

ESTERLINE TECHNOLOGIES CORP
Form 10-Q
September 05, 2008

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

FORM 10-Q

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

For the quarterly period ended August 1, 2008

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)

13-2595091
(I.R.S. Employer

of incorporation or organization)

Identification No.)

500 108th Avenue N.E., Bellevue, Washington 98004

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code 425/453-9400

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

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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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of September 2, 2008, 29,636,481 shares of the issuer's common stock were outstanding.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEET

As of August 1, 2008 and October 26, 2007

(In thousands, except share amounts)

| <u>ASSETS</u> | August 1, 2008 (Unaudited) | October 26, 2007 |
|--|----------------------------------|---------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 162,552 | \$ 147,069 |
| Accounts receivable, net of allowances of \$5,558 and \$5,378 | 249,083 | 262,087 |
| Inventories | | |
| Raw materials and purchased parts | 120,988 | 111,997 |
| Work in process | 130,595 | 99,103 |
| Finished goods | 46,878 | 47,076 |
| | 298,461 | 258,176 |
| Income tax refundable | 6,495 | 11,580 |
| Deferred income tax benefits | 31,907 | 37,830 |
| Prepaid expenses | 15,774 | 13,256 |
| Total Current Assets | 764,272 | 729,998 |
| Property, Plant and Equipment | 447,425 | 418,788 |
| Accumulated depreciation | 231,516 | 201,367 |
| | 215,909 | 217,421 |
| Other Non-Current Assets | | |
| Goodwill | 651,381 | 656,865 |
| Intangibles, net | 339,146 | 365,317 |
| Debt issuance costs, net of accumulated amortization of \$5,763 and \$4,618 | 7,957 | 9,192 |
| Deferred income tax benefits | 46,041 | 43,670 |
| Other assets | 25,715 | 27,843 |
| | \$ 2,050,421 | \$ 2,050,306 |

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEET

As of August 1, 2008 and October 26, 2007

(In thousands, except share amounts)

| | August 1, 2008 (Unaudited) | October 26, 2007 |
|--|----------------------------------|---------------------|
| <u>LIABILITIES AND SHAREHOLDERS EQUITY</u> | | |
| Current Liabilities | | |
| Accounts payable | \$ 88,763 | \$ 90,257 |
| Accrued liabilities | 181,583 | 187,596 |
| Credit facilities | 8,550 | 8,634 |
| Current maturities of long-term debt | 8,649 | 12,166 |
| Federal and foreign income taxes | 14,173 | 11,247 |
| Total Current Liabilities | 301,718 | 309,900 |
| Long-Term Liabilities | | |
| Long-term debt, net of current maturities | 390,221 | 455,002 |
| Deferred income taxes | 118,307 | 123,758 |
| Other liabilities | 54,051 | 36,852 |
| Commitments and Contingencies | | |
| Minority Interest | 2,643 | 2,968 |
| Shareholders Equity | | |
| Common stock, par value \$.20 per share, authorized 60,000,000 shares, issued and outstanding 29,626,981 and 29,364,269 shares | 5,925 | 5,873 |
| Additional paid-in capital | 491,480 | 475,816 |
| Retained earnings | 569,181 | 493,269 |
| Accumulated other comprehensive income | 116,895 | 146,868 |
| Total Shareholders Equity | 1,183,481 | 1,121,826 |
| | \$ 2,050,421 | \$ 2,050,306 |

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

For the Three and Nine Month Periods Ended August 1, 2008 and July 27, 2007

(Unaudited)

(In thousands, except per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 | August 1, 2008 | July 27, 2007 |
| Net Sales | \$ 382,070 | \$ 326,376 | \$ 1,128,454 | \$ 895,900 |
| Cost of Sales | 262,668 | 226,734 | 762,421 | 622,827 |
| | 119,402 | 99,642 | 366,033 | 273,073 |
| Expenses | | | | |
| Selling, general & administrative | 63,183 | 55,461 | 184,804 | 148,237 |
| Research, development & engineering | 22,396 | 16,952 | 71,328 | 49,585 |
| Total Expenses | 85,579 | 72,413 | 256,132 | 197,822 |
| Other | | | | |
| Other expense | | 7 | 86 | 24 |
| Insurance recovery | | (32,857) | | (37,314) |
| Total Other | | (32,850) | 86 | (37,290) |
| Operating Earnings | 33,823 | 60,079 | 109,815 | 112,541 |
| Interest income | (1,125) | (821) | (3,512) | (2,110) |
| Interest expense | 7,339 | 10,790 | 22,517 | 25,042 |
| Gain on derivative financial instrument | | | (1,850) | |
| Other Expense, Net | 6,214 | 9,969 | 17,155 | 22,932 |
| Income Before Income Taxes | 27,609 | 50,110 | 92,660 | 89,609 |
| Income Tax Expense | 7,091 | 11,217 | 15,780 | 18,096 |
| Income Before Minority Interest | 20,518 | 38,893 | 76,880 | 71,513 |
| Minority Interest | (36) | (58) | (229) | (117) |

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| | | | | | | | | |
|--------------------|----|--------|----|--------|----|--------|----|--------|
| Net Earnings | \$ | 20,482 | \$ | 38,835 | \$ | 76,651 | \$ | 71,396 |
| Earnings Per Share | | | | | | | | |
| Basic | \$ | .69 | \$ | 1.51 | \$ | 2.60 | \$ | 2.79 |
| Diluted | \$ | .68 | \$ | 1.49 | \$ | 2.56 | \$ | 2.74 |

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Nine Month Periods Ended August 1, 2008 and July 27, 2007

(Unaudited)

(In thousands)

| | Nine Months Ended | |
|--|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 |
| Cash Flows Provided (Used) by Operating Activities | | |
| Net earnings | \$ 76,651 | \$ 71,396 |
| Minority interest | (325) | 117 |
| Depreciation and amortization | 49,343 | 39,579 |
| Deferred income taxes | (19,509) | (7,707) |
| Share-based compensation | 6,518 | 5,105 |
| Working capital changes, net of effect of acquisitions | | |
| Accounts receivable | 12,120 | 22,415 |
| Inventories | (40,718) | (13,639) |
| Prepaid expenses | (2,396) | (2,189) |
| Accounts payable | (2,011) | 3,736 |
| Accrued liabilities | 5,702 | (8,774) |
| Federal and foreign income taxes | 6,902 | 6,838 |
| Other liabilities | (2,808) | (1,636) |
| Other, net | 3,582 | (4,188) |
| | 93,051 | 111,053 |
| Cash Flows Provided (Used) by Investing Activities | | |
| Purchases of capital assets | (31,006) | (24,350) |
| Proceeds from sale of capital assets | 626 | 3,092 |
| Acquisitions of business, net of cash acquired | 12,033 | (344,313) |
| | (18,347) | (365,571) |

ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Nine Month Periods Ended August 1, 2008 and July 27, 2007

(Unaudited)

(In thousands)

| | Nine Months Ended | |
|--|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 |
| Cash Flows Provided (Used) by Financing Activities | | |
| Proceeds provided by stock issuance under employee stock plans | 7,266 | 7,557 |
| Excess tax benefits from stock options exercised | 1,932 | 1,567 |
| Debt and other issuance costs | | (6,409) |
| Proceeds from issuance of long-term debt | | 275,000 |
| Net change in credit facilities | (134) | 20,322 |
| Repayment of long-term debt | (67,687) | (3,755) |
| Dividends paid to minority interest | | (763) |
| | (58,623) | 293,519 |
| Effect of Foreign Exchange Rates on Cash | (598) | 2,043 |
| Net Increase in Cash and Cash Equivalents | 15,483 | 41,044 |
| Cash and Cash Equivalents Beginning of Period | 147,069 | 42,638 |
| Cash and Cash Equivalents End of Period | \$ 162,552 | \$ 83,682 |
| Supplemental Cash Flow Information | | |
| Cash Paid for Interest | \$ 22,412 | \$ 21,778 |
| Cash Paid for Taxes | 27,754 | 11,974 |

ESTERLINE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Month Periods Ended August 1, 2008 and July 27, 2007

1. The consolidated balance sheet as of August 1, 2008, the consolidated statement of operations for the three and nine month periods ended August 1, 2008, and July 27, 2007, and the consolidated statement of cash flows for the nine month periods ended August 1, 2008, and July 27, 2007, are unaudited but, in the opinion of management, all of the necessary adjustments, consisting of normal recurring accruals, have been made to present fairly the financial statements referred to above in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the above statements do not include all of the footnotes required for complete financial statements. The results of operations and cash flows for the interim periods presented are not necessarily indicative of results that can be expected for the full year.
2. The notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended October 26, 2007, provide a summary of significant accounting policies and additional financial information that should be read in conjunction with this Form 10-Q.
3. The timing of the Company's revenues is impacted by the purchasing patterns of customers and, as a result, revenues are not generated evenly throughout the year. Moreover, the Company's first fiscal quarter, November through January, includes significant holiday periods in both Europe and North America. The nine month period ended August 1, 2008, contained 40 weeks, while the prior-year period contained 39 weeks.
4. Basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the year. Diluted earnings per share 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 408,803 and 384,800 in the third fiscal quarters of 2008 and 2007, respectively. Common shares issuable from stock options that are excluded from the calculation of diluted earnings per share because they were anti-dilutive were 373,038 and 440,739 in the first nine months of 2008 and 2007, respectively. Shares used for calculating earnings per share are disclosed in the following table.

