MOOG INC.
Form 10-Q
July 31, 2013

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 29, 2013

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 State	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)
(716) 652-2000	
(Telephone number including area code)	

Former name, former address and former fiscal year, if changed since last report.

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation 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 ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý 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 Exchange Act).
Yes ¨ No ý

The number of shares outstanding of each class of common stock as of July 25, 2013 was:
Class A common stock, $1.00 par value, 41,557,677 shares
Class B common stock, $1.00 par value, 3,759,394 shares

Moog Inc.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

PART 1	FINANCIAL INFORMATION		PAGE
	Item 1	Financial Statements:	
		Consolidated Condensed Balance Sheets as of June 29, 2013 and September 29, 2012	3
		Consolidated Condensed Statements of Earnings for the Three and Nine Months Ended June 29, 2013 and June 30, 2012	4
		Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended June 29, 2013 and June 30, 2012	5
		Consolidated Condensed Statements of Cash Flows for the Nine Months Ended June 29, 2013 and June 30, 2012	6
		Notes to Consolidated Condensed Financial Statements	7-19
	Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	20-35
	Item 3	Quantitative and Qualitative Disclosures about Market Risk	36
	Item 4	Controls and Procedures	36
PART II	OTHER INFORMATION		
	Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	37
	Item 6	Exhibits	38
SIGNATURES			39

PART I FINANCIAL INFORMATION
Item 1. Financial Statements
Moog Inc.
Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)	June 29, 2013	September 29, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$161,726	$148,841
Receivables	762,685	744,551
Inventories	558,487	538,262
Other current assets	128,182	117,254
TOTAL CURRENT ASSETS	1,611,080	1,548,908
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $592,878 and $560,856 respectively	547,171	546,179
GOODWILL	793,402	762,854
INTANGIBLE ASSETS, net	211,308	212,195
OTHER ASSETS	54,134	35,771
TOTAL ASSETS	$3,217,095	$3,105,907
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$75,959	$90,774
Current installments of long-term debt	3,402	3,186
Accounts payable	172,823	169,587
Customer advances	109,197	112,204
Contract loss reserves	44,619	48,428
Other accrued liabilities	235,350	239,697
TOTAL CURRENT LIABILITIES	641,350	663,876
LONG-TERM DEBT, excluding current installments		
Senior debt	513,858	292,083
Senior subordinated notes	191,567	378,579
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	413,463	427,588
DEFERRED INCOME TAXES	50,709	36,455
OTHER LONG-TERM LIABILITIES	3,283	2,536
TOTAL LIABILITIES	1,814,230	1,801,117
SHAREHOLDERS' EQUITY		
Common stock	51,280	51,280
Other shareholders' equity	1,351,585	1,253,510
TOTAL SHAREHOLDERS' EQUITY	1,402,865	1,304,790
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,217,095	$3,105,907

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
Consolidated Condensed Statements of Earnings
(Unaudited)

(dollars in thousands, except per share data)	Three Months Ended June 29, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 29, 2013	Nine Months Ended June 30, 2012
NET SALES	$670,632	$611,221	$1,934,458	$1,836,809
COST OF SALES	472,363	427,803	1,346,066	1,283,826
GROSS PROFIT	198,269	183,418	588,392	552,983
Research and development	33,109	28,198	103,550	84,285
Selling, general and administrative	96,550	93,668	302,420	287,163
Interest	6,084	8,566	21,122	25,748
Restructuring	4,795	—	6,996	—
Other	10,105	(373)	7,647	(310)
EARNINGS BEFORE INCOME TAXES	47,626	53,359	146,657	156,097
INCOME TAXES	13,399	14,488	41,785	45,432
NET EARNINGS	$34,227	$38,871	$104,872	$110,665
NET EARNINGS PER SHARE				
Basic	$0.76	$0.86	$2.31	$2.45
Diluted	$0.75	$0.85	$2.29	$2.42
AVERAGE COMMON SHARES OUTSTANDING				
Basic	45,316,429	45,258,844	45,334,657	45,232,833
Diluted	45,836,565	45,707,738	45,790,359	45,723,097

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
Consolidated Condensed Statements of Comprehensive Income
(Unaudited)

(dollars in thousands)	Three Months Ended June 29, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 29, 2013	Nine Months Ended June 30, 2012
NET EARNINGS	$34,227	$38,871	$104,872	$110,665
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation adjustment	(948)	(21,759)	(17,802)	(14,497)
Retirement liability adjustment	4,532	3,262	14,633	8,784
Change in accumulated income (loss) on derivatives	(1,167)	208	(1,315)	295
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	2,417	(18,289)	(4,484)	(5,418)
COMPREHENSIVE INCOME	$36,644	$20,582	$100,388	$105,247

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
Consolidated Condensed Statements of Cash Flows
(Unaudited)

(dollars in thousands)	Nine Months Ended June 29, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$104,872	$110,665
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	55,345	48,574
Amortization	25,080	25,091
Provisions for non-cash losses on contracts, inventories and receivables	43,274	53,598
Equity-based compensation expense	5,673	5,540
Other	2,286	(5,671)
Changes in assets and liabilities providing (using) cash, excluding the effects of acquisitions:		
Receivables	(14,480)	(56,801)
Inventories	(31,935)	(33,427)
Accounts payable	3,780	(5,131)
Customer advances	(2,896)	14,377
Accrued expenses	(39,706)	(33,724)
Accrued income taxes	11,975	5,828
Pension assets and liabilities	7,537	19,795
Other assets and liabilities	(10,291)	(5,207)
NET CASH PROVIDED BY OPERATING ACTIVITIES	160,514	143,507
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of acquired cash	(69,157)	(25,673)
Purchase of property, plant and equipment	(63,031)	(79,011)
Other investing transactions	(18,668)	(5,377)
NET CASH USED BY INVESTING ACTIVITIES	(150,856)	(110,061)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net short term borrowings (repayments)	(12,928)	94,956
Net proceeds (repayments) from revolving lines of credit	219,310	(97,506)
Payments on long-term debt, other than senior subordinated notes	(3,125)	(1,118)
Payments on senior subordinated notes	(187,000)	—
Excess tax benefits from equity-based payment arrangements	702	368
Other financing transactions	(12,603)	(809)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	4,356	(4,109)
Effect of exchange rate changes on cash	(1,129)	(3,566)
INCREASE IN CASH AND CASH EQUIVALENTS	12,885	25,771
Cash and cash equivalents at beginning of period	148,841	113,679
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$161,726	$139,450
CASH PAID FOR:		

