ESTERLINE TECHNOLOGIES CORP
Form 10-Q/A
January 06, 2006

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

Amendment No. 1
FORM 10-Q/A

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

For the quarterly period ended April 29, 2005

OR

o **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	13-2595091
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer 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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes þ No o

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

Yes o No þ

As of January 4, 2006, 25,355,344 shares of the issuer s common stock were outstanding.

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Explanatory Note

Esterline is filing this Amendment No. 1 to Form 10-Q/A to reflect the restatement of its financial statements for the three and six month periods ended April 29, 2005. Please see Note 2 to the Consolidated Financial Statements for specific information related to the restatement.

Esterline has historically accounted for stock option grants as fixed awards in accordance with Accounting Principles Board No. 25 (APB No. 25) and disclosed in the footnotes to the financial statements the expense based upon the fair value of stock options under Statement of Financial Accounting Standards No. 123 (Statement No 123). During our 2005 year-end closing process, we determined that certain stock option grants required variable rather than fixed accounting treatment under APB No. 25, because grantees were permitted to exercise options by surrendering shares subject to the grant to pay for the exercise price and statutory withholding. As a result, we determined on December 8, 2005, the need to restate our financial statements in the annual report on Form 10-K for the fiscal year ended October 29, 2004 and in the quarterly reports on Form 10-Q for the periods ended January 28, 2005, April 29, 2005, and July 29, 2005. All information contained in this Amendment is as of the original filing date of the Form 10-Q for the three and six month periods ended April 29, 2005 and does not reflect any subsequent information or events other than the restatement of financial information referred to above. Forward-looking statements have not been updated for events or operations subsequent to June 3, 2005.

This Amendment includes changes to Items 1 and 2 in Part I and Exhibit 11 and updates to the signature page, the Exhibit Index referenced in Item 6 of Part II and Exhibits 31.1, 31.2, 32.1 and 32.2.

All information contained in this Amendment is as of the original filing date of the Form 10-Q for the three and six month periods ended April 29, 2005 and does not reflect any subsequent information or events other than as described above. We are not required to update and have not updated the forward-looking statements previously included in the Form 10-Q filed on June 3, 2005 for events or operations subsequent to June 3, 2005.

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED BALANCE SHEET

As of April 29, 2005 and October 29, 2004
(In thousands, except share amounts)

	April 29, 2005 (Restated) (Unaudited)	October 29, 2004 (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 137,704	$ 29,479
Cash in escrow	7,537	8,511
Short-term investments	45,486	
Accounts receivable, net of allowances of $4,163 and $3,687	128,212	132,206
Inventories		
Raw materials and purchased parts	67,288	58,736
Work in process	46,324	43,326
Finished goods	18,485	16,992
	132,097	119,054
Deferred income tax benefits	24,601	23,499
Prepaid expenses	8,733	9,441
Other current assets	288	435
Total Current Assets	484,658	322,625
Property, Plant and Equipment	273,817	275,437
Accumulated depreciation	136,468	130,302
	137,349	145,135
Other Non-Current Assets		
Goodwill	246,032	247,817
Intangibles, net	166,593	169,876
Debt issuance costs, net of accumulated amortization of $1,265 and $928	5,481	5,818
Deferred income tax benefits	9,986	11,216
Other assets	28,266	32,861
	$ 1,078,365	$ 935,348

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ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED BALANCE SHEET
As of April 29, 2005 and October 29, 2004
(In thousands, except share amounts)

	April 29, 2005 (Restated) (Unaudited)	October 29, 2004 (Restated)
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 42,387	$ 37,867
Accrued liabilities	95,388	97,038
Credit facilities	2,567	6,977
Current maturities of long-term debt	30,901	1,031
Federal and foreign income taxes	7,213	6,678
Total Current Liabilities	178,456	149,591
Long-Term Liabilities		
Long-term debt, net of current maturities	217,722	249,056
Deferred income taxes	45,280	43,443
Other liabilities	26,185	29,852
Commitments and Contingencies		
Minority Interest	2,427	2,378
Shareholders Equity		
Common stock, par value $.20 per share, authorized 60,000,000 shares, issued and outstanding 25,154,109 and 21,319,698 shares	5,031	4,264
Additional paid-in capital	255,717	144,879
Retained earnings	318,118	287,344
Accumulated other comprehensive income	29,429	24,541
Total Shareholders Equity	608,295	461,028
	$ 1,078,365	$ 935,348

ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
For the Three and Six Month Periods Ended April 29, 2005 and April 30, 2004
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	April 29, 2005 (Restated)	April 30, 2004 (Restated)	April 29, 2005 (Restated)	April 30, 2004 (Restated)
Net Sales	$ 211,592	$ 146,474	$ 401,384	$ 275,840
Cost of Sales	143,054	97,890	274,746	188,664
	68,538	48,584	126,638	87,176
Expenses				
Selling, general & administrative	35,837	25,315	66,445	57,347
Research, development & engineering	9,866	6,015	19,113	11,438
Total Expenses	45,703	31,330	85,558	68,785
Operating Earnings From Continuing Operations	22,835	17,254	41,080	18,391
Other (income) expense	28	(19)	66	(575)
Interest income	(1,025)	(284)	(1,560)	(597)
Interest expense	4,097	4,163	8,779	8,455
Other Expense, Net	3,100	3,860	7,285	7,283
Income From Continuing Operations Before Income Taxes	19,735	13,394	33,795	11,108
Income Tax Expense	5,974	3,968	9,938	1,450
Income From Continuing Operations Before Minority Interest	13,761	9,426	23,857	9,658
Minority Interest	(35)		(48)	
Income From Continuing Operations	13,726	9,426	23,809	9,658
Income (Loss) From Discontinued Operations, Net of Tax	(562)	960	6,965	1,134
Net Earnings	$ 13,164	$ 10,386	$ 30,774	$ 10,792

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ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
For the Three and Six Month Periods Ended April 29, 2005 and April 30, 2004
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	April 29, 2005 (Restated)	April 30, 2004 (Restated)	April 29, 2005 (Restated)	April 30, 2004 (Restated)
Earnings (Loss) Per Share Basic:				
Continuing operations	$ .55	$ .45	$ .97	$ .46
Discontinued operations	(.03)	.04	.28	.05
Earnings per share basic	$ .52	$ .49	$ 1.25	$ .51
Earnings (Loss) Per Share Diluted:				
Continuing operations	$ .54	$ .44	$ .95	$ .45
Discontinued operations	(.02)	.04	.28	.05
Earnings per share diluted	$ .52	$ .48	$ 1.23	$ .50

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ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Six Month Periods Ended April 29, 2005 and April 30, 2004
(Unaudited)
(In thousands)