(In thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 | August 1, 2008 | July 27, 2007 |
| Shares Used for Basic Earnings Per Share | 29,575 | 25,691 | 29,466 | 25,604 |
| Shares Used for Diluted Earnings Per Share | 29,994 | 26,139 | 29,894 | 26,022 |

5. Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 162 The Hierarchy of Generally Accepted Accounting Principles (GAAP), (Statement No. 162). The purpose of the new standard is to provide a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. The new standard is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of Statement No. 162 is not expected to have a material effect on the Company's financial statements.

In March 2008, the Financial Accounting Standards Board issued Financial Accounting Standard No. 161, Disclosure About Derivative Instruments and Hedging Activities, an amendment to Financial Accounting Standards Board Financial Accounting Standard No. 133, (Statement No. 161). Statement No. 161 requires among other things, enhanced disclosure about the volume and nature of derivative and hedging activities and a tabular summary showing the fair value of derivative instruments included in the statement of financial position and statement of operations. Statement No. 161 also requires expanded disclosure of contingencies included in derivative instruments related to credit risk. Statement No. 161 is effective for fiscal 2009. The Company is currently evaluating the impact of Statement No. 161 on the Company's financial statements.

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

The significant changes in the accounting for business combination transactions under Statement No. 141(R) 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 Statement No. 141(R), the agreement and announcement date measurement principles in EITF Issue 99-12 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 FASB Statement No. 5, Accounting for Contingencies, (Statement No. 5). 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 Statement No. 5, 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 in Statement No. 146 are met as of the acquisition date. With the effectiveness of Statement No. 141(R), the EITF Issue 95-3 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 Company is currently evaluating the impact of Statement No. 141(R) and Statement No. 160 on the Company's financial statements.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (Statement No. 159). Statement No. 159 permits entities to choose to measure

certain eligible financial assets and financial liabilities at fair value (the fair value option). Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. Statement No. 159 is effective for the Company's fiscal year ending October 30, 2009. The Company is currently evaluating the impact, if any, of Statement No. 159 on the Company's financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (Statement No. 157). Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Statement No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Statement No. 157 indicates, among other things, that a fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Statement No. 157 is effective for the Company's year ending October 30, 2009. The Company is currently evaluating the impact of Statement No. 157 on the Company's financial statements.

6. The Company's comprehensive income is as follows:

(In thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 | August 1, 2008 | July 27, 2007 |
| Net Earnings | \$ 20,482 | \$ 38,835 | \$ 76,651 | \$ 71,396 |
| Change in Fair Value of Derivative Financial Instruments, Net of Tax ⁽¹⁾ | (337) | 16 | (3,172) | 1,722 |
| Foreign Currency Translation Adjustment, Net of Tax ⁽¹⁾ | (1,532) | 21,152 | (26,801) | 60,992 |
| Comprehensive Income | \$ 18,613 | \$ 60,003 | \$ 46,678 | \$ 134,110 |

⁽¹⁾ Net of tax benefit of \$89 and \$530 for the third fiscal quarters of 2008 and 2007, respectively. Net of tax benefit of \$910 and \$1.6 million for the first nine months of fiscal 2008 and 2007, respectively.

7. 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 estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price includes the value of future development of existing technologies, the introduction of new technologies, and the addition of new customers. A significant portion of the valuation of CMC was based upon the successful development and manufacture of the cockpit integration system for the T-6B military trainer for the U.S. military and international markets. Additionally, the valuation assumes the continued funding of research and development by the Canadian government through assistance and research and development tax credits. The Company recorded goodwill of \$209.7 million. The amount allocated to goodwill is not expected to be deductible for income tax purposes.

(In thousands)

As of March 14, 2007

| | |
|---|----------------|
| Current assets | \$ 96,282 |
| Property, plant and equipment | 39,136 |
| Intangible assets subject to amortization | |
| Programs (15 year weighted average useful life) | 83,189 |
| Trade names | 22,370 |
| Goodwill | 209,723 |
| Deferred income tax benefit | 22,212 |
| Total assets acquired | 472,912 |
| Current liabilities assumed | 73,922 |
| Deferred tax liabilities | 35,976 |
| Pension and other liabilities | 18,481 |
| Net assets acquired | \$ 344,533 |

8. During the third fiscal quarter of 2008, the Company recorded a \$5.0 million (\$3.8 million, net of tax, or \$0.13 per diluted share) estimate to complete adjustment for certain long-term contracts accounted for under SOP 81-1. 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 at CMC.

9. The effective income tax rate for the first nine months of fiscal 2008 was 23.4% (before \$5.9 million of tax benefits) compared with 23.1% (before \$2.6 million of tax benefits) for the first nine months of fiscal 2007. The \$5.9 million of tax benefits in fiscal 2008 were the result of four events. The first event was the settlement of an examination of the U.S. federal 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 event was the enactment of tax laws reducing the Canadian statutory tax rate, which resulted in a \$4.1 million net reduction of deferred income tax liabilities. The third event was the recognition of \$0.7 million of additional income tax liabilities at CMC. The fourth event was a \$0.3 million increase of previously estimated tax liabilities due to a reconciliation of prior years' income tax returns to the provision for income tax. The \$2.6 million of tax benefits in the first nine months of 2007 was the result of three events. The first event was the retroactive extension of the U.S. Research and Experimentation tax credit that was signed into law on December 21, 2006, which resulted in a \$1.8 million tax

benefit. The second event was the enactment of a tax law reducing U.K. statutory corporate income tax from 30% to 28%, which resulted in a reduction of the U.K. subsidiaries' deferred income tax liabilities of \$1.4 million. The third event was a \$0.6 million increase of previously estimated tax liabilities due to the reconciliation of prior years' income tax returns to the provision for income tax. The effective tax rate differed from the statutory rate for the first nine months of fiscal 2008 and 2007, as both periods benefited from various tax credits and certain foreign interest expense deductions.

In June 2005, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes by establishing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 prescribes a comprehensive model for how a company should recognize, derecognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. In addition, FIN 48 provides guidance on interest and penalties, accounting in interim periods, and transition.

The Company adopted the provisions of FIN 48 effective October 27, 2007. Of the \$9.2 million cumulative effect of adopting FIN 48, \$0.7 million was recorded as a reduction to retained earnings and \$8.5 million was recorded as acquired goodwill. As of the adoption date, the Company had gross unrecognized tax benefits of \$31.0 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. Management estimates that \$5.7 million of the \$31.0 million would affect the effective income tax rate if recognized. During the first nine months of fiscal 2008, a reduction of \$9.9 million of the unrecognized tax benefits was recorded. The \$9.9 million decrease consisted of a \$10.6 million reduction in unrecognized tax benefits as a result of the settlement of an examination of the U.S. federal income tax returns for fiscal years 2003 through 2005, offset by a \$0.7 million increase to account for the current year additions. Of the \$9.9 million decrease, \$0.8 million affected the first nine months of fiscal 2008 income tax rate and \$9.1 million was recorded as a reduction of goodwill. The total amount of unrecognized tax benefits may decrease \$0.4 million based on the reasonably possible resolution of certain tax matters within the next 12 months.