Interest	$26,041	$25,001
Income taxes, net of refunds	33,589	45,017

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
Notes to Consolidated Condensed Financial Statements
Nine Months Ended June 29, 2013
(Unaudited)
(dollars in thousands, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for the fair presentation of results for the interim period have been included. The results of operations for the nine months ended June 29, 2013 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the fiscal year ended September 29, 2012. All references to years in these financial statements are to fiscal years.

Note 2 - Acquisitions and Divestitures

In 2013, we completed two business combinations. One of these business combinations was in our Space and Defense Controls segment. We acquired Broad Reach Engineering for $34,550 of cash consideration, issuance of $8,450 of notes payable and contingent consideration with an initial fair value of $2,565. Based in Colorado, Broad Reach Engineering is a leading designer and manufacturer of spaceflight electronics and software for aerospace, scientific, commercial and military missions. The company also provides ground testing, launch and on-orbit operations. We also completed one business combination in our Components segment. We acquired Aspen Motion Technologies, located in Radford, Virginia for $33,911 in cash. Aspen, founded in 1996, is a designer and manufacturer of high-performance permanent magnet brushless DC motors, integrated digital controls and motorized impellers for motors. Aspen also specializes in custom motor designs for end product integration and significant product enhancement in a variety of high-performance industrial applications.

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 U.K., for $34,267, net of cash acquired, which includes a working capital adjustment of $1,346 paid in 2013. 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 $44,845, net of cash acquired, which includes a refund of $650 received in 2013. 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.

On June 29, 2013, we completed one divestiture in our Medical Devices segment. We sold our Buffalo, New York operations of Ethox Medical for $5,000 in cash, which will be received in our fourth quarter, plus a $200 note receivable.

The purchase price allocations for the 2012 acquisitions are substantially complete. Allocations for 2013 acquisitions are subject to subsequent adjustment as we obtain additional information for our estimates during the respective

measurement periods.

Note 3 - Receivables

We securitize certain trade receivables in transactions that are accounted for as secured borrowings (Securitization Program). 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 consolidated condensed balance sheets, is recorded at fair value, which approximates the total amount of the designated pool of accounts receivable. Refer to Note 6, Indebtedness, for additional disclosures related to the Securitization Program.

Note 4 - Inventories

Inventories, net of reserves, consist of:

	June 29, 2013	September 29, 2012
Raw materials and purchased parts	$195,503	$188,643
Work in progress	289,283	283,122
Finished goods	73,701	66,497
Total	$558,487	$538,262

Note 5 - Goodwill and Intangible Assets

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

	Balance as of September 29, 2012	Acquisitions	Adjustment To Prior Year Acquisitions	Divestiture	Foreign Currency Translation	Balance as of June 29, 2013
Aircraft Controls	$192,386	$—	$—	$—	$(3,755)	$188,631
Space and Defense Controls	130,715	27,693	2,418	—	164	160,990
Industrial Systems	119,575	—	—	—	(1,555)	118,020
Components	194,464	11,351	(366)	—	(2,652)	202,797
Medical Devices	125,714	—	—	(2,900)	150	122,964
Total	$762,854	$39,044	$2,052	$(2,900)	$(7,648)	$793,402

The components of acquired intangible assets are as follows:

		June 29, 2013		September 29, 2012	
	Weighted - Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	10	$191,061	$(91,910)	$179,383	$(80,953)
Program-related	18	75,857	(16,789)	79,631	(13,976)
Technology-related	9	75,771	(40,302)	67,969	(35,676)
Marketing-related	9	32,853	(17,643)	29,327	(16,145)
Acquired intangible assets	12	$375,542	$(166,644)	$356,310	$(146,750)

All acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Program-related intangible 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.

Amortization of acquired intangible assets was $7,749 and $23,543 for the three and nine months ended June 29, 2013 and $7,925 and $23,218 for the three and nine months ended June 30, 2012. Based on acquired intangible assets recorded at June 29, 2013, amortization is expected to be approximately $31,400 in 2013, $29,300 in 2014, $25,100 in 2015, $23,400 in 2016 and $20,200 in 2017.

Note 6 - Indebtedness

Short-term borrowings consist of:

	June 29, 2013	September 29, 2012
Securitization program	$68,900	$81,800
Lines of credit	7,059	8,974
Short-term borrowings	$75,959	$90,774

The Securitization Program matures on March 3, 2014 and 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 thereto for successive 364-day terms. Interest for the Securitization Program 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.

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.

On January 15, 2013, we repurchased at par our 6¼% senior subordinated notes due on January 15, 2015, pursuant to an early redemption right. We redeemed the aggregate principal amount of $200,000 using proceeds drawn from our U.S. credit facility.

On March 28, 2013, we amended our U.S. credit facility. The amendments primarily reflect a modification of the matrix used to determine the applicable interest margin, the commitment fee rate and extended the maturity of the credit facility to March 28, 2018. The credit facility consists of a $900,000 revolver and had an outstanding balance of $508,630 at June 29, 2013. Interest on the outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 138 basis points at June 29, 2013. The credit facility is secured by substantially all of our U.S. assets.

