ESTERLINE TECHNOLOGIES CORP
Form 10-Q
March 05, 2009

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 January 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission file number 1-6357

ESTERLINE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	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 March 2, 2009, 29,689,809 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 January 30, 2009 and October 31, 2008

(In thousands, except share amounts)

ASSETS	January 30, 2009 (Unaudited)	October 31, 2008
Current Assets		
Cash and cash equivalents	$ 81,231	$ 160,645
Accounts receivable, net of allowances of $4,835 and $5,191	270,974	297,506
Inventories		
Raw materials and purchased parts	119,532	110,984
Work in process	102,744	105,586
Finished goods	52,995	45,403
	275,271	261,973
Income tax refundable	4,066	5,567
Deferred income tax benefits	34,781	37,702
Prepaid expenses	15,141	13,040
Other current assets	468	897
Total Current Assets	681,932	777,330
Property, Plant and Equipment	423,506	430,824
Accumulated depreciation	221,944	226,362
	201,562	204,462
Other Non-Current Assets		
Goodwill	696,624	576,861
Intangibles, net	384,492	290,440
Debt issuance costs, net of accumulated amortization of $6,507 and $6,132	7,213	7,587
Deferred income tax benefits	58,127	55,821
Other assets	36,495	9,601
	$ 2,066,445	$ 1,922,102

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEET

As of January 30, 2009 and October 31, 2008

(In thousands, except share amounts)

LIABILITIES AND SHAREHOLDERS EQUITY	January 30, 2009 (Unaudited)	October 31, 2008
Current Liabilities		
Accounts payable	$ 78,656	$ 89,807
Accrued liabilities	201,716	210,422
Credit facilities	118,858	5,171
Current maturities of long-term debt	8,352	8,388
Deferred income tax liabilities	1,759	2,889
Federal and foreign income taxes	9,458	4,442
Total Current Liabilities	418,799	321,119
Long-Term Liabilities		
Long-term debt, net of current maturities	382,446	388,248
Deferred income tax liabilities	112,932	97,830
Pension and post-retirement obligations	88,673	85,767
Other liabilities	30,038	
Commitments and Contingencies		
Minority Interest	2,832	2,797
Shareholders Equity		
Common stock, par value $.20 per share, authorized 60,000,000 shares, issued and outstanding 29,689,453 and 29,636,481 shares	5,938	5,927
Additional paid-in capital	497,508	493,972
Retained earnings	640,006	613,063
Accumulated other comprehensive income (loss)	(112,727)	(86,621)
Total Shareholders Equity	1,030,725	1,026,341
	$ 2,066,445	$ 1,922,102

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

For the Three Month Periods Ended January 30, 2009 and February 1, 2008

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended	
	January 30, 2009	February 1, 2008
Net Sales	$ 309,717	$ 357,325
Cost of Sales	207,565	242,112
	102,152	115,213
Expenses		
Selling, general & administrative	59,725	59,428
Research, development & engineering	17,398	21,632
Total Expenses	77,123	81,060
Other		
Other expense	5,014	
Total Other	5,014	
Operating Earnings From Continuing Operations	20,015	34,153
Interest income	(411)	(1,292)
Interest expense	6,736	7,906
Gain on derivative financial instrument		(1,850)
Other Expense, Net	6,325	4,764
Income From Continuing Operations Before Income Taxes	13,690	29,389
Income Tax Expense (Benefit)	2,168	(358)
Income From Continuing Operations Before Minority Interest	11,522	29,747
Minority Interest	(35)	(22)
Income From Continuing Operations	11,487	29,725
Income From Discontinued Operations, Net of Tax	15,456	1,259
Net Earnings	$ 26,943	$ 30,984

Earnings Per Share Basic:				
Continuing operations	$	.39	$	1.01
Discontinued operations		.52		.04
Earnings Per Share Basic	$	.91	$	1.05
Earnings Per Share Diluted:				
Continuing operations	$	.38	$	1.00
Discontinued operations		.52		.04
Earnings Per Share Diluted	$	.90	$	1.04