The Company recognizes interest related to unrecognized tax benefits in income tax expense. As of October 27, 2007, the total amount of interest recognized within other liabilities in the consolidated balance sheet was \$1.8 million. During the first nine months of fiscal 2008, as a result of settling the examination of U.S. federal income tax returns for fiscal years 2003 through 2005, there was a \$1.3 million reduction of the interest related to the unrecognized tax benefits.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. 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 | 2002 and prior |
| France | 2003 and prior |
| Germany | 2003 and prior |
| United Kingdom | 2003 and prior |

10. As of August 1, 2008, the Company had two share-based compensation plans – an employee stock purchase plan and an equity incentive plan. The compensation cost that has been charged against income for those plans for the first nine months of fiscal 2008 and 2007 was \$6.5 million and \$5.1 million, respectively. During the first nine months of fiscal 2008 and 2007, the Company issued 252,506 and 295,504 shares, respectively, under its employee stock plans.

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.

| | Nine Months Ended | | | |
|--|-------------------|-------|------------------|-------|
| | August 1, 2008 | | July 27, 2007 | |
| Risk-free interest rate (U.S. Treasury zero coupon issues) | 3.32 | 5.15% | | 5.15% |
| Expected dividend yield | | | | |
| Expected volatility | 21.4 | 34.8% | 21.4 | 39.9% |
| Expected life (months) | | 6 | | 6 |

Under the equity incentive plan, option exercise prices are equal to the fair market value of the Company's common stock on the date of grant. The Company granted 376,300 options and 410,000 options in the nine month periods ended August 1, 2008, and July 27, 2007, respectively. The weighted-average grant date fair value of options granted during the nine month periods ended August 1, 2008, and July 27, 2007, was \$25.44 per share and \$21.55 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.

| | Nine Months Ended | | | |
|--|-------------------|---------|------------------|---------|
| | August 1, 2008 | | July 27, 2007 | |
| Risk-free interest rate (U.S. Treasury zero coupon issues) | 3.24 | 4.53% | 4.31 | 4.82% |
| Expected dividend yield | | | | |
| Expected volatility | 33.0 | 42.9% | 43.3 | 44.3% |
| Expected life (years) | | 2.0 9.5 | | 4.5 9.5 |

11. The Company's pension plans principally include a U.S. pension plan maintained by Esterline, non-U.S. plans maintained by CMC, and U.S. and non-U.S. plans maintained by Leach Holding Corporation. Components of periodic pension cost consisted of the following:

(In thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 | August 1, 2008 | July 27, 2007 |
| Components of Net Periodic Pension Cost | | | | |
| Service cost | \$ 1,801 | \$ 1,669 | \$ 5,355 | \$ 3,944 |
| Interest cost | 4,334 | 3,890 | 12,995 | 9,826 |
| Expected return on plan assets | (5,488) | (5,217) | (16,663) | (13,066) |
| Amortization of prior service cost | 5 | 5 | 14 | 14 |
| Amortization of actuarial loss | 95 | 69 | 240 | 163 |
| Net Periodic Cost | \$ 747 | \$ 416 | \$ 1,941 | \$ 881 |

The Company's principal post-retirement plans include non-U.S. plans maintained by CMC, which are non-contributory healthcare and life insurance plans. The components of expense of these other retirement benefits consisted of the following:

(In thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|----------------------|------------------|
| | August 1, 2008 | July 27, 2007 | August 1, 2008 | July 27, 2007 |
| Components of Net Periodic Pension Cost | | | | |
| Service cost | \$ 90 | \$ 87 | \$ 280 | \$ 127 |
| Interest cost | 151 | 142 | 468 | 208 |
| Amortization of actuarial loss | 3 | | 10 | |
| Net Periodic Cost | \$ 244 | \$ 229 | \$ 758 | \$ 335 |

12. Segment information:

Business segment information for continuing operations includes the segments of Avionics & Controls, Sensors & Systems and Advanced Materials.

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(In thousands)

| | Three Months Ended | | Nine Months Ended | |
|---------------------|--------------------|------------------|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 | August 1, 2008 | July 27, 2007 |
| Sales | | | | |
| Avionics & Controls | \$ 147,925 | \$ 123,410 | \$ 438,008 | \$ 310,379 |
| Sensors & Systems | 121,927 | 95,520 | 343,825 | 276,684 |
| Advanced Materials | 112,218 | 107,446 | 346,621 | 308,837 |
| Total Sales | \$ 382,070 | \$ 326,376 | \$ 1,128,454 | \$ 895,900 |

(In thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | August 1, 2008 | July 27, 2007 | August 1, 2008 | July 27, 2007 |
| Income from Operations | | | | |
| Avionics & Controls | \$ 9,551 | \$ 10,323 | \$ 42,402 | \$ 31,415 |
| Sensors & Systems | 14,877 | 10,595 | 40,993 | 26,762 |
| Advanced Materials | 17,986 | 48,524 | 53,562 | 80,520 |
| Segment Earnings | 42,414 | 69,442 | 136,957 | 138,697 |
| Corporate expense | (8,591) | (9,356) | (27,056) | (26,132) |
| Other expense | | (7) | (86) | (24) |
| Interest income | 1,125 | 821 | 3,512 | 2,110 |
| Interest expense | (7,339) | (10,790) | (22,517) | (25,042) |
| Gain on derivative financial instrument | | | 1,850 | |
| | \$ 27,609 | \$ 50,110 | \$ 92,660 | \$ 89,609 |

13. The Company repaid £32.5 million or \$66.9 million of the £57.0 GBP million term loan during the first nine months of fiscal 2008 and terminated the interest rate swap on the U.K. pound-denominated note for a gain of \$1.9 million.
14. The following schedules set forth condensed consolidating financial information as required by Rule 3-10 of Securities and Exchange Commission Regulation S-X as of August 1, 2008, and October 26, 2007, and for the applicable periods ended August 1, 2008, and July 27, 2007, for (a) Esterline Technologies Corporation (the Parent); (b) on a combined basis, the subsidiary guarantors (Guarantor Subsidiaries) of the Senior Subordinated Notes due 2013 (Senior Subordinated Notes) and Senior Notes due 2017 (Senior Notes) which include Advanced Input Devices, Inc., Amtech Automated Manufacturing Technology, 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 Co., Esterline International Company (China), 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., Norwich Aero Products, Inc., Palomar Products, Inc., Pressure Systems, Inc., Pressure Systems International, Inc., Surftech Finishes Co., UMM Electronics Inc., and (c) on a combined basis, the subsidiary non-guarantors (Non-Guarantor Subsidiaries), which include Advanced Input Devices Ltd. (U.K.), Auxitrol S.A., BAE Systems Canada/Air TV LLC, Beacon Electronics Inc., CMC Electronics Inc., Darchem Engineering Limited, Darchem Holdings Ltd., Darchem Insulation Systems Limited, Esterline Acquisition Ltd. (U.K.), Esterline Canadian Acquisition Company, Esterline Canadian Limited Partnership, Esterline Foreign Sales Corporation (U.S. Virgin Islands), Esterline Input Devices Asia Ltd. (Barbados), Esterline Input Devices Ltd. (Shanghai), Esterline

Mexico S. de R.L. de C.V. (Mexico), Esterline Sensors Services Asia PTE, Ltd. (Singapore), Esterline Technologies Denmark ApS (Denmark), Guizhou Leach-Tianyi Aviation Electrical Company Ltd. (China), Leach International Asia-Pacific Ltd. (Hong Kong), Leach International Europe S.A. (France), Leach International Germany GmbH (Germany), Leach International U.K. (England), Leach Italia Srl. (Italy), LRE Medical GmbH (Germany), Muirhead Aerospace Ltd., Norcroft Dynamics Ltd., Pressure Systems International Ltd., TA Mfg. Limited (U.K.), Wallop Defence Systems Limited, Wallop Industries Limited (U.K.), Weston Aero Ltd. (England), and Weston Aerospace Ltd. (England). The Guarantor Subsidiaries are direct and indirect wholly-owned subsidiaries of Esterline Technologies Corporation and have fully and unconditionally, jointly and severally, guaranteed the Senior Notes and Senior Subordinated Notes. The net assets, net loss and cash flows of CMC DataComm Inc., CMC Electronics Acton Inc. and CMC Electronics Aurora Inc. were previously included with Non-Guarantor Subsidiaries until the valuation of these guarantor subsidiaries was complete. At May 2, 2008, the valuation of these guarantor subsidiaries was completed and, accordingly, the reported consolidating balance sheet, income statement and statement of cash flows for the Guarantor Subsidiaries and Non-Guarantor Subsidiaries for the three and nine month periods ended July 27, 2007, and the balance sheet as of October 26, 2007, have been adjusted to reflect the inclusion of CMC DataComm Inc., CMC Electronics Acton Inc. and CMC Electronics Aurora Inc. as Guarantor Subsidiaries.

