ESTERLINE TECHNOLOGIES CORP
Form 10-K
December 21, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 29, 2010

OR

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

For the transition period from ____________ to ____________

Commission file number 1-6357

ESTERLINE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-2595091**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 108th Avenue NE Bellevue, Washington	**98004**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code 425/453-9400

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

Title of each class	Name of each exchange on which registered
Common Stock ($.20 par value)	New York Stock Exchange
Preferred Stock Purchase Rights	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 x 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 x

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

Yes x No ¨

Indicate by check mark whether the registrant 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 x 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 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. x

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of December 16, 2010, 30,340,294 shares of the Registrant s common stock were outstanding. The aggregate market value of shares of common stock held by non-affiliates as of April 30, 2010, was $1,673,886,903 (based upon the closing sales price of $55.78 per share).

Documents Incorporated by Reference

Part III incorporates information by reference to the registrant s definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended October 29, 2010.

PART I

This Report includes a number of forward-looking statements that reflect the Company s current views with respect to future events and financial performance. Please refer to the section addressing forward-looking information on page 9 for further discussion. In this report, we, our, us, Company, and Esterline refer to Esterline Technologies Corporation and subsidiaries, unless otherwise noted or context otherwise indicates.

Item 1. Business

(a) General Development of Business.

Esterline, a Delaware corporation formed in 1967, is a leading specialized manufacturing company principally serving aerospace and defense customers. We design, manufacture and market highly engineered products and systems for application within the industries we serve.

Our strategy is to maintain a leadership position in niche markets for the development and manufacture of highly engineered products that are essential to our customers. We are concentrating our efforts to expand selectively our capabilities in these markets, to anticipate the global needs of our customers and to respond to such needs with comprehensive solutions. Our current business and strategic growth plan focuses on the continuous development of these products in three key technology segments Avionics & Controls, Sensors & Systems, and Advanced Materials including thermally engineered components and specialized high-performance elastomers and other complex materials, principally for aerospace and defense markets. Our products are often mission-critical equipment, which have been designed into particular military and commercial platforms and in certain cases can only be replaced by products of other manufacturers following a formal certification process. As part of our implementation of this growth plan, we focus on, among other things, expansion of our capabilities as a more comprehensive supplier to our customers. Such expansion included the October 15, 2010, execution of a license agreement with L-3 Avionics Systems, Inc. for the SmartDeck® integrated cockpit technologies to enhance our integrated cockpit capabilities for both OEM and retrofit opportunities; the January 26, 2009, acquisition of Racal Acoustics Global Ltd. (Racal Acoustics), which develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics segment; and the December 15, 2008, acquisition of NMC Group, Inc. (NMC), which designs and manufactures specialized light-weight fasteners principally for commercial aviation applications. We also divested non-core businesses operating as Pressure Systems, Inc., Muirhead Aerospace and Traxsys Input Products Limited. These acquisitions and divestitures are described in more detail in the Overview section of Management s Discussion and Analysis of Financial Condition and Results of Continuing Operations contained in Item 7 of this report.

Our products have a long history in the aerospace and defense industry and are found on most military and commercial aircraft, helicopters, and land-based systems. For example, our products are used on the majority of active and in-production U.S. military aircraft and on every Boeing commercial aircraft platform manufactured in the past 65 years. In addition, our products are supplied to Airbus, all of the major regional and business jet manufacturers, and the major aircraft engine manufacturers. We differentiate ourselves through our engineering and manufacturing capabilities and our reputation for safety, quality, on-time delivery, reliability, and innovation all embodied in the Esterline Performance System, our way of approaching business that helps ensure all employees are focused on continuous improvement. Safety of our operations is a critical factor in our business, and, accordingly, we incorporate applicable regulatory guidance in the design of our facilities and the training of our employees using a behavior-based approach that focuses on safety-designed work habits and on-going safety audits. We work closely with original equipment manufacturers (OEMs) on new, highly engineered product designs which often results in our products being designed into their platforms; this integration often results in sole-source positions for OEM production and aftermarket business. In fiscal 2010, we estimate that 35% of our sales to commercial and military aerospace customers were derived from aftermarket business. Our aftermarket sales, including retrofits, spare parts, and repair services, historically carry a higher gross margin than sales to OEMs. In many cases, aftermarket sales extend well beyond the OEM production period, supporting the platform during its entire life cycle.

Our sales are diversified across three broad markets: defense, commercial aerospace, and general industrial. For fiscal 2010, we estimate we derived approximately 45% of our sales from the defense market, 40% from the commercial aerospace market, and 15% from the general industrial market.

(b) Financial Information About Industry Segments.

A summary of net sales to unaffiliated customers, operating earnings and identifiable assets attributable to our business segments for fiscal years 2010, 2009, and 2008 is reported in Note 17 to the Company s Consolidated Financial Statements for the fiscal year ended October 29, 2010, and appears in Item 8 of this report.

(c) Narrative Description of Business.

Avionics & Controls

Our Avionics & Controls business segment includes avionics systems, control systems, interface technologies and communication systems capabilities. Avionics systems designs and develops cockpit systems integration and avionics subsystems for commercial and military applications. Control systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and casino gaming industries. Communication systems designs and manufactures military audio and data products for severe battlefield environments. In addition, communication systems designs and manufactures secure voice and data switching systems for military airborne, ground-based, and shipboard applications.

We are a market leader in global positioning systems (GPS), head-up displays, enhanced vision systems, and electronic flight management systems that are used in a broad variety of control and display applications. In addition, we develop, manufacture and market sophisticated high reliability technology interface systems for commercial and military aircraft. These products include lighted push-button and rotary switches, keyboards, lighted indicators, panels and displays. Over the years, our products have been integrated into many existing aircraft designs, including every Boeing commercial aircraft platform currently in production. Our large installed base provides us with a significant spare parts and retrofit business. We are a Tier 1 supplier on the Boeing 787 program to design and manufacture all of the cockpit overhead panels and embedded software for these systems. We manufacture control sticks, grips and wheels, as well as specialized switching systems. In this area, we primarily serve commercial and military aviation, and airborne and ground-based military equipment manufacturing customers. For example, we are a leading manufacturer of pilot control grips for most types of military fighter jets and helicopters. Additionally, our software engineering center supports our customers needs with such applications as primary flight displays, flight management systems, air data computers and engine control systems.

Our proprietary products meet critical operational requirements and provide customers with significant technological advantages in such areas as night vision compatibility and active-matrix liquid-crystal displays (a technology enabling pilots to read display screens in a variety of light conditions as well as from extreme angles). Our products are incorporated in a wide variety of platforms ranging from military helicopters, fighters and transports, to commercial wide- and narrow-body, regional and business jets. In fiscal 2010, some of our largest customers for these products included BAE Systems, The Boeing Company, Canadian Commercial Corp., Hawker Beechcraft, Honeywell, Hamilton Sunstrand, Lockheed Martin, Rockwell Collins, and Sikorsky.

We are also a supplier in custom input integration with a full line of keyboard, switch and input technologies for specialized medical equipment, communications systems and comparable equipment for military applications. These products include custom keyboards, keypads, and input devices that integrate cursor control devices, bar-code scanners, displays, video, and voice activation. We also produce instruments that are used for point-of-use and point-of-care in vivo diagnostics. We have developed a wide variety of technologies, including plastic and vinyl membranes that protect high-use switches and fully depressible buttons, and backlit elastomer switch coverings that are resistant to exposure from harsh chemicals. These technologies now serve as the foundation for a small but growing portion of our product line. In fiscal 2010, some of our largest customers for these products included Alere, Dictaphone, DRS Tactical Systems, General Electric, IDEXX Laboratories, Jabil Circuit, Philips, Roche, Siemens, and WMS.

In addition, we design and manufacture ruggedized military personal communication equipment, primarily headsets. We are the sole supplier of Active Noise Reduction (ANR) headsets to the British Army s tracked and wheeled vehicle fleets under the Bowman communication system program. In the U.S., we supply ANR headsets to the U.S. Army s tracked and wheeled vehicle fleets under the Vehicle Intercom System (VIS) and VIS-X programs comprising over 200,000 vehicles, and we are the sole supplier to the U.S. Marine Corps for their M-ATV fleet. We are also the sole ANR headset supplier to the Canadian Army. We have a long-standing relationship with armies around the world including forces in India, Australia, Spain, and Saudi Arabia. In fiscal 2010, some of our largest customers for these products included Northrop Grumman, Lockheed Martin, Simex Defense, Sanmina-SCI, and the British Ministry of Defence (MoD).

Sensors & Systems

Our Sensors & Systems business segment includes power systems and advanced sensors capabilities. We develop and manufacture high-precision temperature, pressure and speed sensors, electrical power switching, control and data communication devices, and other related systems principally for aerospace and defense customers. We are the sole-source supplier of temperature probes for use on all versions of the General Electric/Snecma CFM-56 jet engine. The CFM-56 jet engine has an installed base of 21,000, is standard equipment on new generation Boeing 737 aircraft and was selected as the engine for approximately 51% of all Airbus aircraft delivered to date. We were contracted to design and manufacture the 787 s sensors for the environmental control system, and provide the primary power distribution assembly for the Airbus A400M military transport. Additionally, we have secured a Tier 1 position with Rolls Royce for the complete suite of sensors for the engines that will power the A400M and A350. The principal customers for our products in this business segment are jet engine manufacturers and airframe manufacturers. In fiscal 2010, some of our largest customers for these products included The Boeing Company, Bombardier, Dassault, Eurocopter, Flame, General Electric, Honeywell, Rolls Royce, and SAFRAN.

Advanced Materials

Our Advanced Materials business segment includes engineered materials and defense technologies capabilities. We develop and manufacture high-performance elastomer products used in a wide range of commercial aerospace, space, and military applications, and highly engineered thermal components for commercial aerospace and industrial applications. We also develop and manufacture combustible ordnance and countermeasures for military applications.

Specialized High-Performance Applications. We specialize in the development of proprietary formulations for silicone rubber and other elastomer products. Our elastomer products are engineered to address specific customer requirements where superior performance in high temperature, high pressure, caustic, abrasive and other difficult environments is critical. These products include clamping devices, thermal fire barrier insulation products, sealing systems, tubing and coverings designed in custom-molded shapes. Some of the products include proprietary elastomers that are specifically designed for use on or near a jet engine. We are a leading U.S. supplier of high-performance elastomer products to the aerospace industry, with our primary customers for these products being jet and rocket engine manufacturers, commercial and military airframe manufacturers, as well as commercial airlines. In fiscal 2010, some of the largest customers for these products included Alliant Techsystems, The Boeing Company, Honeywell, KAPCO, Lockheed Martin, Northrop Grumman, and Pattonair. We also develop and manufacture high temperature lightweight metallic insulation systems for aerospace and marine applications. Our commercial aerospace programs include the 737, A320, and A380 series aircraft and the V2500 and BR710 engines. Our insulation material is used on diesel engine manifolds for earthmoving and agricultural applications. In addition, we specialize in the development of thermal protection for fire, nuclear, and petro-chemical industries. We design and manufacture high temperature components for industrial and marine markets. Our manufacturing processes consist of cutting, pressing, and welding stainless steel, Inconel and titanium fabrications. In fiscal 2010, some of the largest customers of these products included Airbus, The Boeing Company, Goodrich, GKN Aerospace, Northrop Grumman, Pattonair, Rolls Royce, Short Brothers, Spirit AeroSystems, and Volvo.