Note 7 - Product Warranties

In the ordinary course of business, we warrant our products against defects 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:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Warranty accrual at beginning of period	$16,450	$17,720	$18,859	$19,247
Additions from acquisitions	—	—	—	40
Warranties issued during current period	3,550	2,623	6,483	6,884
Adjustments to pre-existing warranties	(666)	160	(1,141)	(145)
Reductions for settling warranties	(1,943)	(2,653)	(6,187)	(8,198)
Foreign currency translation	20	(237)	(603)	(215)

Warranty accrual at end of period	$17,411	$17,613	$17,411	$17,613

9

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

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. At June 29, 2013, we had interest rate swaps with notional amounts totaling $120,000. The interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 1.8%, including the applicable margin of 138 basis points as of June 29, 2013. The interest will revert back to variable rates based on LIBOR plus the applicable margin upon the maturity of the interest rate swaps on January 15, 2015 and January 15, 2016.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments and revenue. To mitigate exposure in movements between various currencies, primarily the Philippine peso, we had outstanding foreign currency forwards with notional amounts of $49,433 at June 29, 2013. These contracts mature at various times through the third quarter of 2015.

These interest rate swaps and foreign currency forwards are recorded in the consolidated condensed balance sheets 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 and revenue being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first nine months of 2013 or 2012.

Activity in AOCI related to these derivatives is summarized below:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Balance at beginning of period	$72	$(78)	$220	$(165)
Net deferral in AOCI of derivatives:				
Net increase (decrease) in fair value of derivatives	(1,863)	372	(1,696)	568
Tax effect	722	(173)	652	(245)
	(1,141)	199	(1,044)	323
Net reclassification from AOCI into earnings:				
Reclassification from AOCI into earnings	(42)	6	(462)	(67)
Tax effect	16	3	191	39
	(26)	9	(271)	(28)
Balance at end of period	$(1,095)	$130	$(1,095)	$130

Activity and classification of derivatives are as follows:

		Net deferral in AOCI of derivatives - effective portion			
		Three Months Ended		Nine Months Ended	
	Statement of earnings classification	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Interest rate swaps	Interest expense	$156	$—	$(47)	$—
Foreign currency forwards	Cost of sales	(2,019)	372	(1,649)	568
Net gain (loss)		$(1,863)	$372	$(1,696)	$568

		Net reclassification from AOCI into earnings - effective portion			
		Three Months Ended		Nine Months Ended	
	Statement of earnings classification	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Interest rate swaps	Interest expense	$(61)	$—	$(104)	$(67)
Foreign currency forwards	Cost of sales	103	(6)	566	134
Net gain (loss)		$42	$(6)	$462	$67

Derivatives not designated as hedging instruments

We also have foreign currency exposure on balances, primarily intercompany, that are denominated in foreign currencies and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the consolidated condensed statements of earnings. To minimize foreign currency exposure, we had foreign currency forwards with notional amounts of $231,197 at June 29, 2013. The foreign currency forwards are recorded in the consolidated condensed balance sheets at fair value and resulting gains or losses are recorded in the consolidated condensed statements of earnings. We recorded the following gains or losses on foreign currency forwards which are included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other income or expense:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net gain (loss)	$(2,835)	$(812)	$3,066	$(1,383)

Summary of derivatives

The fair value and classification of derivatives is summarized as follows:

		June 29, 2013	September 29, 2012
Derivatives designated as hedging instruments:			
Foreign currency forwards	Other current assets	$90	$467
Foreign currency forwards	Other assets	50	32
Interest rate swaps	Other current assets	33	—
Interest rate swaps	Other assets	48	—
	Total assets	$221	$499
Foreign currency forwards	Other accrued liabilities	$1,130	$41
Foreign currency forwards	Other long-term liabilities	858	40
Interest rate swaps	Other accrued liabilities	21	—
Interest rate swaps	Other long-term liabilities	12	—
	Total liabilities	$2,021	$81
Derivatives not designated as hedging instruments:			
Foreign currency forwards	Other current assets	$2,026	$1,456
	Total assets	$2,026	$1,456
Foreign currency forwards	Other accrued liabilities	$1,552	$2,549
	Total liabilities	$1,552	$2,549

Note 9 - Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 – Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.

Our derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market data, such as interest rate yield curves and currency rates, and are classified as Level 2 within the valuation hierarchy. Our Level 3 fair value liabilities represent contingent consideration recorded for acquisitions to be paid if various financial targets are met. The amounts recorded were calculated for each payment scenario in each period using an estimate of the probability of the future cash outflows. The varying contingent payments were then discounted to the present value at the weighted average cost of capital. Fair value is assessed on a quarterly basis, or whenever events or circumstances change that indicates an adjustment is required. The assessment includes an evaluation of the performance of the acquired business compared to previous expectations, changes to future projections and the probability of achieving the earn out targets.

The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis as of June 29, 2013:

	Classification	Level 1	Level 2	Level 3	Total
Foreign currency forwards	Other current assets	$—	$2,116	$—	$2,116
Foreign currency forwards	Other assets	—	50	—	50
Interest rate swaps	Other current assets	—	33	—	33
Interest rate swaps	Other assets	—	48	—	48
	Total assets	$—	$2,247	$—	$2,247
Foreign currency forwards	Other accrued liabilities	$—	$2,682	$—	$2,682
Foreign currency forwards	Other long-term liabilities	—	858	—	858
Interest rate swaps	Other accrued liabilities	—	21	—	21
Interest rate swaps	Other long-term liabilities	—	12	—	12
Acquisition contingent consideration	Other accrued liabilities	—	—	1,430	1,430
Acquisition contingent consideration	Other long-term liabilities	—	—	2,032	2,032
	Total liabilities	$—	$3,573	$3,462	$7,035

The changes in financial liabilities classified as Level 3 within the fair value hierarchy are as follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012

Balance at beginning of period	$5,148	$5,943	$6,422	$1,990
Acquisitions	(1,711)	371	2,565	4,809
Increase in discounted future cash flows recorded as interest expense	25	103	244	191
Decrease in earn out provisions recorded as other income	—	(40)	(2,991)	(613)
Settlements paid in cash	—	—	(2,778)	—
Balance at end of period	$3,462	$6,377	$3,462	$6,377

13

Our only financial instrument for which the carrying value differs from its fair value is long-term debt. At June 29, 2013, the fair value of long-term debt was $714,582 compared to its carrying value of $708,827. The fair value of long-term debt is classified as Level 2 within the fair value hierarchy and was estimated based on quoted market prices.