	Six Months Ended	
	April 29, 2005 (Restated)	April 30, 2004 (Restated)
Cash Flows Provided (Used) by Operating Activities		
Net earnings	$ 30,774	$ 10,792
Minority interest	49	
Depreciation and amortization	19,835	14,936
Deferred income taxes	1,830	(788)
Stock-based compensation	680	1,460
Gain on sale of discontinued operations	(9,456)	
Loss on sale of building	59	
Gain on sale of land		(577)
Working capital changes, net of effect of acquisitions		
Accounts receivable	3,040	14,482
Inventories	(14,535)	(6,392)
Prepaid expenses	773	(1,933)
Accounts payable	4,214	(1,457)
Accrued liabilities	754	(203)
Federal and foreign income taxes	472	2,801
Other liabilities	1,300	
Other, net	(2,009)	(435)
	37,780	32,686
Cash Flows Provided (Used) by Investing Activities		
Purchases of capital assets	(9,342)	(11,588)
Proceeds from sale of discontinued operations	21,421	
Proceeds from sale of building	2,319	
Proceeds from sale of land		1,179
Capital dispositions	146	433
Purchase of short-term investments	(45,486)	(6,238)
Acquisitions of businesses, net of cash acquired	(3,346)	(6,633)
	(34,288)	(22,847)

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ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Six Month Periods Ended April 29, 2005 and April 30, 2004
(Unaudited)
(In thousands)

	Six Months Ended	
	April 29, 2005 (Restated)	April 30, 2004 (Restated)
Cash Flows Provided (Used) by Financing Activities		
Proceeds provided by stock issuance under employee stock plans	2,435	716
Proceeds provided by sale of common stock	108,490	
Net change in credit facilities	(4,424)	564
Repayment of long-term obligations	(1,474)	(31,265)
Debt and other issuance costs		(179)
	105,027	(30,164)
Effect of Foreign Exchange Rates on Cash	(294)	397
Net Increase (Decrease) in Cash and Cash Equivalents	108,225	(19,928)
Cash and Cash Equivalents Beginning of Period	29,479	131,363
Cash and Cash Equivalents End of Period	$ 137,704	$ 111,435
Supplemental Cash Flow Information		
Cash Paid for Interest	$ 7,966	$ 9,265
Cash Paid for Taxes	8,446	562

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ESTERLINE TECHNOLOGIES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Month Periods Ended April 29, 2005 and April 30, 2004

1. The consolidated balance sheet as of April 29, 2005, the consolidated statement of operations for the three and six month periods ended April 29, 2005 and April 30, 2004, and the consolidated statement of cash flows for the six month periods ended April 29, 2005 and April 30, 2004 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/A for the fiscal year ended October 29, 2004 provide a summary of significant accounting policies and additional financial information that should be read in conjunction with this Form 10-Q/A.
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 vacation periods in both Europe and North America.
4. Basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of stock options. The weighted average number of shares outstanding used to compute basic earnings per share was 25,120,000 and 21,167,000 for the three month periods ended April 29, 2005 and April 30, 2004, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 25,484,000 and 21,495,000 for the three month periods ended April 29, 2005 and April 30, 2004, respectively. The weighted average number of shares outstanding used to compute basic earnings per share was 24,577,000 and 21,133,000 for the six month periods ended April 29, 2005, and April 30, 2004, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 24,953,000 and 21,466,000 for the six month periods ended April 29, 2005 and April 30, 2004, respectively.
5. Restatement of Stock Option Accounting

   The Company has restated its financial statements to account for the Company s non-qualified stock option plan using variable accounting because grantees were permitted to exercise stock options by surrendering stock under the grant to pay for the exercise price and statutory taxes. The Company previously accounted for these stock option grants as fixed

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awards under APB No. 25. As a result, the Company recorded additional stock-based compensation expense under the variable method of accounting and the related income tax adjustments. These adjustments are reflected in the financial statements with the cumulative adjustment at October 31, 2003 resulting in an increase in additional paid in capital of $21.0 million, a decrease of retained earnings of $18.8 million and increase in deferred income taxes of $2.2 million.

A summary of the significant effect of the restatement for the three and six months ended in the period ended April 29, 2005 and April 2004 are as follows:

(In thousands, except per share amounts)

	Three Months Ended April 29, 2005		Three Months Ended April 30, 2004	
	As Reported	As Restated	As Reported	As Restated
Selling, General and Administrative Expenses	$ 34,455	$ 35,837	$ 26,027	$ 25,315
Income From Continuing Operations	14,667	13,726	8,952	9,426
Net Income	14,105	13,164	9,912	10,386
Earnings Per Share Basic				
Continuing operations	$ .58	$ .55	$ .42	$ .45
Earnings per share basic	.56	.52	.47	.49
Earnings Per Share Diluted				
Continuing operations	$ .58	$ .54	$ .42	$ .44
Earnings per share diluted	.55	.52	.46	.48
Deferred Income Tax Benefits	$ 22,324	$ 24,601	$ 15,258	$ 17,367
Shareholders Equity	606,018	608,295	411,979	414,088

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(In thousands, except per share amounts)

	Six Months Ended April 29, 2005		Six Months Ended April 30, 2004	
	As Reported	As Restated	As Reported	As Restated
Selling, General and Administrative Expenses	$ 65,765	$ 66,445	$ 55,887	$ 57,347
Income From Continuing Operations	24,308	23,809	10,656	9,658
Net Income	31,273	30,774	11,790	10,792
Earnings Per Share Basic				
Continuing operations	$ .99	$ .97	$ .50	$ .46
Earnings per share basic	1.27	1.25	.56	.51
Net Income Per Share				
Continuing operations	$ .97	$ .95	$ .50	$ .45
Earnings per share diluted	1.25	1.23	.55	.50
Deferred Income Tax Benefits	$ 22,324	$ 24,601	$ 15,258	$ 17,367
Shareholders Equity	606,018	608,295	411,979	414,088

6. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Statement No. 123R), which is effective for the Company no later than the beginning of its first fiscal quarter of 2006. Management intends to comply with the standard at the beginning of our first fiscal quarter of 2006; however, management does not believe that the impact would be materially different from the pro forma disclosures under Note 10.

7. The Company s comprehensive income is as follows:
(In thousands)

	Three Months Ended		Six Months Ended	
	April 29, 2005 (Restated)	April 30, 2004 (Restated)	April 29, 2005 (Restated)	April 30, 2004 (Restated)
Net Earnings	$ 13,164	$ 10,386	$ 30,774	$ 10,792
Change in Fair Value of Derivative Financial Instruments, Net of Tax	612	(170)	1,435	490
Foreign Currency Translation Adj.	(738)	(6,426)	3,453	4,561
Comprehensive Income	$ 13,038	$ 3,790	$ 35,662	$ 15,843

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8. On January 28, 2005, the Company completed the sale of the outstanding stock of its wholly owned subsidiary Fluid Regulators Corporation (Fluid Regulators), which was included in the Company s Sensors & Systems segment, for approximately $23.7 million. As a result of the sale, the Company recorded a gain of $7.0 million, net of tax of $2.4 million. Sales and net earnings were $3.5 million and $0.3 million, respectively, during the three month period ended April 30, 2004. Sales and net earnings were $3.4 million and $0.3 million, respectively, during the six month period ended April 29, 2005 and $6.6 million and $0.7 million, respectively, during the six month period ended April 30, 2004.

