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

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

Amendment No. 1
FORM 10-Q/A

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

For the quarterly period ended July 29, 2005

OR

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

For the transition period from ____________________ to ____________________

Commission file number 1-6357

ESTERLINE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	13-2595091
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 108th Avenue N.E., Bellevue, Washington 98004
(Address of principal executive offices)(Zip Code)
Registrant s telephone number, including area code 425/453-9400

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Yes þ No o

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

Yes o No þ

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

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Explanatory Note

Esterline is filing this Amendment No. 1 to Form 10-Q/A to reflect the restatement of its financial statements for the three and nine month periods ended July 29, 2005. Please see Note 5 to the Consolidated Financial Statements for specific information related to the restatement.

Esterline has historically accounted for stock option grants as fixed awards in accordance with Accounting Principles Board No. 25 (APB No. 25) and disclosed in the footnotes to the financial statements the expense based upon the fair value of stock options under Statement of Financial Accounting Standards No. 123 (Statement No. 123). During our 2005 year-end closing process, we determined that certain stock option grants required variable rather than fixed accounting treatment under APB No. 25, because grantees were permitted to exercise options by surrendering shares subject to the grant to pay for the exercise price and statutory withholding. As a result, we determined on December 8, 2005, the need to restate our financial statements in the annual report on Form 10-K for the fiscal year ended October 29, 2004 and in the quarterly reports on Form 10-Q for the periods ended January 28, 2005, April 29, 2005, and July 29, 2005. All information contained in this Amendment is as of the original filing date of the Form 10-Q for the three and nine month periods ended July 29, 2005 and does not reflect any subsequent information or events other than the restatement of financial information referred to above. Forward looking statements have not been updated for events or operations subsequent to September 2, 2005.

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

All information contained in this Amendment is as of the original filing date of the Form 10-Q for the three and nine month periods ended July 29, 2005 and does not reflect any subsequent information or events other than as described above. We are not required to update and have not updated the forward-looking statements previously included in the Form 10-Q filed on September 2, 2005 for events or operations subsequent to September 2, 2005.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 29, 2005 (Restated) (Unaudited)	October 29, 2004 (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 80,339	$ 29,479
Cash in escrow	11,744	8,511
Short-term investments	75,205	
Accounts receivable, net of allowances of $4,052 and $3,687	134,861	132,206
Inventories		
Raw materials and purchased parts	69,044	58,736
Work in process	49,605	43,326
Finished goods	17,502	16,992
	136,151	119,054
Deferred income tax benefits	25,952	23,499
Prepaid expenses	6,981	9,441
Other current assets	288	435
Total Current Assets	471,521	322,625
Property, Plant and Equipment	276,825	275,437
Accumulated depreciation	140,466	130,302
	136,359	145,135
Other Non-Current Assets		
Goodwill	260,396	247,817
Intangibles, net	169,252	169,876
Debt issuance costs, net of accumulated amortization of $1,433 and $928	5,312	5,818
Deferred income tax benefits	11,897	11,216
Other assets	25,284	32,861
	$ 1,080,021	$ 935,348

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

	July 29, 2005 (Restated) (Unaudited)	October 29, 2004 (Restated)
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 42,007	$ 37,867
Accrued liabilities	101,148	97,038
Credit facilities	2,301	6,977
Current maturities of long-term debt	30,913	1,031
Federal and foreign income taxes	4,269	6,678
Total Current Liabilities	180,638	149,591
Long-Term Liabilities		
Long-term debt, net of current maturities	217,207	249,056
Deferred income taxes	45,936	43,443
Other liabilities	27,764	29,852
Commitments and Contingencies		
Minority Interest	2,548	2,378
Shareholders Equity		
Common stock, par value $.20 per share, authorized 60,000,000 shares, issued and outstanding 25,310,524 and 21,319,698 shares	5,062	4,264
Additional paid-in capital	261,563	144,879
Retained earnings	329,980	287,344
Accumulated other comprehensive income	9,323	24,541
Total Shareholders Equity	605,928	461,028
	$ 1,080,021	$ 935,348

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

	Three Months Ended		Nine Months Ended	
	July 29, 2005 (Restated)	July 30, 2004 (Restated)	July 29, 2005 (Restated)	July 30, 2004 (Restated)
Net Sales	$ 209,873	$ 147,424	$ 611,257	$ 423,264
Cost of Sales	144,180	101,562	418,926	290,226
	65,693	45,862	192,331	133,038
Expenses				
Selling, general & administrative	36,927	28,458	103,372	85,805
Research, development & engineering	11,003	5,915	30,116	17,353
Total Expenses	47,930	34,373	133,488	103,158
Operating Earnings From Continuing Operations	17,763	11,489	58,843	29,880
Other (income) expense	272	1	338	(574)
Interest income	(1,187)	(450)	(2,747)	(1,047)
Interest expense	4,654	4,410	13,433	12,865
Other Expense, Net	3,739	3,961	11,024	11,244
Income From Continuing Operations Before Income Taxes	14,024	7,528	47,819	18,636
Income Tax Expense	2,043	2,192	11,981	3,642
Income From Continuing Operations Before Minority Interest	11,981	5,336	35,838	14,994
Minority Interest	(122)		(170)	
Income From Continuing Operations	11,859	5,336	35,668	14,994
Income From Discontinued Operations, Net of Tax	3	576	6,968	1,710
Net Earnings	$ 11,862	$ 5,912	$ 42,636	$ 16,704

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

	Three Months Ended		Nine Months Ended	
	July 29, 2005 (Restated)	July 30, 2004 (Restated)	July 29, 2005 (Restated)	July 30, 2004 (Restated)
Earnings Per Share Basic:				
Continuing operations	$ .47	$ .25	$ 1.44	$ .71
Discontinued operations		.03	.28	.08
Earnings per share basic	$ .47	$ .28	$ 1.72	$ .79
Earnings Per Share Diluted:				
Continuing operations	$ .46	$ .25	$ 1.42	$ .70
Discontinued operations		.02	.27	.08
Earnings per share diluted	$ .46	$ .27	$ 1.69	$ .78