Condensed Consolidating Balance Sheet as of August 1, 2008

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---------------------------------------|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 90,019 | \$ 827 | \$ 71,706 | \$ | \$ 162,552 |
| Accounts receivable, net | 456 | 114,136 | 134,491 | | 249,083 |
| Inventories | | 130,449 | 168,012 | | 298,461 |
| Income tax refundable | | | 6,495 | | 6,495 |
| Deferred income tax benefits | 25,395 | | 6,512 | | 31,907 |
| Prepaid expenses | 25 | 4,172 | 11,577 | | 15,774 |
| Total Current Assets | 115,895 | 249,584 | 398,793 | | 764,272 |
| Property, Plant & Equipment, Net | 1,922 | 103,134 | 110,853 | | 215,909 |
| Goodwill | | 208,971 | 442,410 | | 651,381 |
| Intangibles, Net | | 68,784 | 270,362 | | 339,146 |
| Debt Issuance Costs, Net | 7,957 | | | | 7,957 |
| Deferred Income Tax Benefits | 12,149 | (1) | 33,893 | | 46,041 |
| Other Assets | 1,662 | 15,797 | 8,256 | | 25,715 |
| Amounts Due (To) From Subsidiaries | 135,747 | 4,327 | | (140,074) | |
| Investment in Subsidiaries | 1,373,599 | 215,682 | 22,650 | (1,611,931) | |
| Total Assets | \$ 1,648,931 | \$ 866,278 | \$ 1,287,217 | \$ (1,752,005) | \$ 2,050,421 |

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| Liabilities and Shareholders Equity | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 731 | \$ 25,321 | \$ 62,711 | \$ | \$ 88,763 |
| Accrued liabilities | 12,525 | 69,894 | 99,164 | | 181,583 |
| Credit facilities | | | 8,550 | | 8,550 |
| Current maturities of long-term debt | 7,340 | 870 | 439 | | 8,649 |
| Federal and foreign income taxes | 9,187 | (6,519) | 11,505 | | 14,173 |
| Total Current Liabilities | 29,783 | 89,566 | 182,369 | | 301,718 |
| Long-Term Debt, Net | 387,877 | 592 | 1,752 | | 390,221 |
| Deferred Income Taxes | 32,633 | | 85,674 | | 118,307 |
| Other Liabilities | 15,157 | 7,217 | 31,677 | | 54,051 |
| Amounts Due To (From) Subsidiaries | | | 114,573 | (114,573) | |
| Minority Interest | | | 2,643 | | 2,643 |
| Shareholders Equity | 1,183,481 | 768,903 | 868,529 | (1,637,432) | 1,183,481 |
| Total Liabilities and Shareholders Equity | \$ 1,648,931 | \$ 866,278 | \$ 1,287,217 | \$ (1,752,005) | \$ 2,050,421 |

Condensed Consolidating Statement of Operations for the three month period ended August 1, 2008.

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------|---------------------------|-----------------------------------|--------------|------------|
| Net Sales | \$ | \$ 206,802 | \$ 180,962 | \$ (5,694) | \$ 382,070 |
| Cost of Sales | | 138,093 | 130,269 | (5,694) | 262,668 |
| | | 68,709 | 50,693 | | 119,402 |
| Expenses | | | | | |
| Selling, general and administrative | | 29,845 | 33,338 | | 63,183 |
| Research, development and engineering | | 6,121 | 16,275 | | 22,396 |
| Total Expenses | | 35,966 | 49,613 | | 85,579 |
| Other | | | | | |
| Insurance recovery | | | | | |
| Other expense (income) | | | | | |
| Total Other | | | | | |
| Operating Earnings | | 32,743 | 1,080 | | 33,823 |
| Interest income | (5,478) | (950) | (9,710) | 15,013 | (1,125) |
| Interest expense | 7,155 | 5,377 | 9,820 | (15,013) | 7,339 |
| Gain on derivative financial instrument | | | | | |
| Other Expense, Net | 1,677 | 4,427 | 110 | | 6,214 |
| Income (Loss) Before | | | | | |
| Income Taxes | (1,677) | 28,316 | 970 | | 27,609 |
| Income Tax Expense (Benefit) | (401) | 7,335 | 157 | | 7,091 |
| Income (Loss) Before Minority | | | | | |
| Interest | (1,276) | 20,981 | 813 | | 20,518 |
| Minority Interest | | | (36) | | (36) |
| Income (Loss) | (1,276) | 20,981 | 777 | | 20,482 |
| Equity in Net Income of Consolidated Subsidiaries | 21,758 | 5,924 | (704) | (26,978) | |

| | | | | | |
|-------------------|-----------|-----------|-------|-------------|-----------|
| Net Income (Loss) | \$ 20,482 | \$ 26,905 | \$ 73 | \$ (26,978) | \$ 20,482 |
|-------------------|-----------|-----------|-------|-------------|-----------|

Condensed Consolidating Statement of Operations for the nine month period ended August 1, 2008.

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|----------|---------------------------|-----------------------------------|--------------|--------------|
| Net Sales | \$ | \$ 622,597 | \$ 524,376 | \$ (18,519) | \$ 1,128,454 |
| Cost of Sales | | 419,088 | 361,852 | (18,519) | 762,421 |
| | | 203,509 | 162,524 | | 366,033 |
| Expenses | | | | | |
| Selling, general and administrative | | 89,485 | 95,319 | | 184,804 |
| Research, development and engineering | | 19,133 | 52,195 | | 71,328 |
| Total Expenses | | 108,618 | 147,514 | | 256,132 |
| Other | | | | | |
| Insurance recovery | | | | | |
| Other expense (income) | 90 | 1 | (5) | | 86 |
| Total Other | 90 | 1 | (5) | | 86 |
| Operating Earnings | (90) | 94,890 | 15,015 | | 109,815 |
| Interest income | (16,571) | (2,860) | (30,833) | 46,752 | (3,512) |
| Interest expense | 21,675 | 16,478 | 31,116 | (46,752) | 22,517 |
| Gain on derivative financial instruments | (1,850) | | | | (1,850) |
| Other Expense, Net | 3,254 | 13,618 | 283 | | 17,155 |
| Income (Loss) Before Income Taxes | (3,344) | 81,272 | 14,732 | | 92,660 |
| Income Tax Expense (Benefit) | (783) | 16,523 | 40 | | 15,780 |
| Income (Loss) Before Minority Interest | (2,561) | 64,749 | 14,692 | | 76,880 |
| Minority Interest | | | (229) | | (229) |
| Income (Loss) | (2,561) | 64,749 | 14,463 | | 76,651 |
| Equity in Net Income of Consolidated Subsidiaries | 79,212 | 15,969 | (2,124) | (93,057) | |

| | | | | | |
|-------------------|-----------|-----------|-----------|-------------|-----------|
| Net Income (Loss) | \$ 76,651 | \$ 80,718 | \$ 12,339 | \$ (93,057) | \$ 76,651 |
|-------------------|-----------|-----------|-----------|-------------|-----------|

Condensed Consolidating Statement of Cash Flows for the nine month period ended August 1, 2008.

