

MOOG INC  
Form 10-K  
November 20, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 29, 2012

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 1-5129

Inc.

(Exact Name of Registrant as Specified in its Charter)

New York

16-0757636

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

East Aurora, New York

14052-0018

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (716) 652-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Class A Common Stock, \$1.00 Par Value

New York Stock Exchange

Class B Common Stock, \$1.00 Par Value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.



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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

The aggregate market value of the common stock outstanding and held by non-affiliates (as defined in Rule 405 under the Securities Act of 1933) of the registrant, based upon the closing sale price of the common stock on the New York Stock Exchange on March 31, 2012, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$1,717 million.

The number of shares of common stock outstanding as of the close of business on November 16, 2012 was: Class A 41,359,594; Class B 3,991,786.

Portions of the 2012 Proxy Statement to Shareholders (“2012 Proxy”) are incorporated by reference into Part III of this Form 10-K.

Inc.  
FORM 10-K INDEX

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#### Disclosure Regarding Forward-Looking Statements

Information included or incorporated by reference in this report that does not consist of historical facts, including statements accompanied by or containing words such as “may,” “will,” “should,” “believes,” “expects,” “expected,” “intends,” “projects,” “approximate,” “estimates,” “predicts,” “potential,” “outlook,” “forecast,” “anticipates,” “presume” and “assume,” forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. Certain of these factors, risks and uncertainties are discussed in the sections of this report entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” New factors, risks and uncertainties may emerge from time to time that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements made in this report.

## PART I

The Registrant, Moog Inc., a New York corporation formed in 1951, is referred to in this report as “Moog” or in the nominative “we” or the possessive “our.”

Unless otherwise noted or the context otherwise requires, all references to years in this report are to fiscal years.

### Item 1. Business.

**Description of the Business.** Moog is a worldwide designer, manufacturer and integrator of high performance precision motion and fluid controls and systems for a broad range of applications in aerospace and defense and industrial markets. We have five operating segments: Aircraft Controls, Space and Defense Controls, Industrial Systems, Components and Medical Devices.

Additional information describing the business and comparative segment revenues, operating profits and related financial information for 2012, 2011 and 2010 are provided in Note 17 of Item 8, Financial Statements and Supplementary Data of this report.

**Distribution.** Our sales and marketing organization consists of individuals possessing highly specialized technical expertise. This expertise is required in order to effectively evaluate a customer’s precision control requirements and to facilitate communication between the customer and our engineering staff. Our sales staff is the primary contact with customers. Manufacturers’ representatives are used to cover certain domestic aerospace markets. Distributors are used selectively to cover certain industrial and medical markets.

**Industry and Competitive Conditions.** We experience considerable competition in our aerospace and defense and industrial markets. We believe that the principal points of competition in our markets are product quality, price, design and engineering capabilities, product development, conformity to customer specifications, timeliness of delivery, effectiveness of the distribution organization and quality of support after the sale. We believe we compete effectively on all of these bases. Competitors in our five operating segments include:

**Aircraft Controls:** Parker Hannifin, UTC (Goodrich, Hamilton Sundstrand), Liebherr, Nabtesco, Woodward Governor and Curtiss-Wright.

**Space and Defense Controls:** Honeywell, Parker Hannifin, Vacco, Valvetech, Marotta, SABCA, ESW, Aerojet, Snecma, Valcor, Aeroflex, UTC (Hamilton Sundstrand), Limitorque, Sargeant Industries, RVision, Directed Perception, ATA Engineering, CDA InterCorp, RUAG, Rockwell Collins, Woodward Governor, Sierra-Nevada, Vicon, Videotec and Lord Corp.

**Industrial Systems:** Bosch Rexroth, Danaher, Baumuller, Siemens, SSB, Parker Hannifin, Suzhou ReEnergy, MTS Systems Corp., Exlar and Hydraudyne.

**Components:** Danaher, Allied Motion, Ametek, Woodward MPC, Axsys, Schleifring, Airflyte, Smiths, Kearfott and Stemmann.

**Medical Devices:** B. Braun, CareFusion, Smiths Medical, Hospira, Alcon, Baxter International, CME, I-Flow, Covidien, Etalon, Introtek and Ross (Abbott).

**Government Contracts.** All U.S. Government contracts are subject to termination by the Government. In 2012, sales under U.S. Government contracts represented 30% of total sales and were primarily within Aircraft Controls, Space and Defense Controls and Components.

**Backlog.** Substantially all backlog will be realized as sales in the next twelve months. See the discussion in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations of this report.

**Raw Materials.** Materials, supplies and components are purchased from numerous suppliers. We believe the loss of any one supplier, although potentially disruptive in the short-term, would not materially affect our operations in the long-term.

**Working Capital.** See the discussion on operating cycle in Note 1 of Item 8, Financial Statements and Supplementary Data of this report.

**Seasonality.** Our business is generally not seasonal; however, certain markets, such as wind energy, do experience seasonal variations in sales levels.



**Patents.** We maintain a patent portfolio of issued or pending patents and patent applications worldwide that generally includes the U.S., Europe, China, Japan and India. The portfolio includes patents that relate to electrohydraulic, electromechanical, electronics, hydraulics, components and methods of operation and manufacture as related to motion control and actuation systems. The portfolio also includes patents related to wind turbines, robotics, surveillance/security, vibration control and medical devices. We do not consider any one or more of these patents or patent applications to be material in relation to our business as a whole. The patent portfolio related to certain medical devices is significant to our position in this market as several of these products work exclusively together, and provide us future revenue opportunities.

**Research Activities.** Research and development activity has been, and continues to be, significant for us. Research and development expense was at least \$100 million in each of the last three years.

**Employees.** On September 29, 2012, we employed 10,976 full-time employees.

**Customers.** Our principal customers are Original Equipment Manufacturers, or OEMs, and end users for whom we provide aftermarket support. Aerospace and defense OEM customers collectively represented approximately 44% of 2012 sales. The majority of these sales are to a small number of large companies. Due to the long-term nature of many of the programs, many of our relationships with aerospace and defense OEM customers are based on long-term agreements. Our industrial OEM sales, which represented approximately 38% of 2012 sales, are to a wide range of global customers and are normally based on lead times of 90 days or less. We also provide aftermarket support, consisting of spare and replacement parts and repair and overhaul services, for all of our products. Our major aftermarket customers are the U.S. Government and commercial airlines. In 2012, aftermarket sales accounted for 18% of total sales.

Customers in our five operating segments include:

• **Aircraft Controls:** Boeing, Lockheed Martin, Airbus, BAE, Bombardier, Gulfstream, Honeywell, Northrop Grumman and the U.S. Government.

• **Space and Defense Controls:** Lockheed Martin, Raytheon, Orbital Sciences, BAE, United Technologies-Pratt & Whitney Rocketdyne, Alliant Techsystems, General Dynamics and Thales Alenia.

• **Industrial Systems:** RePower AG, United Power (GUP), FlightSafety, CAE, Arburg, Metso and Schlumberger.

• **Components:** Respironics, Raytheon, Lockheed Martin, Philips Medical and the U.S. Government.

• **Medical Devices:** Danone and Abbott.

**International Operations.** Our operations outside the United States are conducted through wholly-owned foreign subsidiaries and are located predominantly in Europe and the Asia-Pacific region. See Note 17 of Item 8, Financial Statements and Supplementary Data of this report for information regarding sales by geographic area and Exhibit 21 of Item 15, Exhibits and Financial Statement Schedules of this report for a list of subsidiaries. Our international operations are subject to the usual risks inherent in international trade, including currency fluctuations, local government contracting regulations, local governmental restrictions on foreign investment and repatriation of profits, exchange controls, regulation of the import and distribution of foreign goods, as well as changing economic and social conditions in countries in which our operations are conducted.

**Environmental Matters.** See the discussion in Note 18 of Item 8, Financial Statements and Supplementary Data of this report.

**Website Access to Information.** Our internet address is [www.moog.com](http://www.moog.com). We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports, available on the investor information portion of our website. The reports are free of charge and are available as soon as reasonably practicable after they are filed with the Securities and Exchange Commission. We have posted our Corporate Governance guidelines, Board committee charters and code of ethics to the investor information portion of our website. This information is available in print to any shareholder upon request. All requests for these documents should be made to Moog's Manager of Investor Relations by calling 716-687-4225.





Executive Officers of the Registrant. Other than John B. Drenning, the principal occupations of our officers for the past five years have been their employment with us. John B. Drenning's principal occupation is partner in the law firm of Hodgson Russ LLP.

On September 1, 2012, Patrick J. Roche was named Vice President. Previously, he was a Group Vice President and General Manager of the Moog Ireland operation.

On December 1, 2011, John R. Scannell was named Chief Executive Officer. Previously, he was President and Chief Operating Officer. Prior to that, he was Vice President and Chief Financial Officer.

On December 1, 2011, Robert T. Brady was named Executive Chairman. Previously, he was Chief Executive Officer.

On December 1, 2011, Gary Szakmary was named Vice President. Previously, he was a Corporate Group Vice President.

On December 2, 2010, Donald R. Fishback was named Vice President and Chief Financial Officer. Previously, he was Vice President of Finance. Prior to that, he was Controller and Principal Accounting Officer.

On December 2, 2010, Sean Gartland was named Vice President. Previously, he was General Manager of the International Group, Pacific operation.

On February 11, 2008, Jennifer Walter was named Controller and Principal Accounting Officer. Previously, she was Director of Financial Planning and Analysis.

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Executive Officers	Age	Year First Elected Officer
John R. Scannell Chief Executive Officer	49	2006
Robert T. Brady Executive Chairman of the Board Director; Member, Executive Committee	71	1967
Joe C. Green Executive Vice President; Chief Administrative Officer; Director; Member, Executive Committee	71	1973
Richard A. Aubrecht Vice Chairman of the Board; Vice President - Strategy and Technology; Director; Member, Executive Committee	68	1980
Donald R. Fishback Vice President; Chief Financial Officer	56	1985
Martin J. Berardi Vice President	56	2000
Warren C. Johnson Vice President	53	2000
Jay K. Hennig Vice President	52	2002
Lawrence J. Ball Vice President	58	2004
Harald E. Seiffer Vice President	53	2005
Sasidhar Eranki Vice President	58	2006
Sean Gartland Vice President	49	2010
Gary A. Szakmary Vice President	61	2011
Patrick J. Roche Vice President	49	2012
Jennifer Walter Controller; Principal Accounting Officer	41	2008
Timothy P. Balkin Treasurer; Assistant Secretary	53	2000
John B. Drenning Secretary	75	1989

Item 1A. Risk Factors.

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate. The markets we serve are sensitive to fluctuations in general business cycles as well as domestic and foreign economic conditions and events. For example, our defense programs are largely contingent on U.S. Department of Defense funding. Our space programs rely on the same governmental funding as well as commercial investment into exploration activities. Demand for our industrial systems products is dependent upon several factors, including capital investment, product innovations, economic growth, cost-reduction efforts and technology upgrades. In addition, the commercial airline industry is cyclical and sensitive to fuel price increases, labor disputes and economic conditions. These factors could result in a reduction in the amount of air travel, which could reduce service and maintenance orders for flight controls and spare parts, thereby reducing our commercial market sales. Changes in medical reimbursement rates of insurers to medical service providers could impact our sale of medical products.

We operate in highly competitive markets with competitors who may have greater resources than we possess. Many of our products are sold in highly competitive markets. Some of our competitors, especially in our industrial and medical markets, are larger, more diversified and have greater financial, marketing, production and research and development resources. As a result, they may be better able to withstand the effects of periodic economic downturns. Our sales and operating margins will be negatively impacted if our competitors:

- develop products that are superior to our products,
- develop products of comparable quality and performance that are more competitively priced than our products,
- develop methods of more efficiently and effectively providing products and services, or
- adapt more quickly than we do to new technologies or evolving customer requirements.

We believe that the principal points of competition in our markets are product quality, price, design and engineering capabilities, product development, conformity to customer specifications, timeliness of delivery, effectiveness of the distribution organization and quality of support after the sale. Maintaining and improving our competitive position will require continued investment in manufacturing, engineering, quality standards, marketing, customer service and support and our distribution networks. If we do not maintain sufficient resources to make these investments or are not successful in maintaining our competitive position, our operations and financial performance will suffer.

We depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs.

Sales to the U.S. Government and its prime contractors and subcontractors represent a significant portion of our business. In 2012, sales under U.S. Government contracts represented 30% of our total sales, primarily within Aircraft Controls, Space and Defense Controls and Components. Sales to foreign governments represented 9% of our total sales. Government programs can be structured into a series of individual contracts and funding under those contracts is generally subject to annual congressional appropriations which are subject to change. Also outlined in the 2011 Budget Control Act, starting in calendar year 2013, are additional reductions to defense spending (or Sequestration) of approximately \$500 billion over the next decade. These uniform cuts could have ramifications for the aerospace and defense market. As currently written in the Budget Control Act, sequestration could materially adversely impact our sales, operating profit and our cash flow. We have resources applied to specific government contracts and if any of those contracts are rescheduled or terminated, we may incur substantial costs redeploying those resources.

We make estimates in accounting for long-term contracts, and changes in these estimates may have significant impacts on our earnings. We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls. Revenue representing 32% of 2012 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. Under this method, we recognize revenue as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods.



Changes in these required estimates could have a material effect on sales and profits. Any adjustments are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting. For contracts with anticipated losses at completion, we establish a provision for the entire amount of the estimated remaining loss and charge it against income in the period in which the loss becomes known. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable.