Ordnance and Countermeasure Applications. We develop and manufacture combustible ordnance and warfare countermeasure devices for military customers. We manufacture molded fiber cartridge cases, mortar increments, igniter tubes and other combustible ordnance components primarily for the U.S. Department of Defense. Safety of our operations is a critical factor in manufacturing ordnance and countermeasures, and accordingly, we incorporate applicable regulatory guidance in the design of our facilities and in the training of our employees. As part of our behavior-based approach to training, employees learn safety-designed work habits and perform on-going safety audits. We also monitor safety metrics to ensure compliance. We are currently the sole supplier of combustible casings utilized by the U.S. Armed Forces. Sales are made either directly to the U.S. Department of Defense or through prime contractors, Alliant Techsystems and General Dynamics. These products include the combustible case for the U.S. Army s new generation 155mm Modular Artillery Charge System, the 120mm combustible case used with the main armament system on the U.S. Army and Marine Corps M1-A1/2 tanks, and the 60mm, 81mm and 120mm combustible mortar increments. We are one of two suppliers to the U.S. Army of infrared decoy flares used by aircraft to help protect against radar and infrared guided missiles. Additionally, we are a supplier of infrared decoy flares to the MoD and other international defense agencies. We are currently the only supplier of radar countermeasures to the U.S. Army.

A summary of product lines contributing sales of 10% or more of total sales for fiscal years 2010, 2009 and 2008 is reported in Note 17 to the Consolidated Financial Statements for the fiscal year ended October 29, 2010, and appears in Item 8 of this report.

Marketing and Distribution

We believe that a key to continued success is our ability to meet customer requirements both domestically and internationally. We have and will continue to improve our world-wide sales and distribution channels in order to provide wider market coverage and to improve the effectiveness of our customers supply chain. For example, our medical device assembly operation in Shanghai, China, serves our global medical customers, our service center in Singapore improves our capabilities in Asia for our temperature sensor customers, and our marketing representative office in Beijing, China, facilitates marketing opportunities in China. Other enhancements include combining sales and marketing forces of our operating units where appropriate, cross-training our sales representatives on multiple product lines, and cross-stocking our spares and components.

In the technical and highly engineered product segments in which we compete, relationship selling is particularly appropriate in targeted marketing segments where customer and supplier design and engineering inputs need to be tightly integrated. Participation in industry trade shows is an effective method of meeting customers, introducing new products, and exchanging technical specifications. In addition to technical and industry conferences, our products are supported through direct internal international sales efforts, as well as through manufacturer representatives and selected distributors. As of October 29, 2010, 229 sales people, 275 representatives, and 138 distributors support our operations internationally.

Backlog

Backlog was $1.1 billion at October 29, 2010, and October 30, 2009. We estimate that approximately $256.6 million of backlog is scheduled to be shipped after fiscal 2011.

Backlog is subject to cancellation until delivered, and therefore, we cannot assure that our backlog will be converted into revenue in any particular period or at all. Backlog does not include the total contract value of cost-plus reimbursable contracts, which are funded as we incur the costs. Except for the released portion, backlog also does not include fixed-price multi-year contracts.

Competition

Our products and services are affected by varying degrees of competition. We compete with other companies in most markets we serve, many of which have far greater sales volumes and financial resources. Some of our competitors are also our customers on certain programs. The principal competitive factors in the commercial markets in which we participate are product performance, on-time delivery, service and price. Part of product performance requires expenditures in research and development that lead to product improvement. The market for many of our products may be affected by rapid and significant technological changes and new product introductions. Our principal competitors include Astronautics, BAE, Bose, ELBIT, EMS, Eaton, GE Aerospace, Honeywell, IAI, L-3, Otto Controls, RAFI, Rockwell Collins, SELEX, Telephonics, Thales, Ultra Electronics, Universal Avionics Systems Corporation, and Zodiac in our Avionics & Controls segment; Ametek, Eaton, Goodrich, Hamilton Sundstrand, MPC Products, Meggitt, STPI-Deutsch, Tyco, and Zodiac in our Sensors & Systems segment; and Chemring, Doncasters, Hitemp, J&M, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), Rheinmetall, Trelleborg, ULVA, and UMPCO in our Advanced Materials segment.

Research and Development

Our product development and design programs utilize an extensive base of professional engineers, technicians and support personnel, supplemented by outside engineering and consulting firms when needed. In fiscal 2010, we expended approximately $69.8 million for research, development and engineering, compared with $64.5 million in fiscal 2009 and $85.1 million in fiscal 2008. We believe continued product development is key to our long-term growth, and consequently, we consistently invest in research and development. Examples include research and development projects relating to advanced vision systems, integrated avionics control panels, A350 engine sensors, high temperature, low observable material for military applications, and spectral countermeasure flares for military applications. We actively participate in customer-funded research and development programs, including applications on C-130 cockpit upgrades, P-8 aircraft and power systems for the HH-47 Chinook helicopter and A400M.

Foreign Operations

Our principal foreign operations consist of manufacturing facilities located in France, Germany, Canada, the United Kingdom, Mexico and China, and include sales and service operations located in Singapore and China. For further information regarding foreign operations, see Note 17 to the Consolidated Financial Statements under Item 8 of this report.

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U.S. Government Contracts and Subcontracts

As a contractor and subcontractor to the U.S. government (primarily the U.S. Department of Defense), we are subject to various laws and regulations that are more restrictive than those applicable to private sector contractors. Approximately 10% of our sales were made directly to the U.S. government in fiscal 2010. In addition, we estimate that our subcontracting activities to contractors for the U.S. government accounted for approximately 25% of sales during fiscal 2010. In total, we estimate that approximately 35% of our sales during the fiscal year were subject to U.S. government contracting regulations. Such contracts may be subject to termination, reduction or modification in the event of changes in government requirements, reductions in federal spending, and other factors.

Historically, our U.S. government contracts and subcontracts have been predominately fixed-price contracts. Generally, fixed-price contracts offer higher margins than cost-plus contracts in return for accepting the risk that increased or unexpected costs may reduce anticipated profits or cause us to sustain losses on the contracts. The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. The contracts and subcontracts to which we are a party are also subject to profit and cost controls and standard provisions for termination at the convenience of the U.S. government. Upon termination, other than for our default, we will normally be entitled to reimbursement for allowable costs and to an allowance for profit. To date, none of our material fixed-price contracts have been terminated.

Patents and Licenses

Although we hold a number of patents and licenses, we do not believe that our operations are dependent on our patents and licenses. In general, we rely on technical superiority, continual product improvement, exclusive product features, lean operational excellence including superior lead-time, on-time delivery performance and quality, and customer relationships to maintain competitive advantage.

Seasonality

The timing of our revenues is impacted by the purchasing patterns of our customers and as a result we do not generate revenues evenly throughout the year. Moreover, our first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America. This leads to decreased order and shipment activity; consequently, first quarter results are typically weaker than other quarters and not necessarily indicative of our performance in subsequent quarters.

Sources and Availability of Raw Materials and Components

The sources and availability of certain raw materials and components are not as critical as they would be for manufacturers of a single product line, due to our vertical integration and diversification. However, certain components, supplies and raw materials for our operations are purchased from single sources. In such instances, we strive to develop alternative sources and design modifications to minimize the effect of business interruptions.

Environmental Matters

We are subject to federal, state, local and foreign laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous waste, and (ii) impose liability for the costs of cleaning up, and certain damages resulting from, sites or past spills, disposals or other releases of hazardous substances.

At various times we have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), and analogous state environmental laws, for the cleanup of contamination resulting from past disposals of hazardous wastes at certain sites to which we, among others, sent wastes in the past. CERCLA requires potentially responsible persons to pay for cleanup of sites from which there has been a release or threatened release of hazardous substances. Courts have interpreted CERCLA to impose strict, joint and several liability on all persons liable for cleanup costs. As a practical matter, however, at sites where there are multiple potentially responsible persons, the costs of cleanup typically are allocated among the parties according to a volumetric or other standard.

We have accrued liabilities for environmental remediation costs expected to be incurred by our operating facilities. Environmental exposures are provided for at the time they are known to exist or are considered reasonably probable and

estimable. No provision has been recorded for environmental remediation costs that could result from changes in laws or other circumstances we have not currently contemplated.

Employees

We had 8,976 employees at October 29, 2010, of which 4,763 were based in the United States, 2,637 in Europe, 1,092 in Canada, 342 in Mexico and 142 in Asia. Approximately 15% of the U.S.-based employees were represented by a labor union. Our European operations are subject to national trade union agreements and to local regulations governing employment.

(d) Financial Information About Foreign and Domestic Operations and Export Sales.

See risk factor below entitled Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results under Item 1A of this report and Note 17 to the Consolidated Financial Statements under Item 8 of this report.

(e) Available Information of the Registrant.

You can access financial and other information on our Web site, www.esterline.com. We make available through our Web site, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the Securities and Exchange Commission (SEC). The SEC also maintains a Web site at www.sec.gov, which contains reports, proxy and information statements, and other information regarding public companies, including Esterline. Any reports filed with the SEC may also be obtained from the SEC s Reference Room at 100 F Street, NE, Washington, DC 20549. Our Corporate Governance Guidelines and charters for our board committees are available on our Web site, www.esterline.com on the Corporate Governance tab, and our Code of Business Conduct and Ethics, which includes a code of ethics applicable to our accounting and financial employees, including our Chief Executive Officer and Chief Financial Officer, is available on our Web site at www.esterline.com on the Corporate Governance tab. Each of these documents is also available in print (at no charge) to any shareholder upon request. Our Web site and the information contained therein or connected thereto are not incorporated by reference into this Form 10-K.

Executive Officers of the Registrant

The names and ages of all executive officers of the Company and the positions and offices held by such persons as of December 21, 2010, are as follows:

Name	Position with the Company	Age
R. Bradley Lawrence	President and Chief Executive Officer	63
Robert D. George	Vice President, Chief Financial Officer, Secretary and Treasurer	54
Frank E. Houston	Senior Group Vice President	59
Stephen R. Larson	Vice President, Strategy & Technology	66
Marcia J. Mason	Vice President, Human Resources	58
Albert S. Yost	Group Vice President	45

Mr. Lawrence has been President and Chief Executive Officer since November 2009. Prior to that time, he was President and Chief Operating Officer since July 2009 and Group Vice President since January 2007. From September 2002 to January 2007, he was President of Advanced Input Systems, a subsidiary of the Company. Mr. Lawrence has an M.B.A. from the University of Pittsburgh and a B.S. degree in Business Administration from Pennsylvania State University.