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|-----------|---------------------------|-----------------------------------|--------------|-----------|
| Cash Flows Provided (Used) by Operating Activities | | | | | |
| Net earnings (loss) | \$ 76,651 | \$ 80,718 | \$ 12,339 | \$ (93,057) | \$ 76,651 |
| Minority interest | | | (325) | | (325) |
| Depreciation & amortization | | 21,036 | 28,307 | | 49,343 |
| Deferred income taxes | 405 | 3 | (19,917) | | (19,509) |
| Share-based compensation | | 3,633 | 2,885 | | 6,518 |
| Working capital changes, net of effect of acquisitions | | | | | |
| Accounts receivable | (273) | 11,400 | 993 | | 12,120 |
| Inventories | | (11,356) | (29,362) | | (40,718) |
| Prepaid expenses | 1 | 363 | (2,760) | | (2,396) |
| Accounts payable | (1,067) | (1,979) | 1,035 | | (2,011) |
| Accrued liabilities | (5,451) | 9,010 | 2,143 | | 5,702 |
| Federal & foreign income taxes | 18,984 | (1,931) | (10,151) | | 6,902 |
| Other liabilities | (11,365) | (1,517) | 10,074 | | (2,808) |
| Other, net | 523 | (895) | 3,954 | | 3,582 |
| | 78,408 | 108,485 | (785) | (93,057) | 93,051 |
| Cash Flows Provided (Used) by Investing Activities | | | | | |
| Purchases of capital assets | (358) | (12,583) | (18,065) | | (31,006) |
| Proceeds from sale of capital assets | | 506 | 120 | | 626 |
| Acquisitions of businesses, net of cash acquired | | | 12,033 | | 12,033 |
| | (358) | (12,077) | (5,912) | | (18,347) |

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|-----------|---------------------------|-----------------------------------|--------------|------------|
| Cash Flows Provided (Used) by Financing Activities | | | | | |
| Proceeds provided by stock issuance under employee stock plans | 7,266 | | | | 7,266 |
| Excess tax benefits from stock options exercised | 1,932 | | | | 1,932 |
| Net change in credit facilities | | | (134) | | (134) |
| Repayment of long-term debt | (66,899) | (857) | 69 | | (67,687) |
| Net change in intercompany financing | (19,602) | (96,030) | 22,575 | 93,057 | |
| | (77,303) | (96,887) | 22,510 | 93,057 | (58,623) |
| Effect of foreign exchange rates on cash | (3) | (196) | (399) | | (598) |
| Net increase (decrease) in cash and cash equivalents | 744 | (675) | 15,414 | | 15,483 |
| Cash and cash equivalents beginning of year | 89,275 | 1,502 | 56,292 | | 147,069 |
| Cash and cash equivalents end of year | \$ 90,019 | \$ 827 | \$ 71,706 | \$ | \$ 162,552 |

Condensed Consolidating Balance Sheet as of October 26, 2007

In Thousands

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|------------------------------------|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 89,275 | \$ 1,502 | \$ 56,292 | \$ | \$ 147,069 |
| Accounts receivable, net | 183 | 125,536 | 136,368 | | 262,087 |
| Inventories | | 119,093 | 139,083 | | 258,176 |
| Income tax refundable | | | 11,580 | | 11,580 |
| Deferred income tax benefits | 29,884 | 2 | 7,944 | | 37,830 |
| Prepaid expenses | 26 | 4,535 | 8,695 | | 13,256 |
| Total Current Assets | 119,368 | 250,668 | 359,962 | | 729,998 |
| Property, Plant & Equipment, Net | 1,951 | 105,510 | 109,960 | | 217,421 |
| Goodwill | | 207,612 | 449,253 | | 656,865 |
| Intangibles, Net | | 74,041 | 291,276 | | 365,317 |
| Debt Issuance Costs, Net | 9,192 | | | | 9,192 |
| Deferred Income Tax Benefits | 13,370 | | 30,300 | | 43,670 |
| Other Assets | 3,255 | 15,352 | 9,236 | | 27,843 |
| Amounts Due To (From) Subsidiaries | 243,882 | | | (243,882) | |
| Investment in Subsidiaries | 1,269,230 | 199,713 | 24,774 | (1,493,717) | |
| Total Assets | \$ 1,660,248 | \$ 852,896 | \$ 1,274,761 | \$ (1,737,599) | \$ 2,050,306 |

In Thousands

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| Liabilities and Shareholders Equity | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 1,798 | \$ 27,300 | \$ 61,159 | \$ | \$ 90,257 |
| Accrued liabilities | 28,692 | 60,180 | 98,724 | | 187,596 |
| Credit facilities | | | 8,634 | | 8,634 |
| Current maturities of long-term debt | 10,239 | 1,152 | 775 | | 12,166 |
| Federal and foreign income taxes | 4,564 | (4,588) | 11,271 | | 11,247 |
| Total Current Liabilities | 45,293 | 84,044 | 180,563 | | 309,900 |
| Long-Term Debt, Net | 452,645 | 1,167 | 1,190 | | 455,002 |
| Deferred Income Taxes | 33,567 | | 90,191 | | 123,758 |
| Other Liabilities | 6,917 | 8,734 | 21,201 | | 36,852 |
| Amounts Due To (From) Subsidiaries | | 67,603 | 91,158 | (158,761) | |
| Minority Interest | | | 2,968 | | 2,968 |
| Shareholders Equity | 1,121,826 | 691,348 | 887,490 | (1,578,838) | 1,121,826 |
| Total Liabilities and Shareholders Equity | \$ 1,660,248 | \$ 852,896 | \$ 1,274,761 | \$ (1,737,599) | \$ 2,050,306 |

Condensed Consolidating Statement of Operations for the three month period ended July 27, 2007.

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|-----------|---------------------------|-----------------------------------|--------------|------------|
| Net Sales | \$ | \$ 190,308 | \$ 139,746 | \$ (3,678) | \$ 326,376 |
| Cost of Sales | | 128,165 | 102,247 | (3,678) | 226,734 |
| | | 62,143 | 37,499 | | 99,642 |
| Expenses | | | | | |
| Selling, general and administrative | | 26,084 | 29,377 | | 55,461 |
| Research, development and engineering | | 6,795 | 10,157 | | 16,952 |
| Total Expenses | | 32,879 | 39,534 | | 72,413 |
| Other | | | | | |
| Other (income) expense | | (1) | 8 | | 7 |
| Insurance recovery | | | (32,857) | | (32,857) |
| Total Other | | (1) | (32,849) | | (32,850) |
| Operating Earnings | | 29,265 | 30,814 | | 60,079 |
| Interest income | (4,758) | (1,110) | (8,863) | 13,910 | (821) |
| Interest expense | 10,568 | 8,259 | 5,873 | (13,910) | 10,790 |
| Other (Income) Expense, Net | 5,810 | 7,149 | (2,990) | | 9,969 |
| Income (Loss) Before Income Taxes | (5,810) | 22,116 | 33,804 | | 50,110 |
| Income Tax Expense (Benefit) | (1,377) | 6,763 | 5,831 | | 11,217 |
| Income (Loss) Before Minority Interest | (4,433) | 15,353 | 27,973 | | 38,893 |
| Minority Interest | | | (58) | | (58) |
| Income (Loss) | (4,433) | 15,353 | 27,915 | | 38,835 |
| Equity in Net Income of Consolidated Subsidiaries | 43,268 | 4,269 | (668) | (46,869) | |
| Net Income (Loss) | \$ 38,835 | \$ 19,622 | \$ 27,247 | \$ (46,869) | \$ 38,835 |

Condensed Consolidating Statement of Operations for the nine month period ended July 27, 2007.

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|-----------|---------------------------|-----------------------------------|--------------|------------|
| Net Sales | \$ | \$ 534,861 | \$ 372,139 | \$ (11,100) | \$ 895,900 |
| Cost of Sales | | 364,406 | 269,521 | (11,100) | 622,827 |
| | | 170,455 | 102,618 | | 273,073 |
| Expenses | | | | | |
| Selling, general and administrative | | 75,483 | 72,754 | | 148,237 |
| Research, development and engineering | | 19,783 | 29,802 | | 49,585 |
| Total Expenses | | 95,266 | 102,556 | | 197,822 |
| Other | | | | | |
| Other expense | | | 24 | | 24 |
| Insurance recovery | | | (37,314) | | (37,314) |
| Total Other | | | (37,290) | | (37,290) |
| Operating Earnings | | 75,189 | 37,352 | | 112,541 |
| Interest income | (15,472) | (3,789) | (12,878) | 30,029 | (2,110) |
| Interest expense | 24,376 | 16,069 | 14,626 | (30,029) | 25,042 |
| Other Expense, Net | 8,904 | 12,280 | 1,748 | | 22,932 |
| Income (Loss) Before Income Taxes | (8,904) | 62,909 | 35,604 | | 89,609 |
| Income Tax Expense (Benefit) | (2,060) | 14,149 | 6,007 | | 18,096 |
| Income (Loss) Before Minority Interest | (6,844) | 48,760 | 29,597 | | 71,513 |
| Minority Interest | | | (117) | | (117) |
| Income (Loss) | (6,844) | 48,760 | 29,480 | | 71,396 |
| Equity in Net Income of Consolidated Subsidiaries | 78,240 | 6,480 | (668) | (84,052) | |
| Net Income (Loss) | \$ 71,396 | \$ 55,240 | \$ 28,812 | \$ (84,052) | \$ 71,396 |

Condensed Consolidating Statement of Cash Flows for the nine month period ended July 27, 2007.