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

	Nine Months Ended	
	July 29, 2005 (Restated)	July 30, 2004 (Restated)
Cash Flows Provided (Used) by Operating Activities		
Net earnings	$ 42,636	$ 16,704
Minority interest	170	
Depreciation and amortization	26,808	24,241
Deferred income taxes	39	(122)
Stock-based compensation	4,073	3,984
Gain on sale of discontinued operations	(9,456)	
Loss on sale of building	59	
Gain on sale of land		(577)
Working capital changes, net of effect of acquisitions		
Accounts receivable	(2,728)	6,051
Inventories	(17,628)	(8,411)
Prepaid expenses	2,291	(608)
Other current assets	147	
Accounts payable	4,985	682
Accrued liabilities	1,870	(6,615)
Federal and foreign income taxes	(1,987)	3,539
Other liabilities	(928)	
Other, net	(2,492)	273
	47,859	39,141
Cash Flows Provided (Used) by Investing Activities		
Purchases of capital assets	(14,921)	(17,603)
Proceeds from sale of discontinued operations	21,421	
Proceeds from sale of building	2,319	
Proceeds from sale of land		1,179
Escrow deposit	(4,207)	
Proceeds from sale of capital assets	1,065	409
Proceeds from sale of short-term investments		12,797
Purchase of short-term investments	(75,205)	
Acquisitions of businesses, net of cash acquired	(33,088)	(6,882)
	(102,616)	(10,100)

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

	Nine Months Ended	
	July 29, 2005 (Restated)	July 30, 2004 (Restated)
Cash Flows Provided (Used) by Financing Activities		
Proceeds provided by stock issuance under employee stock plans	4,919	2,697
Proceeds provided by sale of common stock	108,490	
Net change in credit facilities	(4,557)	329
Repayment of long-term debt, net	(1,807)	(29,991)
Debt and other issuance costs		(268)
	107,045	(27,233)
Effect of Foreign Exchange Rates on Cash	(1,428)	(2,324)
Net Increase (Decrease) in Cash and Cash Equivalents	50,860	(516)
Cash and Cash Equivalents Beginning of Period	29,479	131,363
Cash and Cash Equivalents End of Period	$ 80,339	$ 130,847
Supplemental Cash Flow Information		
Cash Paid for Interest	$ 16,593	$ 17,217
Cash Paid for Taxes	$ 11,946	$ 39

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

1. The consolidated balance sheet as of July 29, 2005, the consolidated statement of operations for the three and nine month periods ended July 29, 2005 and July 30, 2004, and the consolidated statement of cash flows for the nine month periods ended July 29, 2005 and July 30, 2004 are unaudited, but in the opinion of management, all of the necessary adjustments, consisting of normal recurring accruals, have been made to present fairly the financial statements referred to above in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the above statements do not include all of the footnotes required for complete financial statements. The results of operations and cash flows for the interim periods presented are not necessarily indicative of results that can be expected for the full year.

2. The notes to the consolidated financial statements in the Company s Annual Report on Form 10-K/A for the fiscal year ended October 29, 2004 provide a summary of significant accounting policies and additional financial information that should be read in conjunction with this Form 10-Q/A.

3. The timing of the Company s revenues is impacted by the purchasing patterns of customers and, as a result, revenues are not generated evenly throughout the year. Moreover, the Company s first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America.

4. Basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of stock options. The weighted average number of shares outstanding used to compute basic earnings per share was 25,236,676 and 21,202,000 for the three month periods ended July 29, 2005 and July 30, 2004, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 25,618,519 and 21,535,000 for the three month periods ended July 29, 2005 and July 30, 2004, respectively. The weighted average number of shares outstanding used to compute basic earnings per share was 24,796,955 and 21,156,000 for the nine month periods ended July 29, 2005, and July 30, 2004, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 25,174,537 and 21,489,000 for the nine month periods ended July 29, 2005 and July 30, 2004, respectively.

5. Restatement of Stock Option Accounting

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

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

A summary of the significant effects of the restatement for the three and nine months ended in the period ended July 29, 2005 and July 30, 2004 follows:

(In thousands, except per share amounts)

	Three Months Ended July 29, 2005		Three Months Ended July 30, 2004	
	As Reported	As Restated	As Reported	As Restated
Selling, General & Administrative Expenses	$ 33,534	$ 36,927	$ 25,934	$ 28,458
Income From Continuing Operations	14,167	11,859	7,073	5,336
Net income	14,170	11,862	7,649	5,912
Earnings Per Share Basic				
Continuing operations	$ .56	$ .47	$ .33	$ .25
Earnings per share basic	.56	.47	.36	.28
Earnings Per Share Diluted				
Continuing operations	$ .55	$ .46	$ .33	$ .25
Earnings per share diluted	.55	.46	.36	.27
Deferred Income Tax Benefits	$ 23,307	$ 25,952	$ 15,477	$ 18,070
Shareholders Equity	$603,283	$605,928	$425,274	$427,867

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(In thousands, except per share amounts)

	Nine Months Ended July 29, 2005		Nine Months Ended July 30, 2004	
	As Reported	As Restated	As Reported	As Restated
Selling, General and Administrative Expenses	$ 99,299	$ 103,372	$ 81,821	$ 85,805
Income From Continuing Operations	38,475	35,668	17,729	14,994
Net Income	45,443	42,636	19,439	16,704
Earnings Per Share Basic				
Continuing operations	$ 1.55	$ 1.44	$ .84	$ .71
Earnings per share basic	1.83	1.72	.92	.79
Earnings Per Share Diluted				
Continuing operations	$ 1.53	$ 1.42	$ .82	$ .70
Earnings per share diluted	1.81	1.69	.90	.78
Deferred Income Tax Benefits	$ 23,307	$ 25,952	$ 15,477	$ 18,070
Shareholders Equity	603,283	605,928	425,274	427,867

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

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

(In thousands)	Three Months Ended		Nine Months Ended	
	July 29, 2005 (Restated)	July 30, 2004 (Restated)	July 29, 2005 (Restated)	July 30, 2004 (Restated)
Net Earnings	$ 11,862	$ 5,912	$ 42,636	$ 16,704
Change in Fair Value of Derivative Financial Instruments, Net of Tax	(783)	(83)	652	407
Foreign Currency Translation Adj.	(19,323)	3,445	(15,870)	8,006
Comprehensive Income (Loss)	$ (8,244)	$ 9,274	$ 27,418	$ 25,117

8. On January 28, 2005, the Company completed the sale of the outstanding stock of its wholly owned subsidiary Fluid Regulators Corporation (Fluid Regulators), which was included in the Company s Sensors & Systems segment, for approximately $23.7 million. As a result of the sale, the Company recorded a gain of $7.0 million, net of tax of $2.4 million. Sales and net earnings for Fluid Regulators were $3.2 million and $0.1 million, respectively, during the three month period ended July 30, 2004. Sales and net earnings for Fluid Regulators were $3.5 million and $0.3 million, respectively, during the nine month period ended July 29, 2005 and $9.8 million and $0.9 million, respectively, during the nine month period ended July 30, 2004.