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Three Month Periods Ended January 30, 2009 and February 1, 2008

(Unaudited)

(In thousands)

	Three Months Ended	
	January 30, 2009	February 1, 2008
Cash Flows Provided (Used) by Operating Activities		
Net earnings	$ 26,943	$ 30,984
Minority interest	35	22
Depreciation and amortization	14,491	16,059
Deferred income taxes	(1,121)	(4,515)
Share-based compensation	1,972	1,916
Gain on sale of discontinued operation	(26,379)	
Working capital changes, net of effect of acquisitions		
Accounts receivable	31,646	27,847
Inventories	(13,219)	(17,697)
Prepaid expenses	(2,460)	(2,462)
Other current assets	446	(304)
Accounts payable	(14,810)	(1,641)
Accrued liabilities	(19,349)	(10,678)
Federal and foreign income taxes	7,771	(4,051)
Pension and post-retirement obligations	4,712	(395)
Other, net	(6,510)	451
	4,168	35,536
Cash Flows Provided (Used) by Investing Activities		
Purchases of capital assets	(7,521)	(9,584)
Proceeds from sale of discontinued operation, net of cash	62,944	
Proceeds from sale of capital assets	94	362
Acquisitions, net of cash	(250,777)	
	(195,260)	(9,222)

ESTERLINE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Three Month Periods Ended January 30, 2009 and February 1, 2008

(Unaudited)

(In thousands)

	Three Months Ended	
	January 30, 2009	February 1, 2008
Cash Flows Provided (Used) by Financing Activities		
Proceeds provided by stock issuance under employee stock plans	1,575	1,707
Excess tax benefits from stock options exercised		1
Net change in credit facilities	113,705	(2,646)
Repayment of long-term debt, net	(1,315)	(64,305)
	113,965	(65,243)
Effect of Foreign Exchange Rates on Cash	(2,287)	(1,631)
Net Decrease in Cash and Cash Equivalents	(79,414)	(40,560)
Cash and Cash Equivalents Beginning of Period	160,645	147,069
Cash and Cash Equivalents End of Period	$ 81,231	$ 106,509
Supplemental Cash Flow Information		
Cash Paid for Interest	$ 6,493	$ 8,686
Cash Paid for Taxes	7,011	8,423

ESTERLINE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Periods Ended January 30, 2009 and February 1, 2008

1. The consolidated balance sheet as of January 30, 2009, the consolidated statement of operations for the three month periods ended January 30, 2009, and February 1, 2008, and the consolidated statement of cash flows for the three month periods ended January 30, 2009, and February 1, 2008, 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 31, 2008, 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 first fiscal quarter of 2009 contained 13 weeks, while the first fiscal quarter of 2008 contained 14 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 1,250,960 and 283,392 in the first fiscal quarter of 2009 and 2008, respectively. Shares used for calculating earnings per share are disclosed in the following table.

(In thousands)	Three Months Ended	
	January 30, 2009	February 1, 2008
Shares Used for Basic Earnings Per Share	29,664	29,386
Shares Used for Diluted Earnings Per Share	29,865	29,811

5. Recent Accounting Pronouncements

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 the following:

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

Measure 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.

Recognize 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, recognize 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.

Capitalize 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.

Recognize acquisition-related transaction costs as an expense when incurred.

Recognize 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.

Recognize 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.

6. The Company s comprehensive income is as follows:

(In thousands)	Three Months Ended	
	January 30, 2009	February 1, 2008
Net Earnings	$ 26,943	$ 30,984
Change in Fair Value of Derivative Financial Instruments, Net of Tax (Expense) Benefit of $(331) and $981	525	(1,796)
Adjustment for Minimum Pension Liability, Net of Tax (Expense) Benefit of $(182) and $34	424	(70)
Foreign Currency Translation Adjustment	(27,055)	(23,458)
Comprehensive Income	$ 837	$ 5,660

7. On December 15, 2008, the Company acquired all of the outstanding capital stock of NMC Group, Inc. (NMC) for approximately $89.8 million in cash, including acquisition costs. NMC designs and manufactures specialized light-weight fasteners principally for commercial aviation applications. The acquisition expands the scale of the Company s existing advanced materials business. NMC is included in the Advanced Materials segment.