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|-----------|---------------------------|-----------------------------------|--------------|-----------|
| Cash Flows Provided (Used) by Operating Activities | | | | | |
| Net earnings (loss) | \$ 71,396 | \$ 55,240 | \$ 28,812 | \$ (84,052) | \$ 71,396 |
| Minority interest | | | 117 | | 117 |
| Depreciation & amortization | | 19,420 | 20,159 | | 39,579 |
| Deferred income taxes | (992) | 25 | (6,740) | | (7,707) |
| Share-based compensation | | 2,881 | 2,224 | | 5,105 |
| Working capital changes, net of effect of acquisitions | | | | | |
| Accounts receivable | 125 | 3,106 | 19,184 | | 22,415 |
| Inventories | | (7,634) | (6,005) | | (13,639) |
| Prepaid expenses | 60 | 322 | (2,571) | | (2,189) |
| Accounts payable | 4,372 | (1,345) | 709 | | 3,736 |
| Accrued liabilities | 4,693 | (9,538) | (3,929) | | (8,774) |
| Federal & foreign income taxes | (10,874) | 12,499 | 5,213 | | 6,838 |
| Other liabilities | (659) | 205 | (1,182) | | (1,636) |
| Other, net | 61 | (1,426) | (2,823) | | (4,188) |
| | 68,182 | 73,755 | 53,168 | (84,052) | 111,053 |
| Cash Flows Provided (Used) by Investing Activities | | | | | |
| Purchases of capital assets | (118) | (12,031) | (12,201) | | (24,350) |
| Proceeds from sale of capital assets | | 757 | 2,335 | | 3,092 |
| Acquisitions of businesses, net | | (2,073) | (342,240) | | (344,313) |
| | (118) | (13,347) | (352,106) | | (365,571) |

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|-----------|---------------------------|-----------------------------------|--------------|-----------|
| Cash Flows Provided (Used) by Financing Activities | | | | | |
| Proceeds provided by stock issuance under employee stock plans | 7,557 | | | | 7,557 |
| Excess tax benefits from stock option exercises | 1,567 | | | | 1,567 |
| Debt and other issuance costs | (6,409) | | | | (6,409) |
| Dividends paid to minority interest | | | (763) | | (763) |
| Net change in credit facilities | 20,000 | | 322 | | 20,322 |
| Proceeds from issuance of long-term debt | 275,000 | | | | 275,000 |
| Repayment of long-term debt | (2,832) | (792) | (131) | | (3,755) |
| Net change in intercompany financing | (365,290) | (60,122) | 341,360 | 84,052 | |
| | (70,407) | (60,914) | 340,788 | 84,052 | 293,519 |
| Effect of foreign exchange rates on cash | (3) | 51 | 1,995 | | 2,043 |
| Net increase (decrease) in cash and cash equivalents | (2,346) | (455) | 43,845 | | 41,044 |
| Cash and cash equivalents beginning of period | 14,343 | 2,672 | 25,623 | | 42,638 |
| Cash and cash equivalents end of period | \$ 11,997 | \$ 2,217 | \$ 69,468 | \$ | \$ 83,682 |

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

Overview

We operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. The Avionics & Controls segment designs and manufactures integrated cockpit systems, technology interface systems for military and commercial aircraft and land- and sea-based military vehicles, secure communications systems, specialized medical equipment, and other industrial applications. The Sensors & Systems segment produces high-precision temperature and pressure sensors, electrical power switching, control and data communication devices, micro-motors, motion control sensors, and other related systems, principally for aerospace and defense customers. The Advanced Materials segment develops and manufactures thermally engineered components and high-performance elastomer products used in a wide range of commercial aerospace and military applications, combustible ordnance components and electronic 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 are concentrating our efforts to expand our capabilities in these markets and 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 establishing strategic realignments of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering. On March 14, 2007, we acquired CMC Electronics Inc. (CMC), a manufacturer of high technology avionics including global positioning systems, head-up displays, enhanced vision systems and electronic flight management systems. The acquisition significantly expands the scale of our existing Avionics & Controls business. CMC is included in the Avionics & Controls segment and the results of its operations were included from the effective date of the acquisition.

Net earnings for the nine month period ended August 1, 2008, were \$76.7 million or \$2.56 per diluted share, compared with \$71.4 million, or \$2.74 per diluted share in the prior-year period. Two factors impacted comparability. First, net earnings in the nine month period ended July 27, 2007, included \$26.1 million, after tax, or \$1.00 per diluted share, in insurance recoveries. Second, earnings per diluted share for the nine month period ended August 1, 2008, reflected an increase in common shares outstanding as a result of our common stock offering in October 2007. The increase in net earnings principally reflected strong results at our Avionics & Controls and Sensors & Systems segments. Avionics & Controls earnings were impacted by a \$3.8 million, after tax, or \$0.13 per diluted share, estimate to complete adjustment on CMC's long-term contracts. Advanced Materials segment earnings declined compared to the prior-year period due to the insurance recoveries referred to above recorded in the nine month period ended July 27, 2007. Net earnings for the nine month period ended August 1, 2008, included \$5.9 million in discrete tax benefits compared to \$2.6 million in the prior-year period. The nine month period ended August 1, 2008, contained 40 weeks, while the prior-year period contained 39 weeks.

Results of Operations

Three Month Period Ended August 1, 2008, Compared with Three Month Period Ended July 27, 2007

Sales for the third fiscal quarter increased 17.1% compared with the prior-year period. Sales by segment were as follows:

(In thousands)

| | Incr./(Decr.) from prior year period | Three Months Ended | |
|------------------------|--|--------------------|-------------------|
| | | August 1, 2008 | July 27, 2007 |
| Avionics & Controls | 19.9% | \$ 147,925 | \$ 123,410 |
| Sensors & Systems | 27.6% | 121,927 | 95,520 |
| Advanced Materials | 4.4% | 112,218 | 107,446 |
| Total Net Sales | | \$ 382,070 | \$ 326,376 |

The 19.9% increase in sales of Avionics & Controls was principally due to increased sales volumes of cockpit controls for commercial aviation and medical equipment devices from new OEM programs. Sales in the third fiscal quarter of 2008 also reflected a stronger Canadian dollar relative to the U.S. dollar, as the average exchange rate from the Canadian dollar to the U.S. dollar increased from 0.93 in the third fiscal quarter of 2007 to 0.99 in the third fiscal quarter of 2008.

The 27.6% increase in sales of Sensors & Systems mainly reflected increased sales of power distribution devices for the after-market and new OEM programs, and strong after-market sales of temperature and pressure sensors, as well as the effect of exchange rates. Sales in the third fiscal quarter of 2008 reflected a stronger euro relative to the U.S. dollar, as the average exchange rate from the euro to the U.S. dollar increased from 1.35 in the third fiscal quarter of 2007 to 1.56 in the third fiscal quarter of 2008.

The 4.4% increase in sales of Advanced Materials principally reflected higher sales at our thermally engineered components and elastomer operations, reflecting increased demand from commercial aviation customers. Additionally, combustible ordnance sales were strong in the third fiscal quarter of 2008. These increases were partially offset by lower sales of flare countermeasure devices at our U.S. and U.K. operations.

Overall, gross margin as a percentage of sales was 31.3%, compared to 30.5% in the same period a year ago.

Avionics & Controls segment gross margin was 29.3% and 30.8% for the third fiscal quarter of 2008 and 2007, respectively. The decrease reflected a \$5.0 million estimate to complete adjustment for long-term contracts at CMC. 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. The decrease in gross margin also reflects an increase in excess and obsolete inventory reserves for cockpit control devices. These decreases were partially offset by pricing strength on certain cockpit control devices. Gross margin in the third fiscal quarter of 2007 was impacted by the shipment of acquired inventory of CMC, which was valued at fair market value at the date of acquisition.

Sensors & Systems segment gross margin was 34.7% and 34.9% for the third fiscal quarter of 2008 and 2007, respectively. The decrease in gross margin principally reflected a weaker U.S. dollar compared to the euro on U.S. dollar-denominated sales and euro-denominated cost of sales. This decrease was partially offset by strong aftermarket sales.