We enter into fixed-price contracts, which could subject us to losses if we have cost overruns. In 2012, fixed-price contracts represented 87% of our sales that were accounted for using the percentage of completion, cost-to-cost method of accounting. On fixed-price contracts, we agree to perform the scope of work specified in the contract for a predetermined price. Depending on the fixed price negotiated, these contracts may provide us with an opportunity to achieve higher profits based on the relationship between our total contract costs and the contract's fixed price.

However, we bear the risk that increased or unexpected costs may reduce our profit or cause us to incur a loss on the contract, which could reduce our net earnings. Loss reserves are most commonly associated with fixed-price contracts that involve the design and development of new and unique controls or control systems to meet the customer's specifications.

If our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted. Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract or our hiring of personnel of a subcontractor.

Failure by our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could result in a customer terminating our contract for default. A default termination could expose us to liability and substantially impair our ability to compete for future contracts and orders. In addition, a delay or failure in our ability to obtain components and equipment parts from our suppliers may adversely affect our ability to perform our obligations to our customers.

Contracting on government programs is subject to significant regulation, including rules related to bidding, billing and accounting kickbacks and false claims, and any non-compliance could subject us to fines and penalties or possible debarment. Like all government contractors, we are subject to risks associated with this contracting. These risks include the potential for substantial civil and criminal fines and penalties. These fines and penalties could be imposed for failing to follow procurement integrity and bidding rules, employing improper billing practices or otherwise failing to follow cost accounting standards, receiving or paying kickbacks or filing false claims. We have been, and expect to continue to be, subjected to audits and investigations by U.S. and foreign government agencies and authorities. The failure to comply with the terms of our government contracts could harm our business reputation. It could also result in our progress payments being withheld or our suspension or debarment from future government contracts.

The loss of Boeing as a customer or a significant reduction in sales to Boeing could adversely impact our operating results. We provide Boeing with controls for both military and commercial applications, which, in total, were 11% of our 2012 sales. Sales to Boeing's commercial airplane group are generally made under a long-term supply agreement through 2021 for the Boeing 787 and through 2013 for other commercial airplanes. The loss of Boeing as a customer or a significant reduction in sales to Boeing could reduce our sales and earnings.



Our new product research and development efforts may not be successful which could reduce our sales and earnings. Technologies related to our products have undergone, and in the future may undergo, significant changes. We have incurred, and we expect to continue to incur, expenses associated with research and development activities and the introduction of new products in order to succeed in the future. Our technology has been developed through customer-funded and internally funded research and development and through business acquisitions. If we fail to predict customers' preferences or fail to provide viable technological solutions, we may experience difficulties that could delay or prevent the acceptance of new products or product enhancements. The research and development expenses we incur may exceed our cost estimates and new products we develop may not generate sales sufficient to offset our costs. Additionally, our competitors may develop technologies and products that have more competitive advantages than ours and render our technology obsolete or uncompetitive.

Our inability to adequately enforce and protect our intellectual property or defend against assertions of infringement could prevent or restrict our ability to compete. We rely on patents, trademarks and proprietary knowledge and technology, both internally developed and acquired, in order to maintain a competitive advantage. Our inability to defend against the unauthorized use of these rights and assets could have an adverse effect on our results of operations and financial condition. Litigation may be necessary to protect our intellectual property rights or defend against claims of infringement. This litigation could result in significant costs and divert our management's focus away from operations.

Our business operations may be adversely affected by information systems interruptions or intrusion. We are dependent on various information technologies throughout our company to administer, store and support multiple business activities. Disruptions or cybersecurity attacks, such as unauthorized access, malicious software and other violations may lead to exposure of proprietary and confidential information as well as potential data corruption. Any intrusion may cause operational stoppages, diminished competitive advantages through reputational damages and increased operational costs.

Our indebtedness and restrictive covenants under our credit facilities could limit our operational and financial flexibility. We have incurred significant indebtedness, and may in the future incur additional debt for acquisitions, operations, research and development and capital expenditures. Our ability to make interest and scheduled principal payments and meet restrictive covenants could be adversely impacted by changes in the availability, terms and cost of capital, increases in interest rates or a reduction in credit rating or outlook. These changes could cause our cost of doing business to increase and limit our ability to pursue acquisition opportunities, react to market conditions and meet operational and capital needs, which would place us at a competitive disadvantage.

Significant changes in discount rates, rates of return on pension assets, mortality tables and other factors could adversely affect our earnings and equity and increase our pension funding requirements. Pension obligations and the related costs are determined using actual results and actuarial valuations that involve several assumptions. The most critical assumptions are the discount rate, the long-term expected return on assets and mortality. Other assumptions include salary increases and retirement age. Some of these assumptions, such as the discount rate and return on pension assets, are reflective of economic conditions and largely out of our control. Positive or negative changes in these assumptions could adversely affect our earnings, equity and funding requirements.

A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth. Goodwill and other intangible assets are a substantial portion of our assets. At September 29, 2012, goodwill was \$763 million and other intangible assets were \$212 million of our total assets of \$3.1 billion. Our goodwill and other intangible assets may increase in the future since our strategy includes growing through acquisitions. We may have to write off all or part of our goodwill or other intangible assets if their value becomes impaired. Although this write-off would be a non-cash charge, it could reduce our earnings and net worth significantly. Among other adverse impacts, this could result in our inability to refinance or renegotiate the terms of our bank indebtedness.



Our sales and earnings growth may be affected if we cannot identify, acquire or integrate strategic acquisitions. Acquisitions are a key part of our growth strategy. Our historical growth has depended, and our future growth is likely to depend, in part, on our ability to successfully identify, acquire and integrate acquired businesses. We intend to continue to seek additional acquisition opportunities, both to expand into new markets and to enhance our position in existing markets throughout the world. Growth by acquisition involves risk that could adversely affect our financial condition and operating results. In pursuing acquisition opportunities or integrating acquired businesses, management's time and attention may be diverted from our core business. We may not know the potential exposure to unanticipated liabilities. Additionally, the expected benefits or synergies of an acquisition might not be fully realized, integrating operations and personnel may be slowed as well as key employees, suppliers or customers of the acquired business may depart.

Our operations in foreign countries expose us to political and currency risks and adverse changes in local legal and regulatory environments. We have significant manufacturing and sales operations in foreign countries. In addition, our domestic operations have sales to foreign customers. In 2012, 45% of our net sales was to customers outside of the United States. Our financial results may be adversely affected by fluctuations in foreign currencies and by the translation of the financial statements of our foreign subsidiaries from local currencies into U.S. dollars. We expect international operations and export sales to continue to contribute to our earnings for the foreseeable future. Both the sales from international operations and export sales are subject in varying degrees to risks inherent in doing business outside of the United States. Such risks include the possibility of unfavorable circumstances arising from host country laws or regulations, changes in tariff and trade barriers and import or export licensing requirements, and political or economic reprioritization, insurrection, civil disturbance or war.

Unforeseen exposure to additional income tax liabilities may affect our operating results. Our distribution of taxable income is subject to domestic and, as a result of our significant manufacturing and sales presence in foreign countries, foreign tax jurisdictions. Our effective tax rate and earnings may be affected by shifts in our mix of earnings in countries with varying statutory tax rates, changes in reinvested foreign earnings, alterations to tax regulations or interpretations and outcomes of any audits performed on previous tax returns.

Government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business. In 2012, approximately 12% of our sales were subject to compliance with the United States export regulations. Our failure to obtain, or fully adhere to the limitations contained in, the requisite licenses, meet registration standards or comply with other government export regulations would hinder our ability to generate revenues from the sale of our products outside the United States. Compliance with these government regulations may also subject us to additional fees and operating costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In order to sell our products in European Union countries, we must satisfy certain technical requirements. If we are unable to comply with those requirements with respect to a significant quantity of our products, our sales in Europe would be restricted. Doing business internationally also subjects us to numerous U.S. and foreign laws and regulations, including regulations relating to import-export control, technology transfer restrictions, foreign corrupt practices and anti-boycott provisions. Our failure, or by an authorized agent or representative that is attributable to us, to comply with these laws and regulations could result in administrative, civil or criminal liabilities and could, in the extreme case, result in financial penalties or suspension or debarment from government contracts or suspension of our export privileges, which would have a material adverse effect on us.

The failure or misuse of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages. Defects in the design and manufacture of our products may necessitate a product recall. We include complex system designs and components in our products that could contain errors or defects, particularly when we incorporate new technology into our products. If any of our products are defective, we could be required to redesign or recall those products or pay substantial damages or warranty claims and face actions by regulatory bodies and government authorities. Such an event could result in significant expenses, disrupt sales and affect our reputation and that of our products and cause us to withdraw from certain markets. We are also exposed to product liability claims. Many of our products are used in

applications where their failure or misuse could result in significant property loss and serious personal injury or death. We carry product liability insurance consistent with industry norms. However, these insurance coverages may not be sufficient to fully cover the payment of any potential claim. A product recall or a product liability claim not covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

Future terror attacks, war, natural disasters or other catastrophic events beyond our control could negatively impact our business. Terror attacks, war or other civil disturbances, natural disasters and other catastrophic events could lead to economic instability and decreases in demand for commercial products, which could negatively impact our business, financial condition and results of operations. Terrorist attacks worldwide have caused instability from time to time in global financial markets and the aviation industry. In 2012, 17% of our net sales was in the commercial aircraft market. Our facilities are located throughout the world. They could be subject to damage from fire, flood, earthquake or other natural or man-made disasters. Although we carry third party property insurance covering these and other risks, our inability to meet customers' schedules as a result of a catastrophe may result in a loss of customers or significant additional costs, such as penalty claims under customer contracts.

Our operations are subject to environmental laws, and complying with those laws may cause us to incur significant costs. Our operations and facilities are subject to numerous stringent environmental laws and regulations. Although we believe that we are in material compliance with these laws and regulations, future changes in these laws, regulations, or interpretations of them, or changes in the nature of our operations may require us to make significant capital expenditures to ensure compliance. We have been and are currently involved in environmental remediation activities, the cost of which may become significant depending on the discovery of additional environmental exposures at sites that we currently own or operate and at sites that we formerly owned or operated, or at sites to which we have sent hazardous substances or wastes for treatment, recycling or disposal.

We are involved in various legal proceedings, the outcome of which may be unfavorable to us. Our business may be adversely impacted by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. We estimate loss contingencies and establish reserves based on our assessment where liability is deemed probable and reasonably estimable given the facts and circumstances known to us at a particular point in time.

Subsequent developments may affect our assessment and estimates of the loss contingencies recorded as liabilities.

Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

On September 29, 2012, we occupied 5,200,000 square feet of space in the United States and countries throughout the world, distributed as follows:

	Square Feet		Total
	Owned	Leased	
Aircraft Controls	1,387,000	349,000	1,736,000
Space and Defense Controls	519,000	372,000	891,000
Industrial Systems	669,000	653,000	1,322,000
Components	623,000	215,000	838,000
Medical Devices	282,000	111,000	393,000
Corporate Headquarters	—	20,000	20,000
Total	3,480,000	1,720,000	5,200,000

Aircraft Controls has principal manufacturing facilities located in the U.S., the Philippines and England. Space and Defense Controls has principal manufacturing facilities located in the U.S., The Netherlands, England, Germany and Ireland. Industrial Systems has principal manufacturing facilities located in Germany, China, the U.S., Italy, India, Japan, Luxembourg, The Netherlands, the Philippines, Ireland and England. Components has principal manufacturing facilities located in the U.S., England and Canada. Medical Devices has principal manufacturing facilities in Costa Rica, the U.S. and Lithuania. Our corporate headquarters is located in East Aurora, New York.

We believe that our properties have been adequately maintained and are generally in good condition. Operating leases for properties expire at various times from 2013 through 2034. Upon the expiration of our current leases, we believe that we will be able to either secure renewal terms or enter into leases for alternative locations at market terms.

## Item 3. Legal Proceedings.

From time to time, we are involved in legal proceedings. We are not a party to any pending legal proceedings that management believes will result in a material adverse effect on our financial condition or results of operations.

## Item 4. Mine Safety Disclosures.

Not applicable.

## PART II

## Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our two classes of common shares, Class A common stock and Class B common stock, are traded on the New York Stock Exchange (NYSE) under the ticker symbols MOG.A and MOG.B. The following chart sets forth, for the periods indicated, the high and low sales prices of the Class A common stock and Class B common stock on the NYSE.

## Quarterly Stock Prices

Fiscal Year Ended	Class A		Class B	
	High	Low	High	Low
September 29, 2012				
1st Quarter	\$44.72	\$30.47	\$44.62	\$31.00
2nd Quarter	45.53	40.31	45.00	40.60
3rd Quarter	43.75	36.48	43.43	36.60
4th Quarter	41.76	34.77	41.30	34.67
October 1, 2011				
1st Quarter	\$40.67	\$33.97	\$40.27	\$34.26
2nd Quarter	46.38	39.24	46.25	40.42
3rd Quarter	46.46	39.54	46.14	39.29
4th Quarter	45.45	30.45	45.00	31.95

The number of shareholders of record of Class A common stock and Class B common stock was 948 and 421, respectively, as of November 16, 2012.

We did not pay cash dividends on our Class A common stock or Class B common stock in 2011 or 2012 and have no plans to do so in the foreseeable future.

The following table summarizes our purchases of our common stock for the quarter ended September 29, 2012.

## Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)(2)(3)	(b) Average Price Paid Per Share	(c) Total number of Shares Purchased as Part of Publicly Announced Plans or Programs (4)	(d) Maximum Number (or Approx. Dollar Value) of Shares that May Yet Be Purchased Under Plans or Programs (4)
July 1 - July 31, 2012	437	\$35.77	—	1,000,000
August 1 - August 31, 2012	400	37.51	—	1,000,000
September 1 - September 29, 2012	42,080	38.92	—	1,000,000
Total	42,917	\$38.88	—	1,000,000

Purchases consisted of shares of Class B common stock from the Moog Inc. Retirement Savings Plan (RSP) as (1) follows: July, 437 shares at \$35.77 per share, August, 400 shares at \$37.51 per share and September, 26,109 shares at \$39.18 per share.



In connection with the exercise of stock options, we accept, from time to time, delivery of shares to pay the (2)exercise price of stock options. During September, we accepted delivery of 14,763 shares at \$38.53 per share, in connection with the exercise of stock options.

(3) In September, 1,208 shares at \$38.12 per share, were returned to treasury for the settlement of the Animatics acquisition.

In December 2011, the Board of Directors authorized a share repurchase program. The program permits the (4)purchase of up to 1,000,000 Class A or Class B common shares in open market or privately negotiated transactions at the discretion of management.

#### Performance Graph

The following graph and tables show the performance of the Company's Class A common stock compared to the NYSE Composite-Total Return Index and the S&P Aerospace & Defense Index for a \$100 investment made on September 30, 2007, including reinvestment of any dividends.

	9/07	9/08	9/09	9/10	9/11	9/12
Moog Inc. - Class A Common Stock	\$100.00	\$97.59	\$67.14	\$80.81	\$74.24	\$86.19
NYSE Composite - Total Return Index	100.00	76.89	72.69	78.36	74.79	93.33
S&P Aerospace & Defense Index	100.00	74.58	70.91	80.65	81.33	99.12

## Item 6. Selected Financial Data.

For a more detailed discussion of 2010 through 2012, refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and Item 8, Financial Statements and Supplementary Data of this report.

(dollars in thousands, except per share data)	2012(1)	2011(1)	2010(2)	2009(2)(3)	2008(2)	
<b>RESULTS FROM OPERATIONS</b>						
Net sales	\$2,469,536	\$2,330,680	\$2,114,252	\$1,848,918	\$1,902,666	
Net earnings	152,462	136,021	108,094	85,045	119,068	
Net earnings per share						
Basic	\$3.37	\$2.99	\$2.38	\$2.00	\$2.79	
Diluted	\$3.33	\$2.95	\$2.36	\$1.98	\$2.75	
Weighted-average shares outstanding						
Basic	45,246,960	45,501,806	45,363,738	42,598,321	42,604,268	
Diluted	45,718,324	46,047,422	45,709,020	42,906,495	43,256,888	
<b>FINANCIAL POSITION</b>						
Total assets	\$3,105,907	\$2,842,967	\$2,712,134	\$2,634,317	\$2,227,247	
Working capital	885,032	834,056	812,805	764,137	713,292	
Securitized debt	81,800	—	—	—	—	
Indebtedness - senior	304,243	346,851	386,103	454,456	270,988	
Indebtedness - senior subordinated	378,579	378,596	378,613	378,630	400,072	
Shareholders' equity	1,304,790	1,191,891	1,120,956	1,065,033	994,410	
Shareholders' equity per common share outstanding	\$28.80	\$26.38	\$24.70	\$23.53	\$23.30	
<b>SUPPLEMENTAL FINANCIAL DATA</b>						
Capital expenditures	\$107,030	\$83,695	\$65,949	\$81,826	\$91,833	
Depreciation and amortization	100,816	96,327	91,216	76,384	63,376	
Research and development	116,403	106,385	102,600	100,022	109,599	
Twelve-month backlog	1,279,307	1,324,809	1,181,303	1,097,760	861,694	
<b>RATIOS</b>						
Net return on sales	6.2	% 5.8	% 5.1	% 4.6	% 6.3	%
Return on shareholders' equity	12.1	% 11.4	% 9.8	% 8.3	% 12.7	%
Current ratio	2.33	2.53	2.70	2.71	2.89	
Net debt to capitalization (4)	32.1	% 33.9	% 36.8	% 41.4	% 37.0	%

(1) Includes the effects of acquisitions. See Note 2 of the Consolidated Financial Statements at Item 8, Financial Statements and Supplementary Data of this report.

(2) Includes the effects of acquisitions. In 2010, we acquired four businesses, one each in our Aircraft Controls and Industrial Systems segments and two in our Space and Defense Controls segment. In 2009, we acquired eight businesses, two each in our Aircraft Controls and Medical Devices segments, one in our Space and Defense Controls segment and three in our Industrial Systems segment. In 2008, we acquired two businesses, one each in our Space and Defense Controls and Components segments.

(3) Includes the sale of Class A common stock on October 2, 2009.

(4) Net debt is total debt less cash and cash equivalents. Capitalization is the sum of net debt and shareholders' equity.





Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

We are a worldwide designer, manufacturer and integrator of high performance precision motion and fluid controls and control systems for a broad range of applications in aerospace and defense and industrial markets. Within the aerospace and defense market, our products and systems include military and commercial aircraft flight controls, thrust vector controls for space launch vehicles, controls for gun aiming, stabilization and automatic ammunition loading for armored combat vehicles, satellite positioning controls and controls for steering tactical and strategic missiles. In the industrial market, our products are used in a wide range of applications including injection molding machines, metal forming, heavy industry, material and automotive testing, pilot training simulators, wind energy, enteral clinical nutrition pumps, infusion therapy pumps, oil exploration, motors used in sleep apnea devices, power generation, surveillance systems and slip rings used on CT scanners. We operate under five segments, Aircraft Controls, Space and Defense Controls, Industrial Systems, Components and Medical Devices. Our principal manufacturing facilities are located in the United States, England, the Philippines, Germany, China, India, Italy, The Netherlands, Japan, Costa Rica, Luxembourg, Ireland and Canada.

We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls and represent 32% of our sales. We recognize revenue on these contracts using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion. The remainder of our sales are recognized when the risks and rewards of ownership and title to the product are transferred to the customer, principally as units are delivered or as service obligations are satisfied. This method of revenue recognition is predominantly used within the Industrial Systems, Components and Medical Devices segments, as well as with aftermarket activity.

We concentrate on providing our customers with products designed and manufactured to the highest quality standards. In achieving a leadership position in the high performance, precision controls market, we have capitalized on our strengths, which include:

- superior technical competence,
- customer diversity and broad product portfolio, and
- well-established international presence serving customers worldwide.

We intend to increase our revenue base and improve our profitability and cash flows from operations by building on our market leadership positions, by strengthening our niche market positions in the principal markets that we serve and by extending our participation on the platforms we supply by providing more systems solutions. We also expect to maintain a balanced, diversified portfolio in terms of markets served, product applications, customer base and geographic presence. Our strategy to achieve our objectives includes:

- maintaining our technological excellence by building upon our systems integration capabilities while solving our customers' most demanding technical problems,
- striving for continuing cost improvements,
- taking advantage of our global capabilities,
- developing products for new and emerging markets,
- growing our profitable aftermarket business, and
- capitalizing on strategic acquisitions and opportunities.

We face numerous challenges to improve shareholder value. These include, but are not limited to, adjusting to dynamic global economic conditions that are influenced by governmental, industrial and commercial factors, pricing pressures from customers, strong competition, foreign currency fluctuations and increases in employee benefit costs. We address these challenges by focusing on strategic revenue growth and by continuing to improve operating efficiencies through various process and manufacturing initiatives and using low cost manufacturing facilities without compromising quality.



## Acquisitions

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value and such amounts are reflected in the respective captions on the balance sheet. The purchase price described for each acquisition below is net of any cash acquired and includes debt issued or assumed.

In 2012, we completed four business combinations. Two of these business combinations were in our Components segment. We acquired Protokraft, LLC, based in Tennessee, for \$13 million plus contingent consideration with an initial fair value of \$5 million. Protokraft designs and manufactures opto-electronic transceivers, ethernet switches and media converters packaged into rugged, environmentally-sealed connectors. We also acquired Tritech International Limited, based in the UK, for \$33 million. Tritech is a leading designer and manufacturer of high performance acoustic sensors, sonars, video cameras and mechanical tooling equipment. We also completed two business combinations in our Space and Defense Controls segment. We acquired Bradford Engineering, based in The Netherlands, for \$13 million. Bradford is a developer and manufacturer of satellite equipment including attitude control, propulsion and thermal control subsystems. We also acquired In-Space Propulsion for \$45 million. In-Space Propulsion has locations in New York, California, Ireland and the United Kingdom and is a developer and manufacturer of liquid propulsion systems and components for satellites and missile defense systems.

In 2011, we completed three business combinations within two of our segments. We completed two business combinations within our Aircraft Controls segment, both of which are located in the U.S. We acquired Crossbow Technology Inc., based in California, for \$32 million. Crossbow designs and manufactures acceleration sensors that are integrated into inertial navigation and guidance systems used in a variety of aerospace, defense and transportation applications. We also acquired a business that complements our military aftermarket business for \$2 million in cash. We completed one business combination within our Components segment by acquiring Animatics Corporation, based in California. The purchase price was \$24 million, which included 466,541 shares of Moog Class A common stock valued at \$19 million. Animatics supplies integrated servos, linear actuators and control electronics that are used in a variety of industrial, medical and defense applications.

### CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates, assumptions and judgments that affect the amounts reported. These estimates, assumptions and judgments are affected by our application of accounting policies, which are discussed in Note 1 of Item 8, Financial Statements and Supplementary Data of this report. We believe the accounting policies discussed below are the most critical in understanding and evaluating our financial results. These critical accounting policies have been reviewed with the Audit Committee of our Board of Directors.

#### Revenue Recognition on Long-Term Contracts

Revenue representing 32% of 2012 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. This method of revenue recognition is predominantly used within the Aircraft Controls and Space and Defense Controls segments due to the contractual nature of the business activities, with the exception of their respective aftermarket activities. The contractual arrangements are either firm fixed-price or cost-plus contracts and are with the U.S. Government or its prime subcontractors, foreign governments or commercial aircraft manufacturers, including Boeing and Airbus. The nature of the contractual arrangements includes customers' requirements for delivery of hardware as well as funded nonrecurring development work in anticipation of follow-on production orders. We recognize revenue on contracts in the current period using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods. Changes in estimates affecting sales, costs and profits are recognized in the

period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. Estimates are reviewed and updated quarterly for substantially all contracts. A significant change in an estimate on one or more contracts could have a material effect on our results of operations.

Occasionally, it is appropriate to combine or segment contracts. Contracts are combined in those limited circumstances when they are negotiated as a package in the same economic environment with an overall profit margin objective and constitute, in essence, an agreement to do a single project. In such cases, we recognize revenue and costs over the performance period of the combined contracts as if they were one. Contracts are segmented in limited circumstances if the customer had the right to accept separate elements of the contract and the total amount of the proposals on the separate components approximated the amount of the proposal on the entire project. For segmented contracts, we recognize revenue and costs as if they were separate contracts over the performance periods of the individual elements or phases.

Contract costs include only allocable, allowable and reasonable costs which are included in cost of sales when incurred. For applicable Government contracts, contract costs are determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards. The nature of these costs includes development engineering costs and product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material in 2012, 2011 or 2010.

#### Contract Loss Reserves

At September 29, 2012, we had contract loss reserves of \$48 million. For contracts with anticipated losses at completion, a provision for the entire amount of the estimated remaining loss is charged against income in the period in which the loss becomes known. Contract losses are determined considering all direct and indirect contract costs, exclusive of any selling, general or administrative cost allocations that are treated as period expenses. Loss reserves are more common on firm fixed-price contracts that involve, to varying degrees, the design and development of new and unique controls or control systems to meet the customers' specifications.

#### Reserves for Inventory Valuation

At September 29, 2012, we had net inventories of \$538 million, or 35% of current assets. Reserves for inventory were \$97 million, or 15% of gross inventories. Inventories are stated at the lower-of-cost-or-market with cost determined primarily on the first-in, first-out method of valuation.

We record valuation reserves to provide for slow-moving or obsolete inventory by using both a formula-based method that increases the valuation reserve as the inventory ages and, additionally, a specific identification method. We consider overall inventory levels in relation to firm customer backlog in addition to forecasted demand including aftermarket sales. Changes in these and other factors such as low demand and technological obsolescence could cause us to increase our reserves for inventory valuation, which would negatively impact our gross margin. As we record provisions within cost of sales to increase inventory valuation reserves, we establish a new, lower cost basis for the inventory.

#### Reviews for Impairment of Goodwill

At September 29, 2012, we had \$763 million of goodwill, or 25% of total assets. We test goodwill for impairment for each of our reporting units at least annually, during our fourth quarter, and whenever events occur or circumstances change, such as changes in the business climate, poor indicators of operating performance or the sale or disposition of a significant portion of a reporting unit.

We identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components. Certain of our reporting units are our operating segments while others are one level below our operating segments.

Companies may perform a qualitative assessment as the initial step in the annual goodwill impairment testing process for all or selected reporting units. Companies are also allowed to bypass the qualitative analysis and perform a quantitative analysis if desired. Economic uncertainties and the length of time from the calculation of a baseline fair value are factors that we would consider in determining whether to perform a quantitative test.



When we evaluate the potential for goodwill impairment using a qualitative assessment, we consider factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel and overall financial performance. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a quantitative two-step impairment test.