   On July 25, 2002, the Board of Directors adopted a formal plan for the sale of the assets and operations of its former Automation segment. On July 23, 2003, the Company sold the assets of its Excellon Automation subsidiary. On August 31, 2004, the Company sold the stock of W. A. Whitney for $10.0 million in cash. Upon the final disposition of its discontinued Automation operations in the fourth fiscal quarter of 2004, the Company recorded an $8.0 million gain, net of $4.5 million in tax, including the reversal of estimated reserves which were recognizable upon sale of the business. Sales of W. A. Whitney were $5.4 million and $15.6 million for the three month and nine month period ended July 30, 2004, respectively.

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

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

9. The effective tax rate for the first nine months of fiscal 2005 was 29.2% (before a $2.0 million reduction of previously estimated tax liabilities), compared with 29.7% (before a $1.9 million reduction of previously estimated tax liabilities) for the first nine months of fiscal 2004. The effective tax rate differed from the statutory rate, as both years benefited

from various tax credits and benefits. The $2.0 million reduction of previously estimated tax liabilities in the first nine months of fiscal 2005 was due to the expiration of the statute of limitations and adjustments resulting from a reconciliation of U.S. and non-U.S. tax returns to the provision for income taxes. The $1.9 million reduction of previously estimated tax liabilities in the first nine months of fiscal 2004 was the result of receiving a Notice of Proposed Adjustment (NOPA) from the Internal Revenue Service covering the audit of research and development tax credits for fiscal years 1997 through 1999. Due to the NOPA and the expectation of a similar result for fiscal years 2000 through 2003, management revised the Company s estimated liability for income taxes as of January 30, 2004.

10. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. The variable method of accounting is used to account for stock option plans where the option holders are permitted to exercise options by surrendering the option subject to the grant in payment of the exercise price of the option and the related statutory taxes. No compensation cost is recognized at the grant date because the exercise price of all stock option grants is equal to the market price of the Company s common stock as of the date of the grant. However, subsequent changes in the market price of the Company s common stock to the date of exercise or forfeiture results in a change in measure of compensation cost. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (FAS 123 Adjustment), Accounting for Stock-Based Compensation (Statement No. 123):

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	July 29, 2005 (Restated)	July 30, 2004 (Restated)	July 29, 2005 (Restated)	July 30, 2004 (Restated)
Net earnings, as reported	$ 11,862	$ 5,912	$ 42,636	$ 16,704
Stock-based compensation costs, net of income tax included in net earnings as reported	2,250	1,709	2,707	2,679
Stock-based compensation cost, net of income tax under the fair value method of accounting	(736)	(476)	(1,653)	(1,311)
Pro forma net earnings	$ 13,376	$ 7,145	$ 43,690	$ 18,072
Basic earnings per share, as reported	$ .47	$ .28	$ 1.72	$ .79
Add: FAS 123 Adjustment	.06	.06	.04	.06
Pro forma basic earnings per share	$ .53	$ .34	$ 1.76	$ .85
Diluted earnings per share, as reported	$ .46	$ .27	$ 1.69	$ .78
Add: FAS 123 Adjustment	.06	.06	.04	.06
Pro forma diluted earnings per share	$ .52	$ .33	$ 1.73	$ .84

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

(In thousands)	Three Months Ended		Nine Months Ended	
	July 29, 2005	July 30, 2004	July 29, 2005	July 30, 2004
Components of Net Periodic Pension Cost				
Service cost	$ 400	$ 753	$ 2,533	$ 2,567
Interest cost	2,599	1,422	7,307	4,883
Expected return on plan assets	(2,946)	(1,871)	(8,856)	(6,348)
Amortization of prior service cost	5	4	14	12
Amortization of actuarial loss	600	92	934	389
Net Periodic Cost	$ 658	$ 400	$ 1,932	$ 1,503

During the third fiscal quarter of 2005, the Company made a $4.7 million contribution to the U.S. pension plan maintained by Leach.

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	
	July 29, 2005 (Restated)	July 30, 2004 (Restated)	July 29, 2005 (Restated)	July 30, 2004 (Restated)
Net Sales				
Avionics & Controls	$ 66,990	$ 48,705	$ 192,835	$ 147,313
Sensors & Systems	80,953	41,788	239,868	116,212
Advanced Materials	61,930	56,931	178,554	159,739
Total Net Sales	$ 209,873	$ 147,424	$ 611,257	$ 423,264
Segment Earnings				
Avionics & Controls	$ 9,173	$ 6,650	$ 27,776	$ 21,766
Sensors & Systems	8,670	3,018	26,233	3,511
Advanced Materials	6,394	6,547	21,622	17,850
Total Segment Earnings	24,237	16,215	75,631	43,127
Corporate expense	(6,474)	(4,726)	(16,788)	(13,247)
Other income (expense)	(272)	(1)	(338)	574
Interest income	1,187	450	2,747	1,047
Interest expense	(4,654)	(4,410)	(13,433)	(12,865)
	$ 14,024	$ 7,528	$ 47,819	$ 18,636

13. On June 3, 2005, the Company acquired all of the outstanding capital stock of Palomar Products, Inc. (Palomar), a $25 million (estimated annual sales) California-based manufacturer of secure military communications products, for approximately $29 million in cash, including the estimated change in net equity value from December 31, 2004 to closing. A purchase price adjustment is payable to the seller contingent upon achievement of financial results through December 31, 2005, as described in the Stock Purchase Agreement. Palomar s products extend the Company s avionics and controls product lines. Palomar is included in the Avionics & Controls segment and the results of its operations were included from the effective date of the acquisition.

14. On November 24, 2004, the Company completed a public offering of 3.7 million shares of common stock, including shares sold under the underwriters over-allotment option, priced at $31.25 per share, generating net proceeds of approximately $109 million, of which $5.0 million was used to pay off existing credit facilities. The funds provide additional financial resources for acquisitions and general corporate purposes. The Company issued 303,826 and 233,137 shares under its employee stock plans during the nine month periods ended July 29, 2005 and July 30, 2004, respectively.