Note 10 - Employee Benefit Plans

Net periodic benefit costs for U.S. pension plans consist of:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Service cost	$6,714	$5,837	$20,142	$17,511
Interest cost	7,205	7,446	21,614	22,338
Expected return on plan assets	(10,335)	(10,492)	(31,005)	(31,476)
Amortization of prior service cost	2	2	6	6
Amortization of actuarial loss	6,901	4,256	20,703	12,768
Pension expense for defined benefit plans	10,487	7,049	31,460	21,147
Pension expense for defined contribution plans	2,794	2,262	7,959	6,459
Total pension expense for U.S. plans	$13,281	$9,311	$39,419	$27,606

Net periodic benefit costs for non-U.S. pension plans consist of:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Service cost	$1,235	$945	$3,646	$2,966
Interest cost	1,476	1,325	4,297	4,294
Expected return on plan assets	(960)	(889)	(2,806)	(2,814)
Amortization of prior service credit	(12)	(16)	(38)	(45)
Amortization of actuarial loss	405	207	1,184	642
Pension expense for defined benefit plans	2,144	1,572	6,283	5,043
Pension expense for defined contribution plans	1,365	1,168	4,036	3,584
Total pension expense for non-U.S. plans	$3,509	$2,740	$10,319	$8,627

Net periodic benefit costs for post-retirement health care benefit plan consists of:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Service cost	$73	$82	$219	$246
Interest cost	137	196	412	588
Amortization of transition obligation	90	99	271	297
Total periodic post-retirement benefit cost	$300	$377	$902	$1,131

Activity in AOCI related to U.S. pension plans, non-U.S. pension plans and post-retirement health care benefit plans is summarized below:

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Balance at beginning of period	$(270,323)	$(228,606)	$(280,424)	$(234,128)
Net reclassification from AOCI into earnings:				
Reclassification from AOCI into earnings	7,270	4,960	22,865	13,878
Tax effect	(2,738)	(1,698)	(8,232)	(5,094)
	4,532	3,262	14,633	8,784
Balance at end of period	$(265,791)	$(225,344)	$(265,791)	$(225,344)

Actual contributions for the nine months ended June 29, 2013 and anticipated additional 2013 contributions to our defined benefit pension plans are as follows:

	U.S. Plans	Non-U.S. Plans	Total
Actual	$23,646	$6,561	$30,207
Anticipated	10,867	1,678	12,545
	$34,513	$8,239	$42,752

Note 11 - Restructuring

We have initiated restructuring plans to better align our cost structure with projected sales levels. The restructuring actions taken have and will result in workforce reductions, primarily in the U.S., Europe and Asia.

Restructuring expense, which is principally related to severance, by segment for the three and nine months ended June 29, 2013 is as follows:

	Three Months Ended June 29, 2013	Nine Months Ended June 29, 2013
Aircraft Controls	$1,226	$1,700
Space and Defense Controls	556	556
Industrial Systems	3,013	4,740
Total	$4,795	$6,996

Restructuring activity is as follows:

	Three Months Ended June 29, 2013	Nine Months Ended June 29, 2013
Balance at beginning of period	$969	$—
Charged to expense	4,795	6,996
Cash payments	(3,612)	(4,806)
Foreign currency translation	(6)	(44)
Balance at end of period	$2,146	$2,146

Payments related to these costs are expected to be principally paid by the end of 2013. We anticipate that total restructuring charges will be approximately $1,700, $1,600 and $7,700 in our Aircraft Controls, Space and Defense Controls and Industrial Systems segments, respectively, in 2013.

Note 12 - Income Taxes

The effective tax rates of 28.1% and 28.5% for the three and nine months ended June 29, 2013 and 27.2% and 29.1% for the three and nine months ended June 30, 2012 are lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes partly as a result of a significant portion of our earnings that come from foreign operations with lower tax rates.

Note 13 - Shareholders' Equity

The changes in shareholders' equity for the nine months ended June 29, 2013 are summarized as follows:

	Amount	Number of Shares	
		Class A Common Stock	Class B Common Stock
COMMON STOCK			
Beginning of period	$51,280	43,575,124	7,704,589
Conversion of Class B to Class A	—	29,936	(29,936)
End of Period	51,280	43,605,060	7,674,653
ADDITIONAL PAID-IN CAPITAL			
Beginning of period	421,969		
Equity-based compensation expense	5,673		
Issuance of treasury shares at more than cost	5,083		
Adjustment to market - SECT, and other	7,031		
End of period	439,756		
RETAINED EARNINGS			
Beginning of period	1,169,216		
Net earnings	104,872		
End of period	1,274,088		
TREASURY STOCK			
Beginning of period	(74,980)	(2,253,318)	(3,305,971)
Issuance of treasury shares	3,033	375,942	—
Purchase of treasury shares	(8,264)	(186,382)	—
End of period	(80,211)	(2,063,758)	(3,305,971)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)			
Beginning of period	(15,984)		(418,317)
Issuance of shares	781		21,237
Purchase of shares	(9,319)		(206,926)
Adjustment to market - SECT	(6,331)		—
End of period	(30,853)	—	(604,006)
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME			
Beginning of period	(246,711)		
Other comprehensive loss	(4,484)		
End of period	(251,195)		
TOTAL SHAREHOLDERS' EQUITY	$1,402,865	41,541,302	3,764,676

The components of accumulated other comprehensive loss, net of tax, are as follows:

	June 29, 2013	September 29, 2012
Accumulated foreign currency translation	$15,691	$33,493
Accumulated retirement liability	(265,791)	(280,424)
Accumulated gain (loss) on derivatives	(1,095)	220

Accumulated other comprehensive gain (loss)	$(251,195)	$(246,711)

17

Note 14 - Stock Employee Compensation Trust

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for equity-based compensation plans and benefit programs, including the Moog Inc. Retirement Savings Plan. The shares in the SECT are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreement governing the SECT, the SECT trustee votes all shares held by the SECT on all matters submitted to shareholders.