Quantitative testing first requires a comparison of the fair value of each reporting unit to the carrying value. We use the discounted cash flow method to estimate the fair value of each of our reporting units. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating profit margins and cash flows, the terminal growth rate and the discount rate. Management projects revenue growth rates, operating margins and cash flows based on each reporting unit's current business, expected developments and operational strategies over a five-year period. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and any loss must be measured.

In measuring the impairment loss, the implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit's assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination at fair value. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

For our annual test of goodwill impairment in 2012, we performed a quantitative assessment for our Medical Devices reporting unit, which had \$126 million of goodwill as of the date of our test. In performing this assessment, we used a 3% terminal growth rate, which is supported by our historical growth rate, near-term projections and long-term expected market growth. We then discounted the projected cash flows using a weighted average cost of capital of 10.5%. This discount rate reflects management's assumptions of marketplace participants' cost of capital and risk assumptions, both specific to the Medical Devices reporting unit and overall in the economy. Based on this test, the fair value of the Medical Devices reporting unit exceeded its carrying value by over 10%. Therefore, goodwill was not impaired. Had we used a discount rate that was 100 basis points higher than what we assumed, the fair value of the Medical Devices reporting unit would not have exceeded its carrying value and we would have measured impairment of goodwill. However, if we had we used a discount rate that was 50 basis points higher or a terminal growth rate that was 100 basis points lower than those we assumed, the fair value of the Medical Devices reporting unit would have continued to exceed its carrying value.

The determination of each of our assumptions is subjective and requires significant estimates. Changes in these estimates and assumptions could materially affect the results of our impairment review. If cash flows generated by our Medical Devices reporting unit were to decline significantly in the future or there were negative revisions to key assumptions, we may be required to record impairment charges. Among other things, our Medical Devices assumptions include growth of revenue, margins, and increased cash flows over time. If actual results differ from these assumptions, it may result in an impairment of our goodwill.

We performed qualitative assessments for the other seven reporting units and concluded that it is more likely than not that their fair values exceed their carrying values.

Based on our annual qualitative and quantitative assessments of our reporting units, we concluded that goodwill was not impaired.

#### Purchase Price Allocations for Business Combinations

During 2012, we completed four business combinations for a total purchase price of \$110 million. Under purchase accounting, we recorded assets and liabilities at fair value as of the acquisition dates. We identified and ascribed value to programs, customer relationships, patents and technology, trade names, backlog and contracts and estimated the useful lives over which these intangible assets would be amortized. Valuations of these assets were performed largely using discounted cash flow models. These valuations support the conclusion that identifiable intangible assets had a value of \$45 million. The resulting goodwill was \$30 million.

Ascribing value to intangible assets requires estimates used in projecting relevant future cash flows, in addition to estimating useful lives of such assets. Using different assumptions could have a material effect on our current and



future amortization expense

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### Pension Assumptions

We maintain various defined benefit pension plans covering employees at certain locations. Pension expense for all defined benefit plans for 2012 was \$35 million. Pension obligations and the related costs are determined using actuarial valuations that involve several assumptions. The most critical assumptions are the discount rate and the long-term expected return on assets. Other assumptions include mortality rates, salary increases and retirement age. The discount rate is used to state expected future cash flows at present value. Using a lower discount rate increases the present value of pension obligations and increases pension expense. We used the Mercer Pension Discount Yield Curve to determine the discount rate for our U.S. plans. The discount rate is determined by discounting the plan's expected future benefit payments using a yield curve developed from high quality bonds that are rated AA or better by Moody's as of the measurement date. The yield curve calculation matches the notional cash inflows of the hypothetical bond portfolio with the expected benefit payments to arrive at the discount rate. In determining expense for 2012 for our largest U.S. plan, we used a 4.8% discount rate, compared to 5.3% for 2011. We will use a 3.8% discount rate to determine our expense in 2013 for this plan. This 100 basis point decrease in the discount rate will increase our pension expense by \$10 million in 2013.

The long-term expected return on assets assumption reflects the average rate of return expected on funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In determining the long-term expected return on assets assumption, we consider our current and target asset allocations. We consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and to provide adequate liquidity to meet immediate and future benefit payment requirements. In determining the 2012 expense for our largest plan, we used an 8.9% return on assets assumption, the same as we used in 2011. A 50 basis point decrease in the long-term expected return on assets assumption would increase our annual pension expense by \$2 million.

### Deferred Tax Asset Valuation Allowances

At September 29, 2012, we had gross deferred tax assets of \$292 million and a deferred tax asset valuation allowance of \$2 million. The deferred tax assets principally relate to benefit accruals, inventory obsolescence, tax benefit carry forwards and contract loss reserves. The \$2 million deferred tax asset valuation allowance relates to certain tax benefit carryforwards.

We record a valuation allowance to reduce deferred tax assets to the amount of future tax benefit that we believe is more likely than not to be realized. We consider recent earnings projections, allowable tax carryforward periods, tax planning strategies and historical earnings performance to determine the amount of the valuation allowance. Changes in these factors could cause us to adjust our valuation allowance, which would impact our income tax expense when we determine that these factors have changed.

## CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(dollars in millions except per share data)				2012 vs. 2011		2011 vs. 2010		
	2012	2011	2010	\$ Variance	% Variance	\$ Variance	% Variance	
Net sales	\$2,470	\$2,331	\$2,114	\$ 139	6 %	\$ 217	10 %	
Gross margin	30.2	% 29.2	% 29.0					
Research and development expenses	\$ 116	\$ 106	\$ 103	\$ 10	9 %	\$ 3	3 %	
Selling, general and administrative expenses as a percentage of sales	15.6	% 15.2	% 14.8					
Restructuring expense	\$—	\$ 1	\$ 5	\$(1 )	(100 %)	\$(4 )	(80 %)	
Interest expense	\$34	\$36	\$39	\$(2 )	(4 %)	\$(3 )	(8 %)	
Effective tax rate	27.0	% 26.0	% 27.7					
Net earnings	\$ 152	\$ 136	\$ 108	\$ 16	12 %	\$ 28	26 %	
Diluted earnings per share	\$3.33	\$2.95	\$2.36	\$0.38	13 %	\$0.59	25 %	

Net sales increased in 2012 compared to 2011 due to growth in Aircraft Controls and Components. During 2011, net sales increased in all of our segments with the exception of Components.

Our gross margin increased in 2012 compared to 2011 due to more beneficial product mix across multiple segments.

We had stronger gross margins in Aircraft Controls, Components and Industrial Systems, while gross margins were fairly flat in Space and Defense Controls and Medical Devices. Our gross margin was relatively unchanged in 2011 compared to 2010. Volume increases and a more favorable product mix were offset by more additions to contract loss reserves. The loss reserves are primarily within our Aircraft Controls segment.

Research and development increased in 2012 due to the ramp up of activity on the Airbus A350 program, partially offset by reduced activity on the Boeing 787-8 program. In 2011, research and development increased due to more activity on A350 development.

Our selling, general and administrative expenses as a percentage of sales increased in 2012 compared to 2011 due to a shift of activity from direct product support to selling support. The increase in 2011 compared to 2010 is a result of increased marketing efforts and bid and proposal activity for aerospace programs, partially offset by the efficiencies gained from our higher sales volume.

In 2009, we initiated restructuring efforts to better align our cost base with the lower level of sales and operating margins associated with the global recession. These actions continued in 2010 and 2011. In 2010, the restructuring actions were primarily in Aircraft Controls, Space and Defense Controls and Industrial Systems. In 2011, restructuring actions were primarily in the Industrial Systems segment.

Interest expense decreased in 2012 compared to 2011 as a result of lower interest rates. Interest expense decreased in 2011 compared to 2010 as a result of lower average borrowings and lower interest rates.

The effective tax rate for 2012 was higher than 2011 due to a lower foreign tax credits and research and development tax credits. Partially offsetting these items were a reduction in the deferred tax asset valuation allowance associated with net operating loss carryforwards from a foreign operation and a decrease in the legislated statutory tax rate in the U.K. affecting the measurement of deferred tax liabilities. The effective tax rate for 2011 is lower than 2010 primarily from the recognition of current and future tax benefits associated with the same net operating loss carry forward.

Net earnings and earnings per share increased in 2012, primarily driven by increases in operating profit from Aircraft Controls and, to a lesser extent, Components and Medical Devices. In 2011, net earnings and earnings per share increased as all of our segments, except for Components, had higher levels of operating profit than in 2010.



2013 Outlook - We expect sales in 2013 to increase between 6% and 8% to between \$2.62 billion and \$2.67 billion. This range reflects strength in most of our segments as well as uncertainty in the macro-economic picture within our Industrial Systems segment. We expect operating margin to be between 11.4% and 11.6%. We expect margin expansion in Aircraft Controls, Components and Medical Devices and a slight compression in Space and Defense Controls. We expect our Industrial Systems segment operating margin to be between 9.6% and 10.9%. We expect net earnings to increase to between \$161 and \$170 million and diluted earnings per share to increase between 5% and 11% to between \$3.50 and \$3.70. This outlook excludes any effect for 2013 from sequestration (as noted in Economic Conditions and Market Trends).

## SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit is reconciled to earnings before income taxes in Note 17 of Item 8, Financial Statements and Supplementary Data of this report.

## Aircraft Controls

(dollars in millions)	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				\$	%	\$	%
				Variance	Variance	Variance	Variance
Net sales - military aircraft	\$576	\$530	\$486	\$46	9 %	\$44	9 %
Net sales - commercial aircraft	388	320	271	67	21 %	49	18 %
	\$964	\$850	\$757	\$113	13 %	\$93	12 %
Operating profit	\$105	\$84	\$76	\$21	25 %	\$8	11 %
Operating margin	10.9 %	9.9 %	10.1 %				
Backlog	\$658	\$641	\$567	\$17	3 %	\$74	13 %

Aircraft Controls' sales increased in 2012 reflecting strength in both commercial and military businesses. Within military aircraft, sales increased \$12 million for foreign military sales, \$11 million on the F-35 program as production ramped up and \$9 million in navigational aids. Aftermarket sales increased \$8 million. In addition, the KC-46 tanker program ramped up, providing an incremental \$5 million of sales. Within commercial aircraft, we experienced sales growth across the majority of our platforms. Specifically, sales increased \$21 million to Boeing, \$12 million on business jets and \$7 million to Airbus as production on the A380 ramped up. Commercial aftermarket sales also increased \$15 million, primarily due to initial provisioning spares sales for the Boeing 787 program.

Aircraft Controls' sales increased in 2011 compared to 2010 as both commercial and military businesses contributed strong sales growth. Military aftermarket sales increased \$49 million, partially offset by a \$15 million decrease in military fighter programs. The increase in military aftermarket reflects the benefit of some significant upgrade programs on several platforms. Commercial aircraft sales were strong as commercial aftermarket sales increased \$17 million, returning to pre-recession levels. The Boeing 787 production ramp up increased sales \$15 million, which included the negotiation of open scope changes. In addition, sales increased \$7 million on Airbus programs and \$6 million in business jets as that market recovered.

Operating margin increased in 2012 compared to 2011 due to higher sales volumes. Also, additions to contract loss reserves decreased \$2 million in 2012 compared to 2011. Higher research and development related to the ramp up of development work on the A350 program partially offset margin expansion. Increased expenses related to the move to our newly constructed manufacturing facility in Wolverhampton, England also partially offset the margin increase.

Operating margin was comparable in 2011 and 2010. In 2011, research and development costs were lower as a percentage of sales, primarily as a result of reimbursements totaling \$13 million on a commercial transport program in 2011. We also had benefits in 2011 associated with the higher volume and sales mix changes toward higher margin business such as military aftermarket. Partially offsetting those positive contributions were increased contract loss reserves of \$20 million. The higher loss reserves were on various commercial programs, including the 787 related to higher cost estimates of early production units and the G280 as a result of changes coming out of flight certification efforts.

The higher level of twelve-month backlog for Aircraft Controls at September 29, 2012 compared to October 1, 2011 reflects strong orders for military aftermarket and commercial business. The higher level of twelve-month backlog at October 1, 2011 compared to October 2, 2010 reflected strong commercial aircraft orders.

2013 Outlook for Aircraft Controls - We expect sales in Aircraft Controls to increase 7% to \$1.03 billion in 2013.

Commercial aircraft is expected to increase 13% to \$437 million due to stronger sales to Boeing and Airbus. Military aircraft sales are expected to increase 3% to \$590 million primarily due to aftermarket and the ramp up on the KC-46

tanker program. We expect operating margin to increase to 11.5% in 2013, reflecting incremental margin on higher sales and a decline in research and development expenses.

## Space and Defense Controls

(dollars in millions)	2012	2011	2010	2012 vs. 2011		2011 vs. 2010			
				\$	%	\$	%		
				Variance	Variance	Variance	Variance		
Net sales	\$359	\$356	\$325	\$3	1 %	\$31	10 %		%
Operating profit	\$43	\$49	\$36	\$(6 )	(13 %)	\$13	36 %		%
Operating margin	11.9 %	13.8 %	11.0 %						
Backlog	\$204	\$223	\$213	\$(19 )	(9 %)	\$10	5 %		%

Space and Defense Controls net sales were relatively flat in 2012 compared to 2011 with strong growth in the space market offset by declines in both the security and defense markets. Sales on space programs grew \$37 million. Of this increase, \$17 million came from acquisitions with In-Space Propulsion contributing \$9 million and Bradford Engineering contributing \$8 million. Increased activities on the United Launch Alliance common thrust vector control system for the Delta IV and Atlas V next generation rockets drove an additional \$12 million increase. Sales in the security market decreased \$30 million, attributable to the Driver's Vision Enhancer (DVE) program wind down. Defense sales decreased \$6 million as last year's order for an aircraft stores management system was only partially offset by higher tactical missile production rates in 2012.