15. The following schedules set forth condensed consolidating financial information as required by Rule 3-10 of Securities and Exchange Commission Regulation S-X for the periods ended July 29, 2005, and July 30, 2004, for (a) Esterline Technologies Corporation (the Parent); (b) on a combined basis, the subsidiary guarantors (Guarantor Subsidiaries) of the Senior Subordinated Notes which include Advanced Input Devices, Inc., Amtech Automated Manufacturing Technology, Angus Electronics Co., Armtec Countermeasures Co., Armtec Defense Products Co., Auxitrol Co., AVISTA, Incorporated, Boyar-Schultz Corporation, BVR Technologies Co., Equipment Sales Co., EA Technologies Corporation, Esterline Technologies Holdings Limited, H.A. Sales Co., Hauser Inc., Hytek Finishes Co., Janco Corporation, Kirkhill-TA Co., Korry Electronics Co., Leach Holding Corporation, Leach International Corporation, Leach Technology Group, Inc., Mason Electric Co., MC Tech Co., Memtron Technologies Co., Norwich Aero Products, Inc., 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. (England), Auxitrol S.A., Auxitrol Technologies S.A., Auxitrol Asia PTE Ltd., Esterline Input Devices Asia Ltd., Esterline Input Devices Ltd. (China), Esterline Technologies DK Aps (Denmark), Esterline Technologies Ltd. (England), Esterline Technologies Ltd. (Hong Kong), Excellon Europa GmbH, Excellon France S.A.R.L., Guizhou Leach-Tianyi Aviation Electrical Company Ltd. (China), Leach International Asia-Pacific Ltd. (Hong Kong), Leach International Europe S.A. (France), Leach International Germany GmbH (Germany), Leach International Mexico S. de R.L. de C.V. (Mexico), Leach International U.K. (England), LRE Medical GmbH (Germany), Muirhead Aerospace Ltd., Norcroft Dynamics Ltd., Pressure Systems International Ltd., TA Mfg. Limited, Weston Aero Ltd. (England), and Weston Aerospace Ltd. (England). The guarantor subsidiaries are direct and indirect wholly-owned subsidiaries of Esterline Technologies and have fully and unconditionally, jointly and severally, guaranteed the Senior Subordinated Notes.

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Condensed Consolidating Balance Sheet as of July 29, 2005.

(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents	$ 39,299	$ 3,089	$ 37,951	$	$ 80,339
Cash in escrow	11,744				11,744
Short-term investments	75,205				75,205
Accounts receivable, net	503	82,866	51,492		134,861
Inventories		90,497	45,654		136,151
Deferred income tax benefits	24,798	52	1,102		25,952
Prepaid expenses	189	4,355	2,437		6,981
Other current assets		288			288
Total Current Assets	151,738	181,147	138,636		471,521
Property, Plant & Equipment, Net	2,385	95,046	38,928		136,359
Goodwill		191,339	69,057		260,396
Intangibles, Net	141	84,378	84,733		169,252
Debt Issuance Costs, Net	5,312				5,312
Deferred Income Tax Benefits	11,130		767		11,897
Other Assets	3,111	17,616	4,557		25,284
Amounts Due (To) From Subsidiaries	148,791	43,357		(192,148)	
Investment in Subsidiaries	599,916	120	(119)	(599,917)	
Total Assets	$ 922,524	$ 613,003	$ 336,559	$ (792,065)	$ 1,080,021

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(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$ 217	$ 16,700	$ 25,090	$	$ 42,007
Accrued liabilities	30,015	46,471	24,662		101,148
Credit facilities			2,301		2,301
Current maturities of long-term debt	30,000		913		30,913
Federal and foreign income taxes	(73)	133	4,209		4,269
Total Current Liabilities	60,159	63,304	57,175		180,638
Long-Term Debt, Net	215,340		1,867		217,207
Deferred Income Taxes	30,944	(9)	15,001		45,936
Other Liabilities	10,153	11,056	6,555		27,764
Minority Interest			2,548		2,548
Amounts Due To (From) Subsidiaries			189,140	(189,140)	
Shareholders Equity	605,928	538,652	64,273	(602,925)	605,928
Total Liabilities and Shareholders Equity	$ 922,524	$ 613,003	$ 336,559	$ (792,065)	$ 1,080,021

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Condensed Consolidating Statement of Operations for the three month period ended July 29, 2005.

(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$ 144,356	$ 69,612	$ (4,095)	$ 209,873
Cost of Sales		100,845	47,430	(4,095)	144,180
		43,511	22,182		65,693
Expenses					
Selling, general and administrative		25,067	11,860		36,927
Research, development and engineering		4,721	6,282		11,003
Total Expenses		29,788	18,142		47,930
Operating Earnings From Continuing Operations		13,723	4,040		17,763
Other expense		59	213		272
Interest income	(3,994)	(690)	(709)	4,206	(1,187)
Interest expense	4,592	1,042	3,226	(4,206)	4,654
Other Expense, Net	598	411	2,730		3,739
Income (Loss) From Continuing Operations Before Taxes	(598)	13,312	1,310		14,024
Income Tax Expense (Benefit)	(273)	1,990	326		2,043
Income (Loss) From Continuing Operations Before Minority Interest	(325)	11,322	984		11,981
Minority Interest			(122)		(122)
Income (Loss) From Continuing Operations	(325)	11,322	862		11,859
Income From Discontinued Operations, Net of Tax		3			3
Equity in Net Income of Consolidated Subsidiaries	12,187			(12,187)	
Net Income (Loss)	$ 11,862	$ 11,325	$ 862	$ (12,187)	$ 11,862

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$ 410,850	$ 213,458	$ (13,051)	$ 611,257
Cost of Sales		288,009	143,968	(13,051)	418,926
		122,841	69,490		192,331
Expenses					
Selling, general and administrative		67,489	35,883		103,372
Research, development and engineering		12,443	17,673		30,116
Total Expenses		79,932	53,556		133,488
Operating Earnings From Continuing Operations		42,909	15,934		58,843
Other expense	50	75	213		338
Interest income	(11,574)	(2,386)	(1,983)	13,196	(2,747)
Interest expense	13,573	3,607	9,449	(13,196)	13,433
Other Expense, Net	2,049	1,296	7,679		11,024
Income (Loss) From Continuing Operations Before Taxes	(2,049)	41,613	8,255		47,819
Income Tax Expense (Benefit)	(699)	10,268	2,412		11,981
Income (Loss) From Continuing Operations Before Minority Interest	(1,350)	31,345	5,843		35,838
Minority Interest			(170)		(170)
Income (Loss) From Continuing Operations	(1,350)	31,345	5,673		35,668
Income From Discontinued Operations, Net of Tax		6,968			6,968
Equity in Net Income of Consolidated Subsidiaries	43,986			(43,986)	
Net Income (Loss)	$ 42,636	$ 38,313	$ 5,673	$ (43,986)	$ 42,636

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows Provided (Used) by Operating Activities					
Net earnings (loss)	$ 42,636	$ 38,313	$ 5,673	$ (43,986)	$ 42,636
Minority interest			170		170
Depreciation & amortization		16,557	10,251		26,808
Deferred income taxes	3,713	(61)	(3,613)		39
Stock-based compensation		3,300	773		4,073
Gain on sale of discontinued operations		(9,456)			(9,456)
Loss on sale of building		59			59
Working capital changes, net of effect of acquisitions Accounts receivable	1,718	2,804	(7,250)		(2,728)
Inventories		(12,693)	(4,935)		(17,628)
Prepaid expenses	164	(777)	2,904		2,291
Other current assets	147				147
Accounts payable	(303)	(539)	5,827		4,985
Accrued liabilities	1,109	509	252		1,870
Federal & foreign income taxes	(3,069)	58	1,024		(1,987)
Other liabilities	5,870	(1,991)	(4,807)		(928)
Other, net	(321)	(5,541)	3,370		(2,492)
	51,664	30,542	9,639	(43,986)	47,859
Cash Flows Provided (Used) by Investing Activities					
Purchases of capital assets	(325)	(10,119)	(4,477)		(14,921)
Proceeds from sale of discontinued operations		21,421			21,421
Proceeds from sale of building		2,319			2,319
Escrow deposit	(4,207)				(4,207)
Proceeds from sale of capital assets	61	727	277		1,065
Purchase of short-term investments	(75,205)				(75,205)
Acquisitions of businesses, net		(33,088)			(33,088)
	(79,676)	(18,740)	(4,200)		(102,616)