Note 15 - Earnings per Share

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

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Weighted-average shares outstanding - Basic	45,316,429	45,258,844	45,334,657	45,232,833
Dilutive effect of equity-based awards	520,136	448,894	455,702	490,264
Weighted-average shares outstanding - Diluted	45,836,565	45,707,738	45,790,359	45,723,097

Note 16 - Segment Information

Below are sales and operating profit by segment for the three and nine months ended June 29, 2013 and June 30, 2012 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit 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, number of employees or profit.

	Three Months Ended				Nine Months Ended			
	June 29, 2013		June 30, 2012		June 29, 2013		June 30, 2012	
Net sales:								
Aircraft Controls	$272,855		$242,220		$783,996		$709,688	
Space and Defense Controls	100,071		87,138		292,224		265,343	
Industrial Systems	147,161		157,871		439,338		483,971	
Components	112,546		90,335		310,625		274,125	
Medical Devices	37,999		33,657		108,275		103,682	
Net sales	$670,632		$611,221		$1,934,458		$1,836,809	
Operating profit (loss) and margins:								
Aircraft Controls	$31,054		$27,826		$93,647		$75,436	
	11.4	%	11.5	%	11.9	%	10.6	%
Space and Defense Controls	6,711		9,892		22,610		32,538	
	6.7	%	11.4	%	7.7	%	12.3	%
Industrial Systems	9,273		15,880		26,157		50,978	
	6.3	%	10.1	%	6.0	%	10.5	%
Components	18,360		12,657		52,548		41,165	
	16.3	%	14.0	%	16.9	%	15.0	%
Medical Devices	(2,775	)	1,358		133		4,445	
	(7.3	)%	4.0	%	0.1	%	4.3	%
Total operating profit	62,623		67,613		195,095		204,562	
	9.3	%	11.1	%	10.1	%	11.1	%
Deductions from operating profit:								
Interest expense	6,084		8,566		21,122		25,748	
Equity-based compensation expense	949		750		5,673		5,540	
Corporate expenses and other	7,964		4,938		21,643		17,177	
Earnings before income taxes	$47,626		$53,359		$146,657		$156,097	

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

The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report filed on Form 10-K for the fiscal year ended September 29, 2012. All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years and amounts may differ from reported values due to rounding.

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, the United Kingdom, 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 represented 32% of our 2012 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, and 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 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. Based on periodic strategy reviews, including the financial outlook of our business, we may also engage in restructuring activities, including reducing overhead, consolidating facilities and exiting some product lines.

Acquisitions and Divestitures

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 on the consolidated balance sheet. The purchase price described for each acquisition below is net of any cash acquired and includes debt issued or assumed.

In 2013, we completed two business combinations. One of these business combinations was in our Space and Defense Controls segment. We acquired Broad Reach Engineering for $43 million and contingent consideration with an initial fair value of $3 million. Based in Colorado, Broad Reach Engineering is a leading designer and manufacturer of spaceflight electronics and software for aerospace, scientific, commercial and military missions. The company also provides ground testing, launch and on-orbit operations. We also completed one business combination in our Components segment. We acquired Aspen Motion Technologies, located in Radford, Virginia, for $34 million. Aspen, founded in 1996, is a designer and manufacturer of high-performance permanent magnet brushless DC motors, integrated digital controls and motorized impellers for motors. Aspen also specializes in custom motor designs for end product integration and significant product enhancement in a variety of high-performance industrial applications.

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 U.K., for $34 million, which includes a working capital adjustment of $1 million paid in 2013. 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 2013, we completed one divestiture in our Medical Devices segment. We sold our Buffalo, New York operations of Ethox Medical for $5 million.

CRITICAL ACCOUNTING POLICIES

On an ongoing basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including, but not limited to, revenue recognition on long-term contracts, contract loss reserves, reserves for inventory valuation, reviews for impairment of goodwill, purchase price allocations for business combination, pension assumptions and deferred tax asset valuation allowances.

There have been no material changes in critical accounting policies in the current year from those disclosed in our 2012 Form 10-K.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments require companies to provide information about the amounts reclassified out of accumulated comprehensive income by component. The amendments also require the presentation

of the significant amounts reclassified out of accumulated comprehensive income by line items of net income, if the amount is required to be reclassified in its entirety in the same reporting period, either on the face of the financial statements or in the related footnotes. For other amounts that are not required to be reclassified in their entirety to net income, a company is required to cross-reference to other disclosures that provide additional detail about those amounts. The amendments are effective for fiscal years beginning after December 15, 2012 and interim periods within those fiscal years. Early adoption is permitted. This amendment is applicable to us beginning in the first quarter of 2014. Other than modifying our disclosures, the adoption of this standard is not expected to have a material impact on our financial statements.