Net sales in Space and Defense Controls increased in 2011, primarily in two areas, security and surveillance and tactical missiles. Sales increased \$21 million in security and surveillance, a result of our 2010 acquisition of Pieper and stronger demand in government and industrial markets. Tactical missiles increased \$19 million as a result of a large order for an aircraft stores management system and the replenishment of TOW and Hellfire missile inventory. Partially offsetting those increases was an \$11 million decline in the satellite market, which experienced a record year in 2010 due to an unusually high number of GEO satellite orders that year.

Operating margin decreased in 2012 due to a less favorable sales mix as 2011 included strong sales on the DVE program and profit contributions on the aircraft stores management system. These programs also drove the operating margin increase of 2011 over 2010.

The lower twelve-month backlog as of September 29, 2012 compared to October 1, 2011 is a result of various projects completing and is partly offset by increases from our recent acquisitions. The increased level of twelve-month backlog at October 1, 2011 compared to October 2, 2010 reflected improved orders for satellites, launch vehicles and tactical missiles.

2013 Outlook for Space and Defense Controls - We expect sales in Space and Defense Controls to increase 15% to \$413 million in 2013. We expect this increase to be primarily attributable to our acquisitions and to foreign opportunities in our missile defense programs. We expect operating margin to decrease to 11.2% largely as a result of purchase accounting adjustments resulting from the In-Space Propulsion acquisition.



## Industrial Systems

(dollars in millions)	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				\$	%	\$	%
				Variance	Variance	Variance	Variance
Net sales	\$634	\$629	\$546	\$4	1 %	\$83	15 %
Operating profit	\$63	\$63	\$48	\$—	1 %	\$15	31 %
Operating margin	10.0 %	10.0 %	8.8 %				
Backlog	\$234	\$284	\$233	\$(50 )	(18 %)	\$51	22 %

Net sales in Industrial Systems were relatively flat in 2012 compared to 2011. Adjusting for foreign currency translation effects associated with the stronger U.S. dollar, real growth in 2012 was \$25 million, or 4%. Within the segment, sales increased \$24 million in our simulation and test markets. Sales increased \$13 million in our non-renewable energy market on strong demand for our energy exploration and generation products. The sales growth was partially offset by an \$18 million decline in the wind energy business due to continued weakness in China. Also, offsetting the increase was a \$15 million decline within industrial automation related to foreign currency translation effects and softer general industrial economic conditions.

Net sales in Industrial Systems for 2011 reflected increases in all of our major markets except for wind energy. The broad-based sales recovery reflected the strengthening of business in all of our geographic markets. Sales increased \$66 million in industrial automation, \$26 million in motion simulation and \$13 million in the non-renewable energy market. Offsetting those increases was a decrease in wind energy of \$22 million, primarily due to the Chinese market, where large customers had built up inventory, allowing them to slow their orders.

The 2012 operating margin remained the same as 2011 on fairly level sales. Operating margin for 2011 increased on higher sales volume in our legacy markets, but was tempered by the decline in the wind energy market.

The lower level of twelve-month backlog in Industrial Systems at September 29, 2012 compared to October 1, 2011 is primarily due to a decline in wind energy orders and the timing of auto test orders. The higher level of twelve-month backlog at October 1, 2011 compared to October 2, 2010 was due primarily to increased demand in most of our major markets due to improving global economic conditions, especially in test equipment and power generation.

2013 Outlook for Industrial Systems - Due to the lower level in incoming orders and general uncertainty in the global industrial economy, we forecasted a range of sales and operating margins. On the high end of the range, we are forecasting sales in Industrial Systems to increase 6% to \$674 million. Under this scenario, our simulation and test market and our industrial automation market would show growth, while sales in the energy market would increase only slightly. We expect operating margin to increase to 10.9%, benefiting from higher sales. On the low end of the range, sales in Industrial Systems would decrease 2% to \$624 million. Under this scenario, our simulation and test market sales would grow; however, sales in our energy and industrial automation markets would decrease. We expect operating margin to decrease slightly to 9.6%.

## Components

(dollars in millions)	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				\$	%	\$	%
				Variance	Variance	Variance	Variance
Net sales	\$374	\$353	\$360	\$21	6 %	\$(7 )	(2%)
Operating profit	\$57	\$50	\$60	\$7	14 %	\$(10 )	(17%)
Operating margin	15.0 %	14.3 %	16.7 %				
Backlog	\$167	\$163	\$153	\$3	2 %	\$10	7 %

Components' net sales increased in 2012 with incremental sales from acquisitions contributing \$15 million to the growth. Sales in non-aerospace and defense markets grew \$24 million and were partially offset by a \$3 million decrease in aerospace and defense markets. Sales increased \$12 million in our marine business, driven by both increased demand in off-shore oil exploration products, which is influenced by oil prices, as well as our recent acquisition of Tritech. Sales in the industrial market increased \$6 million, as our Animatics acquisition more than offset declines in wind energy components. Medical sales increased \$6 million as well. Offsetting these increases was a \$6 million decrease in military aircraft sales reflecting slower demand for military aircraft and defense control products.

Net sales in Components decreased in 2011 as sales shifted between markets. Sales increased \$12 million in our industrial business with the Animatics acquisition contributing \$6 million. Sales increased \$11 million in the marine market, related to off shore oil exploration, and \$9 million in medical equipment, primarily from sales to Respironics for sleep apnea equipment. Sales for space and defense controls declined \$22 million, mostly a result of slowing demand for various military vehicles, including our completion of the upgrade program on the Bradley Fighting Vehicle, and a large fiber optic modem order on the Eurofighter we supplied in 2010 which did not repeat in 2011. Sales in the aircraft market declined \$16 million, primarily in military aircraft, reflecting a general softness in 2011 and strong de-icing system sales on the Black Hawk helicopter program in 2010.

Operating margin increased in 2012 compared to 2011 due to higher sales volumes in 2012 and a write down recorded in 2011. In 2011, we recorded a \$2 million write down on a technology investment in data compression technology for use in CAT scan machines. Operating margin decreased in 2011 compared to 2010 as a result of the sales volume decline, a less favorable product mix, a general shift to newer products with larger up-front costs and the writedown of the technology investment.

The higher level of twelve-month backlog at September 29, 2012 compared to October 1, 2011 is attributable to increased marine orders for oil and gas exploration products and in part attributable to our recent acquisitions. Offsetting the increase is a slowing demand for military aircraft and defense control products. The higher level of twelve-month backlog at October 1, 2011 compared to October 2, 2010 related to orders on the Guardian system.

2013 Outlook for Components - We expect sales to increase 10% to \$413 million in 2013. We expect marine sales to increase due to our Tritech acquisition. We also expect stronger industrial automation sales in the U.S., as well as some growth in our defense business as foreign missile defense programs ramp up. Offsetting the growth is an expected continued decline in military aircraft sales. We expect operating margin will expand slightly to 15.5%.

## Medical Devices

(dollars in millions)	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				\$	%	\$	%
				Variance	Variance	Variance	Variance
Net sales	\$140	\$142	\$127	\$(2 )	(2 %)	\$15	12 %
Operating profit (loss)	\$5	\$—	\$(4 )	\$5	n/a	\$4	100 %
Operating margin	3.9 %	0.2 %	(3.2%)				
Backlog	\$17	\$13	\$15	\$4	28 %	\$(2 )	(13 %)

Net sales in Medical Devices in 2012 were comparable to 2011. Sales of sensors, which are used to detect air bubbles in pumping applications, decreased \$3 million as we benefited from higher demand in 2011 for one of our customer's pumps due to a recall of certain large volume pumps in the hospital market. Pump sales increased slightly in 2012 as compared to 2011. Sales for syringe pumps increased as we had strong international shipments, especially in Europe, offset by lower sales of IV Pumps as we transitioned from our primary dependency on a single sales distributor to a model that includes more direct sales.

Net sales in Medical Devices for 2011 compared to 2010 increased primarily from our strong sales in both administration sets and sensors and hand pieces, which increased \$7 million and \$5 million, respectively. Our sensors benefited from the higher demand for one of our customer's pumps due to a recall of certain large volume pumps in the hospital market. In addition, sales of our pumps increased \$4 million. We introduced our new enteral pump in the international market, which was partially offset by lower sales of our infusion pumps as we completed a voluntary software correction during 2011.

Operating margins increased in 2012 due to improved efficiencies and increased cost containment activities. In addition, we recorded a \$1 million reserve in 2011 in connection with a voluntary software upgrade related to an infusion pump. The upgrade improved the pump's reliability in response to customer feedback. Our operating margin improved to break-even in 2011 as a result of several factors, including lower costs from having our Costa Rica facility fully operational, the higher sales volume and a more favorable product mix. Offsetting those improvements were warranty costs in 2011 in connection with the voluntary software correction.

Twelve-month backlog for Medical Devices is not as substantial relative to sales as compared to our other segments, reflecting the shorter order-to-shipment cycle for this line of business.

2013 Outlook for Medical Devices - We expect sales in Medical Devices to increase 4% to \$146 million. Sales of pumps are expected to increase as our IV and enteral pumps gain traction in the marketplace. Our set sales are expected to decrease slightly as we shift our supply agreements with an international customer to a commission structure. We expect operating margin to increase to 6.0% as a result of higher sales. This increase also reflects the negative effect of the medical devices excise tax effective in January 2013 under the Affordable Health Care Act.

## FINANCIAL CONDITION AND LIQUIDITY

(dollars in millions)	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				\$	%	\$	%
				Variance	Variance	Variance	Variance
Net cash provided (used) by:							
Operating activities	\$214	\$196	\$195	\$18	9 %	\$1	1 %
Investing activities	(216 )	(121 )	(98 )	(94 )	(78 %)	(23 )	(23 %)
Financing activities	37	(73 )	(66 )	110	151 %	(7 )	(11 %)

Our available borrowing capacity and our cash flow from operations provide us with the financial resources needed to run our operations, reinvest in our business and make strategic acquisitions.

At September 29, 2012, our cash balance was \$149 million, substantially all held outside of the U.S. Our U.S. sites fund on-going operations, debt requirements and future growth investments with cash generated from operations along with available borrowings. We reinvest the cash generated from foreign operations locally and such international balances are not available to pay down debt in the U.S. unless we decided to repatriate such amounts. If we determined repatriation of foreign funds was necessary, we would then be required to pay additional U.S. income taxes.

## Operating activities

Net cash provided by operating activities increased in 2012 compared to 2011. The increase is primarily due to higher net earnings. Cash provided by working capital requirements also increased primarily due to lower pension plan contributions in 2012 after having accelerated the payment of previously planned 2012 contributions into the fourth quarter of 2011.

Net cash provided by operating activities was virtually unchanged in 2011 compared to 2010. Positive contributions in 2011 came from higher net earnings, increased customer advances and improved collections on receivables, most notably on Boeing 787. Offsetting those positive cash flows were greater use of cash for inventory requirements to fund the sales growth and a higher level of U.S. defined pension plan contributions.

## Investing activities

Net cash used by investing activities in 2012 included \$107 million for capital expenditures and \$105 million for four acquisitions, two each in Space and Defense Controls and Components. The higher level of capital expenditures in 2012 compared to 2011 was partly attributable to newly constructed facilities.

Net cash used by investing activities in 2011 included \$84 million for capital expenditures and \$38 million for three acquisitions, two in Aircraft Controls and one in Components. Net cash used by investing activities in 2010 included \$66 million for capital expenditures and \$30 million for four acquisitions, two in Space and Defense Controls and one each in Aircraft Controls and Industrial Systems.

We expect our 2013 capital expenditures to be approximately \$105 million.

## Financing activities

Net cash provided by financing activities in 2012 primarily reflects increased domestic borrowings to fund acquisitions. Net cash used by financing activities in 2011 primarily reflects pay downs on our U.S. credit facility and \$29 million used for our share repurchase program, under which we purchased the remaining 766,400 shares authorized by our Board of Directors in October 2008. Net cash used by financing activities in 2010 primarily reflects pay downs on our U.S. credit facility and the payment of a note issued for the LTi REEnergy acquisition in 2009.

## CAPITAL STRUCTURE AND RESOURCES

We maintain bank credit facilities to fund our short and long-term capital requirements, including for acquisitions. From time to time, we also sell equity and debt securities to fund acquisitions or take advantage of favorable market conditions.

Our largest credit facility is our U.S. credit facility, which matures on March 18, 2016. It consists of a \$900 million revolver and had an outstanding balance of \$292 million at September 29, 2012. Interest on the majority of the outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 150 basis points at September 29, 2012. The credit facility is secured by substantially all of our U.S. assets.

The U.S. credit facility contains various covenants. The covenant for minimum interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The covenant for the maximum leverage ratio, defined as the ratio of net debt, including letters of credit, to EBITDA for the most recent four quarters, is 3.5. The covenant for maximum capital expenditures is \$145 million for 2012 and increases by \$10 million each year thereafter. We are in compliance with all covenants. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income.

We are required to obtain the consent of lenders of the U.S. credit facility before raising significant additional debt financing. In recent years, we have demonstrated our ability to secure consents to access debt markets. We have also been successful in accessing equity markets, from time to time. We believe that we will be able to obtain additional debt or equity financing as needed.