Advanced Materials segment gross margin was 30.1% compared to 26.4% for the same period one year ago. The increase in Advanced Materials gross margin reflected strong after-market sales and improved recovery of fixed costs as a result of higher sales volumes at our thermally engineered component operations in the U.K. and our elastomer operations. Strong gross margins at our combustible ordnance operations were partially offset by lower gross margins at our U.S. flare countermeasure operations. The third fiscal quarter of 2007 gross margin reflected the sale of flares at a premium price due to a supplemental award.

Selling, general and administrative expenses (which include corporate expenses) totaled \$63.2 million and \$55.5 million for the third fiscal quarter of 2008 and 2007, respectively, or 16.5% of sales for the third fiscal quarter of 2008 compared with 17.0% for the third fiscal quarter of 2007.

Research, development and engineering spending was \$22.4 million, or 5.9% of sales, for the third fiscal quarter of 2008 compared with \$17.0 million, or 5.2% of sales, for the third fiscal quarter of 2007. The increase in research, development and engineering principally reflected the development of the integrated cockpit system for the T-6B military trainer. Fiscal 2008 research, development and engineering spending is expected to be about 6.0% of sales.

Segment earnings (operating earnings excluding corporate expenses and other income or expense) for the third fiscal quarter of 2008 totaled \$42.4 million compared with \$69.4 million for the third fiscal quarter in 2007.

Avionics & Controls segment earnings were \$9.6 million in the third fiscal quarter of 2008 and \$10.3 million in the third fiscal quarter of 2007. The decrease reflects the \$5.0 million estimated cost to complete adjustment for long-term contracts at CMC, higher research and development expense related to the development of the T-6B military trainer and the effect of a weaker U.S. dollar compared with the Canadian dollar on U.S. dollar-denominated sales and Canadian dollar-denominated cost of sales. Since the acquisition of CMC, the U.S. dollar relative to the Canadian dollar has declined 12.6%. Approximately 80% of CMC's sales were denominated in U.S. dollars. Recognizing this currency environment and the impact on CMC's financial performance since acquisition, management is focused on a broad array of initiatives designed to improve CMC's results of operations.

Sensors & Systems segment earnings were \$14.9 million for the third fiscal quarter of 2008 compared with \$10.6 million for the third fiscal quarter of 2007. The increase in Sensors & Systems earnings reflects strong results across all operations from increased sales from new OEM programs, as well as strong after-market sales.

Advanced Materials segment earnings were \$18.0 million for the third fiscal quarter of 2008 compared with \$48.5 million for the third fiscal quarter of 2007. The decrease in earnings compared to the prior-year period is due to \$32.9 million in business interruption insurance recoveries recorded in the third fiscal quarter of 2007. These insurance recoveries related to an explosion which occurred at our Wallop advanced flare facility on June 26, 2006. The advanced flare facility has been closed due to the requirements of the Health 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, possibly in 2008. 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 & Safety Act related to the accident and, accordingly, no amounts have been recorded for any potential fines that may be assessed by the HSE. We expect construction of the new flare facility to be completed and in full production, following customary start-up and commissioning activities, late in fiscal 2009. Segment earnings were also impacted by lower earnings from our U.S. countermeasure operations. The decrease in earnings described above was partially offset by strong earnings from our thermally engineered components, elastomers, and combustible ordnance operations.

Interest expense for the third fiscal quarter of 2008 was \$7.3 million compared with \$10.8 million for the third fiscal quarter of 2007, reflecting reduced borrowings.

The effective income tax rate for the third fiscal quarter of 2008 was 24.6% (before a \$0.3 million discrete tax expense) compared with 24.0% (before a \$0.8 million tax benefit) for the prior-year period. The \$0.3 million tax expense in the third fiscal quarter of 2008 was the result of reconciliation of the prior year's income tax returns to the provision for income tax. The \$0.8 million tax benefit in the third fiscal quarter of 2007 was the result of a \$1.4 million reduction in the U.K. subsidiaries' deferred income tax due to a rate decrease from 30% to 28%, partially offset by a \$0.6 million increase in previously estimated tax liabilities resulting from a reconciliation of prior year's income tax returns to the provision for income tax. The effective tax rate differed from the statutory rate in the third fiscal quarters of 2008 and 2007, as both years benefited from various tax credits and certain foreign interest expense deductions.

New orders for the third fiscal quarter of 2008 were \$380.4 million compared with \$349.8 million for the same period in 2007.

Nine Month Period Ended August 1, 2008, Compared to Nine Month Period Ended July 27, 2007

Year-to-date sales increased 26.0% compared with the prior-year period. Sales by segment were as follows:

(In thousands)

| | Incr./(Decr.) from prior year period | Nine Months Ended | |
|---------------------|--|-------------------|------------------|
| | | August 1, 2008 | July 27, 2007 |
| Avionics & Controls | 41.1% | \$ 438,008 | \$ 310,379 |
| Sensors & Systems | 24.3% | 343,825 | 276,684 |
| Advanced Materials | 12.2% | 346,621 | 308,837 |
| Total Net Sales | | \$ 1,128,454 | \$ 895,900 |

The 41.1% increase in Avionics & Controls was principally due to incremental sales from the CMC acquisition and increased sales volumes of cockpit controls and medical equipment devices from new OEM programs.

The 24.3% increase in sales of Sensors & Systems reflected higher after-market sales at our temperature and pressure operations and strong after-market sales of power control devices and new OEM programs, as well as the effect of exchange rates. Sales in the first nine months of fiscal 2008 reflected a stronger euro relative to the U.S. dollar, as the average exchange rate from the euro to the U.S. dollar increased from 1.33 in the first nine months of fiscal 2007 to 1.52 in the first nine months of fiscal 2008.

The 12.2% increase in sales of Advanced Materials principally reflected higher sales of thermally engineered components and combustible ordnance. Additionally, sales at our elastomer operations increased over the prior-year period, reflecting increased demand from commercial aviation customers. These increases were partially offset by lower sales at our countermeasure operations.

Overall, gross margin as a percentage of sales was 32.4% and 30.5% for the first nine months of fiscal 2008 and 2007, respectively.

Avionics & Controls segment gross margin was 33.5% and 31.3% for the first nine months of fiscal 2008 and 2007, respectively. The increase reflected strong after-market sales and pricing strength on certain cockpit control devices as well as the prior-year period shipments of acquired inventory at CMC, which was valued at fair market value at the date of acquisition. These increases were partially offset by a \$5.0 million estimate to complete adjustment for long-term contracts at CMC. 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. Additionally, gross margin was impacted by an increase in excess and obsolete inventory for cockpit control devices.

Sensors & Systems segment gross margin was 35.3% and 34.1% for the first nine months of fiscal 2008 and 2007, respectively. The increase in gross margin was due to improved recovery of fixed

costs as a result of higher sales volumes and strong after-market sales at our temperature and pressure operations. In addition, pricing strength and robust after-market sales strengthened gross margins at our power distribution devices operations. Gross margins were also impacted by the effect of a weaker U.S. dollar compared with the euro on U.S. dollar-denominated sales and euro-denominated cost of sales.

Advanced Materials segment gross margin was 28.2% and 26.4% for the first nine months of fiscal 2008 and 2007, respectively. The increase in Advanced Materials gross margin reflected strong after-market sales and an improved recovery of fixed costs as a result of higher sales volumes at our thermally engineered component operations in the U.K. Strong gross margins at our combustible ordnance operations were partially offset by lower gross margins at our U.S. flare countermeasure operations. Additionally, gross margin at our U.S. flare countermeasure operations in the first nine months of fiscal 2007 reflected the sale of flares at a premium price due to a supplemental award.

Selling, general and administrative expenses (which include corporate expenses) totaled \$184.8 million and \$148.2 million for the first nine months of fiscal 2008 and 2007, respectively, or 16.4% of sales for the first nine months of fiscal 2008 and 16.5% for the prior-year period. The increase in the amount of selling, general and administrative expenses reflected incremental selling, general and administrative expenses from the CMC acquisition, increased pension expense, commissions and royalty expense, as well as the effect of the stronger euro and Canadian dollar relative to the U.S. dollar. The increase in corporate expense principally reflected increased professional fees and incentive compensation expense.

Research, development and engineering expenses were \$71.3 million, or 6.3% of sales for the first nine months of fiscal 2008 compared with \$49.6 million, or 5.5% of sales, for the first nine months of fiscal 2007. The increase in research, development and engineering principally reflected incremental spending from the CMC acquisition, which includes the development of the integrated cockpit system for the T-6B military trainer. Fiscal 2008 research, development and engineering spending is expected to be about 6.0% of sales.