   On July 25, 2002, the Board of Directors adopted a formal plan for the sale of the assets and operations of its former Automation segment. On July 23, 2003, the Company sold the assets of its Excellon Automation subsidiary. On August 31, 2004, the Company sold the stock of W. A. Whitney for $10.0 million in cash. Upon the final disposition of its discontinued Automation operations in the fourth fiscal quarter of 2004, the Company recorded an $8.0 million gain, net of $4.5 million in tax, including the reversal of estimated reserves which were recognizable upon sale of the business. Sales in the Automation segment were $5.7 million and $10.3 million for the three month and six month period ended April 30, 2004, respectively.

   On May 13, 2005, management closed a small unit in the Company s Other segment and incurred $0.4 million in severance, net of $0.2 million in tax, in the second quarter of fiscal 2005.

   The dispositions and closure described above are reported as discontinued operations and the consolidated financial statements for all prior periods have been adjusted to reflect this presentation.

9. The effective tax rate for the first six months of fiscal 2005 was 29.4%, compared with 30.2% (before a $1.9 million reduction of previously estimated tax liabilities) for the first six months of fiscal 2004. The effective tax rate differed from the statutory rate, as both years benefited from various tax credits and benefits. On February 4, 2004, the Company received a Notice of Proposed Adjustment (NOPA) from the Internal Revenue Service covering the audit of research and development tax credits for fiscal years 1997 through 1999. As a result of the NOPA and the expectation of a similar result for fiscal years 2000 through 2003, management revised the Company s estimated liability for income taxes as of January 30, 2004. The revision resulted in a $1.9 million reduction of previously estimated tax liabilities.

10. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. The variable method of accounting is used to account for stock option plans where the option holders are permitted to exercise options by surrendering the option subject to the grant in payment of the exercise price of the option and the related statutory taxes. No compensation cost is recognized at the grant date because the exercise price of all stock option grants is equal to the market price of the Company s common stock as of the date of the grant. However, subsequent changes in the market price of the Company s common stock to the date of exercise or forfeiture results in a change in

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measure of compensation cost. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (FAS 123 Adjustment), Accounting for Stock-Based Compensation (Statement No. 123):

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	April 29, 2005 (Restated)	April 30, 2004 (Restated)	April 29, 2005 (Restated)	April 30, 2004 (Restated)
Net earnings, as reported	$ 13,164	$ 10,386	$ 30,774	$ 10,792
Stock-based compensation costs, net of income tax included in net earnings as reported	911	(476)	457	970
Stock-based compensation cost, net of income tax under the fair value method of accounting	(476)	(417)	(917)	(835)
Pro forma net earnings	$ 13,599	$ 9,493	$ 30,314	$ 10,927
Basic earnings per share, as reported	$ .52	$ .49	$ 1.25	$ .51
Add (deduct): FAS 123 Adjustment	.02	(.04)	(.02)	.01
Pro forma basic earnings per share	$ .54	$ .45	$ 1.23	$ .52
Diluted earnings per share, as reported	$ .52	$ .48	$ 1.23	$ .50
Add (deduct): FAS 123 Adjustment	.01	(.04)	(.02)	.01
Pro forma diluted earnings per share	$ .53	$ .44	$ 1.21	$ .51

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

(In thousands)	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Components of Net Periodic Pension Cost				
Service cost	$ 1,065	$ 906	$ 2,133	$ 1,814
Interest cost	2,352	1,729	5,720	3,461
Expected return on plan assets	(2,955)	(2,236)	(6,753)	(4,477)
Amortization of prior service cost	5	4	9	8
Amortization of actuarial loss	165	148	335	297
Net Periodic Cost	$ 632	$ 551	$ 1,444	$ 1,103

12. Segment information:

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

(In thousands)	Three Months Ended		Six Months Ended	
	April 29, 2005 (Restated)	April 30, 2004 (Restated)	April 29, 2005 (Restated)	April 30, 2004 (Restated)
Sales				
Avionics & Controls	$ 64,990	$ 52,292	$ 125,845	$ 98,608
Sensors & Systems	84,541	39,772	158,915	74,424
Advanced Materials	62,061	54,410	116,624	102,808
Total Sales	$ 211,592	$ 146,474	$ 401,384	$ 275,840
Income from Continuing Operations				
Avionics & Controls	$ 9,204	$ 8,782	$ 18,603	$ 15,116
Sensors & Systems	11,166	4,895	17,563	492
Advanced Materials	8,747	7,665	15,228	11,304
Segment Earnings	29,117	21,342	51,394	26,912
Corporate expense	(6,282)	(4,088)	(10,314)	(8,521)
Other income (expense)	(28)	19	(66)	575
Interest income	1,025	284	1,560	597
Interest expense	(4,097)	(4,163)	(8,779)	(8,455)
	$ 19,735	$ 13,394	$ 33,795	$ 11,108

13. On December 1, 2003, the Company acquired all of the outstanding capital stock of AVISTA, Incorporated (AVISTA), a $10 million (sales) Wisconsin-based developer of embedded avionics software, for approximately $6.5 million in cash. A purchase price adjustment was paid to the seller in December 2004 and an additional amount will be paid in December 2005 contingent upon the achievement of financial results as defined in the Stock Purchase Agreement. The December 2004 purchase price adjustment was approximately $3.3 million. AVISTA provides a software engineering center to support the Company s customers with such applications as primary flight displays, flight management systems, air data computers and engine control systems. AVISTA is included in the Avionics & Controls segment and the results of its operations were included from the effective date of the acquisition. Revenues are largely fees charged for software engineering services.
14. On November 24, 2004, the Company completed a public offering of 3.7 million shares of common stock, including shares sold under the underwriters over-allotment option, priced at $31.25 per share, generating net proceeds of approximately $109 million, of which $5.0 million was used to pay off existing credit facilities. The funds provide additional financial resources for acquisitions and general corporate purposes. The Company issued 154,411 and 105,954 shares under its employee stock plans during the six month periods ended April 29, 2005 and April 30, 2004, respectively.
15. The following schedules set forth condensed consolidating financial information as required by Rule 3-10 of Securities and Exchange Commission Regulation S-X for the periods ended April 29, 2005, and April 30, 2004, for (a) Esterline Technologies Corporation (the Parent); (b) on a combined basis, the subsidiary guarantors (Guarantor Subsidiaries) of the Senior Subordinated Notes which include Advanced Input Devices, Inc., Amtech Automated Manufacturing Technology, Angus Electronics Co., Armtec Countermeasures Co., Armtec Defense Products Co., Auxitrol Co., AVISTA, Incorporated, Boyar-Schultz Corporation, BVR Technologies Co., Equipment Sales Co., EA Technologies Corporation, Esterline Technologies Holdings Limited, H.A. Sales Co., Hauser Inc., Hytek Finishes Co., Janco Corporation, Kirkhill-TA Co., Korry Electronics Co., Leach Holding Corporation, Leach International Corporation, Leach Technology Group, Inc., Mason Electric Co., MC Tech Co., Memtron Technologies Co., Norwich Aero 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. (England), Auxitrol S.A., Auxitrol Technologies S.A., Auxitrol Asia PTE Ltd., Esterline Input Devices Asia Ltd., Esterline Input Devices Ltd. (China), Esterline Technologies DK Aps (Denmark), Esterline Technologies Ltd. (England), Esterline Technologies Ltd. (Hong Kong), Excellon Europa GmbH, Excellon France S.A.R.L., 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 Mexico S. de R.L. de C.V. (Mexico), Leach International U.K. (England), LRE Medical GmbH (Germany), Muirhead Aerospace Ltd., Norcroft Dynamics Ltd., Pressure Systems International Ltd., TA Mfg. Limited, Weston Aero Ltd. (England), and Weston Aerospace Ltd. (England). The guarantor subsidiaries are direct

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and indirect wholly-owned subsidiaries of Esterline Technologies and have fully and unconditionally, jointly and severally, guaranteed the Senior Subordinated Notes.