On March 5, 2012, we entered into a trade receivables securitization facility (the "Securitization Program"), which matures on March 4, 2013. Under the Securitization Program, we sell certain trade receivables and related rights to an affiliate, which in turn sells an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. The Securitization Program can be extended by agreement of the parties thereto for successive 364-day terms. The Securitization Program effectively increases our borrowing capacity by up to \$100 million and lowers our cost to borrow funds as compared to the U.S. credit facility. We had an outstanding balance of \$82 million at September 29, 2012. The Securitization Program reduced the amount outstanding under our U.S. credit facility and increased the amount of short-term borrowings. Interest on the secured borrowings under the Securitization Program is 92 basis points at September 29, 2012 and is based on prevailing market rates for short-term commercial paper plus an applicable margin.

At September 29, 2012, we had \$608 million of unused borrowing capacity, including \$594 million from the U.S. credit facility after considering standby letters of credit.

Net debt to capitalization was 32% at September 29, 2012 and 34% at October 1, 2011. The decrease in net debt to capitalization is primarily due to our positive cash flow and net earnings.

We believe that our cash on hand, cash flows from operations and available borrowings under short and long-term lines of credit will continue to be sufficient to meet our operating needs.

### Off Balance Sheet Arrangements

We do not have any material off balance sheet arrangements that have or are reasonably likely to have a material future effect on our results of operations or financial condition.



## Contractual Obligations and Commercial Commitments

Our significant contractual obligations and commercial commitments at September 29, 2012 are as follows:

(dollars in millions)	Payments due by period				
	Total	2013	2014- 2015	2016- 2017	After 2017
Contractual Obligations					
Long-term debt	\$674	\$3	\$187	\$292	\$192
Interest on long-term debt	107	26	43	28	10
Operating leases	78	20	28	17	13
Purchase obligations	499	419	53	2	25
Total contractual obligations	\$1,358	\$468	\$311	\$339	\$240

In addition to the obligations in the table above, we have \$5 million recorded for unrecognized tax benefits in current liabilities, which includes \$1 million of related accrued interest. We are unable to determine if and when any of those amounts will be settled, nor can we estimate any potential changes to the unrecognized tax benefits.

Interest on long-term debt consists of payments on fixed-rate debt, primarily our senior subordinated notes. It excludes interest on variable-rate debt, primarily our U.S. credit facility, as we are unable to determine the rate and average balance outstanding for the periods presented in the above table. Interest on variable-rate long-term debt, assuming the rate and outstanding balances do not change from those at September 29, 2012, would be approximately \$7 million annually.

Total contractual obligations exclude pension as our obligation to satisfy minimum funding requirements in 2013 with cash contributions is not material. However, we anticipate making contributions of \$39 million to defined benefit pension plans in 2013.

(dollars in millions)	Commitments expiring by period				
	Total	2013	2014- 2015	2016- 2017	After 2017
Other Commercial Commitments					
Standby letters of credit	\$14	\$7	\$4	\$2	\$1

## ECONOMIC CONDITIONS AND MARKET TRENDS

We operate within the aerospace and defense and industrial markets. Our aerospace and defense markets are affected by market conditions and program funding levels, while our industrial markets are influenced by general capital investment trends and economic conditions. A common factor throughout our markets is the continuing demand for technologically advanced products.

### Aerospace and Defense

Approximately 59% of our 2012 sales were generated in aerospace and defense markets. Within aerospace and defense, we serve three end markets: defense, commercial aircraft and space.

The defense market is dependent on military spending for development and production programs. Aircraft production programs are typically long-term in nature, offering predictability as to capacity needs and future revenues. We maintain positions on numerous high priority programs, including the F-35 Joint Strike Fighter, F/A-18E/F Super Hornet and V-22 Osprey. The large installed base of our products leads to attractive aftermarket sales and service opportunities. The tactical missile, missile defense and defense controls markets are dependent on many of the same market conditions as military aircraft, including overall military spending and program funding levels. Our homeland security product line is dependent on government funding at federal and local levels, as well as private sector demand. Starting in calendar year 2013, additional cuts to the U.S. Department of Defense's mandatory and discretionary budgeted spending of approximately \$500 billion over the next decade (or sequestration) as a result of the 2011 Budget Control Act could have ramifications for the aerospace and defense market. As currently written in the Budget Control Act, sequestration cuts are uniform by category for programs, projects and activities within accounts. These reductions would impact our sales, operating profit and our cash flow. However, it is unknown whether sequestration will happen or how it will be implemented. Currently, we have approximately \$800 million in domestic defense sales forecasted for 2013.

Global demand for air travel generally follows economic growth and, therefore, the commercial aircraft market has historically exhibited cyclical swings. The aftermarket is driven by usage of the existing aircraft fleet and the age of the installed fleet, and is impacted by fleet re-sizing programs for passenger and cargo aircraft. Changes in aircraft utilization rates affect the need for maintenance and spare parts and impact aftermarket sales. Boeing and Airbus have historically adjusted production in line with air traffic volume. Demand for our commercial aircraft products is in large part dependent on new aircraft production, which is increasing as Boeing and Airbus work down large backlogs of unfilled orders.

The commercial space market is comprised of large satellite customers, traditionally communications companies. Trends for this market, as well as for commercial launch vehicles, follow demand for increased capacity, satellite replacement and global navigation. The space market is also partially dependent on the governmental authorized levels of funding for satellite communications.

### Industrial

Approximately 41% of our 2012 sales were generated in industrial markets. Within industrial, we serve three end markets: industrial automation, energy and medical.

The industrial automation market we serve is influenced by several factors including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. We experience challenges from the need to react to the demands of our customers, who are in large part sensitive to international and domestic economies.

The energy market is in part affected by changing natural oil and gas prices, global urbanization and the resulting increase in demand for global energy. Drivers for global growth include investments in power generation infrastructure, including renewable energy, and exploration for new resource reservoirs.



The medical market we serve is influenced by economic conditions, regulatory environments, hospital and outpatient clinic spending on equipment, population demographics, medical advances, patient demands and the need for precision control components and systems. Advances in medical technology and medical treatments have had the effect of extending the average life span, in turn resulting in greater need for medical services. These same technology and treatment advances also drive increased demand from the general population as a means to improve quality of life. Access to medical insurance, whether through government funded health care plans or private insurance, also affects the demand for medical services.

#### Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in Industrial Systems. About one-third of our 2012 sales were denominated in foreign currencies. During 2012, average foreign currency rates generally weakened against the U.S. dollar compared to 2011. The translation of the results of our foreign subsidiaries into U.S. dollars decreased sales by \$32 million compared to one year ago. During 2011, average foreign currency rates generally strengthened against the U.S. dollar compared to 2010. The translation of the results of our foreign subsidiaries into U.S. dollars increased 2011 sales by \$32 million compared to 2010.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued ASU No. 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." The amendment provides an option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it is necessary to perform a quantitative impairment test. The amendment also enhances the consistency of impairment testing guidance by making impairment testing requirements for indefinite-lived intangible assets equivalent to that of other long-lived assets. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. We plan to adopt this amendment in the first quarter of 2013. The adoption of this standard is not expected to have a material impact on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

In the normal course of business, we are exposed to interest rate risk from our long-term debt and foreign exchange rate risk related to our foreign operations and foreign currency transactions. To manage these risks, we may enter into derivative instruments such as interest rate swaps and foreign currency forward contracts. We do not hold or issue financial instruments for trading purposes. In 2012, our derivative instruments consisted of foreign currency forwards. At September 29, 2012, we had \$383 million of borrowings subject to variable interest rates. During 2012, our average borrowings subject to variable interest rates were \$332 million and, therefore, if interest rates had been one percentage point higher during 2012, our interest expense would have been \$3 million higher.

We also enter into forward contracts to reduce fluctuations in foreign currency cash flows related to third party purchases, intercompany product shipments and to reduce exposure on intercompany balances that are denominated in foreign currencies. We have foreign currency forwards with notional amounts of \$220 million outstanding at September 29, 2012 that mature at various times through the second quarter of 2014.

Although the majority of our sales, expenses and cash flows are transacted in U.S. dollars, we have exposure to changes in foreign currency exchange rates such as the euro, British pound and Japanese yen. If average annual foreign exchange rates collectively weakened against the U.S. dollar by 10%, our pre-tax earnings in 2012 would have decreased by \$10 million from foreign currency translation. Offsetting that translation decrease would be an \$18 million increase from changes in operating margins as a result of foreign currency transactions, primarily from U.S. dollar denominated sales by our foreign operations.

Item 8. Financial Statements and Supplementary Data.  
Inc.

Consolidated Statements of Earnings

(dollars in thousands, except per share data)	Fiscal Years Ended		
	September 29, 2012	October 1, 2011	October 2, 2010
NET SALES	\$2,469,536	\$2,330,680	\$2,114,252
COST OF SALES	1,724,232	1,651,203	1,501,641
GROSS PROFIT	745,304	679,477	612,611
Research and development	116,403	106,385	102,600
Selling, general and administrative	385,051	353,964	313,408
Restructuring	—	751	5,125
Interest	34,312	35,666	38,742
Other	697	(1,074)	3,300
EARNINGS BEFORE INCOME TAXES	208,841	183,785	149,436
INCOME TAXES	56,379	47,764	41,342
NET EARNINGS	\$152,462	\$136,021	\$108,094
NET EARNINGS PER SHARE			
Basic	\$3.37	\$2.99	\$2.38
Diluted	\$3.33	\$2.95	\$2.36
AVERAGE COMMON SHARES OUTSTANDING			
Basic	45,246,960	45,501,806	45,363,738
Diluted	45,718,324	46,047,422	45,709,020

See accompanying Notes to Consolidated Financial Statements.



Inc.  
Consolidated Statements of Comprehensive Income

(dollars in thousands)	Fiscal Years Ended		
	September 29, 2012	October 1, 2011	October 2, 2010
NET EARNINGS	\$152,462	\$136,021	\$108,094
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Foreign currency translation adjustment	144	(9,515 )	(858 )
Retirement liability adjustment	(46,296 )	(51,792 )	(57,977 )
Change in accumulated income (loss) on derivatives	385	(309 )	333
OTHER COMPREHENSIVE LOSS, NET OF TAX	(45,767 )	(61,616 )	(58,502 )
COMPREHENSIVE INCOME	\$106,695	\$74,405	\$49,592

See accompanying Notes to Consolidated Financial Statements.

Inc.		
Consolidated Balance Sheets		
(dollars in thousands, except per share data)	September 29, 2012	October 1, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$148,841	\$113,679
Receivables	744,551	655,805
Inventories	538,262	502,373
Deferred income taxes	87,780	82,513
Prepaid expenses and other current assets	29,474	26,076
<b>TOTAL CURRENT ASSETS</b>	<b>1,548,908</b>	<b>1,380,446</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>546,179</b>	<b>503,872</b>
<b>GOODWILL</b>	<b>762,854</b>	<b>735,021</b>
<b>INTANGIBLE ASSETS, net of accumulated amortization of \$150,722 in 2012 and \$121,114 in 2011</b>	<b>212,195</b>	<b>197,545</b>
<b>OTHER ASSETS</b>	<b>35,771</b>	<b>26,083</b>
<b>TOTAL ASSETS</b>	<b>\$3,105,907</b>	<b>\$2,842,967</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	\$90,774	\$9,283
Current installments of long-term debt	3,186	1,407
Accounts payable	169,587	165,893
Accrued salaries, wages and commissions	134,179	122,200
Customer advances	112,204	97,331
Contract loss reserves	48,428	45,173
Other accrued liabilities	105,518	105,103
<b>TOTAL CURRENT LIABILITIES</b>	<b>663,876</b>	<b>546,390</b>
<b>LONG-TERM DEBT, excluding current installments</b>		
Senior debt	292,083	336,161
Senior subordinated notes	378,579	378,596
<b>LONG-TERM PENSION AND RETIREMENT OBLIGATIONS</b>	<b>427,588</b>	<b>331,050</b>
<b>DEFERRED INCOME TAXES</b>	<b>36,455</b>	<b>56,729</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>2,536</b>	<b>2,150</b>
<b>TOTAL LIABILITIES</b>	<b>1,801,117</b>	<b>1,651,076</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 18)</b>		
	—	—
<b>SHAREHOLDERS' EQUITY</b>		
Common stock - par value \$1.00		
Class A - Authorized 100,000,000 shares	43,575	43,535
Issued 43,575,124 and outstanding 41,321,806 shares at September 29, 2012		
Issued 43,534,575 and outstanding 41,141,536 shares at October 1, 2011		
Class B - Authorized 20,000,000 shares. Convertible to Class A on a one-for-one basis	7,705	7,745
Issued 7,704,589 and outstanding 3,980,301 shares at September 29, 2012		
Issued 7,745,138 and outstanding 4,043,697 shares at October 1, 2011		
Additional paid-in capital	421,969	412,370
Retained earnings	1,169,216	1,016,754
Treasury shares	(74,980)	(74,479)
Stock Employee Compensation Trust	(15,984)	(13,090)

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Accumulated other comprehensive loss	(246,711	)	(200,944	)
TOTAL SHAREHOLDERS' EQUITY	1,304,790		1,191,891	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,105,907		\$2,842,967	

See accompanying Notes to Consolidated Financial Statements.