The following summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was based upon a preliminary valuation analysis. The Company has not finalized the allocation of the purchase price to tangible and intangible assets and tax basis of acquired assets and liabilities. The Company recorded goodwill of $38.4 million. The amount allocated to goodwill is expected to be deductible for income tax purposes.

(In thousands)

As of December 15, 2008		
Current assets	$	7,945
Property, plant and equipment		3,246
Intangible assets subject to amortization		
Programs (15 year weighted average useful life)		41,590
Goodwill		38,416
Other assets		19
Total assets acquired		91,216
Current liabilities assumed		1,371
Net assets acquired	$	89,845

On January 26, 2009, the Company acquired all of the outstanding capital stock of Racal Acoustics Global Ltd. (Racal) for approximately £117.7 million or $164.5 million in cash, including acquisition costs. Racal develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics segment. The acquisition expands the scale of the Company s existing avionics and controls business. Racal is included in the Avionics & Controls segment.

The following summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was based upon a preliminary valuation analysis. The Company has not finalized the allocation of the purchase price to tangible and intangible assets and tax basis of acquired assets and liabilities. The Company recorded goodwill of $109.2 million. The amount allocated to goodwill is not expected to be deductible for income tax purposes.

(In thousands)

As of January 26, 2009		
Current assets	$	22,836
Property, plant and equipment		1,949
Intangible assets subject to amortization		
Programs (15 year weighted average useful life)		65,798
Goodwill		109,210
Deferred income tax benefit		1,784
Total assets acquired		201,577
Current liabilities assumed		18,241
Deferred tax liabilities		18,841
Net assets acquired	$	164,495

8. On November 3, 2008, the Company sold U.K.-based Muirhead Aerospace Limited and Traxsys Input Products Limited, which were included in the Sensors & Systems segment, for approximately U.K. £40.0 million or $63.4 million, resulting in an after-tax gain of

$15.5 million. As a result, the consolidated financial statements present Muirhead Aerospace Limited and Traxsys Input Products Limited as a discontinued operation.

The operating results of the discontinued operations for the first quarter of fiscal 2008 and 2009 consisted of the following:

(In thousands)	January 30, 2009	February 1, 2008
Sales	$	$ 15,104
Income from discontinued operations before income taxes	26,379	1,655
Income tax expense	10,923	396
Income from discontinued operations	$ 15,456	$ 1,259

9. The effective income tax rate for the first fiscal quarter of 2009 was 18.9% (before a $0.4 million tax benefit) compared with 22.1% (before a $6.9 million tax benefit) for the prior-year period. The $0.4 million tax benefit in the first fiscal quarter of 2009 was the result of two events. The first event was a $2.0 million reduction of previously recorded withholding tax liabilities as a result of the enactment of a U.S.-Canadian tax treaty. The second event was the recording of a $1.6 million penalty due to a development with regard to certain foreign tax laws. The $6.9 million tax benefit in the first fiscal quarter of 2008 was the result of two 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 corporate income tax rate, which resulted in a $4.1 million net reduction of deferred income tax liabilities. The effective tax rate differed from the statutory rate in the first fiscal quarters of 2009 and 2008, as both years 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. During the first fiscal quarter of 2009, a gross increase of $17.0 million of unrecognized tax benefits was recorded due to developments with regard to certain foreign tax laws. As this liability represents an acquired tax liability, the recording of the liability resulted in an increase to goodwill. Further, the liability is specifically indemnified pursuant to a stock purchase agreement. As this liability is specifically indemnified pursuant to a stock purchase agreement, a receivable

has been established to reflect the recoverability of the contingent tax. The total amount of unrecognized tax benefits that may decrease based on the reasonably possible resolution of certain tax matters within the next 12 months is $17.0 million. As this decrease represents an acquired tax liability, the reduction would be offset by a decrease to goodwill.