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Condensed Consolidating Balance Sheet as of April 29, 2005.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents	$100,208	$ 1,592	$ 35,904	$	$ 137,704
Cash in escrow	7,537				7,537
Short-term investments	45,486				45,486
Accounts receivable, net	672	73,433	54,107		128,212
Inventories		85,101	46,996		132,097
Deferred income tax benefits	39,401		(14,800)		24,601
Prepaid expenses	246	5,427	3,060		8,733
Other current assets		288			288
Total Current Assets	193,550	165,841	125,267		484,658
Property, Plant & Equipment, Net	2,367	93,383	41,599		137,349
Goodwill		172,415	73,617		246,032
Intangibles, Net	141	74,258	92,194		166,593
Debt Issuance Costs, Net	5,481				5,481
Deferred Income Tax Benefits	9,986				9,986
Other Assets	4,108	18,407	5,751		28,266
Amounts Due (To) From Subsidiaries	126,514	74,432		(200,946)	
Investment in Subsidiaries	590,033			(590,033)	
Total Assets	$932,180	$598,736	$338,428	$(790,979)	$1,078,365

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(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$ 235	$ 16,958	$ 25,194	$	$ 42,387
Accrued liabilities	29,348	40,925	25,115		95,388
Credit facilities			2,567		2,567
Current maturities of long-term debt	30,000		901		30,901
Federal and foreign income taxes	(1,841)	80	8,974		7,213
Total Current Liabilities	57,742	57,963	62,751		178,456
Long-Term Debt, Net	215,767		1,955		217,722
Deferred Income Taxes	44,984		296		45,280
Other Liabilities	5,392	13,884	6,909		26,185
Amounts Due To (From) Subsidiaries			180,140	(180,140)	
Minority Interest			2,427		2,427
Shareholders Equity	608,295	526,889	83,950	(610,839)	608,295
Total Liabilities and Shareholders Equity	$932,180	$598,736	$338,428	$(790,979)	$1,078,365

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Condensed Consolidating Statement of Operations for the three month period ended April 29, 2005.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$141,165	$75,528	$ (5,101)	$211,592
Cost of Sales		97,380	50,775	(5,101)	143,054
		43,785	24,753		68,538
Expenses					
Selling, general and administrative		24,143	11,694		35,837
Research, development and engineering		4,191	5,675		9,866
Total Expenses		28,334	17,369		45,703
Operating Earnings from Continuing Operations		15,451	7,384		22,835
Other (income) expense	50	16	(38)		28
Interest income	(4,027)	(571)	(666)	4,239	(1,025)
Interest expense	4,492	1,033	2,811	(4,239)	4,097
Other Expense, Net	515	478	2,107		3,100
Income (Loss) from Continuing Operations Before Taxes	(515)	14,973	5,277		19,735
Income Tax Expense (Benefit)	(165)	4,470	1,669		5,974
Income (Loss) From Continuing Operations Before Minority Interest	(350)	10,503	3,608		13,761
Minority Interest			(35)		(35)
Income (Loss) From Continuing Operations	(350)	10,503	3,573		13,726
Loss From Discontinued Operations, Net of Tax		(562)			(562)
Equity in Net Income of Consolidated Subsidiaries	13,514			(13,514)	
Net Income (Loss)	$13,164	$ 9,941	$ 3,573	$(13,514)	$ 13,164

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Condensed Consolidating Statement of Operations for the six month period ended April 29, 2005.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$266,494	$143,846	$ (8,956)	$401,384
Cost of Sales		187,164	96,538	(8,956)	274,746
		79,330	47,308		126,638
Expenses					
Selling, general and administrative		42,422	24,023		66,445
Research, development and engineering		7,722	11,391		19,113
Total Expenses		50,144	35,414		85,558
Operating Earnings from Continuing Operations		29,186	11,894		41,080
Other expense	50	16			66
Interest income	(7,580)	(1,696)	(1,274)	8,990	(1,560)
Interest expense	8,981	2,565	6,223	(8,990)	8,779
Other Expense, Net	1,451	885	4,949		7,285
Income (Loss) from Continuing Operations Before Taxes	(1,451)	28,301	6,945		33,795
Income Tax Expense (Benefit)	(426)	8,278	2,086		9,938
Income (Loss) From Continuing Operations Before Minority Interest	(1,025)	20,023	4,859		23,857
Minority Interest			(48)		(48)
Income (Loss) From Continuing Operations	(1,025)	20,023	4,811		23,809
Income From Discontinued Operations, Net of Tax		6,965			6,965
Equity in Net Income of Consolidated Subsidiaries	31,799			(31,799)	
Net Income (Loss)	$30,774	$ 26,988	$ 4,811	$(31,799)	$ 30,774

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Condensed Consolidating Statement of Cash Flows for the six month period ended April 29, 2005.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows Provided (Used) by Operating Activities					
Net earnings (loss)	$ 30,774	$ 26,988	$ 4,811	$(31,799)	$ 30,774
Minority interest			49		49
Depreciation & amortization		11,059	8,776		19,835
Deferred income taxes	4,294		(2,464)		1,830
Stock-based compensation		519	161		680
Gain on sale of discontinued operations		(9,456)			(9,456)
Loss on sale of building		59			59
Working capital changes, net of effect of acquisitions Accounts receivable	1,549	8,019	(6,528)		3,040
Inventories		(11,112)	(3,423)		(14,535)
Prepaid expenses	107	(1,895)	2,561		773
Accounts payable	(285)	144	4,355		4,214
Accrued liabilities	442	1,226	(914)		754
Federal & foreign income taxes	(4,837)	5	5,304		472
Other liabilities	1,109	44	147		1,300
Other, net	665	(651)	(2,023)		(2,009)
	33,818	24,949	10,812	(31,799)	37,780
Cash Flows Provided (Used) by Investing Activities					
Purchases of capital assets	(208)	(6,669)	(2,465)		(9,342)
Proceeds from sale of discontinued operations		21,421			21,421
Proceeds from sale of building		2,319			2,319
Capital dispositions	5	74	67		146
Purchase of short-term investments	(45,486)				(45,486)
Acquisitions of businesses, net		(3,346)			(3,346)
	(45,689)	13,799	(2,398)		(34,288)