Mr. George has been Vice President, Chief Financial Officer, Secretary and Treasurer since July 1999. Mr. George has an M.B.A. from the Fuqua School of Business at Duke University and a B.A. degree in Economics from Drew University.

Mr. Houston has been Senior Group Vice President since December 2009. Prior to that time, he was Group Vice President since March 2005. Mr. Houston has an M.B.A. from the University of Washington and a B.A. degree in Political Science from Seattle Pacific University.

Mr. Larson has been Vice President, Strategy & Technology since January 2000. Mr. Larson has an M.B.A. from the University of Chicago and a B.S. degree in Electrical Engineering from Northwestern University.

Ms. Mason has been Vice President, Human Resources since March 1993. Ms. Mason has a J.D. degree from Northwestern University School of Law and a B.A. degree in Political Science from Portland State University.

Mr. Yost has been Group Vice President since November 2009. Previously, he was President of Advanced Input Systems, a subsidiary of the Company from January 2007, and held management responsibilities for Esterline s Interface Technologies business platform from May 2007. From April 2002 to April 2007, he was Director of Finance for Advanced Input Systems. Mr. Yost has an M.B.A. from Utah State University and a B.A. degree in Economics from Brigham Young University.

Forward-Looking Statements

This annual report on Form 10-K includes forward-looking statements. These statements may be identified by the use of forward-looking terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, predict, negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report under the headings Risks Relating to Our Business and Our Industry, Management s Discussion and Analysis of Financial Condition and Results of Continuing Operations and Business are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed in this report under the headings Risks Relating to Our Business and Our Industry, Management s Discussion and Analysis of Financial Condition and Results of Continuing Operations and Business may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations are:

- A significant downturn in the aerospace industry;
- A significant reduction in defense spending;
- A decrease in demand for our products as a result of competition, technological innovation or otherwise;
- Our inability to integrate acquired operations or complete acquisitions; and
- Loss of a significant customer or defense program.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included or incorporated by reference into this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

Item 1A. Risk Factors

<u>Risks Relating to Our Business and Our Industry</u>

A recurrent global recession may adversely affect our access to capital, cost of capital, and business operations.

If the global economy does not recover from the current recession or if the global recession recurs, our future cost of debt and equity capital could be adversely affected. Any inability to obtain adequate financing from debt and equity sources could force us to self fund strategic initiatives or even forgo some opportunities, potentially harming our financial position, results of operations, and liquidity.

Economic conditions may impair our customers business and markets, which could adversely affect our business operations.

In the event of a recurrent global recession in the United States and other parts of the world, the businesses of some of our customers may not generate sufficient revenues. Customers may choose to delay or postpone purchases from us until the economy and their businesses strengthen. Decisions by current or future customers to forgo or defer purchases and/or our customers inability to pay us for our products may adversely affect our earnings and cash flow.

Implementing our acquisition strategy involves risks, and our failure to successfully implement this strategy could have a material adverse effect on our business.

One of our key strategies is to grow our business by selectively pursuing acquisitions. Since 1996 we have completed over 30 acquisitions, and we are continuing to actively pursue additional acquisition opportunities, some of which may be material to our business and financial performance. Although we have been successful with this strategy in the past, we may not be able to grow our business in the future through acquisitions for a number of reasons, including:

- Acquisition financing not being available on acceptable terms or at all;
- Encountering difficulties identifying and executing acquisitions;
- Increased competition for targets, which may increase acquisition costs;
- Consolidation in our industry reducing the number of acquisition targets; and
- Competition laws and regulations preventing us from making certain acquisitions.

In addition, there are potential risks associated with growing our business through acquisitions, including the failure to successfully integrate and realize the expected benefits of an acquisition. For example, with any past or future acquisition, there is the possibility that:

- The business culture of the acquired business may not match well with our culture;
- Technological and product synergies, economies of scale and cost reductions may not occur as expected;
- Management may be distracted from overseeing existing operations by the need to integrate acquired businesses;
- We may acquire or assume unexpected liabilities;
- Unforeseen difficulties may arise in integrating operations and systems;
- We may fail to retain and assimilate employees of the acquired business;
- We may experience problems in retaining customers and integrating customer bases; and
- Problems may arise in entering new markets in which we may have little or no experience.

Failure to continue implementing our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

Our future financial results could be adversely impacted by asset impairment charges.

We are required to test both acquired goodwill and other indefinite-lived intangible assets for impairment on an annual basis based upon a fair value approach, rather than amortizing them over time. We have chosen to perform our annual impairment reviews of goodwill and other indefinite-lived intangible assets during the fourth quarter of each fiscal year. We also are required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity s market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. If the fair market value is less than the book value of goodwill, we could be required to record an impairment charge. The valuation of reporting units requires judgment in estimating future cash flows, discount rates and estimated product life cycles. In making these judgments, we evaluate the financial health of the business, including such factors as industry performance, changes in technology and operating cash flows.

As we have grown through acquisitions, we have accumulated $739.7 million of goodwill, and have $47.9 million of indefinite-lived intangible assets, out of total assets of $2.6 billion at October 29, 2010. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. We performed our impairment review for fiscal 2010 as of July 31, 2010, and our Step One analysis indicates that no impairment of goodwill and other indefinite-lived assets exists at any of our reporting units.

A long-lived asset to be disposed of is reported at the lower of its carrying amount or fair value less cost to sell. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows. As we have grown through acquisitions, we have accumulated $494.0 million of definite-lived intangible assets. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

The amount of debt we have outstanding, as well as any debt we may incur in the future, could have an adverse effect on our operational and financial flexibility.

As of October 29, 2010, we had $613.6 million of debt outstanding, of which $599.0 million is long-term debt. Under our existing secured credit facility we have a $200 million revolving line of credit and a $125 million U.S. term loan. Up to $50.0 million in letters of credit may be drawn in U.K. pounds or euros in addition to U.S. dollars. The secured credit facility is secured by substantially all of the Company s assets and interest is based on standard inter-bank offering rates. In addition, we have unsecured foreign currency credit facilities that have been extended by foreign banks for up to $31.8 million. Available credit under the above credit facilities was $207.7 million at October 29, 2010, when reduced by outstanding foreign bank borrowings of $2.0 million and letters of credit of $22.1 million.

We also have outstanding $175.0 million 6.625% senior notes due in March 2017 and $250.0 million 7.0% senior notes due in August 2020. The indentures governing those notes and other debt agreements limit, but do not prohibit, us from incurring additional debt in the future. Our level of debt could have significant consequences to our business, including the following:

- Depending on interest rates and debt maturities, a substantial portion of our cash flow from operations could be dedicated to paying principal and interest on our debt, thereby reducing funds available for our acquisition strategy, capital expenditures or other purposes;
- A significant amount of debt could make us more vulnerable to changes in economic conditions or increases in prevailing interest rates;
- Our ability to obtain additional financing for acquisitions, capital expenditures or for other purposes could be impaired;
- The increase in the amount of debt we have outstanding increases the risk of non-compliance with some of the covenants in our debt agreements which require us to maintain specified financial ratios; and
- We may be more leveraged than some of our competitors, which may result in a competitive disadvantage.

The loss of a significant customer or defense program could have a material adverse effect on our operating results.

Some of our operations are dependent on a relatively small number of customers and aerospace and defense programs, which change from time to time. Significant customers in fiscal 2010 included The Boeing Company, Flame, GE Aerospace, General Dynamics, Honeywell, Lockheed Martin, Rolls Royce, and U.S. Department of Defense. There can be no assurance that our current significant customers will continue to buy our products at current levels. The loss of a significant customer or the cancellation of orders related to a sole-source defense program could have a material adverse effect on our operating results if we were unable to replace the related sales.

Our revenues are subject to fluctuations that may cause our operating results to decline.

Our business is susceptible to seasonality and economic cycles, and as a result, our operating results have fluctuated widely in the past and are likely to continue to do so. Our revenue tends to fluctuate based on a number of factors, including domestic and foreign economic conditions and developments affecting the specific industries and customers we serve. For example, it is possible that the recession could recur and result in a more severe downturn in commercial aviation and defense. It is also possible that in the future our operating results in a particular quarter or quarters will not meet the expectations of securities analysts or investors, causing the market price of our common stock or senior notes to decline. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance and should not be relied upon to predict our future performance.

Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results.

Foreign sales were approximately 56% of our total sales in fiscal 2010, and we have manufacturing facilities in a number of foreign countries. A substantial portion of our Avionics & Controls operations is based in Canada and the U.K., and a substantial portion of our Sensors & Systems operations is based in the U.K. and France. We also have manufacturing operations in Mexico and China. Doing business in foreign countries is subject to numerous risks, including political and economic instability, restrictive trade policies of foreign governments, economic conditions in local markets, health concerns, inconsistent product regulation or unexpected changes in regulatory and other legal requirements by foreign agencies or governments, the imposition of product tariffs and the burdens of complying with a wide variety of international and U.S. export laws and differing regulatory requirements. To the extent that foreign sales are transacted in a foreign currency, we are subject to the risk of losses due to foreign currency fluctuations. In addition, we have substantial assets denominated in foreign currencies, primarily the Canadian dollar, U.K. pound and euro, that are not offset by liabilities denominated in those foreign currencies. These net foreign currency investments are subject to material changes in the event of fluctuations in foreign currencies against the U.S. dollar.

Among other things, we are subject to the Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, we may be held liable for actions taken by our strategic or local partners even though our partners are not subject to the FCPA. Any determination that we have violated the FCPA could result in sanctions that could have a material adverse effect on our business, financial condition and results of operations. We are also subject to a variety of international laws, as well as U.S. export laws and regulations, such as the International Traffic in Arms Regulations, which generally restrict the export of defense products, technical data and defense services. While the impact of these laws and regulations and any changes thereto are difficult to predict, the costs of compliance, any failure to comply, and any changes to such laws and regulations could adversely affect our operations in the future.

A downturn in the aircraft market could adversely affect our business.

The aerospace industry is cyclical in nature and affected by periodic downturns that are beyond our control. The principal markets for manufacturers of commercial aircraft are the commercial and regional airlines, which are adversely affected by a number of factors, including a recurrent recession, fuel and labor costs, intense price competition, outbreak of infectious disease and terrorist attacks, as well as economic cycles, all of which can be unpredictable and are outside our control. Commercial aircraft production may increase or decrease in response to changes in customer demand caused by a recurrent recession and the perceived safety and ease of airline travel.

The military aircraft industry is dependent upon the level of equipment expenditures by the armed forces of countries throughout the world, and especially those of the United States. Although the war on terror has increased the level of equipment expenditures by the U.S. armed forces, this level of spending may not be sustainable in light of government spending priorities by the U.S. In addition, in the past this industry has been adversely affected by a number of factors, including the reduction in military spending since the end of the Cold War. Decreases in military spending could depress demand for military aircraft.

Any decrease in demand for new aircraft or use of existing aircraft will likely result in a decrease in demand of our products and services, and correspondingly, our revenues, thereby adversely affecting our business, financial condition and results of operations.