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(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows Provided (Used) by Financing Activities					
Proceeds provided by stock issuance under employee stock plans	4,919				4,919
Proceeds provided by sale of common stock	108,490				108,490
Net change in credit facilities	(5,000)		443		(4,557)
Repayment of long-term debt	(1,429)	(57)	(321)		(1,807)
Investment in subsidiaries	(46,528)	(11,093)	13,635	43,986	
	60,452	(11,150)	13,757	43,986	107,045
Effect of Foreign Exchange Rates on Cash		84	(1,512)		(1,428)
Net Increase in Cash and Cash Equivalents	32,440	736	17,684		50,860
Cash and Cash Equivalents Beginning of Year	6,859	2,353	20,267		29,479
Cash and Cash Equivalents End of Year	$ 39,299	$ 3,089	$ 37,951	$	$ 80,339

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

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

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(In thousands)
(Restated)

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

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$112,200	$35,499	$ (275)	$147,424
Cost of Sales		79,328	22,509	(275)	101,562
		32,872	12,990		45,862
Expenses					
Selling, general and administrative		19,723	8,735		28,458
Research, development and engineering		2,651	3,264		5,915
Total Expenses		22,374	11,999		34,373
Operating Earnings From Continuing Operations		10,498	991		11,489
Other expense		1			1
Interest income	(1,504)	(628)	(212)	1,894	(450)
Interest expense	4,334	626	1,344	(1,894)	4,410
Other (Income) Expense, Net	2,830	(1)	1,132		3,961
Income (Loss) From Continuing Operations Before Taxes	(2,830)	10,499	(141)		7,528
Income Tax Expense (Benefit)	(836)	2,896	132		2,192
Income (Loss) From Continuing Operations	(1,994)	7,603	(273)		5,336
Income From Discontinued Operations, Net of Tax		576			576
Equity in Net Income of Consolidated Subsidiaries	7,906			(7,906)	
Net Income (Loss)	$ 5,912	$ 8,179	$ (273)	$(7,906)	$ 5,912

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$	$325,909	$98,091	$ (736)	$423,264
Cost of Sales		228,966	61,996	(736)	290,226
		96,943	36,095		133,038
Expenses					
Selling, general and administrative		57,785	28,020		85,805
Research, development and engineering		7,077	10,276		17,353
Total Expenses		64,862	38,296		103,158
Operating Earnings (Loss) From Continuing Operations		32,081	(2,201)		29,880
Other (income) expense		(577)	3		(574)
Interest income	(4,476)	(1,886)	(352)	5,667	(1,047)
Interest expense	12,629	1,876	4,027	(5,667)	12,865
Other (Income) Expense, Net	8,153	(587)	3,678		11,244
Income (Loss) From Continuing Operations Before Taxes	(8,153)	32,668	(5,879)		18,636
Income Tax Expense (Benefit)	(2,406)	7,493	(1,445)		3,642
Income (Loss) From Continuing Operations	(5,747)	25,175	(4,434)		14,994
Income From Discontinued Operations, Net of Tax		1,710			1,710
Equity in Net Income of Consolidated Subsidiaries	22,451			(22,451)	
Net Income (Loss)	$16,704	$ 26,885	$ (4,434)	$(22,451)	$ 16,704

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows Provided (Used) by Operating Activities					
Net earnings (loss)	$ 16,704	$ 26,885	$ (4,434)	$ (22,451)	$ 16,704
Depreciation & amortization		18,399	5,842		24,241
Deferred income taxes	(193)	(1)	72		(122)
Stock-based compensation		3,004	980		3,984
Gain on sale of land		(577)			(577)
Working capital changes, net of effect of acquisitions Accounts receivable	(91)	4,497	1,645		6,051
Inventories		(6,503)	(1,908)		(8,411)
Prepaid expenses	73	139	(820)		(608)
Accounts payable	(121)	98	705		682
Accrued liabilities	(4,464)	(3,898)	1,747		(6,615)
Federal & foreign income taxes	4,124	(102)	(483)		3,539
Other, net	(234)	(1,411)	1,918		273
	15,798	40,530	5,264	(22,451)	39,141
Cash Flows Provided (Used) by Investing Activities					
Purchases of capital assets	(399)	(15,416)	(1,788)		(17,603)
Proceeds from sale of land		1,179			1,179
Proceeds from sale of capital assets	23	273	113		409
Proceeds from sale of short-term investments	12,797				12,797
Acquisitions of businesses, net		(6,633)	(249)		(6,882)
	12,421	(20,597)	(1,924)		(10,100)
Cash Flows Provided (Used) by Financing Activities					
Proceeds provided by stock issuance under employee stock plans	2,697				2,697
Debt issuance costs	(268)				(268)
Net change in credit facilities			329		329
Repayment of long-term debt	(29,615)	(57)	(319)		(29,991)
Investment in subsidiaries	(5,530)	(22,297)	5,376	22,451	
	(32,716)	(22,354)	5,386	22,451	(27,233)

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(In thousands)
(Restated)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Effect of Foreign Exchange Rates on Cash	(742)	12	(1,594)		(2,324)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,239)	(2,409)	7,132		(516)
Cash and Cash Equivalents Beginning of Year	109,834	3,030	18,499		131,363
Cash and Cash Equivalents End of Year	$104,595	$ 621	$25,631	$	$130,847

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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. We serve primarily aerospace and defense customers with manufactured products such as high-end technology interface systems for commercial and military aircraft, and similar devices for land- and sea-based military vehicles; secure communication systems, specialized medical equipment and industrial applications; sensors and components for propulsion and guidance systems; and high-performance elastomers and other complex materials. We are concentrating our efforts to selectively expand our capabilities in markets for these products.

Our current business and strategic plan focuses on the continued development of our products in three key technology segments: avionics and controls, sensors and systems and specialized high-performance elastomers and other complex materials, principally for the aerospace and defense markets. We are concentrating our efforts to expand our capabilities in these markets and to anticipate the global needs of our customers and respond to such needs with comprehensive solutions. These efforts focus on continuous research and new product development, acquisitions and establishing strategic realignments of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering.