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(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows Provided (Used) by Financing Activities					
Proceeds provided by stock issuance under employee stock plans	2,435				2,435
Proceeds from stock issuance	108,490				108,490
Net change in credit facilities	(5,000)		576		(4,424)
Repayment of long-term debt	(1,002)	(57)	(415)		(1,474)
Investment in subsidiaries	86	(39,445)	7,560	31,799	
	105,009	(39,502)	7,721	31,799	105,027
Effect of Foreign Exchange Rates on Cash	211	(7)	(498)		(294)
Net Increase (Decrease) in Cash and Cash Equivalents	93,349	(761)	15,637		108,225
Cash and Cash Equivalents Beginning of Period	6,859	2,353	20,267		29,479
Cash and Cash Equivalents End of Period	$100,208	$ 1,592	$35,904	$	$137,704

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Condensed Consolidating Balance Sheet as of October 29, 2004.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents	$ 6,859	$ 2,353	$ 20,267	$	$ 29,479
Cash in escrow	8,511				8,511
Accounts receivable, net	2,221	83,115	46,870		132,206
Inventories		76,168	42,886		119,054
Deferred income tax benefits	40,630		(17,131)		23,499
Prepaid expenses	353	3,598	5,490		9,441
Other current assets	147	288			435
Total Current Assets	58,721	165,522	98,382		322,625
Property, Plant & Equipment, Net	2,369	99,360	43,406		145,135
Goodwill		175,607	72,210		247,817
Intangibles, Net	141	77,160	92,575		169,876
Debt Issuance Costs, Net	5,818				5,818
Deferred Income Tax Benefits	11,216				11,216
Other Assets	9,780	18,309	4,772		32,861
Amounts Due (To) From Subsidiaries	152,346	36,188		(188,534)	
Investment in Subsidiaries	558,234		92	(558,326)	
Total Assets	$798,625	$572,146	$311,437	$(746,860)	$935,348

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(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$ 520	$ 16,814	$ 20,533	$	$ 37,867
Accrued liabilities	29,880	41,466	25,692		97,038
Credit facilities	5,000		1,977		6,977
Current maturities of long-term debt		50	981		1,031
Federal and foreign income taxes	2,996	75	3,607		6,678
Total Current Liabilities	38,396	58,405	52,790		149,591
Long-Term Debt, Net	246,769	7	2,280		249,056
Deferred Income Taxes	43,149		294		43,443
Other Liabilities	9,283	13,840	6,729		29,852
Amounts Due To (From) Subsidiaries			186,310	(186,310)	
Minority Interest			2,378		2,378
Shareholders Equity	461,028	499,894	60,656	(560,550)	461,028
Total Liabilities and Shareholders Equity	$798,625	$572,146	$311,437	$(746,860)	$935,348

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Condensed Consolidating Statement of Operations for the three month period ended April 30, 2004.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$113,592	$33,106	$ (224)	$146,474
Cost of Sales		78,189	19,925	(224)	97,890
		35,403	13,181		48,584
Expenses					
Selling, general and administrative		18,651	6,664		25,315
Research, development and engineering		2,402	3,613		6,015
Total Expenses		21,053	10,277		31,330
Operating Earnings from Continuing Operations		14,350	2,904		17,254
Other (income) expense		(20)	1		(19)
Interest income	(1,495)	(628)	(56)	1,895	(284)
Interest expense	4,078	625	1,355	(1,895)	4,163
Other (Income) Expense, Net	2,583	(23)	1,300		3,860
Income (Loss) from Continuing Operations Before Taxes	(2,583)	14,373	1,604		13,394
Income Tax Expense (Benefit)	(830)	4,537	261		3,968
Income (Loss) From Continuing Operations	(1,753)	9,836	1,343		9,426
Income From Discontinued Operations, Net of Tax		960			960
Equity in Net Income of Consolidated Subsidiaries	12,139			(12,139)	
Net Income (Loss)	$10,386	$ 10,796	$ 1,343	$(12,139)	$ 10,386

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Condensed Consolidating Statement of Operations for the six month period ended April 30, 2004.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$213,709	$62,592	$ (461)	$275,840
Cost of Sales		149,638	39,487	(461)	188,664
		64,071	23,105		87,176
Expenses					
Selling, general and administrative		38,062	19,285		57,347
Research, development and engineering		4,426	7,012		11,438
Total Expenses		42,488	26,297		68,785
Operating Earnings (Loss) from Continuing Operations		21,583	(3,192)		18,391
Other (income) expense		(578)	3		(575)
Interest income	(2,972)	(1,258)	(140)	3,773	(597)
Interest expense	8,295	1,250	2,683	(3,773)	8,455
Other (Income) Expense, Net	5,323	(586)	2,546		7,283
Income (Loss) from Continuing Operations Before Taxes	(5,323)	22,169	(5,738)		11,108
Income Tax Expense (Benefit)	(1,570)	4,597	(1,577)		1,450
Income (Loss) From Continuing Operations	(3,753)	17,572	(4,161)		9,658
Income From Discontinued Operations, Net of Tax		1,134			1,134
Equity in Net Income of Consolidated Subsidiaries	14,545			(14,545)	
Net Income (Loss)	$10,792	$ 18,706	$ (4,161)	$(14,545)	$ 10,792

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Condensed Consolidating Statement of Cash Flows for the six month period ended April 30, 2004.
(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows Provided (Used) by Operating Activities					
Net earnings (loss)	$ 10,792	$ 18,706	$ (4,161)	$ (14,545)	$ 10,792
Depreciation & amortization		10,963	3,973		14,936
Deferred income taxes	(835)		47		(788)
Stock-based compensation		1,065	395		1,460
Gain on sale of land		(577)			(577)
Working capital changes, net of effect of acquisitions					
Accounts receivable	1,190	9,298	3,994		14,482
Inventories		(4,821)	(1,571)		(6,392)
Prepaid expenses	76	(1,458)	(551)		(1,933)
Accounts payable	(121)	(1,469)	133		(1,457)
Accrued liabilities	1,054	(2,896)	1,639		(203)
Federal & foreign income taxes	3,685	(102)	(782)		2,801
Other, net	(6)	(2,875)	2,446		(435)
	15,835	25,834	5,562	(14,545)	32,686
Cash Flows Provided (Used) by Investing Activities					
Purchases of capital assets	(362)	(10,176)	(1,050)		(11,588)
Proceeds from sale of land		1,179			1,179
Capital dispositions		437	(4)		433
Purchase of short-term investments	(6,238)				(6,238)
Acquisitions of businesses, net		(6,633)			(6,633)
	(6,600)	(15,193)	(1,054)		(22,847)
Cash Flows Provided (Used) by Financing Activities					
Proceeds provided by stock issuance under employee stock plans	716				716
Net change in credit facilities			564		564
Repayment of long-term debt	(31,010)	(42)	(213)		(31,265)
Debt and other issuance costs	(179)				(179)
Investment in subsidiaries	(5,157)	(9,239)	(149)	14,545	
	(35,630)	(9,281)	202	14,545	(30,164)