We may not be able to compete effectively.

Our products and services are affected by varying degrees of competition. We compete with other companies and divisions and units of larger companies in most markets we serve, many of which have greater sales volumes or financial, technological or marketing resources than we do. Our principal competitors include: Astronautics, BAE, Bose, ECE, ELBIT, EMS, Eaton, GE Aerospace, Honeywell, IAI, L-3, Otto Controls, RAFI, Rockwell Collins, SELEX, Telephonics, Thales, Ultra Electronics, and Universal Avionics Systems Corporation in our Avionics & Controls segment; Ametek, Eaton, ECE, Goodrich, Hamilton Sundstrand, MPC Products, Meggitt, STPI-Deutsch, and Tyco in our Sensors & Systems segment; and Chemring, Doncasters, Hitemp, J&M, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), Rheinmetall, Trelleborg, ULVA, and UMPCO in our Advanced Materials segment. The principal competitive factors in the commercial markets in which we participate are product performance, service and price. Maintaining product performance requires expenditures in research and development that lead to product improvement and new product introduction. Companies with more substantial financial resources may have a better ability to make such expenditures. We cannot assure that we will be able to continue to successfully compete in our markets, which could adversely affect our business, financial condition and results of operations.

Our backlog is subject to modification or termination, which may reduce our sales in future periods.

We currently have a backlog of orders based on our contracts with customers. Under many of our contracts, our customers may unilaterally modify or terminate their orders at any time. In addition, the maximum contract value specified under a government contract awarded to us is not necessarily indicative of the sales that we will realize under that contract. For example, we are a sole-source prime contractor for many different military programs with the U.S. Department of Defense. We depend heavily on the government contracts underlying these programs. Over its lifetime, a program may be implemented by the award of many different individual contracts and subcontracts. The funding of government programs is subject to congressional appropriation.

Changes in defense procurement models may make it more difficult for us to successfully bid on projects as a prime contractor and limit sole-source opportunities available to us.

In recent years, the trend in combat system design and development appears to be evolving toward the technological integration of various battlefield components, including combat vehicles, command and control network communications, advanced technology artillery systems and robotics. If the U.S. military procurement approach continues to require this kind of overall battlefield combat system integration, we expect to be subject to increased competition from aerospace and defense companies which have significantly greater resources than we do. This trend could create a role for a prime contractor with broader capabilities that would be responsible for integrating various battlefield component systems and potentially eliminating or reducing the role of sole-source providers or prime contractors of component weapon systems.

We may lose money or generate less than expected profits on our fixed-price contracts.

Our customers set demanding specifications for product performance, reliability and cost. Some of our government contracts and subcontracts provide for a predetermined, fixed price for the products we make regardless of the costs we incur. Therefore, we must absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of sales that we may achieve. Our failure to anticipate technical problems, estimate costs accurately, integrate technical processes effectively or control costs during performance of a fixed-price contract may reduce the profitability of a fixed-price contract or cause a loss. While we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price contracts as required under GAAP, we cannot assure that our contract loss provisions will be adequate to cover all actual future losses. Therefore, we may incur losses on fixed-price contracts that we had expected to be profitable, or such contracts may be less profitable than expected.

The market for our products may be affected by our ability to adapt to technological change.

The rapid change of technology is a key feature of all of the markets in which our businesses operate. To succeed in the future, we will need to design, develop, manufacture, assemble, test, market, and support new products and enhancements to our existing products in a timely and cost-effective manner. Historically, our technology has been developed through internal research and development expenditures, as well as customer-sponsored research and development programs. There is no guarantee that we will continue to maintain, or benefit from, comparable levels of research and development in the future. In addition, our competitors may develop technologies and products that are more effective than those we develop or that render our technology and products obsolete or noncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We cannot assure that our existing products will not require significant modifications in the future to remain competitive or that new products we introduce will be accepted by our customers, nor can we assure that we will successfully identify new opportunities and continue to have the needed financial resources to develop new products in a timely or cost-effective manner.

Our business is subject to government contracting regulations, and our failure to comply with such laws and regulations could harm our operating results and prospects.

We estimate that approximately 35% of our sales in fiscal 2010 were attributable to contracts in which we were either the prime contractor to, or a subcontractor to a prime contractor to, the U.S. government. As a contractor and subcontractor to the U.S. government, we must comply with laws and regulations relating to the formation, administration and performance of federal government contracts that affect how we do business with our customers and may impose added costs to our business. For example, these regulations and laws include provisions that contracts we have been awarded are subject to:

- Protest or challenge by unsuccessful bidders; and
- Unilateral termination, reduction or modification in the event of changes in government requirements.

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. Responding to governmental audits, inquiries or investigations may involve significant expense and divert management attention. Our failure to comply with these or other laws and regulations could result in contract termination, suspension or debarment from contracting with the federal government, civil fines and damages, and criminal prosecution and penalties, any of which could have a material adverse effect on our operating results.

A significant portion of our business depends on U.S. government contracts, which contracts are often subject to competitive bidding, and a failure to compete effectively or accurately anticipate the success of future projects could adversely affect our business.

We obtain many of our U.S. government contracts through a competitive bidding process that subjects us to risks associated with:

- The frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and/or cost overruns;
- The substantial time and effort, including design, development and marketing activities, required to prepare bids and proposals for contracts that may not be awarded to us; and
- The design complexity and rapid rate of technological advancement of defense-related products.

In addition, in order to win the award of developmental programs, we must be able to align our research and development and product offerings with the government s changing concepts of national defense and defense systems. The government s termination of, or failure to fully fund, one or more of the contracts for our programs would have a negative impact on our operating results and financial condition. Furthermore, we serve as a subcontractor on several military programs that, in large part, involve the same risks as prime contracts.

Overall, we rely on key contracts with U.S. government entities for a significant portion of our sales and business. A substantial reduction in these contracts would materially adversely affect our operating results and financial position.

The airline industry is heavily regulated and if we fail to comply with applicable requirements, our results of operations could suffer.

Governmental agencies throughout the world, including the U.S. Federal Aviation Administration, or the FAA, prescribe standards and qualification requirements for aircraft components, including virtually all commercial airline and general aviation products, as well as regulations regarding the repair and overhaul of aircraft engines. Specific regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. We include, with the replacement parts that we sell to our customers, documentation certifying that each part complies with applicable regulatory requirements and meets applicable standards of airworthiness established by the FAA or the equivalent regulatory agencies in other countries. In order to sell our products, we and the products we manufacture must also be certified by our individual OEM customers. If any of the material authorizations or approvals qualifying us to supply our products is revoked or suspended, then the sale of the subject product would be prohibited by law, which would have an adverse effect on our business, financial condition and results of operations.

From time to time, the FAA or equivalent regulatory agencies in other countries propose new regulations or changes to existing regulations, which are usually more stringent than existing regulations. If these proposed regulations are adopted and enacted, we may incur significant additional costs to achieve compliance, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on the continued contributions of our executive officers and other key management, each of whom would be difficult to replace.

Our future success depends to a significant degree upon the continued contributions of our senior management and our ability to attract and retain other highly qualified management personnel. We face competition for management from other companies and organizations. Therefore, we may not be able to retain our existing management personnel or fill new management positions or vacancies created by expansion or turnover at our existing compensation levels. Although we have entered into change of control agreements with some members of senior management, we do not have employment contracts with our key executives, nor have we purchased key-person insurance on the lives of any of our key officers or management personnel to reduce the impact to our company that the loss of any of them would cause. Specifically, the loss of any of our executive officers would disrupt our operations and divert the time and attention of our remaining officers. Additionally, failure to attract and retain highly qualified management personnel would damage our business prospects.

If we are unable to protect our intellectual property rights adequately, the value of our products could be diminished.

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret and copyright laws, we cannot assure that the precautionary steps we have taken will completely protect our intellectual property rights. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. In the event a competitor successfully challenges our products, processes, patents or licenses or claims that we have infringed upon their intellectual property, we could incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

In addition to our patent rights, we also rely on unpatented technology, trade secrets and confidential information. Others may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our technology. We may not be able to protect our rights in unpatented technology, trade secrets and confidential information effectively. We require each of our employees and consultants to execute a confidentiality agreement at the commencement of an employment or consulting relationship with us. However, these agreements may not provide effective protection of our information or, in the event of unauthorized use of disclosure, they may not provide adequate remedies.

Future asbestos claims could harm our business.

We are subject to potential liabilities relating to certain products we manufactured containing asbestos. To date, our insurance has covered claims against us relating to those products. Commencing November 1, 2003, insurance coverage for asbestos claims has been unavailable. However, we continue to have some insurance coverage for exposure to asbestos contained in our products prior to that date.

We have an agreement with the customer for indemnification for certain losses we may incur as a result of asbestos claims relating to a product we previously manufactured, but we cannot assure that this indemnification agreement will fully protect us from losses arising from asbestos claims.

To the extent we are not insured or indemnified for losses from asbestos claims relating to our products, asbestos claims could adversely affect our operating results and our financial condition.

Environmental laws and regulations may subject us to significant liability.

Our business and our facilities are subject to a number of federal, state, local and foreign laws, regulations and ordinances governing, among other things, the use, manufacture, storage, handling and disposal of hazardous materials and certain waste products. Among these environmental laws are rules by which a current or previous owner or operator of land may be liable for the costs of investigation, removal or remediation of hazardous materials at such property. In addition, these laws typically impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of any hazardous materials. Persons who arrange for the disposal or treatment of hazardous materials may be liable for the costs of investigation, removal or remediation of such substances at the disposal or treatment site, regardless of whether the affected site is owned or operated by them.

Because we own and operate a number of facilities that use, manufacture, store, handle or arrange for the disposal of various hazardous materials, we may incur costs for investigation, removal and remediation, as well as capital costs, associated with compliance with environmental laws. At the time of the acquisition of Wallop Defence Systems Limited, we and the seller agreed that some environmental remedial activities may need to be carried out and these activities are currently on-going. Under the terms of the Stock Purchase Agreement, a portion of the costs of any environmental remedial activities will be reimbursed by the seller if the cost is incurred within five years of the consummation of the acquisition. Additionally, at the time of our asset acquisition of the Electronic Warfare Passive Expendables Division of BAE Systems North America, certain environmental remedial activities were required under a Part B Permit issued to the infrared decoy flare facility by the Arkansas Department of Environmental Quality under the Federal Resource Conservation and Recovery Act. The Part B Permit was transferred to our subsidiary, Armtec, along with the remedial obligations. Under the terms of the asset purchase agreement, BAE Systems agreed to perform and pay for these remedial obligations at the infrared decoy flare facility up to a maximum amount of $25.0 million. Although environmental costs have not been material in the past, we cannot assure that these matters, or any similar liabilities that arise in the future, will not exceed our resources, nor can we completely eliminate the risk of accidental contamination or injury from these materials.

An accident at our combustible ordnance or flare countermeasure operations could harm our business.