The Company recognizes interest related to unrecognized tax benefits in income tax expense. During the first fiscal quarter of 2009, a gross increase of $6.2 million of interest related to unrecognized tax benefits was recorded due to developments with regard to certain foreign tax laws. As this liability is specifically indemnified pursuant to a stock purchase agreement, a receivable has been established to reflect the recoverability of the contingent interest. The total amount of interest related to unrecognized tax benefits that may decrease based on the reasonably possible resolution of certain tax matters within the next 12 months is $6.2 million. This decrease would be offset by a reduction in a corresponding receivable.

The Company recognizes penalties related to unrecognized tax benefits in income tax expense. During the first fiscal quarter of 2009, a gross increase of $6.7 million of penalties related to unrecognized tax benefits was recorded due to developments with regard to certain foreign tax laws. As $5.1 million of this liability is specifically indemnified pursuant to a stock purchase agreement, a receivable has been established to reflect the recoverability of the contingent penalty. The total amount of penalties related to unrecognized tax benefits that may decrease based on the reasonably possible resolution of certain tax matters within the next 12 months is $6.7 million. The $5.1 million decrease would be offset by a reduction in a corresponding receivable. The remaining $1.6 million decrease would reduce the period s tax expense.

The Company and/or one of its subsidiaries files income tax returns in the U. S. federal jurisdiction and various states and foreign jurisdictions. The Company and/or one of its subsidiaries which are no longer subject to income tax examinations by tax authorities in its major tax jurisdictions are as follows:

Tax Jurisdiction	Years No Longer Subject to Audit
U.S. Federal	2005 and prior
Canada	2002 and prior
France	2004 and prior
Germany	2003 and prior
United Kingdom	2003 and prior

10. As of January 30, 2009, 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 fiscal quarters of 2009 and 2008 was $2.0 million and $1.9 million, respectively. During the first fiscal quarters of 2009 and 2008, the Company issued 52,972 and 41,607 shares, respectively, under its employee stock plans. The Company converted the ESPP to a safe harbor design on December 16, 2008. Under

the safe harbor design, shares are purchased by participants at 95% of the market value on the purchase date.

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.

	Three Months Ended	
	January 30, 2009	February 1, 2008
Risk-free interest rate (U.S. Treasury zero coupon issues)	3.32%	3.32 5.15%
Expected dividend yield		
Expected volatility	33.8%	21.4 34.8%
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 378,800 options and 329,300 options in the three-month periods ended January 30, 2009 and February 1, 2008, respectively. The weighted-average grant date fair value of options granted during the three-month periods ended January 30, 2009, and February 1, 2008, was $15.92 per share and $26.32 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.

	Three Months Ended	
	January 30, 2009	February 1, 2008
Risk-free interest rate (U.S. Treasury zero coupon issues)	1.43 3.12%	3.65 4.53%
Expected dividend yield		
Expected volatility	36.8 43.1%	36.2 42.9%
Expected life (years)	4.5 9.5	4.5 9.5

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

(In thousands)	Three Months Ended	
	January 30, 2009	February 1, 2008
Components of Net Periodic Pension Cost		
Service cost	$ 1,475	$ 1,801
Interest cost	4,575	4,389
Expected return on plan assets	(3,509)	(5,671)
Amortization of prior service cost		5
Amortization of actuarial loss	998	50
Net Periodic Cost	$ 3,539	$ 574

The Company s principal post-retirement plans include non-U.S. plans, 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	
	January 30, 2009	February 1, 2008
Components of Net Periodic Pension Cost		
Service cost	$ 82	$ 99
Interest cost	161	166
Amortization of actuarial loss	(19)	4
Net Periodic Cost	$ 224	$ 269

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

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

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

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

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

(In thousands)

	Level 2	Total
Assets:		
Embedded Derivatives	$ 3,224	$ 3,224
Liabilities:		
Derivative Contracts	$ 30,033	$ 30,033

The Company s embedded derivatives are the result of entering into sales or purchase contracts that are denominated in a currency other than the Company s functional currency or the supplier s or customer s functional currency. The fair value is determined by calculating the difference between quoted exchange rates at the time the contract was entered into and the period end exchange rate. These contracts are categorized as Level 2 in the fair value hierarchy.