On June 3, 2005, the Company acquired all of the outstanding capital stock of Palomar Products, Inc. (Palomar), a $25 million (estimated annual sales) California-based manufacturer of secure military communications products, for approximately $29 million in cash, including the estimated change in net equity value from December 31, 2004 to closing. A purchase price adjustment is payable to the seller contingent upon achievement of financial results through December 31, 2005, as described in the Stock Purchase Agreement. Palomar s products extend the Company s avionics and controls product lines.

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

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

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

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

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Results of Continuing Operations

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

Sales for the third fiscal quarter increased 42.4% when compared with the prior-year period. Sales by segment were as follows:

(In thousands)	Incr./(Decr.) from prior year period	Three Months Ended July 29, 2005	Three Months Ended July 30, 2004
Avionics & Controls	37.5%	$ 66,990	$ 48,705
Sensors & Systems	93.7%	80,953	41,788
Advanced Materials	8.8%	61,930	56,931
Total Net Sales		$ 209,873	$ 147,424

The 37.5% increase in Avionics & Controls reflected incremental sales from the Leach Holding Corporation (Leach) medical unit acquisition in the fourth fiscal quarter of 2004 and increased sales volumes of aftermarket spares, cockpit control and display products, and software services. The increase in control products sales reflected comparatively lower sales in the prior-year period as a result of a relocation and subsequent consolidation of two facilities into one new facility. These sales increases were partially offset by a decrease in sales of technology interface systems for land-based vehicles.

The 93.7% increase in sales of Sensors & Systems principally reflected $33.1 million in incremental sales from the Leach acquisition supplemented by enhanced sales of temperature and pressure sensors, and motion control distribution sales to the British Ministry of Defence (British MoD) as well as increased sales volumes of aftermarket products.

The 8.8% increase in Advanced Materials reflected higher sales of chaff countermeasure devices and elastomer sales to defense and aerospace customers. These increases were partially offset by lower sales of combustible ordnance due to reduced U.S. Army requirements.

Overall, for the third quarter of fiscal 2005, gross margin as a percentage of sales was 31.3% compared with 31.1% for the third quarter of fiscal 2004. Avionics & Controls segment gross margin was 34.3% and 33.9% for the third fiscal quarter of 2005 and 2004, respectively. Avionics & Controls gross margin increased from the prior-year period due to a higher mix of aftermarket spares and cockpit control and display products sales. Additionally, gross margin in the prior-year period reflected plant relocations and consolidation of facilities. Mason Electric Co. and Janco Corporation moved from their respective facilities to one new facility. This move required more time to execute than originally anticipated, resulting in higher than expected moving expenses, operating inefficiencies and delayed shipments. The segment gross margin was partially offset by increased volumes of lower margin medical equipment sales. Sensors & Systems segment gross margin was 33.9% and 37.2% for the third fiscal quarter of 2005 and 2004, respectively. Sensors & Systems gross margin declined from the prior-year period as a result of a higher sales mix of electrical power switching, control and data communication devices sold by Leach. Leach products have a lower gross margin than other units included in the Sensors & Systems segment. Additionally, the decrease in gross margin in Sensors & Systems reflected lower sales volumes of higher margin motion control products in the third fiscal quarter of 2005 compared to the prior-year period. Advanced Materials segment gross margin was 24.6% and 24.3% for the third fiscal quarter of 2005 and 2004, respectively. Lower sales volumes of combustible ordnance and incremental start-up costs on certain flare countermeasure devices were offset by improved gross margins at our elastomer material and metal finishing operations. Comparing the third fiscal quarter of 2005 and the prior-year period, our elastomer material gross margins were favorably impacted by lower integration and workers compensation expenses and higher sales volumes to aerospace customers, resulting in an increased recovery of fixed expenses. In the prior-year period, our elastomer material operations were negatively impacted by certain operational inefficiencies from integrating acquired businesses, which resulted in higher labor costs. Improved gross margins at our metal finishing operations reflected an improved recovery of fixed expenses due to higher sales and increased selling prices.

Selling, general and administrative expenses (which include corporate expenses) totaled $36.9 million and $28.5 million for the third fiscal quarter of 2005 and 2004, respectively, or 17.6% of sales for the third fiscal quarter of 2005 compared with 19.3% for the prior-year period. Selling, general and administrative expenses include stock option expense of $3.4 million and $2.5 million in the third fiscal quarter of 2005 and 2004, respectively, which are non-cash charges resulting from mark-to-market adjustments under the variable method of accounting. The overall increase in the amount of selling, general and administrative expenses primarily reflected incremental selling, general and administrative expenses as a result of the Leach acquisition. The decrease in selling, general and administrative expenses as a percentage of sales principally reflected higher sales volumes without a proportional increase in the expense during the current fiscal quarter. These selling, general and administrative expenses are typically fixed.

Research, development and engineering expenses were $11.0 million, or 5.2% of sales, for the third fiscal quarter of 2005 compared with $5.9 million, or 4.0% of sales, for the third fiscal quarter of 2004. The increase in research, development and engineering spending principally reflected a $700,000 increase in our Avionics & Controls segment and a $4.3 million increase in our Sensors & Systems segment, reflecting the requirement to fund development for new programs for our OEM customers and the acquisition of Leach in the fourth quarter of fiscal 2004.

Segment earnings (operating earnings excluding corporate expenses) for the third fiscal quarter of 2005 totaled $24.2 million, compared with $16.2 million for the third fiscal quarter in 2004. Avionics & Controls segment earnings were $9.2 million for the third fiscal quarter of 2005 compared with $6.7 million for the third fiscal quarter of 2004, principally reflecting the strong sales and results from our cockpit control and display operations. These results were partially offset by weaker earnings from our medical equipment operations. Additionally, prior-year period Avionics & Controls earnings were adversely impacted by relocating and consolidating facilities. Stock option expense was $1.0 million and $0.6 million in the third fiscal quarter of 2005 and 2004, respectively.

Sensors & Systems segment earnings were $8.7 million for the third quarter of fiscal 2005 compared with $3.0 million for the third quarter of fiscal 2004. The increase in Sensors & Systems earnings from the prior-year period reflected incremental earnings from the Leach acquisition and stronger earnings from our temperature and pressure sensors operations driven by increased aftermarket spares sales. Stock option expense was $0.5 million and $0.4 million in the third fiscal quarter of 2005 and 2004, respectively.

Advanced Materials segment earnings were $6.4 million for the third fiscal quarter of 2005 compared with $6.5 million for the third fiscal quarter of 2004. Advanced Materials earnings were enhanced by increased earnings at our elastomer material and metal finishing units, reflecting strong demand from aerospace customers and lower operating expenses. Earnings at our combustible ordnance and countermeasure operations were impacted by production inefficiencies on new countermeasure flare products and higher operating expenses. Stock option expense was $1.6 million and $0.8 million in the third fiscal quarter of 2005 and 2004, respectively.