We are subject to potential liabilities in the event of an accident at our combustible ordnance and flare countermeasure operations. Our products are highly flammable during certain phases of the manufacturing process. Accordingly, our facilities are designed to isolate these operations from direct contact with employees. Our overall safety infrastructure is compliant with regulatory guidelines. In addition, we utilize hazard detection and intervention systems. Our employees receive safety training and participate in internal safety demonstrations. We continuously track safety effectiveness in relation to the U.S. Bureau of Labor Statistics, OSHA, and the HSE to help ensure performance is within industry standards. In addition, we perform on-going process safety hazards analysis, which is conducted by trained safety teams to identify risk areas that arise. We monitor progress though review of safety action reports that are produced as part of our operations. Although we believe our safety programs are robust and our compliance with our programs is high, it is possible for an accident to occur. For example, an explosion occurred in 2006 at our Wallop facility (causing a fatality, several minor injuries, and extensive damage to the facility). We are insured in excess of our deductible on losses from property, loss of business, and for personal liability claims from an accident. We may not be able to maintain insurance coverage in the future at an acceptable cost. Significant losses not covered by insurance could have a material adverse effect on our business, financial condition, and results of operations.

We may be required to defend lawsuits or pay damages in connection with the alleged or actual harm caused by our products.

We face an inherent business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in harm to others or to property. For example, our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that has been designed, manufactured or serviced by us. We may incur significant liability if product liability lawsuits against us are successful. While we believe our current general liability and product liability insurance is adequate to protect us from future product liability claims, we cannot assure that coverage will be adequate to cover all claims that may arise. Additionally, we may not be able to maintain insurance coverage in the future at an acceptable cost. Significant losses not covered by insurance or for which third-party indemnification is not available could have a material adverse effect on our business, financial condition and results of operations.

Item 2. Properties

The following table summarizes our properties that are greater than 100,000 square feet or related to a principal operation, including identification of the business segment, as of October 29, 2010:

Location	Type of Facility	Business Segment	Approximate Square Footage	Owned or Leased
Brea, CA	Office, Plant & Warehouse	Advanced Materials	429,000	Owned
Montréal, Canada	Office & Plant	Avionics & Controls	269,000	Owned
East Camden, AR	Office & Plant	Advanced Materials	262,000	Leased
Everett, WA	Office & Plant	Avionics & Controls	216,000	Leased
Stillington, U.K.	Office & Plant	Advanced Materials	218,000	Owned
Coeur d Alene, ID	Office & Plant	Avionics & Controls	140,000	Leased
Coachella, CA	Office & Plant	Advanced Materials	124,000	Owned
Buena Park, CA	Office & Plant	Sensors & Systems	110,000	Owned*
Bourges, France	Office & Plant	Sensors & Systems	109,000	Owned
Farnborough, U.K.	Office & Plant	Sensors & Systems	103,000	Leased
Milan, TN	Office & Plant	Advanced Materials	96,000	Leased
Sylmar, CA	Office & Plant	Avionics & Controls	96,000	Leased
Kanata, Canada	Office & Plant	Avionics & Controls	95,000	Leased
Valencia, CA	Office & Plant	Advanced Materials	88,000	Owned
Hampshire, U.K.	Office & Plant	Advanced Materials	82,000	Owned
Gloucester, U.K.	Office & Plant	Advanced Materials	59,000	Leased

* The building is located on a parcel of land covering 16.1 acres that is leased by the Company.

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In total, we own approximately 1,800,000 square feet and lease approximately 1,800,000 square feet of manufacturing facilities and properties.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year ended October 29, 2010.

PART II

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

Market Price of Esterline Common Stock

In Dollars

For Fiscal Years	**2010**		**2009**	
	High	Low	High	Low
Quarter				
First	$ 44.27	$ 36.75	$ 41.51	$ 25.39
Second	57.86	37.69	38.95	18.90
Third	57.55	44.65	31.73	23.77
Fourth	60.99	43.58	43.80	27.68

Principal Market New York Stock Exchange

At the end of fiscal 2010, there were approximately 401 holders of record of the Company s common stock. On December 16, 2010, there were 395 holders of record of our common stock.

No cash dividends were paid during fiscal 2010 and 2009. We are restricted from paying dividends under our current secured credit facility, and we do not anticipate paying any dividends in the foreseeable future.

The following graph shows the performance of the Company s common stock compared to the S&P 500 Index, the S&P SmallCap 600 Index, and the S&P 600 Aerospace & Defense Index for a $100 investment made on October 28, 2005.

Item 6. Selected Financial Data

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	**2010**	**2009**	**2008**	**2007**	**2006**
Operating Results[1]					
Net sales	$ 1,526,601	$ 1,407,459	$ 1,462,196	$ 1,188,745	$ 902,679
Cost of sales	1,010,390	954,161	981,934	824,326	625,214
Selling, general and administrative	258,290	235,483	234,451	195,641	147,625
Research, development and engineering	69,753	64,456	85,097	65,438	47,905
Other (income) expense	(8)	7,970	86	24	(490)
Insurance recovery	0	0	0	(37,467)	(4,890)
Interest income	(960)	(1,634)	(4,373)	(3,085)	(2,565)
Interest expense	33,181	28,689	29,922	35,298	21,288
Loss on extinguishment of debt	1,206	0	0	1,100	2,156
Gain on derivative financial instrument	0	0	(1,850)	0	0
Income from continuing operations before income taxes	154,749	118,334	136,929	107,470	66,436
Income tax expense	24,504	12,549	25,288	21,403	14,507
Income from continuing operations including noncontrolling interests	130,245	105,785	111,641	86,067	51,929
Income from discontinued operations attributable to Esterline, net of tax	11,881	14,230	9,275	6,370	4,551
Net earnings attributable to Esterline	141,920	119,798	120,533	92,284	55,615
Earnings per share attributable to Esterline diluted:					
Continuing operations	$ 4.27	$ 3.52	$ 3.72	$ 3.27	$ 1.98
Discontinued operations	0.39	0.48	0.31	0.25	0.17
Earnings per share attributable to Esterline diluted	4.66	4.00	4.03	3.52	2.15

[1] Operating results reflect the segregation of continuing operations from discontinued operations. See Note 2 to the Consolidated Financial Statements. Operating results include the acquisitions of Racal Acoustics in January 2009, NMC in December 2008, CMC Electronics, Inc. (CMC) in March 2007, Wallop in March 2006, and Darchem in December 2005. See Note 15 to the Consolidated Financial Statements.

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	2010	2009	2008	2007	2006
Financial Structure					
Total assets	$ 2,587,738	$ 2,314,247	$ 1,922,102	$ 2,039,059	$ 1,290,451
Long-term debt, net	598,972	520,158	388,248	455,002	282,307
Total Esterline shareholders equity	1,412,796	1,253,021	1,026,341	1,121,826	707,989
Weighted average shares outstanding diluted	30,477	29,951	29,908	26,252	25,818
Other Selected Data					
Cash flows provided (used) by operating activities	$ 179,801	$ 156,669	$ 118,893	$ 121,724	$ 36,676
Cash flows provided (used) by investing activities	(20,719)	(250,357)	(30,139)	(382,340)	(152,975)
Cash flows provided (used) by financing activities	84,260	103,515	(63,278)	361,914	39,116
Net increase (decrease) in cash	245,326	16,149	13,576	104,431	(75,666)
EBITDA from continuing operations [2]	257,815	214,553	223,443	192,974	126,792
Capital expenditures [3]	45,417	58,694	38,785	29,145	25,363
Interest expense	33,181	28,689	29,922	35,298	21,288
Depreciation and amortization from continuing operations	69,639	69,164	62,815	52,191	39,477

[2] EBITDA from continuing operations is a measurement not calculated in accordance with GAAP. We define EBITDA from continuing operations as operating earnings from continuing operations plus depreciation and amortization (excluding amortization of debt issuance costs). We do not intend EBITDA from continuing operations to represent cash flows from continuing operations or any other items calculated in accordance with GAAP, or as an indicator of Esterline s operating performance. Our definition of EBITDA from continuing operations may not be comparable with EBITDA from continuing operations as defined by other companies. We believe EBITDA is commonly used by financial analysts and others in the aerospace and defense industries and thus provides useful information to investors. Our management and certain financial creditors use EBITDA as one measure of our leverage capacity and debt servicing ability, and is shown here with respect to Esterline for comparative purposes. EBITDA is not necessarily indicative of amounts that may be available for discretionary uses by us. The following table reconciles operating earnings from continuing operations to EBITDA from continuing operations.

[3] Excludes capital expenditures accounted for as a capitalized lease obligation of $8,139, $28,202 and $7,981 in fiscal 2010, 2009, and 2008, respectively.

In Thousands

For Fiscal Years	2010	2009	2008	2007	2006
Operating earnings from continuing operations	$ 188,176	$ 145,389	$ 160,628	$ 140,783	$ 87,315
Depreciation and amortization from continuing operations	69,639	69,164	62,815	52,191	39,477
EBITDA from continuing operations	$ 257,815	$ 214,553	$ 223,443	$ 192,974	$ 126,792

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

OVERVIEW

We operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. Our segments are structured around our technical capabilities. The Avionics & Controls segment includes avionics systems, control systems, interface technologies and communication systems capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and casino gaming industries. Communication systems designs and manufactures military audio and data products for severe battlefield environments. In addition, communication systems designs and manufactures communication control systems to enhance security and aural clarity in military applications, as well as enhanced ear protection for soldiers in high noise environments.

The Sensors & Systems segment includes power systems and advanced sensors capabilities. Power systems develops and manufactures electrical power switching and other related systems, principally for aerospace and defense customers. Advanced sensors develops and manufactures high precision temperature and pressure sensors for aerospace and defense customers.

The Advanced Materials segment includes engineered materials and defense technologies capabilities. Engineered materials develops and manufactures thermally engineered components and high-performance elastomer products used in a wide range of commercial aerospace and military applications. Defense technologies develops and manufactures combustible ordnance components and warfare countermeasure devices for military customers. Sales in all segments include domestic, international, defense and commercial customers.

Our current business and strategic plan focuses on the continued development of our products principally for aerospace and defense markets. We continue to concentrate our efforts to expand our capabilities in these markets and to anticipate the global needs of our customers and respond to such needs with comprehensive solutions. These efforts focus on continuous research and new product development, acquisitions and strategic realignments of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering.

On September 8, 2010, we sold Pressure Systems, Inc. (PSI), for $25.0 million, which resulted in an after tax gain of $10.4 million. PSI was included in the Sensors & Systems segment. The results of PSI are accounted for as discontinued operations in the consolidated statement of operations. On November 3, 2008, we sold Muirhead Aerospace (Muirhead) and Traxsys Input Products Limited (Traxsys) for $63.4 million, which resulted in an after tax gain of $12.6 million. Muirhead and Traxsys were included in the Sensors & Systems segment. The results of Muirhead and Traxsys are accounted for as discontinued operations in the consolidated statement of operations.