The Company s derivative contracts consist of foreign currency exchange contracts. These derivative contracts are over the counter and their fair value is determined using modeling techniques that include market inputs such as interest rates, yield curves, and currency exchange rates. These contracts are categorized as Level 2 in the fair value hierarchy.

The Company adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (Statement No. 159) effective November 1, 2008. Statement No. 159 permits entities to elect to measure eligible financial instruments at fair value on an instrument-by-instrument basis. The adoption of Statement No. 159 had no impact on the consolidated financial position, results of operations or cash flows, as no eligible financial instruments were elected to be measured at fair value under this guidance.

13. Segment information:

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

(In thousands)

	Three Months Ended	
	January 30, 2009	February 1, 2008
Sales		
Avionics & Controls	$ 128,468	$ 142,908
Sensors & Systems	84,555	93,541
Advanced Materials	96,694	120,876
Total Sales	$ 309,717	$ 357,325
Income from Continuing Operations		
Avionics & Controls	$ 14,475	$ 15,450
Sensors & Systems	10,252	12,368
Advanced Materials	9,974	15,649
Segment Earnings	34,701	43,467
Corporate expense	(9,672)	(9,314)
Other expense	(5,014)	
Interest income	411	1,292
Interest expense	(6,736)	(7,906)
Gain on derivative financial instrument		1,850
	$ 13,690	$ 29,389

14. The acquisition of Racal was funded from cash proceeds from the sale of U.K.-based Muirhead and Traxsys and the Company s line of credit. Due to holding of pounds sterling to fund the acquisition during a period of foreign exchange volatility, the Company incurred a $7.9 million foreign currency transaction loss in January 2009, which was recorded in other expense. To facilitate the acquisition of Racal, the Company executed a $159.7 million U.S. dollar-denominated intercompany loan with a wholly owned subsidiary, of which its functional currency is the pound sterling. The Company was subject to foreign currency exchange risk on this intercompany loan until bank lender approval was secured to convert the intercompany loan to an investment in subsidiary. On February 24, 2009, lender approval was obtained. From January 30, 2009, to February 24, 2009, the effect of foreign currency changes resulted in a foreign currency loss of $0.1 million on the intercompany loan. No further foreign currency transaction losses or gains will be recorded because the intercompany loan will be converted to an investment in subsidiary.

15. The Company paid down £31.0 million of the £57.0 GBP million term loan during the first fiscal quarter of 2008 and terminated the interest rate swap on the U.K. pound-denominated note for a gain of $1.9 million.