Segment earnings (operating earnings excluding corporate expenses and other income or expense) for the first nine months of fiscal 2008 totaled \$137.0 million, compared with \$138.7 million for the prior-year period.

Avionics & Controls segment earnings were \$42.4 million for the first nine months of fiscal 2008 compared with \$31.4 million in the prior-year period, principally reflecting strong earnings from our cockpit control operations. Additionally, earnings in the prior-year period were impacted by a contract overrun at a small unit which manufactures precision gears and data concentrators. In the first nine months of fiscal 2008, Avionics & Controls segment earnings were impacted by a \$5.0 million estimate to complete adjustment on long-term contracts at CMC, higher research and development expenses related to the development of the T-6B military trainer and the effect of a weaker U.S. dollar compared with the Canadian dollar on U.S. dollar-denominated sales and Canadian dollar-denominated cost of sales. Since the acquisition of CMC, the U.S. dollar relative to the

Canadian dollar has declined 12.6%. Approximately 80% of CMC's sales are denominated in U.S. dollars. Recognizing the currency environment and the impact on CMC's financial performance since acquisition, management is focused on a broad array of initiatives designed to improve CMC's results of operations.

Sensors & Systems segment earnings were \$41.0 million for the first nine months of fiscal 2008 compared with \$26.8 million in the prior-year period. The increase in Sensors & Systems earnings reflected strong results across all operations from increased sales from new OEM programs, as well as strong after-market sales.

Advanced Materials segment earnings were \$53.6 million for the first nine months of fiscal 2008 compared with \$80.5 million for the prior-year period. The decrease in earnings from the prior-year period is principally due to \$37.3 million in business interruption insurance recoveries recorded in the first nine month period of fiscal 2007 and lower earnings at our U.S. countermeasure operations. These decreases were partially offset by strong earnings from our thermally engineered components, elastomer, and combustible ordnance operations.

Interest expense for the first nine months of fiscal 2008 was \$22.5 million compared with \$25.0 million for the prior-year period, principally reflecting reduced borrowings.

The effective income tax rate for the first nine months of fiscal 2008 was 23.4% (before \$5.9 million of tax benefits) compared with 23.1% (before \$2.6 million of tax benefits) for the first nine months of fiscal 2007. The \$5.9 million of tax benefits were the result of four events. The first event was the settlement of an examination of the U.S. federal 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 event was the enactment of tax laws reducing the Canadian statutory tax rate, which resulted in a \$4.1 million net reduction of deferred income tax liabilities. The third event was the recognition of \$0.7 million of additional income tax liabilities at CMC. The fourth event was a \$0.3 million increase of previously estimated tax liabilities due to a reconciliation of prior years' income tax returns to the provision for income tax. The \$2.6 million of tax benefits in the first nine months of 2007 was the result of three events. The first event was the retroactive extension of the U.S. Research and Experimentation tax credit that was signed into law on December 21, 2006, which resulted in a \$1.8 million tax benefit. The second event was the enactment of a tax law reducing U.K. statutory corporate income tax from 30% to 28%, which resulted in a reduction of the U.K. subsidiaries deferred income tax liabilities of \$1.4 million. The third event was a \$0.6 million increase of previously estimated tax liabilities due to the reconciliation of prior years' income tax returns to the provision for income tax. The effective tax rate differed from the statutory rate for the first nine months of fiscal 2008 and 2007 as both periods benefited from various tax credits and certain foreign interest expense deductions.

New orders for the first nine months of fiscal 2008 and 2007 were both \$1.2 billion. Backlog was \$1.1 billion compared with \$977.9 million at the end of the prior-year period and \$985.1 million at the end of fiscal 2007.

Liquidity and Capital Resources

Cash and cash equivalents at August 1, 2008, totaled \$162.6 million, an increase of \$15.5 million from October 26, 2007. Net working capital increased to \$462.6 million at August 1, 2008, from \$420.1 million at October 26, 2007. Sources and uses of cash flows from operating activities principally consist of cash received from the sale of products and cash payments for material, labor and operating expenses. Cash flows provided by operating activities were \$93.1 million and \$111.1 million in the first nine months of fiscal 2008 and 2007, respectively. The decrease principally reflected cash received from our insurance carrier in the prior-year period and increased payments for inventories, income taxes, and incentive compensation which are paid annually, partially offset by higher net earnings.

Cash flows used by investing activities were \$18.3 million and \$365.6 million in the first nine months of fiscal 2008 and 2007, respectively. The decrease principally reflected the acquisition of CMC in the prior-year period.

Cash flows used by financing activities were \$58.6 million in the first nine months of fiscal 2008, principally reflecting a \$66.9 million or £32.5 million principal payment on our GBP term loan. Cash flows provided by financing activities were \$293.5 million in the first nine months of fiscal 2007, principally reflecting the issuance of \$275.0 million in long-term debt to finance the CMC acquisition.

Capital expenditures, consisting of machinery, equipment and computers, are anticipated to be approximately \$42.5 million during fiscal 2008, compared with \$30.5 million expended in fiscal 2007. Capital expenditures for the first nine months of fiscal 2008 totaled \$31.0 million, primarily for machinery and equipment and enhancements to information systems.

Total debt at August 1, 2008, including the fair value of the interest rate swap, was \$407.4 million and consisted of \$175.0 million of Senior Notes due in 2017, \$176.2 million of Senior Subordinated Notes due in 2013, \$44.0 million under our GBP term loan, and \$12.2 million of various foreign currency debt agreements and other debt agreements, including capital lease obligations.

On March 14, 2007, we acquired CMC for approximately \$344.5 million in cash, including acquisition costs. The acquisition was financed in part with the proceeds of the \$175 million Senior Notes due March 1, 2017. In addition, on March 13, 2007, the Company amended its credit agreement to increase the existing revolving credit facility to \$200.0 million and to provide an additional \$100.0 million U.S. term loan facility. On March 13, 2007, the Company borrowed \$60.0 million under the revolving credit facility and \$100.0 million under the U.S. term loan facility to pay a portion of the purchase price of the acquisition of CMC; the Company subsequently repaid the \$60.0 million. On October 12, 2007, we completed an underwritten public offering of 3.45 million shares of common stock, generating net proceeds of \$187.1 million. Proceeds from the offering were used to pay off our \$100.0 million U.S. term loan facility and pay down our revolving credit facility.

During the first nine months of fiscal 2008, CMC executed forward contracts to hedge its U.S. dollar- denominated sales. The notional amount of open-forward contracts to sell U.S. dollars for Canadian dollars at August 1, 2008, was \$83.9 million at an average rate of 1.007. The fair value of these open hedges at August 1, 2008, was \$1.8 million.

We believe cash on hand and funds generated from operations are adequate to service operating cash requirements and capital expenditures through July 2009. In addition, we believe that we have adequate access to capital markets to fund future acquisitions.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases you can identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, pre- negative of such terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risk factors set forth in Forward-Looking Statements and Risk Factors in our Annual Report on Form 10-K for the fiscal year ended October 26, 2007, that may cause our or the industry s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. You should not place undue reliance on these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements. 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 4. 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 August 1, 2008. Based upon that evaluation, they concluded as of August 1, 2008, 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 August 1, 2008, 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 to our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

During the time period covered by this report, there were no significant changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits

- 10.2 Exhibit C to the Lease Agreement, dated March 26, 2008, between Capstone PF LLC and Korry Electronics Co. (such Lease Agreement previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated June 6, 2008 [Commission File Number 1-6357]).
- 10.3 First Amendment to Building Lease and Sublease, dated June 25, 2008, between Capstone PF LLC and Korry Electronics Co.
- 10.4 Second Amendment to Building Lease and Sublease, dated July 30, 2008, between Capstone PF LLC and Korry Electronics Co.
- 10.5 Subordination, Nondisturbance and Attornment Agreement and Estoppel Certificate, dated July 30, 2008, between Keybank National Association and Korry Electronics Co.
- 11 Schedule setting forth computation of basic and diluted earnings per common share for the three and nine month periods ended August 1, 2008, and July 27, 2007.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer.
- 32.1 Certification (of Robert W. Cremin) 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.

SIGNATURES

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

ESTERLINE TECHNOLOGIES CORPORATION
(Registrant)

Dated: September 5, 2008

By: /s/ Robert D. George
Robert D. George
Vice President, Chief Financial Officer,

Secretary and Treasurer

(Principal Financial Officer)