation aids business we acquired last year. This reporting unit had \$104 million of goodwill allocated to it as of our most recent test. The most significant assumptions in determining fair value are projected revenue growth rates, operating profit margins and cash flows, the terminal growth rate and the discount rate. Management projects revenue growth rates, operating margins and cash flows based on each reporting unit's current business, expected developments and operational strategies over a five-year period. In estimating the terminal growth rate, we consider our historical and projected results, as well as the economic environment in which our reporting units operate. Significant program delays, changes in demand due to economic pressures or unfavorable terms in our contracts could have a negative effect on the fair value of this reporting unit.

Table of Contents**RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the FASB issued new standards on consolidation as codified in ASC 810-10. The new standard amends the consolidation guidance applicable to variable interest entities and affects the overall consolidation analysis. The new standard is effective for fiscal years beginning after November 15, 2009. This statement will be effective for us in 2011. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

In October 2009, the FASB issued new standards for allocating revenue to multiple deliverables in a contract as codified in ASC 605-25. The new standard is effective for us at the beginning of 2011, with early adoption permitted. The new standard allows entities to allocate consideration in a multiple element arrangement in a manner that better reflects the transaction economics. When vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, entities will be allowed to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, use of the residual method has been eliminated. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

In April 2010, the FASB issued ASU 2010-17, Milestone Method of Revenue Recognition. This ASU allows entities to make a policy election to use the milestone method of revenue recognition and provides guidance on defining a milestone and the criteria that should be met to applying the milestone method. The scope of this ASU is limited to the transactions involving milestones related to research and development deliverables. This statement will be effective for us in 2011. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(dollars in millions)	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales	\$ 536.8	\$ 445.2	\$ 1,542.4	\$ 1,344.6
Gross margin	29.1%	28.2%	29.1%	29.7%
Research and development expenses	\$ 25.8	\$ 22.8	\$ 75.2	\$ 72.1
Selling, general and administrative expenses as a percentage of sales	14.8%	15.8%	15.1%	15.5%
Restructuring expense	\$ 1.7	\$ 9.9	\$ 4.8	\$ 9.9
Interest expense	\$ 9.4	\$ 9.5	\$ 29.4	\$ 28.5
Effective tax rate	26.9%	3.0%	27.8%	21.7%
Net earnings	\$ 29.2	\$ 15.9	\$ 75.8	\$ 69.9

Net sales increased \$92 million, or 21%, in the third quarter of 2010 compared to 2009. Our sales increased in all of our segments in 2010, as we experienced a significant impact of the global recession in the third quarter of 2009. Our sales in 2010 were also positively impacted by \$35 million of incremental sales from recent acquisitions, particularly in Aircraft Controls and Industrial Systems.

Net sales increased \$198 million, or 15%, for the first nine months of the year predominantly as a result of \$171 million of incremental sales from recent acquisitions, particularly in Aircraft Controls and Industrial Systems. Our gross margin was higher in the third quarter of 2010 compared to 2009 predominantly as a result of the increased sales volume.

Our gross margin was lower in the first nine months of 2010 compared to 2009, reflecting the impact of increased sales of lower gross margin products attributable to the recent acquisitions of wind energy and high lift actuation businesses.

Research and development expenses increased in the third quarter and first nine months of 2010 compared to the same periods of 2009 as increased expenditures for the Airbus A350 program and the impact from acquisitions were partially offset by reduced expenses for the Boeing 787.

Selling, general and administrative expenses as a percentage of sales were lower in the third quarter of 2010 compared to the same period last year as a result of the higher sales volume in 2010.

Selling, general and administrative expenses as a percentage of sales were lower for the first nine months of 2010 compared to the same period last year. The decrease is a result of the impact of recent acquisitions that have lower selling, general and administrative cost structures.

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We incurred \$2 million and \$5 million of restructuring charges for severance in the third quarter and first nine months of 2010, respectively. We expect that payment of these restructuring costs will be complete by the end of 2010. During the third quarter of 2009, we accrued a total of \$10 million of severance costs, of which \$8 million was for our Industrial Systems segment as a result of the global economic downturn.

The effective tax rate for the third quarter of 2010 is significantly higher than the same period last year as a result of a cumulative adjustment in the third quarter of 2009 from lower projected earnings for the year. During the third quarter of 2009, our effective tax rate also benefited \$1 million from the closing of the U.S. Federal income tax examination audit of 2007 and \$1 million of additional research and development tax credits.

The effective tax rate for the first nine months of 2010 is higher than 2009 and also reflects a \$5 million foreign tax credit in 2009 from the repatriation of \$31 million of cash to the U.S. from our Japanese subsidiary and a benefit in 2009 related to our 2008 tax year as a result of the reinstatement of the U.S. research and development tax credit under the TARP legislation.

Net earnings increased 84% in the third quarter of 2010 while diluted earnings per share increased 73%, reflecting additional shares outstanding from a stock offering completed at the end of 2009. Net earnings and diluted earnings per share increased 8% and 2%, respectively, in the first nine months of 2010.

2010 Outlook We expect sales in 2010 to increase by 13% to approximately \$2.1 billion reflecting increases in all of our segments, primarily related to recent acquisitions, especially in Aircraft Controls and Industrial Systems. We expect operating margins to be approximately 10.3% in 2010 compared to 9.3% in 2009. We expect operating margins to increase in Medical Devices, Aircraft Controls and Industrial Systems, decrease in Space and Defense Controls and remain relatively flat in Components. Restructuring costs are estimated to be \$5 million in 2010 resulting from the continuation of staff reduction plans started in 2009. We expect net earnings to increase to \$107 million and diluted earnings per share to increase by 19% to \$2.35.