16. 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 January 30, 2009, and October 31, 2008, and for the applicable periods ended January 30, 2009, and February 1, 2008, 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., NMC Group, Inc., Norwich Aero Products, Inc., Palomar Products, Inc., Pressure Systems, Inc., Pressure Systems International, Inc., UMM Electronics Inc., and (c) on a combined basis, the subsidiary non-guarantors (Non-Guarantor Subsidiaries), which include Acoustics Holdco Ltd. (U.K.), Auxitrol S.A., BAE Systems Canada/Air TV LLC, CMC Electronics Inc., CMC Electronics ME Inc., Darchem Engineering Limited, Darchem Holdings Ltd., Darchem Insulation Systems Limited, Esterline Acquisition Ltd. (U.K.), Esterline Canadian Acquisition Company, Esterline Canadian Limited Partnership, Esterline Foreign Sales Corporation (U.S. Virgin Islands), Esterline Input Devices Asia Ltd. (Barbados), Esterline Input Devices Ltd. (Shanghai), Esterline Mexico S. de R.L. de C.V. (Mexico), Esterline Sensors Services Asia PTE, Ltd. (Singapore), Esterline Technologies Denmark ApS (Denmark), Esterline Technologies Europe Limited (U.K.), 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), Pressure Systems International Ltd., RAG Newco Ltd. (U.K.), Racal Acoustics Global Ltd., Racal Acoustics Group Ltd., Racal Acoustics Holdings Ltd., Racal Acoustics Ltd., Racal Acoustics Inc., TA Mfg. Limited (U.K.), UKCI Ltd., Wallop Defence Systems Limited, Wallop Industries Limited (U.K.), Weston Aero Ltd. (England), and Weston Aerospace Ltd. (England). Muirhead Aerospace Limited (Muirhead), Norcroft Dynamics Ltd. (Norcroft), and Traxsys Input Products Ltd. (Traxsys), were Non-Guarantor Subsidiaries as of October 31, 2008. As explained in Note 8, Muirhead, Norcroft, and Traxsys were sold on November 3, 2008, and, accordingly, Muirhead, Norcroft, and Traxsys were excluded from the Condensed Consolidating Balance Sheet at January 30, 2009, and accounted for as a discontinued operation in the Condensed Consolidating Statement of Operations and Cash Flows for the three-month periods ended January 30, 2009, and February 1, 2008. 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.

Condensed Consolidating Balance Sheet as of January 30, 2009

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents	$ 22,821	$ 2,352	$ 56,058	$	$ 81,231
Accounts receivable, net	328	117,912	152,734		270,974
Inventories		135,336	139,935		275,271
Income tax refundable	3,098		968		4,066
Deferred income tax benefits	18,717	52	16,012		34,781
Prepaid expenses	26	5,101	10,014		15,141
Other current assets			468		468
Total Current Assets	44,990	260,753	376,189		681,932
Property, Plant & Equipment, Net	1,685	116,125	83,752		201,562
Goodwill		248,625	447,999		696,624
Intangibles, Net	39	108,866	275,587		384,492
Debt Issuance Costs, Net	7,213				7,213
Deferred Income Tax Benefits	24,159	5,778	28,190		58,127
Other Assets	97	1,917	34,481		36,495
Amounts Due (To) From Subsidiaries	10,919	104,099		(115,018)	
Investment in Subsidiaries	1,535,848	222,546	133,003	(1,891,397)	
Total Assets	$ 1,624,950	$ 1,068,709	$ 1,379,201	$ (2,006,415)	$ 2,066,445

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$ 208	$ 25,193	$ 53,255	$	$ 78,656
Accrued liabilities	10,638	61,992	129,086		201,716
Credit facilities	115,000		3,858		118,858
Current maturities of long-term debt	7,186	605	561		8,352
Deferred income tax liabilities			1,759		1,759
Federal and foreign income taxes	7,161	(5,826)	8,123		9,458
Total Current Liabilities	140,193	81,964	196,642		418,799
Long-Term Debt, Net	373,354	8,769	323		382,446
Deferred Income Tax Liabilities	26,693	5,778	80,461		112,932
Pension and Post-Retirement Obligations	19,750	32,011	36,912		88,673
Other Liabilities			30,038		30,038
Amounts Due To (From) Subsidiaries	34,235		252,882	(287,117)	
Minority Interest			2,832		2,832
Shareholders Equity	1,030,725	940,187	779,111	(1,719,298)	1,030,725
Total Liabilities and Shareholders Equity	$ 1,624,950	$ 1,068,709	$ 1,379,201	$ (2,006,415)	$ 2,066,445

Condensed Consolidating Statement of Operations for the three month period ended January 30, 2009.