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(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Effect of Foreign Exchange Rates on Cash	(742)	6	1,133		397
Net Increase (Decrease) in Cash and Cash Equivalents	(27,137)	1,366	5,843		(19,928)
Cash and Cash Equivalents Beginning of Period	109,834	3,030	18,499		131,363
Cash and Cash Equivalents End of Period	$ 82,697	$4,396	$24,342	$	$111,435

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

Overview

We view and operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. The Avionics & Controls segment designs and manufactures 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 high-performance elastomer products used in a wide range of commercial aerospace and military applications and 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 in three key technology segments: avionics and controls, sensors and systems and specialized high-performance elastomers and other complex materials, principally for the aerospace and defense markets. We are concentrating our efforts to expand our capabilities in these markets and to anticipate the global needs of our customers and respond to such needs with comprehensive solutions. These efforts focus on continuous research and new product development, acquisitions and establishing strategic realignments of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering.

On January 28, 2005, we completed the sale of the outstanding stock of our wholly owned subsidiary Fluid Regulators Corporation (Fluid Regulators), which was included in our Sensors & Systems segment, for approximately $23.7 million. As a result of the sale, we recorded a gain of approximately $7.0 million, net of tax of $2.4 million, in the first fiscal quarter of 2005.

On July 25, 2002, our Board of Directors adopted a formal plan for the sale of the assets and operations of our former Automation segment. Upon the final disposition of our discontinued Automation operations in the fourth fiscal quarter of 2004, we recorded an $8.0 million gain, net of $4.5 million in tax, including the reversal of estimated reserves, which were recognizable upon the sale of the business.

On May 13, 2005, we closed a small unit in our Other segment and incurred $0.4 million in severance, net of $0.2 million in tax, in the second quarter of fiscal 2005.

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The dispositions and closure described above are reported as discontinued operations and the consolidated financial statements for all prior periods have been adjusted to reflect this presentation.

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Results of Continuing Operations

Three Month Period Ended April 29, 2005 Compared to Three Month Period Ended April 30, 2004

Sales for the second fiscal quarter increased 44.5% when compared with the prior-year period. Sales by segment were as follows:

(In thousands)	Incr./(Decr.) from prior year period	Three Months Ended April 29, 2005	Three Months Ended April 30, 2004
Avionics & Controls	24.3%	$ 64,990	$ 52,292
Sensors & Systems	112.6%	84,541	39,772
Advanced Materials	14.1%	62,061	54,410
Total Net Sales		$ 211,592	$ 146,474

The 24.3% increase in Avionics & Controls principally reflected incremental sales from the Leach Holding Corporation (Leach) medical unit acquisition in the fourth fiscal quarter of 2004 and higher sales at our AVISTA unit. Sales were also enhanced by increased volumes of aftermarket spares, cockpit panels and control products. These sales increases were partially offset by a decrease in sales of technology interface systems for land-based vehicles.

The 112.6% increase in sales of Sensors & Systems principally reflected $32.9 million in incremental sales from the Leach acquisition, enhanced sales of temperature and pressure sensors, and motion control distribution sales to the British Ministry of Defence (British MoD) as well as increased sales volumes of aftermarket products. Sensors & Systems sales also 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 1.22 in the second quarter of fiscal 2004 to 1.30 in the second quarter of fiscal 2005.

The 14.1% increase in Advanced Materials reflected higher sales of elastomer material to aerospace customers. Additionally, sales increased at our metal finishing unit, reflecting an improving commercial aerospace market.

Overall, for the second quarter of fiscal 2005, gross margin as a percentage of sales was 32.4% compared with 33.2% for the second quarter of fiscal 2004. Avionics & Controls segment gross margin was 33.7% and 34.5% for the second fiscal quarter of 2005 and 2004, respectively. Avionics & Controls gross margin decreased from the prior-year period due to a higher mix of medical equipment sales. Sensors & Systems segment gross margin was 35.3% and 39.8% for the second fiscal quarter of 2005 and 2004, respectively. Sensors & Systems gross margin declined from the prior-year period due to a higher mix of electrical power switching, control and data communication devices due to the Leach acquisition, a loss contract reserve and 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 27.0% for the second

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fiscal quarter of 2005 and 2004. Lower sales volumes of combustible ordnance and incremental start-up costs on certain flare countermeasure devices were offset by improved gross margins at our elastomer material and metal finishing operations. Our elastomer material gross margins were favorably impacted by decreased workers compensation expenses, lower integration expenses, and higher sales volumes to aerospace customers, which resulted in an increased recovery of fixed expenses. In the prior-year period, our elastomer material operations were negatively impacted by certain operational inefficiencies from integrating acquired businesses which resulted in higher labor costs. Improved gross margins at our metal finishing operations reflected an improved recovery of fixed expenses due to higher sales and increased selling prices.

Selling, general and administrative expenses (which include corporate expenses) totaled $35.8 million and $25.3 million for the second fiscal quarter of 2005 and 2004, respectively, or 16.9% of sales for the second fiscal quarter of 2005 compared with 17.3% for the prior-year period. Selling, general and administrative expenses include stock option expense of $1.4 million and stock option income of $0.7 million in the second fiscal quarter of 2005 and 2004, respectively, which are non-cash charges or income resulting from mark-to-market adjustments under the variable method of accounting. The overall increase in the amount of selling, general and administrative expenses primarily reflected incremental selling, general and administrative expenses as a result of the Leach acquisition. The decrease in selling, general and administrative expenses as a percentage of sales principally reflected higher sales volumes without a proportional increase in the expense during the current fiscal quarter. These selling, general and administrative expenses are typically fixed.

Research, development and engineering spending was $9.9 million, or 4.7% of sales, for the second fiscal quarter of 2005 compared with $6.0 million, or 4.1% of sales, for the second fiscal quarter of 2004. The increase in research, development and engineering spending principally reflected the acquisition of Leach in the fourth quarter of fiscal 2004 and the requirement to fund development for new programs for our OEM customers.

Segment earnings (operating earnings excluding corporate expenses) for the second fiscal quarter of 2005 totaled $29.1 million, compared with $21.3 million for the second fiscal quarter in 2004. Avionics & Controls segment earnings were $9.2 million for the second fiscal quarter of 2005 compared with $8.8 million for the second fiscal quarter of 2004, principally reflecting the strong results at our newly acquired Leach medical unit and our AVISTA unit. We believe there is some potential that the earnings growth we experienced from our medical equipment operations during the first six months of fiscal 2005 will moderate in the second half of the fiscal year. Stock option expense was $0.4 million in the second fiscal quarter of 2005 and stock option income was $0.2 million in the second fiscal quarter of 2004.