On December 15, 2008, we acquired NMC Group, Inc. (NMC). NMC designs and manufactures specialized light-weight fasteners principally for commercial aviation applications. NMC is included in our Advanced Materials segment. On January 26, 2009, we acquired Racal Acoustics Global Ltd. (Racal Acoustics). Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics market. Racal Acoustics is included in our Avionics & Controls segment.

During fiscal 2010, our income from continuing operations was $130.0 million or $4.27 per diluted share compared with $105.6 million or $3.52 per diluted share during fiscal 2009, reflecting strong sales and earnings from Avionics & Controls and Advanced Materials and improved results from Sensors & Systems. Sales and operating earnings of Avionics & Controls increased 17.4% and 26.8%, respectively, over fiscal 2009 and reflected strong sales and margins of avionics systems, interface technologies systems and communication systems. Only control systems sales and earnings declined against fiscal 2009. Advanced Materials results reflected strong sales and earnings from countermeasures, partially offset by weaker performance from sales of engineered materials. Sensors & Systems earnings improved over fiscal 2009 but are still weak due to the downturn in commercial aviation, particularly business jets. Continuing operations in fiscal 2009 were impacted by a foreign currency loss of $7.9 million relating to the pound sterling-denominated funding of Racal Acoustics.

The income tax rate for fiscal 2010 was 15.8% compared with 10.6% for fiscal 2009. The lower income tax rate in fiscal 2009 primarily reflected the tax benefits associated with the $7.9 million foreign currency exchange loss and higher R&D tax credits.

Income from discontinued operations was $0.39 per diluted share, compared with $0.48 per diluted share in fiscal 2009, reflecting the gain on sale of PSI in September 2010 and the sale of Muirhead and Traxsys in November 2008. Net income was $141.9 million or $4.66 per diluted share, compared with net income of $119.8 million or $4.00 per diluted share in fiscal 2009.

Results of Continuing Operations

Fiscal 2010 Compared with Fiscal 2009

Sales for fiscal 2010 increased 8.5% over the prior year. Sales by segment were as follows:

Dollars In Thousands	**Increase (Decrease) From Prior Year**	**2010**	**2009**
Avionics & Controls	17.4%	$ 790,016	$ 672,828
Sensors & Systems	(7.2)%	298,559	321,753
Advanced Materials	6.1%	438,026	412,878
Total		$ 1,526,601	$ 1,407,459

The 17.4% increase in Avionics & Controls reflected increased sales volumes of avionics systems of $71.9 million, interface technologies systems of $27.0 million, and communication systems of $22.2 million. The increase in avionics systems principally reflected strong cockpit integration sales volumes. The increase in interface technologies systems mainly reflected increased sales volumes of input devices for casino gaming and medical applications. The increased sales of communication systems principally reflected $16.9 million in incremental sales from the Racal Acoustics acquisition completed in the first fiscal quarter of 2009. These increases were partially offset by lower sales volumes of control systems of $4.1 million, principally cockpit controls for commercial and military applications.

The 7.2% decrease in Sensors & Systems mainly reflected decreased sales volumes of advanced sensors of $10.3 million and power systems of $12.9 million. The decrease in advanced sensors principally reflected lower OEM sales volumes of temperature and pressure sensors due to the downturn in commercial aviation and in particular business jets. Additionally, fiscal 2009 benefited from a $1.8 million retroactive price adjustment and settlement with certain customers. The decrease in power systems sales was due to the downturn in commercial aviation and was partially offset by a $3.7 million increase in retrofit sales for commercial aviation. Sales in the first six months of fiscal 2010 reflected a stronger pound sterling and euro relative to the U.S. dollar and a weaker pound sterling and euro relative to the U.S. dollar during the second six months of the fiscal year.

The 6.1% increase in sales of Advanced Materials principally reflected an increase in sales volumes of defense technologies and a decrease in sales of engineered materials. The increase in sales of defense technologies mainly reflected higher sales volumes of countermeasures of $36.5 million, principally related to low sales volume in the prior-year period due to the delays in the processing of and scheduling shipments of our international customers. The $10.9 million decrease in sales of engineered materials reflected lower demand for elastomer materials due to the downturn in commercial aviation and industrial commercial markets.

Foreign sales, including export sales by domestic operations, totaled $860.0 million and $788.8 million, and accounted for 56.3% and 56.0% of our sales in fiscal 2010 and 2009, respectively.

Overall, gross margin as a percentage of sales was 33.8% and 32.2% in fiscal 2010 and 2009, respectively. Gross profit was $516.2 million and $453.3 million in fiscal 2010 and 2009, respectively.

Avionics & Controls segment gross margin was 35.7% and 35.4% for fiscal 2010 and 2009, respectively. Segment gross profit was $282.4 million compared to $238.5 million in the prior-year period. About 60% of the increase in segment gross profit was due to strong sales of avionics systems, reflecting increased sales volumes of cockpit integration for the T-6B military trainer and a military transport cockpit retrofit program. The remaining 40% increase in segment gross profit reflected strong sales volumes of interface technologies systems and communication systems, partially offset by an $8.7 million decrease in control systems. The increase in interface technologies gross profit is due to higher sales volumes of input devices for casino gaming applications and higher sales volumes for medical applications. The increase in communication systems gross profit mainly reflects incremental gross profit from the acquisition of Racal Acoustics in the first fiscal quarter of 2009. The decrease in gross profit on control systems is mainly due to weaker gross margin of controls for commercial and military applications, as well as higher operating costs from our new control systems facility.

Sensors & Systems segment gross margin was 34.6% and 32.3% for fiscal 2010 and 2009, respectively. Segment gross profit was $103.2 million and $104.0 million for fiscal 2010 and 2009, respectively. The decline in gross profit is principally due to the effect of a decrease in advanced sensors sales volume in fiscal 2010, partially offset by an increase in gross margin. The increase in gross margin was mainly due to a $1.2 million inventory write-off in fiscal 2009. Power systems gross profit improved slightly due to retrofits for commercial aviation applications and strong cost control, partially offset by lower sales volumes.

Advanced Materials segment gross margin was 29.8% and 26.9% for fiscal 2010 and 2009, respectively. Segment gross profit was $130.6 million and $110.9 million for fiscal 2010 and 2009, respectively, principally reflecting an increase in defense technologies offset by a small decrease in engineered materials. The increased gross profit on defense technologies reflected a $23.5 million increase on countermeasures, partially offset by decreased gross profit on combustible ordnance. The increase in gross profit on countermeasures was principally due to sales volume with additional benefits from improved sales mix and efficiency from longer production runs. Fiscal 2009 countermeasures gross profit was impacted by delays in the processing of and scheduling shipments of our international customers. The decrease in gross profit on engineered materials principally reflected $2.3 million in costs associated with closing a facility.

Selling, general and administrative expenses (which include corporate expenses) increased to $258.3 million in fiscal 2010 compared with $235.5 million in fiscal 2009. The increase in selling, general and administrative expense principally reflected incremental selling, general and administrative expense from the acquisition of Racal Acoustics and NMC of $5.8 million, a $9.1 million increase in corporate expense mainly due to incentive compensation and professional fees, and the effect of exchange rates on operating expenses at our non-U.S. operations of $4.7 million. As a percentage of sales, selling, general and administrative expenses were 16.9% and 16.7% in fiscal 2010 and 2009, respectively.

Research, development and related engineering spending increased to $69.8 million, or 4.6% of sales, in fiscal 2010 compared with $64.5 million, or 4.6% of sales, in fiscal 2009. The increase in research, development and related engineering expense principally reflects $2.4 million in higher spending on communication systems and $2.1 million on control systems.

Segment earnings (which exclude corporate expenses and other income and expense) increased 23.8% during fiscal 2010 to $228.6 million compared to $184.7 million in the prior year. Segment earnings as a percent of sales were 15.0% and 13.1% in fiscal 2010 and 2009, respectively.

Avionics & Controls segment earnings were $125.9 million or 15.9% of sales in fiscal 2010 compared with $99.3 million or 14.8% of sales in fiscal 2009, principally reflecting a $20.3 million increase in avionics systems. Avionics systems benefited from strong gross profit, partially offset by a $4.7 million increase in selling, general and administrative expenses, principally due to the effects of foreign currency exchange rates. Segment earnings also benefited from increased earnings of interface technologies systems and communication systems of $15.3 million and were partially offset by a $9.0 million decrease in control systems. Interface technologies benefited from strong gross profit from sales of input devices for casino gaming and medical applications. The increase in communication systems earnings was due to incremental earnings from the Racal Acoustics acquisition of $1.5 million and improved gross margin. Control systems earnings were impacted by decreased gross profit and $4.1 million in increased development costs.

Sensors & Systems segment earnings were $33.9 million or 11.4% of sales in fiscal 2010 compared with $31.7 million or 9.9% of sales in fiscal 2009, mainly reflecting a $1.2 million decrease in advanced sensors gross profit, offset by decreased selling, general and administrative expenses, principally due to the $3.0 million impairment on a subsidiary trade name recorded in fiscal 2009.

Advanced Materials segment earnings were $68.8 million or 15.7% of sales in fiscal 2010 compared with $53.6 million or 13.0% of sales in fiscal 2009, primarily reflecting a $21.4 million increase in defense technologies, partially offset by decreased earnings from sales of engineered materials. Defense technologies principally reflected a $24.6 million increase in earnings for countermeasures operations and decreased earnings of combustible ordnance. The increase in countermeasures earnings reflected strong gross profit and a turnaround from a $6.0 million operating loss incurred in fiscal 2009. The decrease in combustible ordnance is due to decreased gross profit. The reduction in engineered materials earnings reflected $3.6 million in costs associated with closing a facility and a $1.8 million decrease in foreign currency exchange gains, principally on forward contracts which are marked to market each period.

Interest expense increased to $33.2 million during fiscal 2010 compared with $28.7 million in the prior year, reflecting increased senior debt and higher borrowings under capitalized lease obligations.

During the fourth quarter of fiscal 2010, we paid off $175.0 million in senior subordinated debt and incurred a loss of $1.2 million due to the extinguishment of debt.

On January 26, 2009, we acquired Racal Acoustics for £122.6 million or $171.3 million. Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense market segment. The acquisition was funded with cash proceeds from the sale of U.K.-based Muirhead and Traxsys and our line of credit. To facilitate the acquisition of Racal Acoustics, we executed a $159.7 million U.S.-dollar denominated intercompany loan with a wholly-owned subsidiary, for which its functional currency is the pound sterling. Due to our holding of pounds sterling to fund the acquisition during a period of foreign exchange volatility, we incurred a $7.9 million foreign currency transaction loss in January 2009, which was recorded in other expense.