In March 2013, the FASB issued ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Group of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU is intended to eliminate diversity in practice on the release of cumulative translation adjustments into net income when a parent either sells part or all of its investment in a foreign entity, or when it no longer holds a controlling financial interest. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The provisions of this ASU are effective for fiscal years beginning after December 15, 2013 and interim periods within those fiscal years. This amendment is applicable to us beginning in the first quarter of 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

	Three Months Ended				Nine Months Ended			
(dollars in millions, except per share data)	June 29, 2013	June 30, 2012	$ Variance	% Variance	June 29, 2013	June 30, 2012	$ Variance	% Variance
Net sales	$670.6	$611.2	$59.4	10 %	$1,934.5	$1,836.8	$97.6	5 %
Gross margin	29.6 %	30.0 %			30.4 %	30.1 %		
Research and development expenses	$33.1	$28.2	$4.9	17 %	$103.6	$84.3	$19.3	23 %
Selling, general and administrative expenses as a percentage of sales	14.4 %	15.3 %			15.6 %	15.6 %		
Interest expense	$6.1	$8.6	$(2.5)	(29 %)	$21.1	$25.7	$(4.6)	(18 %)
Restructuring	4.8	—	4.8	N/A	7.0	—	7.0	N/A
Other	10.1	(0.4)	10.5	(2,625 %)	7.6	(0.3)	8.0	(2,633 %)
Effective tax rate	28.1 %	27.2 %			28.5 %	29.1 %		
Net earnings	$34.2	$38.9	$(4.6)	(12 %)	$104.9	$110.7	$(5.8)	(5 %)
Diluted earnings per share	$0.75	$0.85	$(0.10)	(12 %)	$2.29	$2.42	$(0.13)	(5 %)

Net sales increased in the third quarter of 2013 compared to the third quarter of 2012. Net sales also increased in the first nine months of 2013 compared to the same period in 2012. For both comparisons, sales increased in Aircraft Controls, Components, Space and Defense Controls and Medical Devices, while sales in Industrial Systems declined. Acquisitions contributed $32 million of the sales growth in the third quarter and $80 million in the first nine months of 2013 as compared to the same periods in 2012.

Gross margin decreased slightly in the third quarter, in part due to charges associated with a technical challenge in our Space and Defense Controls segment. Gross margin increased in the first nine months of 2013 compared to the first nine months of 2012 due in part to favorable product mix in Aircraft Controls, Components and Medical Devices.

Research and development expenses were higher in the third quarter of 2013 compared to the same period in 2012 primarily as a result of reimbursements negotiated on commercial transport programs that benefited the third quarter of 2012. Research and development expenses were also higher in the first nine months of 2013 compared to the same period in 2012, due to reimbursements negotiated on commercial transport programs in 2012 and increased activity on the Boeing 787-9 program in 2013.

Selling, general and administrative expenses as a percentage of sales declined in the third quarter of 2013 compared to the third quarter of 2012 due to cost containment activities. Selling, general and administrative expenses as a percentage of sales for the first nine months of 2013 was unchanged as our cost containment efforts offset higher costs in the first half of the year.

Interest expense decreased in the third quarter and the first nine months of 2013 compared to the same periods in 2012 due to the early redemption of our 6¼% senior subordinated notes on January 15, 2013.

In the third quarter of 2013, we continued our restructuring plans to better align our cost structure with our projected sales levels. The restructuring actions taken have resulted in workforce reductions in our Industrial Systems, Aircraft Controls and Space and Defense Controls segments.

Other expense in the third quarter of 2013 is mostly related to a $7 million loss in our Medical Devices segment on the sale of the Buffalo, New York Ethox Medical operations. Additionally, we had a $2 million write-down of an investment in Industrial Systems. For the first nine months of 2013, these charges were partially offset by recording income in our Components segment related to an acquisition with unachieved earn out provisions.

The effective tax rate increased in the third quarter of 2013 due to less benefit associated with foreign earnings. The effective tax rate decreased for the first nine months of 2013 due to the inclusion of a catch up adjustment for research and development tax credits mostly associated with 2012 following the enactment of legislation in the second quarter of 2013, and was partially offset by less benefit associated with foreign earnings.

2013 Outlook – We expect sales in 2013 to increase 5% to $2.58 billion, with growth in Aircraft Controls, Components and Space and Defense Controls. Offsetting almost a third of the growth is an expected sales decline in our Industrial Systems segment, reflecting continued weaker demand in our wind and industrial automation markets. We expect sales in our Medical Devices segment to remain flat. Of the sales growth in 2013, we expect sales associated with acquisitions to contribute approximately 75% of the growth. We expect operating margin to decline to 10.6% in 2013 from 11.1% in 2012. We expect a decline in our Medical Devices segment, due to the loss on the sale of the Buffalo, New York Ethox Medical operations. We also expect a decline in our Industrial Systems segment, as we incurred restructuring expenses and a write-down related to an investment in 2013. Partially offsetting these declines is the expected operating margin expansion from Aircraft Controls and Components segments. We expect restructuring expenses to be $11 million, primarily related to staff reductions in our Industrial Systems, Aircraft Controls and Space and Defense Controls segments. We will also benefit from $7 million of lower interest expenses due to the early redemption of our 6¼% senior subordinated notes on January 15, 2013. We expect net earnings to decrease to $148.7 million, and diluted earnings per share to decline 2% to $3.25.

While sequestration (as noted in Economic Conditions and Market Trends) has been enacted, we do not anticipate any significant impact of sequestration reductions in fiscal 2013 from this legislation.

2014 Outlook – We expect sales in 2014 to increase 3% to $2.67 billion, with growth in Components, Space and Defense Controls and Aircraft Controls. We expect flat sales in our key markets within our Industrial Systems segment as we are not forecasting a change in the current economic conditions. We expect our Medical Devices segment to decline slightly as organic sales growth is offset by the $9 million sales reduction due to the divestiture of the Buffalo, New York Ethox Medical operations. We expect a significant increase in profitability as our operating margin increases to 12.4% as Industrial Systems, Aircraft Controls, Space and Defense Controls and Medical Devices will contribute margin growth. Components' operating margin will decline slightly on less favorable sales mix. We expect net earnings to increase to between $180.0 and $189.3 million, and diluted earnings per share to increase between 20% and 26% to between $3.90 and $4.10.