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$ 187,180	$ 122,814	$ (277)	$ 309,717
Cost of Sales		125,145	82,697	(277)	207,565
		62,035	40,117		102,152
Expenses					
Selling, general and administrative		32,380	27,345		59,725
Research, development and engineering		7,667	9,731		17,398
Total Expenses		40,047	37,076		77,123
Other					
Other expense (income)	1,250	10,687	(6,923)		5,014
Total Other	1,250	10,687	(6,923)		5,014
Operating Earnings From Continuing Operations	(1,250)	11,301	9,964		20,015
Interest income	(5,224)	(1,107)	(7,372)	13,292	(411)
Interest expense	6,324	5,123	8,581	(13,292)	6,736
Other (Income) Expense, Net	1,100	4,016	1,209		6,325
Income (Loss) From Continuing Operations Before Taxes	(2,350)	7,285	8,755		13,690
Income Tax Expense (Benefit)	(443)	(667)	3,278		2,168
Income (Loss) From Continuing Operations Before Minority Interest	(1,907)	7,952	5,477		11,522
Minority Interest			(35)		(35)
Income (Loss) From Continuing Operations	(1,907)	7,952	5,442		11,487
Income From Discontinued Operations, Net of Tax		15,456			15,456

Equity in Net Income of Consolidated Subsidiaries		28,850		1,279		6,346		(36,475)		
Net Income (Loss)	$	26,943	$	24,687	$	11,788	$	(36,475)	$	26,943

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Condensed Consolidating Statement of Cash Flows for the three month period ended January 30, 2009.

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows Provided (Used) by Operating Activities					
Net earnings (loss)	$ 26,943	$ 24,687	$ 11,788	$ (36,475)	$ 26,943
Minority interest			35		35
Depreciation & amortization		7,267	7,224		14,491
Deferred income taxes	(612)	(285)	(224)		(1,121)
Share-based compensation		1,130	842		1,972
Gain on sale of discontinued operation		(26,379)			(26,379)
Working capital changes, net of effect of acquisitions					
Accounts receivable	(123)	12,295	19,474		31,646
Inventories		(3,217)	(10,002)		(13,219)
Prepaid expenses		(425)	(2,035)		(2,460)
Other current assets			446		446
Accounts payable	(302)	(5,604)	(8,904)		(14,810)
Accrued liabilities	(4,158)	(7,482)	(7,709)		(19,349)
Federal & foreign income taxes	41	7,108	622		7,771
Pension and post-retirement obligations	3,086	(108)	1,734		4,712
Other, net	2,915	186	(9,611)		(6,510)
	27,790	9,173	3,680	(36,475)	4,168
Cash Flows Provided (Used) by Investing Activities					
Purchases of capital assets		(4,498)	(3,023)		(7,521)
Proceeds from sale of discontinued operation, net of cash		62,944			62,944
Proceeds from sale of capital assets		30	64		94
Acquisitions of businesses, net of cash acquired		(89,519)	(161,258)		(250,777)
		(31,043)	(164,217)		(195,260)

(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	1,575				1,575
Net change in credit facilities	115,000		(1,295)		113,705
Repayment of long-term debt	(4,047)	(254)	2,986		(1,315)
Net change in intercompany financing	(198,381)	2,697	159,209	36,475	
	(85,853)	2,443	160,900	36,475	113,965
Effect of foreign exchange rates on cash		(134)	(2,153)		(2,287)
Net decrease in cash and cash equivalents	(58,063)	(19,561)	(1,790)		(79,414)
Cash and cash equivalents beginning of year	80,884	21,913	57,848		160,645
Cash and cash equivalents end of year	$ 22,821	$ 2,352	$ 56,058	$	$ 81,231

Condensed Consolidating Balance Sheet as of October 31, 2008

In Thousands

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents	$ 80,884	$ 21,913	$ 57,848	$	$ 160,645
Accounts receivable, net	205	127,583	169,718		297,506
Inventories		127,216	134,757		261,973
Income tax refundable		13,664	(8,097)		5,567
Deferred income tax benefits	30,034	(1)	7,669		37,702
Prepaid expenses	26	4,584	8,430		13,040
Other current assets			897		