The income tax rate for fiscal 2010 was 15.8% compared with 10.6% in fiscal 2009. The tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense deductions. The tax rate for fiscal 2009 was significantly lower due to enhanced tax benefits associated with specific foreign exchange losses and higher R&D tax credits. In fiscal 2010, we recognized $11.0 million in net discrete tax benefits. The $11.0 million discrete tax benefits were the result of four events. The first event was a $7.6 million benefit as a result of the release of tax reserves for uncertain tax positions mainly associated with losses on disposition of assets. This release of tax reserves resulted from the expiration of a statute of limitations. The second event was a $1.7 million net reduction in deferred income tax liabilities, which was the result of the enactment of tax laws reducing the U.K. statutory income tax rate. The third event was a $0.8 million tax expense related to tax liabilities associated with an examination of the U.S. federal and state income tax returns. The fourth event was a $2.5 million reduction of valuation allowances related to net operating losses and foreign tax credits that were generated in prior years. In fiscal 2009, we recognized $5.0 million in net discrete tax benefits. The $5.0 million discrete tax benefits were the result of five events. The first event was a $2.0 million tax benefit for the reduction of previously recorded withholding tax liabilities as a result of the enactment of a U.S.-Canadian tax treaty. The second event was a $0.6 million expense resulting from the reversal of previously recorded tax benefits associated with the implementation of CMC s SADI program. The third event was a $1.5 million tax benefit associated with the reconciliation of the prior year s U.S. income tax return to the U.S. income tax provision. The fourth event was an adjustment that resulted in a reclassification of $3.4 million of tax benefits from discontinued operations to continued operations offset by a $1.0 million tax expense to establish a valuation allowance for U.S. foreign tax credits that are not expected to result in a current or future reduction in U.S. income taxes. The fifth event was a $0.3 million tax expense associated with the reconciliation of the prior year s foreign income tax returns to the foreign income tax provisions.

To the extent that sales are transacted in a currency other than the functional currency of the operating unit, we are subject to foreign currency fluctuation risk.

We use forward contracts to hedge our foreign currency exchange risk. To the extent that these hedges qualify under U.S. GAAP, the amount of gain or loss is deferred in Accumulated Other Comprehensive Income (AOCI) until the related sale occurs. Also, we are subject to foreign currency gains or losses from embedded derivatives on backlog denominated in a currency other than the functional currency of our operating companies or its customers. Gains and losses on forward contracts, embedded derivatives, and revaluation of assets and liabilities denominated in currency other than the functional currency of the Company for fiscal 2010 and 2009 are as follows:

(In thousands)

	2010	2009
Forward foreign currency contracts gain (loss)	$ (139)	$ 7,031
Forward foreign currency contracts reclassified from AOCI	11,042	(11,610)
Embedded derivatives gain (loss)	(1,476)	(2,666)
Revaluation of monetary assets/liabilities gain (loss)	(3,282)	(5,334)
Total	$ 6,145	$ (12,579)

New orders for fiscal 2010 were $1.6 billion compared with $1.4 billion for fiscal 2009. Orders increased at our Avionics & Controls and Advanced Materials and declined at Sensors & Systems due to the downturn in commercial aviation. Backlog at the end of both fiscal 2010 and 2009 was $1.1 billion. Approximately $256.6 million is scheduled to be delivered after fiscal 2011. Backlog is subject to cancellation until delivery.

Fiscal 2009 Compared with Fiscal 2008

Sales for fiscal 2009 decreased 3.7% over the prior year. Fiscal 2009 contained 52 weeks, while fiscal 2008 contained 53 weeks. Sales by segment were as follows:

Dollars In Thousands	Increase (Decrease) From Prior Year	2009	2008
Avionics & Controls	10.0%	$ 672,828	$ 611,467
Sensors & Systems	(11.4)%	321,753	363,204
Advanced Materials	(15.3)%	412,878	487,525
Total		$ 1,407,459	$ 1,462,196

The 10.0% increase in Avionics & Controls reflected incremental sales from the Racal Acoustics acquisition and higher sales of cockpit avionics systems for military aviation. These increases were partially offset by lower sales of cockpit controls for commercial aviation OEM and after-market customers. Stronger sales of interface technologies devices to the casino gaming industry partially offset weakness in the medical market.

The 11.4% decrease in Sensors & Systems principally reflected the effect of foreign currency exchange rates at our non-U.S. operations, lower OEM sales of temperature sensors and certain power system devices. The decline in Sensors & Systems sales for commercial aviation was partially offset by increased sales for military aviation. Sales through much of fiscal 2009 reflected a weaker euro relative to the U.S. dollar. The average exchange rate for the euro decreased from 1.50 in fiscal 2008 to 1.37 in fiscal 2009. The average exchange rate for the pound sterling to the U.S. dollar decreased from 1.95 in fiscal 2008 to 1.55 in fiscal 2009.

The 15.3% decrease in Advanced Materials reflected weak sales across the segment due to lower commercial aviation build rates, weakened industrial commercial demand, delays in shipments at our U.S. and U.K. countermeasure flare operations and the effect of foreign currency exchange rates. These decreases were partially offset by incremental sales from the acquisition of NMC. The decrease in sales at our U.S. countermeasure flare operations reflected a one-month factory shutdown resulting from an incident in a cross blending facility. The factory resumed operation in August 2009 but was further impacted by the delay in issuance of a multi-year flare order from the U.S. DoD.

Foreign sales, including export sales by domestic operations, totaled $788.8 million and $799.3 million, and accounted for 56.0% and 54.7% of our sales for fiscal 2009 and 2008, respectively.

Overall, gross margin as a percentage of sales was 32.2% and 32.8% in fiscal 2009 and 2008, respectively.

Avionics & Controls segment gross margin was 35.4% and 35.0% for fiscal 2009 and 2008, respectively. Avionics systems gross margins in fiscal 2009 were enhanced by T-6B production sales and a military transport cockpit retrofit program, which offset weak results from our commercial aviation business. Control systems gross margins benefited from strong cost control actions taken early in the fiscal year, which offset the impact of lower commercial aviation sales and decreased after-market spare sales.

Sensors & Systems segment gross margin was 32.3% and 34.6% for fiscal 2009 and 2008, respectively. Gross margins were impacted by lower sales of temperature sensors and power systems to commercial aviation customers and a $1.2 million write off of inventory due to the bankruptcy of Eclipse.

Advanced Materials segment gross margin was 26.9% and 28.9% for fiscal 2009 and 2008, respectively, principally reflecting reduced gross margins at our U.S. and U.K. countermeasure flare operations. Our U.S. countermeasure flare operations gross margin was impacted by a one-month shutdown of the factory due to an incident referred to above and a delayed receipt of a multi-year flare order. Our U.K. countermeasure flare operations gross margin was impacted by a delayed shipment to an international customer. Accordingly, our recovery of fixed expenses at both our U.S. and U.K. operations decreased compared to the prior year.

Selling, general and administrative expenses (which include corporate expenses) increased slightly to $235.5 million in fiscal 2009 compared with $234.5 million in fiscal 2008. The increase in selling, general and administrative expenses from the Racal Acoustics and NMC acquisitions and higher pension cost was substantially offset by the effect of exchange rates at our non-U.S. operations as well as lower incentive compensation expense, professional fees and effective cost control. As a percentage of sales, selling, general and administrative expenses were 16.7% and 16.0% in fiscal 2009 and 2008, respectively.

Research, development and related engineering spending decreased to $64.5 million, or 4.6% of sales, in fiscal 2009 compared with $85.1 million, or 5.8% of sales, in fiscal 2008. The decrease in research, development and engineering principally reflected decreased spending on the development of the integrated cockpit system for the T-6B military trainer, the A400M, increased customer and government assistance and the effect of foreign currency exchange rates.

Segment earnings (which exclude corporate expenses and other income and expense) decreased 6.0% during fiscal 2009 to $184.7 million compared to $196.4 million in the prior year. Segment earnings as a percent of sales were 13.1% and 13.4% in fiscal 2009 and 2008, respectively.

Avionics & Controls segment earnings were $99.3 million or 14.8% of sales in fiscal 2009 compared with $77.9 million or 12.7% of sales in fiscal 2008, reflecting strong earnings from our avionics systems operations and incremental earnings from our Racal Acoustics acquisition. The improvement in avionics systems operating earnings principally reflected lower research, development and engineering expense for the T-6B military trainer. Our avionics systems business also benefited from strong earnings from production sales of our T-6B military trainer and a military transport cockpit retrofit program, which offset weakness in commercial aviation.

Approximately 85% of avionics systems Canada-based operations sales are denominated in U.S. dollars and about 50% of these sales are covered by forward contracts. Accounts receivable and the accounts payable denominated in U.S. dollars and backlog denominated in a currency other than the functional currency of the Company or its customer (embedded derivatives) are marked to market each period. While the average exchange rate for the U.S. dollar relative to the Canadian dollar increased from 1.02 in fiscal 2008 to 1.17 in fiscal 2009, our Canadian operations were not favorably impacted by foreign currency exchange in fiscal 2009 to the extent our sales were covered by foreign currency forward contracts executed before the drop in the Canadian dollar. Fiscal 2008 was favorably impacted by the significant strengthening of the U.S. dollar relative to the Canadian dollar from the end of our third fiscal quarter of 2008 to the end of our fourth quarter from marking to market our monetary assets and embedded derivatives.

Control systems earnings benefited from cost control actions and strong earnings from sales of military aviation applications, which partially offset weak earnings from commercial aviation. Earnings from our interface technologies operations decreased from the prior-year period due to lower earnings from a new product development with introductory pricing for a limited number of shipments and reduced earnings from our medical business.

Sensors & Systems segment earnings were $31.7 million or 9.9% of sales in fiscal 2009 compared with $39.9 million or 11.0% of sales in fiscal 2008. The decrease in segment earnings principally reflected lower gross margins at our temperature and pressure sensors operations, start-up costs at our Mexico operation, a $1.2 million inventory write off, and a $3.0 million impairment on a subsidiary trade name. Management determined that a certain trade name useful life was no longer indefinite as a result of further integration of advanced sensors units and promotion of the Advanced Sensors brand name. Advanced sensors successfully negotiated a retroactive price increase in fiscal 2009; however, the business continues to be impacted by a very competitive business environment in a down commercial aircraft market. Management has taken actions to reduce costs including but not limited to setting up operations in Mexico. Our power systems earnings were consistent with fiscal 2008. Lower gross margins at our power systems operations were substantially offset by decreased research, engineering and development due to increased governmental assistance and customer development funding and decreased A400M program development expenses.

Advanced Materials segment earnings were $53.6 million or 13.0% of sales in fiscal 2009 compared with $78.6 million or 16.1% of sales in fiscal 2008, principally reflecting lower earnings from our countermeasure flare and engineered materials operations. As stated above, our U.S. countermeasure flare operations were impacted by a one-month factory closure due to an incident in the cross blending facility and a delay in a multi-year flare order. Additionally, earnings at our U.K. countermeasure flare operations were impacted by a delayed shipment to an international customer. Our U.S. and U.K. countermeasure flare operations incurred operating losses in both fiscal 2009 and 2008. Accordingly, management is focused on improving margins on existing products. The decrease in earnings at our engineered materials operations mainly reflected lower sales volumes and gross margins due to sales mix and a decreased recovery of fixed costs in a very competitive market in a down business cycle.