24

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, number of employees or profit. Operating profit is reconciled to earnings before income taxes in Note 16 of the Notes to Consolidated Condensed Financial Statements included in this report.

Aircraft Controls

(dollars in millions)	Three Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance	Nine Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance
Net sales - military aircraft	$156.0	$141.7	$14.3	10 %	$450.3	$427.3	$23.0	5 %
Net sales - commercial aircraft	$116.9	$100.5	$16.4	16 %	$333.7	$282.4	$51.3	18 %
	$272.9	$242.2	$30.6	13 %	$784.0	$709.7	$74.3	10 %
Operating profit	$31.1	$27.8	$3.2	12 %	$93.6	$75.4	$18.2	24 %
Operating margin	11.4 %	11.5 %			11.9 %	10.6 %		
Backlog					$637.9	$690.3	$(52.4)	(8 %)

Aircraft Controls' sales increased in both the third quarter and first nine months of 2013 compared to the same periods in 2012 in both commercial and military markets.

During the third quarter of 2013, the sales dollar growth was almost evenly attributable to both military and commercial markets. Within commercial aircraft, OEM sales to Boeing increased $16 million, as production continued to ramp up on the 787 Dreamliner and volume increased on other Boeing production programs. Within military aircraft, OEM sales increased $12 million. F-35 sales production benefited from a new production order, and sales on the KC-46 Tanker increased $3 million as the program continues to ramp up. In addition, sales in military aftermarket increased $2 million.

During the first nine months of 2013, within commercial aircraft, Boeing OEM sales increased $42 million. Within military aircraft, aftermarket sales increased $17 million in part due to foreign military test equipment and spares orders. Military OEM sales increased $6 million, as increases in the KC-46 Tanker and F-35 programs were partially offset by lower sales in navigation aids.

Operating margin in the third quarter of 2013 was relatively unchanged from the same period a year ago. Offsetting the increases from sales volume and favorable mix was a $5 million increase in research and development expenses related to negotiated reimbursements on commercial aircraft transport programs that benefited the third quarter of 2012. Operating margin for the first nine months of 2013 improved compared to 2012. Higher volume and more favorable product mix, as well as lower selling expenses, offset increases in research and development expenses as 2012 included negotiated reimbursements and activity increased on the Boeing 787-9 platform in 2013.

The decline of twelve-month backlog for Aircraft Controls at June 29, 2013 compared to June 30, 2012 is largely related to the timing of various military programs, and is partially offset by increases in commercial orders.

2013 Outlook for Aircraft Controls – We expect sales in Aircraft Controls to increase 8% to $1.04 billion in 2013. Commercial aircraft is expected to increase 15% to $447 million due to stronger sales to Boeing and, to a lesser

extent, Airbus. Military aircraft sales are expected to increase 2% to $589 million. Aftermarket sales are expected to drive the increase while OEM sales are expected to remain flat, as fighter aircraft and KC-46 program growth is offset by navigation aids declines. We expect our operating margin to increase to 12.2% in 2013 from 10.9% in 2012, reflecting incremental margin on higher sales and a decline in selling, general and administrative expenses as a percentage of sales. Partly offsetting this increase is $2 million of restructuring expenses already incurred in 2013.

2014 Outlook for Aircraft Controls – We expect sales in Aircraft Controls to increase 2% to $1.06 billion in 2014. Commercial aircraft is expected to increase 12% to $499 million due to stronger sales across our major OEM programs. Partially offsetting this growth is an expected 5% decline in military aircraft sales to $558 million, as F-35 development and V-22 production rates decline. Also, we expect a decline in military aftermarket sales, reflecting our forecast of a possible sequestration impact. We expect our operating margin to increase to 13.0% in 2014 from 12.2% in 2013 as we benefit from incremental margin on higher commercial sales and a decline in research and development expenses.

Space and Defense Controls

(dollars in millions)	Three Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance	Nine Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance
Net sales	$100.1	$87.1	$12.9	15 %	$292.2	$265.3	$26.9	10 %
Operating profit	$6.7	$9.9	$(3.2)	(32 %)	$22.6	$32.5	$(9.9)	(31 %)
Operating margin	6.7 %	11.4 %			7.7 %	12.3 %		
Backlog					$260.5	$191.5	$69.0	36 %

Space and Defense Controls' sales increased in both the third quarter and the first nine months of 2013 due to acquisitions in the space market more than offsetting declines in various legacy programs.

Within the space market for the quarter, sales increased $12 million, $17 million of which came from acquisitions. In-Space Propulsion contributed $10 million and Broad Reach Engineering contributed $7 million of incremental sales. Partly offsetting the sales increase attributable to acquisitions was a $5 million decline in other spacecraft controls. Specifically, we experienced a technical challenge on a space program in one of our other recent acquisitions.

Within the space market for the first nine months of 2013, sales increased $33 million, as acquisitions contributed $51 million. In-Space Propulsion contributed $32 million and Broad Reach Engineering contributed $18 million. Partially offsetting the increase attributable to these acquisitions was a $17 million decrease in other space sales as efforts wound down on the Orion multi purpose crew vehicle and activity was light in our spacecraft mechanisms market. Within the security market, sales declined $4 million year-to-date in 2013 as Driver Vision Enhancement sales in 2012 did not repeat. Sales within our defense sector declined $3 million, in part due to a decline in missile systems production rates.

Operating margin declined in the third quarter and in the first nine months of 2013 compared to the same periods of 2012. This is largely due to charges in the current quarter associated a technical challenge in one of our earlier space market acquisitions. Slightly offsetting the charges was lower selling, general and administrative expenses as a percent of sales.

The increased level in twelve-month backlog at June 29, 2013 is mainly due to acquisitions in the past year.

2013 Outlook for Space and Defense Controls – We expect sales in Space and Defense Controls to increase 13% to $404 million in 2013. This sales increase is primarily attributable to our recent acquisitions of In-Space Propulsion and Broad Reach Engineering. We expect our operating margin to decrease to 8.5% in 2013 from 11.9% in 2012, largely as a result of the impact from recent acquisitions, the continued softening of the commercial satellite market and unfavorable product mix.