Sensors & Systems segment earnings were $11.2 million for the second quarter of fiscal 2005 compared with $4.9 million for the second quarter of fiscal 2004, primarily reflecting strong sales and earnings in our sensors, motion control and electrical power switching operations. Stock option expense was $0.2 million in the second fiscal quarter of 2005 and stock option income was $0.1 million in the second fiscal quarter of 2004.

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Advanced Materials segment earnings were $8.7 million for the second fiscal quarter of 2005 compared with $7.7 million for the second fiscal quarter of 2004. Advanced Materials earnings were enhanced by increased earnings at our elastomer material and metal finishing units, reflecting strong demand from aerospace customers and lower operating expenses. Earnings at our combustible ordnance and countermeasure operations were impacted by production inefficiencies on new countermeasure flare products and higher operating expenses. Stock option expense was $0.5 million in the second fiscal quarter of 2005 and stock option income was $0.2 million in the second fiscal quarter of 2004.

Interest expense for the second fiscal quarter of 2005 was $4.1 million compared with $4.2 million for the second fiscal quarter of 2004.

The effective income tax rate for the second fiscal quarter of 2005 was 30.3% compared with 29.6% for the second fiscal quarter of 2004. The effective tax rate differed from the statutory rate, as both years benefited from various tax credits and benefits.

New orders for the second fiscal quarter of 2005 were $263.4 million compared with $154.5 million for the same period in 2004, an increase of 70.5%. The increase in orders reflects the Leach acquisition, the timing of receiving combustible ordnance orders and increased elastomer material orders.

Six Month Period Ended April 29, 2005 Compared to Six Month Period Ended April 30, 2004

Year-to-date sales increased 45.5% when compared with the prior-year period. Sales by segment were as follows:

(In thousands)	Incr./(Decr.)	Six Months Ended	
	from prior year period	April 29, 2005	April 30, 2004
Avionics & Controls	27.6%	$ 125,845	$ 98,608
Sensors & Systems	113.5%	158,915	74,424
Advanced Materials	13.4%	116,624	102,808
Total Net Sales		$ 401,384	$ 275,840

The 27.6% increase in sales of Avionics & Controls principally reflected incremental sales from the Leach medical unit acquisition. The increase also reflected higher sales of specialized medical equipment and cockpit controls as well as higher sales at our AVISTA unit. These increases were partially offset by lower sales of technology interface systems for land-based military vehicles.

The 113.5% increase in sales of Sensors & Systems principally reflected $62.2 million in incremental sales from the Leach acquisition, enhanced sales of temperature and pressure sensors and motion control distribution sales to the British MoD as well as increased sales volumes of aftermarket products. The increase also reflected a stronger euro relative to the U.S. dollar, as

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the average exchange rate from the euro to the U.S. dollar increased from 1.22 in the first six months of fiscal 2004 to 1.31 in the first six months of fiscal 2005.

The 13.4% increase in Advanced Materials reflected higher sales of elastomer material and increased sales at our metal finishing unit. Sales of our combustible ordnance and countermeasure devices were even with the prior-year period.

Overall, gross margin as a percentage of sales was 31.6% for the first six months of fiscal 2005 and 2004. Avionics & Controls segment gross margin was 32.6% and 33.5% for the first six months of fiscal 2005 and 2004, respectively. Avionics & Controls gross margin decreased from the prior-year period due to a higher mix of medical equipment sales. Sensors & Systems segment gross margin was 35.0% and 37.6% for the first six months of fiscal 2005 and 2004, respectively. Sensors & Systems gross margin decreased from the prior-year period, reflecting a sales mix of lower margin sales from the Leach acquisition, partially offset by greater aftermarket spares sales. Advanced Materials segment gross margin was 25.7% and 25.4% for the first six months of fiscal 2005 and 2004, respectively. Advanced Materials gross margin increased when compared with the prior-year period, reflecting higher sales volume of elastomer material to aerospace customers, lower acquisition integration expenses, production efficiencies and lower workers compensation expense.

Selling, general and administrative expenses (which include corporate expenses) totaled $66.4 million and $57.3 million for the first six months of fiscal 2005 and 2004, respectively, or 16.6% of sales, for the first six months of fiscal 2005 compared with 20.8% for the prior-year period. Selling, general and administrative expenses include stock option expense of $0.7 million and $1.5 million in the first six months of fiscal 2005 and 2004, respectively, which are non-cash charges resulting from mark-to-market adjustments under the variable method of accounting. The overall increase in the amount of selling, general and administrative expenses primarily reflected incremental selling, general and administrative expenses as a result of the Leach acquisition. The decrease in selling, general and administrative expense as a percentage of sales principally reflected $4.5 million in severance expense in our Sensors & Systems segment incurred in the prior-year period and higher sales volumes without a proportional increase in the expense during the six months ended April 29, 2005. These selling, general and administrative expenses are typically fixed.

Research, development and engineering expenses were $19.1 million, or 4.8% of sales, for the first six months of fiscal 2005 compared with $11.4 million, or 4.1% of sales, for the first six months of fiscal 2004. The increase in research, development and engineering spending principally reflected the acquisition of Leach in the fourth quarter of fiscal 2004 and the requirement to fund development for new programs for our OEM customers.

Segment earnings (operating earnings excluding corporate expenses) for the first six months of fiscal 2005 totaled $51.4 million, compared with $26.9 million for the prior-year period. Avionics & Controls segment earnings of $18.6 million for the first six months of fiscal 2005 compared with $15.1 million in the prior-year period and reflected increased earnings at our newly acquired Leach medical unit and our AVISTA unit. We believe there is some potential that the earnings growth we experienced from our medical equipment operations during the first six months of fiscal 2005 will moderate in the second half of the fiscal year. Stock option expense was $0.2 million and $0.3 million in the first six months of fiscal 2005 and 2004, respectively.

Sensors & Systems segment earnings were $17.6 million for the first six months of fiscal 2005 compared with $0.5 million in the prior-year period. The increase in Sensors & Systems earnings from the prior-year period reflected incremental earnings from the Leach acquisition, higher sales volumes and lower operating expenses. The decrease in operating expenses compared with the prior-year period reflected $4.5 million in severance and legal costs covering 35 employees in engineering, production, quality, research and development and administration functions. In addition, nearly 20 employees elected early retirement or voluntarily resigned in the 2004 period. Sensors & Systems earnings also reflected the impact of a weaker U.S. dollar relative to the euro on U.S. dollar-denominated sales and euro-based operating expenses. Stock option expense was $0.1 million and $0.3 million in the first six months of fiscal 2005 and 2004, respectively.

Advanced Materials segment earnings were $15.2 million for the first six months of fiscal 2005 compared with $11.3 million for the prior-year period. Advanced Materials earnings reflected higher sales and earnings from our elastomer and metal finishing operations. Advanced Materials earnings were negatively impacted by higher operating expenses at our combustible ordnance and countermeasure operations. Stock option expense was $0.3 million and $0.5 million in the first six months of fiscal 2005 and 2004, respectively.

Interest expense for the first six months of fiscal 2005 was $8.8 million compared with $8.5 million for the prior-year period.