Interest expense for the third quarter of 2005 was $4.7 million compared with $4.4 million for the third fiscal quarter of 2004.

The effective income tax rate for the third fiscal quarter of 2005 was 28.8% (before a $2.0 million reduction of previously estimated tax liabilities), compared with 29.1% for the third fiscal quarter of 2004. The effective tax rate differed from the statutory rate, as both years benefited from various tax credits. The $2.0 million reduction of estimated tax liabilities in the third fiscal quarter of 2005 was due to the expiration of the statute of limitations and adjustments resulting from a reconciliation of U.S. and non-U.S. tax returns to the provision for income taxes.

New orders for the third fiscal quarter of 2005 were $223.0 million compared with $148.0 million for the same period in 2004. The increase in orders reflected the Leach and Palomar acquisitions, the timing of receiving countermeasure orders and increased cockpit control and display, and elastomer material orders.

Nine Month Period Ended July 29, 2005 Compared to Nine Month Period Ended July 30, 2004

Year-to-date sales increased 44.4% when compared with the prior-year period. Sales by segment were as follows:

(In thousands)	Incr./(Decr.) from prior year period	Nine Months Ended July 29, 2005	Nine Months Ended July 30, 2004
Avionics & Controls	30.9%	$ 192,835	$ 147,313
Sensors & Systems	106.4%	239,868	116,212
Advanced Materials	11.8%	178,554	159,739
Total Net Sales		$ 611,257	$ 423,264

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The 30.9% increase in sales of Avionics & Controls reflected incremental sales from the Leach medical unit acquisition, increased sales volumes of cockpit control and display products and software services. These increases were partially offset by lower sales of technology interface systems for land-based military vehicles.

The 106.4% increase in sales of Sensors & Systems principally reflected $95.3 million in incremental sales from the Leach acquisition, enhanced sales of temperature and pressure sensors and motion control distribution sales to the British MoD as well as increased sales volumes of aftermarket products. The increase also reflected a stronger euro relative to the U.S. dollar, as the average exchange rate from the euro to the U.S. dollar increased from 1.22 in the first nine months of fiscal 2004 to 1.29 in the first nine months of fiscal 2005.

The 11.8% increase in Advanced Materials reflected higher sales of elastomer material and countermeasure devices and increased sales at our metal finishing unit. These increases in sales were partially offset by lower sales of our combustible ordnance due to reduced requirements from the U.S. Army and a delay of flare shipments as a result of a competitor s request for a re-analysis of the award which was subsequently denied by the U.S. government.

Overall, gross margin as a percentage of sales was 31.5% for the first nine months of fiscal 2005 compared with 31.4% for the first nine months of fiscal 2004. Avionics & Controls segment gross margin was 33.2% and 33.6% for the first nine months of fiscal 2005 and 2004, respectively. Avionics & Controls gross margin decreased from the prior-year period due to a higher mix of medical equipment sales. Sensors & Systems segment gross margin was 34.7% and 37.5% for the first nine months of fiscal 2005 and 2004, respectively. Sensors & Systems gross margin decreased from the prior-year period, reflecting a sales mix of lower margin sales from the Leach acquisition and motion control products, partially offset by greater aftermarket spares sales. Advanced Materials segment gross margin was 25.3% and 25.0% for the first nine months of fiscal 2005 and 2004, respectively. Advanced Materials gross margin increased when compared with the prior-year period, reflecting higher sales volume of elastomer material to aerospace customers, lower acquisition integration expenses, production efficiencies and lower workers compensation expense. The increase in Advanced Materials gross margin was partially offset by lower gross margin at our combustible ordnance operations due to lower sales volumes. Additionally, gross margin at our countermeasure operations declined due to incremental start-up costs on certain flare countermeasure devices and a delay in shipments resulting from a protest by a competitor.

Selling, general and administrative expenses (which include corporate expenses) totaled $103.4 million and $85.8 million for the first nine months of fiscal 2005 and 2004, respectively, or 16.9% of sales for the first nine months of fiscal 2005 compared with 20.3% for the prior-year period. Selling, general and administrative expenses include stock option expense of $4.1 million and $4.0 million in the first nine months of fiscal 2005 and 2004, respectively, which are non-cash charges resulting from mark-to-market adjustments under the variable method of accounting. The overall increase in the amount of selling, general and administrative

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expenses primarily reflected incremental selling, general and administrative expenses as a result of the Leach acquisition. The decrease in selling, general and administrative expense as a percentage of sales principally reflected $4.5 million in severance expense in our Sensors & Systems segment incurred in the prior-year period and higher sales volumes without a proportional increase in the expense during the nine months ended July 29, 2005. These selling, general and administrative expenses are typically fixed.

Research, development and engineering expenses were $30.1 million, or 4.9% of sales, for the first nine months of fiscal 2005 compared with $17.4 million, or 4.1% of sales, for the first nine months of fiscal 2004. The increase in research, development and engineering spending principally reflected a $2.0 million increase in our Avionics & Controls segment and a $10.7 million increase in our Sensors & Systems segment, reflecting the requirement to fund development for new programs for our OEM customers and the acquisition of Leach in the fourth quarter of fiscal 2004.

Segment earnings (operating earnings excluding corporate expenses) for the first nine months of fiscal 2005 totaled $75.6 million compared with $43.1 million for the prior-year period. Avionics & Controls earnings were $27.8 million for the first nine months of fiscal 2005 compared with $21.8 million in the prior-year period and principally reflected increased earnings from higher sales to the aftermarket, OEM customers and incremental earnings from the AVISTA acquisition. These results were partially offset by weaker earnings from our medical equipment operations. Additionally, prior-year period Avionics & Controls earnings were adversely impacted by the relocation and consolidation of facilities. Stock option expense was $1.2 million and $0.9 million in the first nine months of fiscal 2005 and 2004, respectively.

Sensors & Systems segment earnings were $26.2 million for the first nine months of fiscal 2005 compared with $3.5 million in the prior-year period. The increase in Sensors & Systems earnings from the prior-year period reflected incremental earnings from the Leach acquisition, higher sales volumes and lower operating expenses. The decrease in operating expenses compared with the prior-year period reflected $4.5 million in severance and legal costs incurred in the first fiscal quarter of 2004. Sensors & Systems earnings also reflected the impact of a weaker U.S. dollar relative to the euro on U.S. dollar-denominated sales and euro-based operating expenses. Stock option expense was $0.6 million and $0.8 million in the first nine months of fiscal 2005 and 2004, respectively.