2014 Outlook for Space and Defense Controls – We expect sales in Space and Defense Controls to increase 7% to $433 million in 2013. We expect half of the increase to come from the benefit of a full year of Broad Reach Engineering. We also expect an increase in sales associated with foreign opportunities on a missile defense program. We expect our operating margin to increase to 10.0% in 2014 from 8.5% in 2013 as we were negatively impacted in 2013 by technical challenges in one of our earlier space market acquisitions.

27

Industrial Systems

(dollars in millions)	Three Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance	Nine Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance
Net sales	$147.2	$157.9	$(10.7)	(7%)	$439.3	$484.0	$(44.6)	(9%)
Operating profit	$9.3	$15.9	$(6.6)	(42%)	$26.2	$51.0	$(24.8)	(49%)
Operating margin	6.3%	10.1%			6.0%	10.5%		
Backlog					$211.0	$242.7	$(31.7)	(13%)

Sales in Industrial Systems declined in both the third quarter and the first nine months of 2013, reflecting continued weaker demand in our wind and industrial automation markets.

Industrial Systems' sales declined in the third quarter of 2013 compared to the third quarter of 2012. Sales in wind energy declined $11 million due to weak sales in China and lower demand in Europe which had benefited from a strong sales quarter last year. Additionally, sales in the industrial automation market declined $4 million, mostly due to lower activity in our metal forming and presses business. Partially offsetting the declines was a $3 million sales increase for military flight simulators.

Sales in Industrial Systems also declined in the first nine months of 2013 compared to the first nine months of 2012. Sales in our wind business declined $36 million, primarily a result of continued weakness in China. Sales in the industrial automation market declined $16 million with declines in metal forming and presses, heavy industry and in plastic and die casting. Stronger sales for flight simulation partially offset these sales declines.

Operating margin declined in the third quarter of 2013 compared to the same quarter of 2012 due to $3 million in restructuring expenses and a $2 million write-down on an investment. For the first nine months of 2013, operating margin declined as well. The decline was largely due to the lower sales volume. The first three quarters of fiscal 2013 also included $5 million of restructuring costs and the $2 million investment write-down.

The twelve-month backlog for Industrial Systems at June 29, 2013 decreased as compared to June 30, 2012, due to lower order volume in most of our markets.

2013 Outlook for Industrial Systems – We expect sales in Industrial Systems to decline 8% to $585 million in 2013. We expect sales in our energy and industrial automation markets to decrease compared to the prior year. However, we expect simulation and test sales to increase. We expect that our operating margin will decrease to 7.0% in 2013 from 10.0% in 2012, as our 2013 operating results include restructuring expenses and reflect diminished margin on lower sales.

2014 Outlook for Industrial Systems – We expect sales in Industrial Systems to remain flat relative to sales in 2013. We expect that our operating margin will increase to 12.2% in 2014 from 7.0% in 2013, as we benefit from our 2013 restructuring activities.

Components

(dollars in millions)	Three Months Ended				Nine Months Ended			
	June 29, 2013	June 30, 2012	$ Variance	% Variance	June 29, 2013	June 30, 2012	$ Variance	% Variance
Net sales	$112.5	$90.3	$22.2	25 %	$310.6	$274.1	$36.5	13 %
Operating profit	$18.4	$12.7	$5.7	45 %	$52.5	$41.2	$11.4	28 %
Operating margin	16.3 %	14.0 %			16.9 %	15.0 %		
Backlog					$186.5	$169.4	$17.1	10 %

Components' sales increased in the third quarter and in the first three quarters of 2013 compared to the same periods of 2012 primarily as a result of incremental sales from acquisitions.

Components' sales increased in our non-aerospace and defense markets in the third quarter of 2013 compared to the third quarter of 2012 due to $15 million of incremental sales from our Aspen and Tritech acquisitions. Sales also increased $5 million in our aerospace and defense markets, in part due to increased spares orders.

Components' sales increased in our non-aerospace and defense markets in the first nine months of 2013 compared to the same period in 2012 due to $30 million of incremental sales from our Aspen and Tritech acquisitions. In addition, sales increased $4 million in our aerospace and defense markets largely due to commercial aircraft growth.

Operating margin increased in the third quarter and in the first three quarters of 2013 compared to the same periods of 2012 as a result of a favorable sales mix and cost containment efforts. In addition, the first three quarters of 2013 as compared to the first three quarters of 2012 benefited from an unachieved earn out provision related to an acquisition.

The twelve-month backlog at June 29, 2013 compared to June 30, 2012 increased primarily related to acquisitions.

2013 Outlook for Components – We expect sales to increase 12% to $421 million in 2013 as acquisitions drive sales growth in our marine and industrial markets. We expect that our operating margin will increase to 16.5% in 2013 from 15.3% in 2012, reflecting our strong results for the first nine months of 2013.

2014 Outlook for Components – We expect sales to increase 9% to $460 million in 2014 with nearly half of this sales growth from our Aspen acquisition in our industrial market. Also we expect the remaining non-aerospace and defense markets to each increase $6 million, in part due to new products in our energy market and continued strong medical imaging sales in our medical market. We expect sales in our aerospace and defense markets to slightly offset this growth. We expect operating margin will moderate to 15.0% in 2014 from 16.5% in 2013, reflecting a slightly less favorable mix of sales.

Medical Devices

(dollars in millions)	Three Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance	Nine Months Ended June 29, 2013	June 30, 2012	$ Variance	% Variance
Net sales	$38.0	$33.7	$4.3	13 %	$108.3	$103.7	$4.6	4 %
Operating profit (loss)	$(2.8)	$1.4	$(4.1)	(304 %)	$0.1	$4.4	$(4.3)	(97