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Inc.			
Consolidated Statements of Shareholders' Equity			
(dollars in thousands)	Fiscal Years Ended		
	September 29, 2012	October 1, 2011	October 2, 2010
<b>COMMON STOCK</b>			
Beginning and end of year	\$51,280	\$51,280	\$51,280
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Beginning of year	412,370	389,376	381,099
Issuance of treasury shares at more than cost	1,282	17,374	433
Equity-based compensation expense	6,226	6,952	5,445
Adjustment to market - SECT, and other	2,091	(1,332 )	2,399
End of year	421,969	412,370	389,376
<b>RETAINED EARNINGS</b>			
Beginning of year	1,016,754	880,733	772,639
Net earnings	152,462	136,021	108,094
End of year	1,169,216	1,016,754	880,733
<b>TREASURY SHARES AT COST</b>			
Beginning of year	(74,479 )	(47,724 )	(47,733 )
Class A shares issued as consideration for purchase of Animatics	(46 )	2,495	—
Class A shares issued related to options	945	828	543
Class A shares purchased	(1,400 )	(30,078 )	(534 )
End of year	(74,980 )	(74,479 )	(47,724 )
<b>STOCK EMPLOYEE COMPENSATION TRUST (SECT)</b>			
Beginning of year	(13,090 )	(13,381 )	(11,426 )
Sale of SECT stock to RSP	1,766	2,852	1,732
Purchase of SECT stock	(2,929 )	(3,992 )	(1,296 )
Adjustment to market - SECT	(1,731 )	1,431	(2,391 )
End of year	(15,984 )	(13,090 )	(13,381 )
<b>ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME</b>			
Beginning of year	(200,944 )	(139,328 )	(80,826 )
Other comprehensive loss	(45,767 )	(61,616 )	(58,502 )
End of year	(246,711 )	(200,944 )	(139,328 )
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$1,304,790</b>	<b>\$1,191,891</b>	<b>\$1,120,956</b>
<b>TREASURY SHARES - CLASS A COMMON STOCK</b>			
Beginning of year	(2,393,039 )	(2,221,635 )	(2,303,699 )
Class A shares issued as consideration for purchase of Animatics	(1,208 )	467,749	—
Class A shares issued related to options	175,823	155,262	101,825
Class A shares purchased	(34,894 )	(794,415 )	(19,761 )
End of year	(2,253,318 )	(2,393,039 )	(2,221,635 )
<b>TREASURY SHARES - CLASS B COMMON STOCK</b>			
Beginning and end of year	(3,305,971 )	(3,305,971 )	(3,305,971 )
<b>SECT SHARES - CLASS B COMMON STOCK</b>			
Beginning of year	(395,470 )	(374,502 )	(398,552 )
Sale of SECT stock to RSP	48,579	73,611	60,366
Purchase of SECT stock	(71,426 )	(94,579 )	(36,316 )



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End of year (418,317 ) (395,470 ) (374,502 )  
See accompanying Notes to Consolidated Financial Statements.

Inc.						
Consolidated Statements of Cash Flows						
(dollars in thousands)		Fiscal Years Ended				
		September 29, 2012	October 1, 2011	October 2, 2010		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net earnings		\$ 152,462	\$ 136,021	\$ 108,094		
Adjustments to reconcile net earnings to net cash provided by operating activities:						
Depreciation		67,084	64,963	61,112		
Amortization		33,732	31,364	30,104		
Provisions for non-cash losses		69,041	71,993	54,204		
Deferred income taxes		(4,113 )	2,923	11,314		
Equity-based compensation expense		6,226	6,952	5,445		
Other		3,077	1,399	1,633		
Changes in assets and liabilities providing (using) cash, excluding the effects of acquisitions:						
Receivables		(57,360 )	(32,723 )	(70,076 )		
Inventories		(37,274 )	(56,382 )	10,220		
Accounts payable		(7,602 )	9,299	28,945		
Customer advances		11,508	22,301	7,563		
Accrued expenses		(48,134 )	(23,307 )	(32,711 )		
Net pension and post retirement liabilities		27,122	(35,437 )	(17,463 )		
Other assets and liabilities		(1,429 )	(3,176 )	(3,128 )		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>214,340</b>	<b>196,190</b>	<b>195,256</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Acquisitions of businesses, net of cash acquired		(104,089 )	(37,841 )	(29,843 )		
Purchase of property, plant and equipment		(107,030 )	(83,695 )	(65,949 )		
Other investing transactions		(4,454 )	298	(2,285 )		
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		<b>(215,573 )</b>	<b>(121,238 )</b>	<b>(98,077 )</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Net short-term borrowings (repayments)		81,849	4,952	(15,830 )		
Proceeds from revolving lines of credit		805,859	676,930	543,319		
Payments on revolving lines of credit		(848,505 )	(714,452 )	(591,505 )		
Payments on long-term debt		(1,335 )	(8,117 )	(2,795 )		
Proceeds from sale of treasury stock		2,227	1,912	976		
Purchase of outstanding shares for treasury		(1,400 )	(30,078 )	(534 )		
Proceeds from sale of stock held by SECT		1,766	2,852	1,732		
Purchase of stock held by SECT		(2,929 )	(3,992 )	(1,296 )		
Excess tax benefits from equity-based payment arrangements		360	135	6		
Other financing transactions		(470 )	(2,933 )	—		
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		<b>37,422</b>	<b>(72,791 )</b>	<b>(65,927 )</b>		
Effect of exchange rate changes on cash		(1,027 )	(903 )	(324 )		
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>35,162</b>	<b>1,258</b>	<b>30,928</b>		

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Cash and cash equivalents at beginning of year	113,679	112,421	81,493
Cash and cash equivalents at end of year	\$148,841	\$113,679	\$112,421
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Interest paid	\$32,636	\$34,582	\$37,492
Income taxes paid, net of refunds	69,480	32,112	23,744
Treasury shares issued as consideration for acquisitions	(46 )	18,785	—
Unsecured notes issued as partial consideration for acquisitions	—	—	2,350
See accompanying Notes to Consolidated Financial Statements.			

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Notes to Consolidated Financial Statements  
(dollars in thousands, except per share data)

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Note 1 - Summary of Significant Accounting Policies

**Consolidation:** The consolidated financial statements include the accounts of Moog Inc. and all of our U.S. and foreign subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

**Fiscal Year:** Our fiscal year ends on the Saturday that is closest to September 30. The consolidated financial statements include 52 weeks for the years ended September 29, 2012, October 1, 2011 and October 2, 2010.

**Operating Cycle:** Consistent with industry practice, aerospace and defense related inventories, unbilled recoverable costs and profits on long-term contract receivables, customer advances and contract loss reserves include amounts relating to contracts having long production and procurement cycles, portions of which are not expected to be realized or settled within one year.

**Foreign Currency Translation:** Assets and liabilities of subsidiaries that prepare financial statements in currencies other than the U.S. dollar are translated using rates of exchange as of the balance sheet date and the statements of earnings are translated at the average rates of exchange for each reporting period.

**Use of Estimates:** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions.

**Revenue Recognition:** We recognize revenue using either the percentage of completion method for contracts or as units are delivered or services are performed.

**Percentage of completion method for contracts:** Revenue representing 32% of 2012 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. This method of revenue recognition is predominantly used within the Aircraft Controls and Space and Defense Controls segments due to the contractual nature of the business activities, with the exception of their respective aftermarket activities. The contractual arrangements are either firm fixed-price or cost-plus contracts and are primarily with the U.S. Government or its prime subcontractors, foreign governments or commercial aircraft manufacturers, including Boeing and Airbus. The nature of the contractual arrangements includes customers' requirements for delivery of hardware as well as funded nonrecurring development work in anticipation of follow-on production orders.

Revenue on contracts using the percentage of completion, cost-to-cost method of accounting is recognized as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods. Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. Estimates are reviewed and updated quarterly for substantially all contracts. A significant change in an estimate on one or more contracts could have a material effect on our results of operations.

Occasionally, it is appropriate to combine or segment contracts. Contracts are combined in those limited circumstances when they are negotiated as a package in the same economic environment with an overall profit margin objective and constitute, in essence, an agreement to do a single project. In such cases, revenue and costs are recognized over the performance period of the combined contracts as if they were one. Contracts are segmented in limited circumstances if the customer had the right to accept separate elements of the contract and the total amount of the proposals on the separate components approximated the amount of the proposal on the entire project. For segmented contracts, revenue and costs are recognized as if they were separate contracts over the performance periods of the individual elements or phases.



Contract costs include only allocable, allowable and reasonable costs, as determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards for applicable U.S. Government contracts, and are included in cost of sales when incurred. The nature of these costs includes development engineering costs and product manufacturing costs including direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material for 2012, 2011 or 2010.

For contracts with anticipated losses at completion, a provision for the entire amount of the estimated remaining loss is charged against income in the period in which the loss becomes known. Contract losses are determined considering all direct and indirect contract costs, exclusive of any selling, general or administrative cost allocations that are treated as period expenses. Loss reserves are more common on firm fixed-price contracts that involve, to varying degrees, the design and development of new and unique controls or control systems to meet the customers' specifications.

As units are delivered or services are performed: In 2012, 68% of our sales were recognized as units were delivered or as service obligations were satisfied. Revenue is recognized when the risks and rewards of ownership and title to the product are transferred to the customer. When engineering or similar services are performed, revenue is recognized upon completion of the obligation including any delivery of engineering drawings or technical data. This method of revenue recognition is predominantly used within the Industrial Systems, Components and Medical Devices segments, as well as with aftermarket activity. Profits are recorded as costs are relieved from inventory and charged to cost of sales and as revenue is recognized. Inventory costs include all product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead cost allocations.

Shipping and Handling Costs: Shipping and handling costs are included in cost of sales.

Research and Development: Research and development costs are expensed as incurred and include salaries, benefits, consulting, material costs and depreciation.

Bid and Proposal Costs: Bid and proposal costs are expensed as incurred and classified as selling, general and administrative expenses.

Equity-Based Compensation: Equity-based compensation expense is included in selling, general and administrative expenses.

Earnings Per Share: Basic and diluted weighted-average shares outstanding are as follows:

	2012	2011	2010
Basic weighted-average shares outstanding	45,246,960	45,501,806	45,363,738
Dilutive effect of equity-based awards	471,364	545,616	345,282
Diluted weighted-average shares outstanding	45,718,324	46,047,422	45,709,020

Cash and Cash Equivalents: All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is based on our assessment of the collectibility of customer accounts. The allowance is determined by considering factors such as historical experience, credit quality, age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay.

Inventories: Inventories are stated at the lower-of-cost-or-market with cost determined on the first-in, first-out (FIFO) method of valuation.



**Property, Plant and Equipment:** Property, plant and equipment are stated at cost. Plant and equipment are depreciated principally using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 15 years for building improvements, 12 years for furniture and fixtures, 10 years for machinery and equipment, 8 years for tooling and test equipment and 3 to 4 years for computer hardware. Leasehold improvements are amortized on a straight-line basis over the term of the lease or the estimated useful life of the asset, whichever is shorter.

**Goodwill:** We test goodwill for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that indicate that the fair value of a reporting unit is likely to be below its carrying amount.

We may elect to perform a qualitative assessment that considers economic, industry and company-specific factors for all or selected reporting units. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a quantitative test. We may also elect to perform a quantitative test instead of a qualitative test for any or all of our reporting units.

Quantitative testing requires a comparison of the fair value of each reporting unit to its carrying value. We use the discounted cash flow method to estimate the fair value of our reporting units. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating margins and cash flows, the terminal growth rate and the weighted-average cost of capital. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and any loss must be measured. To determine the amount of the impairment loss, the implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit's assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination at fair value. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

There were no impairment charges recorded in 2012, 2011 or 2010.

**Acquired Intangible Assets:** Acquired identifiable intangible assets are recorded at cost and are amortized over their estimated useful lives.

**Impairment of Long-Lived Assets:** Long-lived assets, including acquired identifiable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. We use undiscounted cash flows to determine whether impairment exists and measure any impairment loss using discounted cash flows. There were no impairment charges recorded in 2012, 2011 or 2010.

**Product Warranties:** In the ordinary course of business, we warrant our products against defect in design, materials and workmanship typically over periods ranging from twelve to sixty months. We determine warranty reserves needed by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

	2012	2011	2010
Warranty accrual at beginning of year	\$19,247	\$14,856	\$14,675
Additions from acquisitions	233	120	213
Warranties issued during current year	9,842	11,426	6,729
Adjustments to pre-existing warranties	(460	) 713	186
Reductions for settling warranties	(10,016	) (7,865	) (6,831
Foreign currency translation	13	(3	) (116
Warranty accrual at end of year	\$18,859	\$19,247	\$14,856

**Financial Instruments:** Our financial instruments consist primarily of cash and cash equivalents, receivables, notes payable, accounts payable, long-term debt, interest rate swaps and foreign currency forwards. The carrying values for our financial instruments approximate fair value with the exception at times of long-term debt. See Note 7,

Indebtedness, for fair value of long-term debt. We do not hold or issue financial instruments for trading purposes.



We carry derivative instruments on the balance sheet at fair value, determined by reference to quoted market prices. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it. Our use of derivative instruments is generally limited to cash flow hedges of certain interest rate risks and minimizing foreign currency exposure on foreign currency transactions, which are typically designated in hedging relationships, and intercompany balances, which are not designated as hedging instruments. Cash flows resulting from forward contracts are accounted for as hedges of identifiable transactions or events and classified in the same category as the cash flows from the items being hedged.

**Recent Accounting Pronouncements:** In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, "Fair Value Measurements and Disclosures (ASC Topic 820) - Improving Disclosures About Fair Value Measurements." This amendment requires separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We adopted this standard in the first quarter of 2012. Other than requiring additional disclosures, the adoption of this guidance did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, "Intangibles - Goodwill and Other (ASC Topic 350) - When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." This amendment modifies the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts, and it requires performing Step 2 if qualitative factors indicate that it is more likely than not that an impairment exists. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Any goodwill impairment resulting from the initial adoption of the amendments should be recorded as a cumulative effect adjustment to beginning retained earnings. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings. We adopted this standard in the first quarter of 2012. The adoption of this guidance did not have a material impact on our financial statements.