2011 Outlook We expect sales in 2011 to increase by 7% to approximately \$2.2 billion reflecting increases in all of our segments. We expect operating margins to be approximately 10.9% in 2011 compared to 10.3% in 2010. We expect operating margins to increase in Medical Devices, Industrial Systems and Aircraft Controls and decrease in Space and Defense Controls and Components. We expect net earnings to increase to \$124 million and diluted earnings per share to increase by 15% to \$2.70.

Table of Contents**SEGMENT RESULTS OF OPERATIONS AND OUTLOOK**

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, number of employees or profit. Operating profit is reconciled to earnings before income taxes in Note 15 of the Notes to Consolidated Condensed Financial Statements included in this report.

Aircraft Controls

(dollars in millions)	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales military aircraft	\$ 115.7	\$ 103.3	\$ 338.4	\$ 308.3
Net sales commercial aircraft	66.1	47.5	188.3	158.4
Net sales navigation aids	9.4	10.8	28.3	20.0
	\$ 191.2	\$ 161.6	\$ 555.0	\$ 486.7
Operating profit	\$ 17.3	\$ 13.0	\$ 54.5	\$ 41.0
Operating margin	9.0%	8.0%	9.8%	8.4%
Backlog			\$ 523.6	\$ 407.2

Net sales in Aircraft Controls increased \$30 million, or 18%, in the third quarter of 2010 from the third quarter of 2009. The recent acquisition of the high lift actuation business located in Wolverhampton, UK contributed \$25 million. Military aircraft sales increased \$13 million as the Wolverhampton operation contributed \$11 million of incremental sales. In addition, a \$7 million increase on the V-22 Osprey and \$2 million in military aftermarket was offset by a \$3 million decrease as the F-35 program shifts from the development phase into the production phase. Commercial aircraft sales increased \$19 million with Wolverhampton contributing \$13 million of incremental sales. Increased sales to Boeing of \$13 million and Airbus of \$3 million were primarily responsible for the increase in commercial aircraft sales. Navigation aids decreased \$1 million due to delays in the award of certain military programs.

Net sales in Aircraft Controls increased \$68 million, or 14%, in the first nine months of 2010 with Wolverhampton contributing \$72 million. Military aircraft sales increased \$30 million. Wolverhampton contributed \$33 million of incremental sales. Military aftermarket and the V-22 production program sales increased \$16 million and \$15 million, respectively, which was partially offset by a decrease of \$17 million on the F-35 program. Commercial aircraft sales increased \$30 million as \$38 million of incremental sales from Wolverhampton more than offset the decrease of \$13 million in business jets. Navigation aids increased \$8 million as a result of the incremental sales from the 2009 Fernau acquisition.

Our operating margin was higher in the third quarter of 2010 compared to 2009 reflecting a more favorable product mix and a decrease in research and development spending as a percentage of sales. These benefits were partially offset by \$5 million of increased contract loss reserve and \$1 million of restructuring charges incurred in 2010.

Our operating margin was higher in the first nine months of 2010 as a result of lower research and development spending as a percentage of sales.

The higher level of twelve-month backlog for Aircraft Controls at July 3, 2010 compared to June 27, 2009 reflects the Wolverhampton acquisition along with strong military aircraft orders.

2010 Outlook for Aircraft Controls We expect sales in Aircraft Controls to increase 13% to \$753 million in 2010. Military aircraft sales are expected to increase 9% to \$456 million due to incremental sales from the Wolverhampton acquisition. Sales on the V-22 and military aftermarket are expected to be offset by decreases on the F-35 and other production programs. Commercial aircraft sales are expected to increase 20% to \$257 million, principally related to the Wolverhampton acquisition. While sales to Boeing will increase, we expect a decrease in business jets. Navigation aids are expected to increase to \$41 million due in large part to the incremental sales from a full year of owning

Fernau. We expect our operating margin to be 10.2% in 2010, an improvement from 7.9% in 2009, resulting from lower research and development spending as a percentage of sales and improved cost performance on various production programs.

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2011 Outlook for Aircraft Controls We expect sales in Aircraft Controls to increase 6% to \$797 million in 2011. Military aircraft sales are expected to increase 1% to \$461 million. We expect a sales increase in military aftermarket, which will more than offset small decreases on various programs. Commercial aircraft sales are expected to increase 11% to \$285 million with increases in almost all product lines, including Boeing 787 and the Challenger 300 as well as in the aftermarket. Navigation aids are expected to increase to \$51 million based on military aircraft systems. We expect our operating margin to be 10.6% in 2011, an improvement from 10.2% in 2010.

Space and Defense Controls

(dollars in millions)	Three Months Ended		Nine Months Ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales	\$87.5	\$64.8	\$236.0	\$204.5
Operating profit	\$ 8.4	\$ 7.1	\$ 24.6	\$ 30.5
Operating margin	9.6%	11.0%	10.4%	14.9%
Backlog			\$205.0	\$162.8

Net sales in Space and Defense Controls increased \$23 million, or 35%, in the third quarter of 2010 compared to the third quarter of 2009. Sales of defense controls increased \$7 million as a result of strong sales on the Driver's Vision Enhancer program more than offsetting declines in other defense control products. Sales of satellite controls increased \$6 million. Sales of launch vehicles increased \$4 million as revenue on the Orbital Sciences' Taurus II (Taurus) was higher. Sales of tactical missiles increased \$4 million primarily a result of increased sales of the Hellfire missile.

Net sales in Space and Defense Controls increased \$32 million, or 15%, in the first nine months of 2010 compared to