Advanced Materials earnings were $21.6 million for the first nine months of fiscal 2005 compared with $17.9 million for the prior-year period. Advanced Materials earnings reflected higher sales and earnings from our elastomer and metal finishing operations. Advanced Materials earnings were negatively impacted by lower sales and earnings at our combustible ordnance operations, and higher operating expenses at our flare countermeasure operations. Stock option expense was $1.9 million and $1.4 million in the first nine months of fiscal 2005 and 2004, respectively.

Interest expense for the first nine months of fiscal 2005 was $13.4 million compared with $12.9 million for the prior-year period.

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The effective income tax rate for the first nine months of fiscal 2005 was 29.2% (before a $2.0 million reduction of previously estimated tax liabilities) compared with 29.7% (before a $1.9 million reduction of previously estimated tax liabilities) for the prior-year period. The effective tax rate differed from the statutory rate, as both years benefited from various tax credits. The $2.0 million reduction of previously estimated tax liabilities in the first nine months of fiscal 2005 was due to the expiration of the statute of limitations and adjustments resulting from a reconciliation of U.S. and non-U.S. tax returns to the provision for income taxes. The $1.9 million reduction of previously estimated tax liabilities in the first nine months of fiscal 2004 was a result of receiving a Notice of Proposed Adjustment (NOPA) from the Internal Revenue Service covering the audit of research and development tax credits for fiscal years 1997 through 1999. Due to the NOPA and the expectation of a similar result for fiscal years 2000 through 2003, we revised our estimated liability for income taxes as of January 30, 2004.

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

New orders for the first nine months of fiscal 2005 were $690.2 million compared with $452.9 million for the same period in fiscal 2004. Backlog at July 29, 2005 was $502.7 million compared with $324.2 million at July 30, 2004. The increase in backlog principally reflected the Leach and Palomar acquisitions and the timing of receiving countermeasure orders. Approximately $301.3 million in backlog is scheduled for delivery after fiscal 2005. Most orders in backlog are subject to cancellation until delivery.

Liquidity and Capital Resources

Cash and cash equivalents and short-term investments at July 29, 2005 totaled $155.5 million, an increase of $126.1 million from October 29, 2004. Net working capital increased to $290.9 million at July 29, 2005 from $173.0 million at October 29, 2004. Sources of cash flows from operating activities principally consist of cash received from the sale of products offset by cash payments for material, labor and operating expenses. Cash flows from operating activities were $47.9 million and $39.1 million in the first nine months of fiscal 2005 and 2004, respectively. The increase principally reflected higher net earnings, partially offset by increased inventory purchases and a $4.7 million contribution to the U.S. pension plan maintained by Leach. The net increase in cash flows used by investing activities principally reflected increased purchases of short-term investments, the net proceeds from the sale of Fluid Regulators of $21.4 million, a $3.3 million purchase price adjustment payable to the seller of AVISTA, a $5.0 million acquisition payment for Leach paid from cash in escrow and a $24.7 million payment for the acquisition of Palomar in the third fiscal quarter of 2005. The increased purchases of short-term investments during the first nine months of fiscal 2005 include the reclassification of approximately $34.0 million of short-term investments from cash and cash equivalents at April 29, 2005. Cash flows used by investing activities in the prior-year period included the $6.5 million acquisition of AVISTA. The increase in cash provided by financing activities principally reflected the net proceeds of $108.5 million from our public offering of 3.7 million shares of common stock completed on November 24, 2004, partially offset by the repayment of $30 million of the 1999 Senior Notes in accordance with their terms in the prior-year period.

Capital expenditures, consisting of machinery, equipment and computers, are anticipated to be approximately $22.0 million during fiscal 2005, compared with $22.1 million expended in fiscal 2004. Capital expenditures for the first nine months of 2005 totaled $14.9 million, primarily for machinery and equipment and enhancements to information systems.

Total debt at July 29, 2005 was $250.4 million and consisted of $175.0 million of Senior Subordinated Notes, $70.0 million of 1999 Senior Notes and $5.4 million of various foreign currency debt agreements, including capital lease obligations. The Senior Subordinated Notes mature June 15, 2013, bear interest at 7.75% and contain covenants, including restrictions on incurrence of additional debt in certain circumstances, repurchase of our common stock, declaration of dividends, retirement or redemption of subordinated debt, creation of liens and certain asset dispositions. We are in compliance with these covenants and do not view the restrictions as limiting our planned activities. In September 2003 we entered into an interest rate swap agreement on $75.0 million of our Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed rate for a variable interest rate on $75.0 million of the $175.0 million principal amount outstanding. The 1999 Senior Notes have maturities ranging from November 2005 to 2008 and interest rates from 6.4% to 6.77%. We have a U.S. dollar credit facility totaling up to $60,000,000 of borrowing capacity. The facility is secured by substantially all of our assets. The credit agreement for the facility contains customary covenants, including but not limited to, restrictions on liens, making certain investments in third parties, capital expenditures, incurrence of additional indebtedness, repurchase of our common

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stock, declaration of dividends and certain asset dispositions. In addition, the credit agreement requires that we meet certain financial covenants, including a maximum leverage ratio, a fixed charge coverage ratio, a total debt to capitalization ratio and a minimum tangible net worth. As of July 29, 2005, we were in compliance with these covenants under the credit facility. We believe cash on hand and funds generated from operations are adequate to service operating cash requirements and capital expenditures through July 2006. 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/A contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases you can identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, pre negative of such terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risk factors set forth in Forward-Looking Statements and Risk Factors in our Annual Report on Form 10-K/A for the fiscal year ended October 29, 2004, that may cause our or the industry s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included or incorporated by reference into this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

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Item 4. Controls and Procedures

Our principal executive and financial officers evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of July 29, 2005. Based upon that evaluation, they concluded as of July 29, 2005 that our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms.

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 5. Other

On June 2, 2005, our Board of Directors approved, based on the Compensation Committee s recommendation, increasing the amount of the annual equity retainer paid to non-employee directors from $10,000 to $45,000, payable in fully paid shares of Esterline common stock issued pursuant to the terms of the Esterline Amended and Restated Non-Employee Directors Stock Compensation Plan, and eliminating the payment by Esterline of federal income taxes imposed on the non-employee directors with respect to annual equity retainer.

Item 6. Exhibits

10.16k	Esterline Technologies Corporation Long Term Incentive Plan.
11	Schedule setting forth computation of basic and diluted earnings per common share for the three and nine month periods ended July 29, 2005 and July 30, 2004.
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certification (of Robert W. Cremin) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification (of Robert D. George) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Previously filed.

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SIGNATURES

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

ESTERLINE TECHNOLOGIES CORPORATION
(Registrant)

Dated: January 6, 2006

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

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