In December 2010, the FASB issued ASU No. 2010-29, "Business Combinations (ASC Topic 805) - Disclosure of Supplementary Pro Forma Information for Business Combinations." This amendment expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. We adopted this standard in the first quarter of 2012. Other than requiring additional disclosures, the adoption of this amendment did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." The amendments provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amendments also change certain fair value measurement principles and enhance the disclosure requirements, particularly for Level 3 fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. Early adoption is not permitted. We adopted this standard during the second quarter of 2012. Other than requiring additional disclosures, the adoption of this amendment did not have a material impact on our consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." The amendment eliminates the option to present other comprehensive income and its components in the statement of stockholders' equity. The amendment requires all nonowner changes in stockholders'

equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment, which must be applied retrospectively, is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. We adopted this standard during the second quarter of 2012. Other than requiring a change in the format of our financial statement presentation, the adoption of this amendment did not have a material impact on our consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments of 2011-05." The amendment allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the guidance in place prior to the issuance of ASU No. 2011-05. While the Board is considering the operational concerns about presentation requirements for reclassification adjustments, it stated that the deferral did not affect the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendment, which must be applied retrospectively, is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. We adopted this standard during the second quarter of 2012. The adoption of this amendment did not have a material impact on our consolidated financial statements.

#### Note 2 - Acquisitions

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value and such amounts are reflected in the respective captions on the balance sheet. All of the following acquisitions, with the exception of the 2011 military aftermarket business, resulted in goodwill being recorded as a result of the respective purchase price allocations.

In 2012, we completed four business combinations. Two of these business combinations were in our Components segment. We acquired Protokraft, LLC, based in Tennessee, for \$12,500 in cash plus contingent consideration with an initial fair value of \$4,809. Protokraft designs and manufactures opto-electronic transceivers, ethernet switches and media converters packaged into rugged, environmentally-sealed connectors. We also acquired Tritech International Limited, based in the UK, for \$32,921, net of cash acquired. Tritech is a leading designer and manufacturer of high performance acoustic sensors, sonars, video cameras and mechanical tooling equipment. We also completed two business combinations in our Space and Defense Controls segment. We acquired Bradford Engineering, based in the Netherlands, for \$13,173, net of cash acquired. Bradford is a developer and manufacturer of satellite equipment including attitude control, propulsion and thermal control subsystems. We also acquired In-Space Propulsion for \$45,495, net of cash acquired. In-Space Propulsion has locations in New York, California, Ireland and the United Kingdom and is a developer and manufacturer of liquid propulsion systems and components for satellites and missile defense systems.

In 2011, we completed three business combinations within two of our segments. We completed two business combinations within our Aircraft Controls segment, both of which are located in the U.S. We acquired Crossbow Technology Inc., based in California, for \$31,999, net of cash acquired. Crossbow designs and manufactures acceleration sensors that are integrated into inertial navigation and guidance systems used in a variety of aerospace, defense and transportation applications. We also acquired a business that complements our military aftermarket business for \$2,373 in cash. We completed one business combination within our Components segment by acquiring Animatics Corporation, based in California. The purchase price, net of cash acquired, was \$24,045, which included 466,541 shares of Moog Class A common stock valued at \$18,739 and \$1,837 of debt assumed. Animatics supplies integrated servos, linear actuators and control electronics that are used in a variety of industrial, medical and defense applications.

The purchase price allocations for the 2011 acquisitions are complete. Allocations for the 2012 acquisitions are subject to subsequent adjustment as we obtain additional information for our estimates during the respective measurement periods.

## Note 3 - Receivables

Receivables consist of:

	September 29, 2012	October 1, 2011
Accounts receivable	\$338,000	\$338,381
Long-term contract receivables:		
Amounts billed	114,482	94,420
Unbilled recoverable costs and accrued profits	286,887	216,667
Total long-term contract receivables	401,369	311,087
Other	10,936	11,055
Total receivables	750,305	660,523
Less allowance for doubtful accounts	(5,754 )	(4,718 )
Receivables	\$744,551	\$655,805

On March 5, 2012, we entered into a trade receivables securitization facility (the Securitization Program). Under the Securitization Program, we securitize certain trade receivables in transactions that are accounted for as secured borrowings. We maintain a subordinated interest in a portion of the pool of trade receivables that are securitized. The retained interest, which is included in receivables in the balance sheet, is recorded at fair value, which approximates the total amount of the designated pool of accounts receivable. See Note 7, Indebtedness, for additional disclosures related to the Securitization Program.

Long-term contract receivables are primarily associated with prime contractors and subcontractors in connection with U.S. Government contracts, commercial aircraft and satellite manufacturers. Amounts billed under long-term contracts to the U.S. Government were \$7,413 at September 29, 2012 and \$12,237 at October 1, 2011. Unbilled recoverable costs and accrued profits under long-term contracts to be billed to the U.S. Government were \$4,223 at September 29, 2012 and \$6,861 at October 1, 2011. Unbilled recoverable costs and accrued profits principally represent revenues recognized on contracts that were not billable on the balance sheet date. These amounts will be billed in accordance with contract terms, generally as certain milestones are reached or upon shipment. Approximately three-quarters of unbilled amounts are expected to be collected within one year. In situations where billings exceed revenues recognized, the excess is included in customer advances.

There are no material amounts of claims or unapproved change orders included in the balance sheet. Balances billed but not paid by customers under retainage provisions are not material.

Concentrations of credit risk on receivables are limited to those from significant customers who are believed to be financially sound. Receivables from Boeing were \$139,287 at September 29, 2012 and \$117,072 at October 1, 2011. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral.

## Note 4 - Inventories

Inventories, net of reserves, consist of:

	September 29, 2012	October 1, 2011
Raw materials and purchased parts	\$188,643	\$197,347
Work in progress	283,122	235,428
Finished goods	66,497	69,598
Inventories	\$538,262	\$502,373

## Note 5 - Property, Plant and Equipment

Property, plant and equipment consists of:

	September 29, 2012	October 1, 2011
Land	\$27,154	\$27,286
Buildings and improvements	386,101	341,716
Machinery and equipment	693,780	648,021
Property, plant and equipment, at cost	1,107,035	1,017,023
Less accumulated depreciation and amortization	(560,856 )	(513,151 )
Property, plant and equipment	\$546,179	\$503,872

## Note 6 - Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	Aircraft Controls	Space and Defense Controls	Industrial Systems	Components	Medical Devices	Total
Balance at October 3, 2009	\$ 180,694	\$ 106,802	\$ 124,155	\$ 159,359	\$ 127,449	\$ 698,459
Acquisitions	4,917	14,201	577	—	—	19,695
Adjustments to prior year acquisitions	(11,903)	)—	—	—	(82)	)(11,985)
Foreign currency translation	(201)	)620	(2,612)	)1,537	(697)	)(1,353)
Balance at October 2, 2010	173,507	121,623	122,120	160,896	126,670	704,816
Acquisitions	22,464	—	—	12,404	—	34,868
Adjustments to prior year acquisitions	(903)	)22	84	—	(138)	)(935)
Foreign currency translation	(1,016)	)(229)	)(1,370)	)(769)	)(344)	)(3,728)
Balance at October 1, 2011	194,052	121,416	120,834	172,531	126,188	735,021
Acquisitions	—	9,696	—	19,987	—	29,683
Adjustments to prior year acquisitions	(3,865)	)—	—	(147)	)—	(4,012)
Foreign currency translation	2,199	(397)	)(1,259)	)2,093	(474)	)(2,162)
Balance at September 29, 2012	\$ 192,386	\$ 130,715	\$ 119,575	\$ 194,464	\$ 125,714	\$ 762,854

The components of acquired intangible assets are as follows:

	September 29, 2012			October 1, 2011		
	Weighted- Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Customer-related	10	\$ 179,383	\$(80,953)	)\$ 159,861	\$(64,420)	)
Program-related	18	79,631	(13,976)	)64,887	(9,163)	)
Technology-related	9	67,969	(35,676)	)61,276	(28,876)	)
Marketing-related	9	29,327	(16,145)	)23,669	(13,828)	)
Contract-related	3	3,354	(3,354)	)3,238	(2,156)	)
Artistic-related	10	25	(25)	)25	(25)	)
Acquired intangible assets	12	\$ 359,689	\$(150,129)	)\$ 312,956	\$(118,468)	)

Customer-related intangible assets primarily consist of customer relationships. Program-related intangibles assets consist of long-term programs represented by current contracts and probable follow on work. Technology-related intangible assets primarily consist of technology, patents, intellectual property and software. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements. Contract-related intangible assets consist of favorable operating lease terms. We have \$5,113 of identifiable assets with indefinite lives in marketing-related intangibles at September 29, 2012.

Amortization of acquired intangible assets was \$31,235 in 2012, \$28,948 in 2011 and \$28,280 in 2010. Based on acquired intangible assets recorded at September 29, 2012, amortization is estimated to be \$29,510 in 2013, \$26,344 in 2014, \$23,301 in 2015, \$21,800 in 2016 and \$18,452 in 2017.

## Note 7 - Indebtedness

Short-term borrowings consist of:

	September 29, 2012	October 1, 2011
Securitization program	\$81,800	\$—
Lines of credit	8,974	8,426
Other short-term debt	—	857
Short-term borrowings	\$90,774	\$9,283

On March 5, 2012, we entered into a securitization program which matures on March 4, 2013 and which effectively increases our borrowing capacity by up to \$100,000. Under the securitization program, we sell certain trade receivables and related rights to an affiliate, which in turn sells an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. The securitization program can be extended by agreement of the parties for successive 364-day terms. Interest for the securitization program is 0.9% at September 29, 2012 and is based on prevailing market rates for short-term commercial paper plus an applicable margin. A commitment fee is also charged based on a percentage of the unused amounts available and is not material. The agreement governing the securitization program contains restrictions and covenants which include limitations on the making of certain restricted payments, creation of certain liens, and certain corporate acts such as mergers, consolidations and sale of substantially all assets. We are in compliance with all covenants.

In addition to the securitization program we maintain short-term credit facilities with banks throughout the world that are principally demand lines subject to revision by the banks. Interest on outstanding lines of credit is 1.9% at September 29, 2012.

Long-term debt consists of:

	September 29, 2012	October 1, 2011
U.S. revolving credit facility	\$292,026	\$332,874
Term loans	3,216	4,115
Obligations under capital leases	27	579
Senior debt	295,269	337,568
6¼% senior subordinated notes	187,004	187,021
7¼% senior subordinated notes	191,575	191,575
Total long-term debt	673,848	716,164
Less current installments	(3,186 )	(1,407 )
Long-term debt	\$670,662	\$714,757

Our U.S. revolving credit facility consists of a \$900,000 revolver, which matures on March 18, 2016. The credit facility is secured by substantially all of our U.S. assets. The loan agreement contains various covenants which, among others, specify interest coverage and maximum leverage and capital expenditures. We are in compliance with all covenants. Interest on the majority of the outstanding credit facility borrowings is 1.9% and is based on LIBOR plus the applicable margin, which was 150 basis points at September 29, 2012. Interest on the remaining outstanding credit facility borrowings is 3.8% and is based on prime plus the applicable margin, which was 75 basis points at September 29, 2012.

Term loans at September 29, 2012 consist of loans being repaid through 2014 that carry interest rates of 5.6%.

Our 6¼% senior subordinated notes are due January 15, 2015, with interest paid semiannually on January 15 and July 15 of each year. Our 7¼% senior subordinated notes are due June 15, 2018, with interest paid semiannually on June 15 and December 15 of each year. Both the 6¼% and 7¼% senior subordinated notes are unsecured, general

obligations, subordinated in right of payment to all existing and future senior indebtedness and contain normal incurrence-based covenants.



Maturities of long-term debt are \$3,186 in 2013, \$57 in 2014, \$187,004 in 2015, \$292,026 in 2016, \$0 in 2017 and \$191,575 thereafter.

At September 29, 2012, we had pledged assets with a net book value of \$1,453,831 as security for long-term debt. Our only financial instrument for which the carrying value at times differs from its fair value is long-term debt. At September 29, 2012, the fair value of long-term debt was \$686,741 compared to its carrying value of \$673,848. The fair value of long-term debt was estimated based on quoted market prices.

At September 29, 2012, we had \$607,928 of unused short and long-term borrowing capacity, including \$594,443 from the U.S. credit facility. Commitment fees are charged on some of these arrangements and on the U.S. credit facility based on a percentage of the unused amounts available and are not material.

#### Note 8 - Derivative Financial Instruments

We principally use derivative financial instruments to manage foreign exchange risk related to foreign operations and foreign currency transactions and interest rate risk associated with long-term debt. We enter into derivative financial instruments with a number of major financial institutions to minimize counterparty credit risk.

##### Derivatives designated as hedging instruments

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments. To mitigate exposure in movements between various currencies, primarily the Philippine peso, we had outstanding foreign currency forwards with notional amounts of \$26,626 at September 29, 2012. These contracts mature at various times through the second quarter of 2014.

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. There were no outstanding interest rate swaps at September 29, 2012.

These foreign currency forwards and interest rate swaps are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in 2012, 2011 or 2010.

Activity in Accumulated Other Comprehensive Income (Loss) (AOCI) related to these derivatives is summarized below:

	September 29, 2012	October 1, 2011
Balance at beginning of period	\$(165	) \$144