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	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 X 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 x 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 X

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)

ASSETS	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

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ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEET

As of August 1, 2008 and October 26, 2007

(In thousands, except share amounts)

LIABILITIES AND SHAREHOLDERS EQUITY	August 1, 2008 (Unaudited)	October 26, 2007
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)

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	Nine Months Ended 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	Nine Months Ended 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

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(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

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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.

(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 August 1, 2008	Three Months Ended July 27, 2007	Nine Months Ended August 1, 2008	Nine Months Ended 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

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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

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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

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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	Three Months Ended 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	Nine Months Ended 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)