The effective income tax rate for the first six months of fiscal 2005 was 29.4% compared with 30.2% (before a $1.9 million reduction of previously estimated tax liabilities) for the prior-year period. The effective tax rate differed from the statutory rate, as both years benefited from various tax credits and benefits. On February 4, 2004, we received a Notice of Proposed Adjustment (NOPA) from the Internal Revenue Service covering the audit of research and development tax credits for fiscal years 1997 through 1999. As a result of the NOPA and the expectation of a similar result for fiscal years 2000 through 2003, we revised our estimated liability for income taxes as of January 30, 2004. The revision resulted in a $1.9 million reduction of previously estimated tax liabilities.

During the first fiscal quarter of 2004, we sold land in Coachella, California, for cash and recorded a gain on sale of $577,000, which is included in other income.

New orders for the first six months of fiscal 2005 were $467.2 million compared with $304.9 million for the same period in fiscal 2004. Backlog at April 29, 2005, was $489.6 million compared with $323.7 million at April 30, 2004. The increase in backlog principally reflected the Leach acquisition. Approximately $190.0 million in backlog is scheduled for delivery after fiscal 2005. Most orders in backlog are subject to cancellation until delivery.

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Liquidity and Capital Resources

Cash and cash equivalents and short-term investments at April 29, 2005 totaled $183.2 million, an increase of $153.7 million from October 29, 2004. Net working capital increased to $306.2 million at April 29, 2005 from $173.0 million at October 29, 2004. Sources of cash flows from operating activities principally consist of cash received from the sale of products offset by cash payments for material, labor and operating expenses. Cash flows from operating activities were $37.8 million and $32.7 million in the first six months of fiscal 2005 and 2004, respectively. The increase principally reflected higher net earnings, partially offset by increased inventory purchases. The net increase in cash flows used by investing activities principally reflected increased purchases of short-term investments, the net proceeds from the sale of Fluid Regulators of $21.4 million, a $3.3 million purchase price adjustment payable to the seller of AVISTA and the $6.5 million acquisition of AVISTA in the first fiscal quarter of 2004. The increase in cash provided by financing activities principally reflected the net proceeds of $108.5 million from our public offering of 3.7 million shares of common stock completed on November 24, 2004, partially offset by the repayment of $30 million of the 1999 Senior Notes in accordance with their terms in the prior-year period.

Capital expenditures, consisting of machinery, equipment and computers, are anticipated to be approximately $22.0 million during fiscal 2005, compared with $22.1 million expended in fiscal 2004. Capital expenditures for the first six months of 2005 totaled $9.3 million, primarily for machinery and equipment and enhancements to information systems.

Total debt at April 29, 2005 was $251.2 million and consisted of $175.0 million of Senior Subordinated Notes, $70.0 million of 1999 Senior Notes, and $6.2 million of various foreign currency debt agreements, including capital lease obligations. The Senior Subordinated Notes mature June 15, 2013, bear interest at 7.75% and contain customary covenants, including restrictions on incurrence of additional debt in certain circumstances, repurchase of our common stock, declaration of dividends, retirement or redemption of subordinated debt, creation of liens and certain asset dispositions. We are in compliance with these covenants and do not view the restrictions as limiting our planned activities. In September 2003 we entered into an interest rate swap agreement on $75 million of our Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed rate for a variable interest rate on $75 million of the $175 million principal amount outstanding. The 1999 Senior Notes have maturities ranging from November 2005 to 2008 and interest rates from 6.4% to 6.77%. We have a U.S. dollar credit facility totaling up to $60,000,000 of borrowing capacity. The facility is secured by substantially all of our assets. The credit agreement for the facility contains customary covenants, including but not limited to, restrictions on liens, making certain investments in third parties, capital expenditures, incurrence of additional indebtedness, repurchase of our common stock, declaration of dividends and certain asset dispositions. In addition, the credit agreement requires that we meet certain financial covenants, including a maximum leverage ratio, a fixed charge coverage ratio, a total debt to capitalization ratio and a minimum tangible net worth. As of April 29, 2005, we were in compliance with these covenants under the credit facility. We believe cash on hand and funds generated from operations are adequate to service operating cash requirements and capital expenditures through April 2006. In addition, we believe that we have adequate access to capital markets to fund future acquisitions.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Statement No. 123R), which is effective for the Company no later than the beginning of our first fiscal quarter of 2006. We intend to comply with the standard at the beginning of our first fiscal quarter of 2006; however, management does not believe that the impact would be materially different from the pro forma disclosure under Note 10 to the Consolidated Financial Statements of Esterline Technologies in this Form 10-Q/A.

Forward-Looking Statements

This quarterly report on Form 10-Q/A 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/A for the fiscal year ended October 29, 2004, 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.

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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 April 29, 2005. Based upon that evaluation, they concluded as of April 29, 2005 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.

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.

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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 4. Submission of Matters to a Vote of Security Holders

At our annual meeting of shareholders held on March 2, 2005, the shareholders acted on the following proposal:

The election of the following directors for three-year terms expiring at the 2008 annual meeting:

	Votes Cast	
Name	For	Withheld
Lewis E. Burns	23,306,783	146,135
Robert W. Cremin	23,110,135	342,783
Anthony P. Franceschini	23,161,791	291,127

The election of the following director for a two-year term expiring at the 2007 annual meeting:

	Votes Cast	
Name	For	Withheld
Charles R. Larson	23,307,007	145,911

Current directors whose terms are continuing after the 2005 annual meeting are Ross J. Centanni, John F. Clearman, Robert S. Cline, Jerry D. Leitman, and James L. Pierce.

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Item 5. Other Information

Effective June 2, 2005, John F. Clearman was appointed to the Audit Committee and resigned from the Compensation Committee. The members of the committees of our Board of Directors listed below are as follows:

Audit Committee

Robert S. Cline, Chairman
John F. Clearman
Anthony P. Franceschini
Charles R. Larson
James L. Pierce

Compensation Committee

Jerry D. Leitman, Chairman
Lewis E. Burns
Ross J. Centanni

Nominating & Corporate Governance Committee

Ross J. Centanni, Chairman
Lewis E. Burns
Robert S. Cline
Anthony P. Franceschini

Item 6. Exhibits

10.19b	Offer Letter from Esterline Technologies Corporation to Richard Wood dated February 9, 2005 (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended January 28, 2005 [Commission File No. 1-6357]).
10.19c	Severance Protection Agreement between Richard Wood and Esterline Technologies Corporation, dated February 23, 2005 (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended January 28, 2005 [Commission File No. 1-6357]).
10.19e	Offer Letter from Esterline Technologies Corporation to Frank Houston dated March 14, 2005 (incorporated by reference to the Company s Current Report on Form 8-K dated March 29, 2005 [Commission File No. 1-6357]).
11	Schedule setting forth computation of basic and diluted earnings per common share for the three and six month periods ended April 29, 2005 and April 30, 2004.
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.

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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: January 6, 2006

By: /s/ Robert D. George

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

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