Interest expense decreased to $28.7 million during fiscal 2009 compared with $29.9 million in the prior year, reflecting a lower interest rate.

On January 26, 2009, we acquired Racal Acoustics for £122.6 million or $171.3 million. Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense market segment. The acquisition was funded with cash proceeds from the sale of U.K.-based Muirhead and Traxsys and our line of credit. To facilitate the acquisition of Racal Acoustics, we executed a $159.7 million U.S.-dollar denominated intercompany loan with a wholly-owned subsidiary, for which its functional currency is the pound sterling. Due to our holding of pounds sterling to fund the acquisition during a period of foreign exchange volatility, we incurred a $7.9 million foreign currency transaction loss in January 2009, which was recorded in other expense.

The income tax rate for fiscal 2009 was 10.6% compared with 18.5% in fiscal 2008. The tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense deductions. The tax rate for fiscal 2009 was significantly lower due to enhanced tax benefits associated with specific foreign exchange losses. In fiscal 2009, we recognized $5.0 million in net discrete tax benefits. The $5.0 million discrete tax benefits were the result of five events. The first event was a $2.0 million tax benefit for the reduction of previously recorded withholding tax liabilities as a result of the enactment of a U.S.-Canadian tax treaty. The second event was a $0.6 million expense resulting from the reversal of previously recorded tax benefits associated with the implementation of CMC s SADI program. The third event was a $1.5 million tax benefit associated with the reconciliation of the prior year s U.S. income tax return to the U.S. income tax provision. The fourth event was an adjustment that resulted in a reclassification of $3.4 million of tax benefits from discontinued operations to continued operations offset by a $1.0 million tax expense to establish a valuation allowance for U.S. foreign tax credits that are not expected to result in a current or future reduction in U.S. income taxes. The fifth event was a $0.3 million tax expense associated with the reconciliation of the prior year s foreign income tax returns to the foreign income tax provisions. In fiscal 2008, we recognized $6.5 million in discrete tax benefits. The $6.5 million in discrete tax adjustments were the result of five items. The first item was the settlement of an examination of the U.S. income tax returns for fiscal years 2003 through 2005, which resulted in a $2.8 million reduction of previously estimated income tax liabilities. The second item was the enactment of tax laws reducing the Canadian statutory corporate income tax rate, which resulted in a $4.1 million net reduction of deferred income tax liabilities. The third item was the accrual of $0.7 million of tax reserves and interest related to the finalization of CMC s uncertain tax position analysis. The fourth item was recording $0.8 million of tax expense associated with the reconciliation of fiscal 2007 s U.S. income tax return provision for income taxes. The fifth item was the recording of $1.2 million of tax benefits associated with the extension of the U.S. Research Experimentation tax credit.

To the extent that sales are transacted in a currency other than the functional currency of the operating unit, we are subject to foreign currency fluctuation risk.

We use forward contracts to hedge our foreign currency exchange risk. To the extent that these hedges qualify under U.S. GAAP, the amount of gain or loss is deferred in Accumulated Other Comprehensive Income (AOCI) until the related sale occurs. Also, we are subject to foreign currency gains or losses from embedded derivatives on backlog denominated in a currency other than the functional currency of our operating companies or its customers. Gains and losses on forward contracts, embedded derivatives, and revaluation of assets and liabilities denominated in currency other than the functional currency of the Company for fiscal 2009 and 2008 are as follows:

(In thousands)

	2009	2008
Forward foreign currency contracts gain (loss)	$ 7,031	$ (6,871)
Forward foreign currency contracts reclassified from AOCI	(11,610)	1,271
Embedded derivatives gain (loss)	(2,666)	5,039
Revaluation of monetary assets/liabilities gain (loss)	(5,334)	4,230
Total	$ (12,579)	$ 3,669

New orders for fiscal 2009 were $1.4 billion compared with $1.6 billion for fiscal 2008. Orders in fiscal 2009 include $41.0 million in backlog acquired from the Racal Acoustics and NMC acquisitions. New orders declined by $240.0 million if Racal Acoustics and NMC acquired backlog is excluded. Avionics & Controls orders for fiscal 2009 decreased 16.2% from the prior-year period, excluding acquired backlog from the Racal Acoustics acquisition. The decrease in Avionics & Controls reflects a $120.0 million order for a military transport cockpit upgrade booked in October 2008 and reduced requirements for commercial aviation. Sensors & Systems orders for fiscal 2009 decreased 22.7% from the prior-year period, principally reflecting reduced requirements for commercial aviation and the effects of foreign currency exchange rates. Advanced Materials orders for fiscal 2009 decreased 6.6% from the prior-year period, excluding acquired backlog from the NMC acquisition. The decrease principally reflected reduced requirements for defense, commercial aviation and industrial commercial requirements. Backlog at the end of both fiscal 2009 and 2008 was $1.1 billion.

Liquidity and Capital Resources

Working Capital and Statement of Cash Flows

Cash and cash equivalents at the end of fiscal 2010 totaled $422.1 million, an increase of $245.3 million from the prior year. Net working capital increased to $752.2 million at the end of fiscal 2010 from $502.4 million at the end of the prior year. Sources of cash flows from operating activities principally consist of cash received from the sale of products offset by cash payments for material, labor and operating expenses.

Cash flows from operating activities were $179.8 million and $156.7 million in fiscal 2010 and 2009, respectively. The increase principally reflected higher operating earnings and lower cash contributions to our defined benefit pension plans, partially offset by increased payments for interest and income taxes.

Cash flows used by investing activities were $20.7 million and $250.4 million in fiscal 2010 and 2009, respectively. Cash flows used by investing activities in fiscal 2010 principally reflected the use of cash for capital assets of $45.5 million, partially offset by cash proceeds from the sale of Pressure Systems, Inc. of $25.0 million. The use of cash for investing activities in fiscal 2009 mainly reflected cash paid for acquisitions of $255.2 million and capital expenditures of $59.2 million, partially offset by cash proceeds from the sale of Muirhead and Traxsys of $62.9 million.

Cash flows provided by financing activities were $84.3 million in fiscal 2010 and cash flows provided by financing activities were $103.5 million in fiscal 2009. Cash flows provided by financing activities in fiscal 2010 principally reflected proceeds from the issuance of $250.0 million in senior notes, partially offset by the repayment of our $175.0 million senior subordinated debt due in 2013. Cash flows provided by financing activities in fiscal 2009 mainly reflected a $125 million U.S. term loan due in 2012 to finance the Racal Acoustics acquisition, offset by $35.4 million in repayments on our U.K. term loan.

Capital Expenditures

Net property, plant and equipment was $273.8 million at the end of fiscal 2010 compared with $263.3 million at the end of the prior year. Capital expenditures for fiscal 2010 and 2009 were $53.7 million and $87.4 million, respectively (excluding acquisitions) and included facilities, machinery and equipment and enhancements to information technology systems. Capital expenditures for fiscal 2010 and 2009 also included $8.1 million and $28.2 million, respectively, under a capitalized lease obligation related to a new facility for an avionics controls operation and a facility expansion for an interface technologies facility. Capital expenditures are anticipated to approximate $75.0 million for fiscal 2011. We will continue to support expansion through investments in infrastructure including machinery, equipment, and information systems.

Acquisitions

On December 15, 2008, we acquired all of the outstanding capital stock of NMC Group, Inc. (NMC) for approximately $90.1 million in cash, including acquisition costs. NMC designs and manufactures specialized light weight fasteners principally for commercial aviation applications. NMC is included in our Advanced Materials segment.

On January 26, 2009, we acquired all of the outstanding capital stock of Racal Acoustics Global Ltd. (Racal Acoustics) for £122.6 million or $171.3 million in cash, including acquisition costs. Racal Acoustics develops and manufactures high technology ruggedized personal communication equipment for the defense and avionics market segment. Racal Acoustics is included in our Avionics & Controls segment.

Debt Financing

Total debt increased $82.1 million from the prior year to $613.6 million at the end of fiscal 2010. Total debt outstanding at the end of fiscal 2010 consisted of $250.0 million Senior Notes due in 2020, $175.0 million of Senior Notes due in 2017, $120.3 million of the U.S. term loan, $44.4 million under capital lease obligations, and $23.9 million in borrowings under our secured credit facility and various foreign currency debt agreements and other debt agreements.

On August 2, 2010, the Company issued $250.0 million in 7% Senior Notes due 2020 requiring semi-annual interest payments in March and September of each year until maturity. The net proceeds from the sale of the notes, after deducting $4.4 million of debt issuance cost, were $245.6 million. The Senior Notes are general unsecured senior obligations of the Company. The Senior Notes are guaranteed, jointly and severally on a senior basis, by all the existing and future domestic subsidiaries of the Company unless designated as an unrestricted subsidiary, and those foreign subsidiaries that executed related subsidiary guarantees under the indenture covering the Senior Notes. The Senior Notes are subject to redemption at the option of the Company at any time prior to August 1, 2015, at a price equal to 100% of the principal amount, plus any accrued interest to the date of redemption and a make-whole provision. In addition, before August 1, 2013, the Company may redeem up to 35% of the principal amount at 107.000% plus accrued interest with proceeds of one or more Public

Equity Offerings. The Senior Notes are also subject to redemption at the option of the Company, in whole or in part, on or after August 1, 2015, at redemption prices starting at 103.500% of the principal amount plus accrued interest during the period beginning August 1, 2015, and declining annually to 100% of principal and accrued interest on or after August 1, 2018.

The Company also has $175.0 million outstanding of Senior Notes due in 2017, with an interest rate of 6.625%. The Senior Notes are general unsecured senior obligations of the Company. The Senior Notes are guaranteed, jointly and severally on a senior basis, by all the existing and future domestic subsidiaries of the Company unless designated as an unrestricted subsidiary, and those foreign subsidiaries that executed related subsidiary guarantees under the indenture covering the Senior Notes. The Senior Notes are subject to redemption at the option of the Company at any time prior to March 1, 2012, at a price equal to 100% of the principal amount, plus any accrued interest to the date of redemption and a make-whole provision. The Senior Notes are also subject to redemption at the option of the Company, in whole or in part, on or after March 1, 2012, at redemption prices starting at 103.3125% of the principal amount plus accrued interest during the period beginning March 1, 2007, and declining annually to 100% of principal and accrued interest on or after March 1, 2015.

In April 2009, we amended our secured credit facility to provide for a $125.0 million U.S. term loan. We used the proceeds from the loan to repay our outstanding borrowings under the revolving credit facility and provide for enhanced liquidity. Borrowings under the U.S. term loan facility bear interest at a rate equal to either: (a) the LIBOR rate plus 2.50% or (b) the Base Rate (defined as the higher of Wachovia Bank, National Association s prime rate and the Federal funds rate plus 0.50%) plus 1.5%. The loan is accruing interest at a variable rate based on LIBOR plus 2.5% and was 2.75% on October 29, 2010. The principal amount of the U.S. term loan facility is payable quarterly commencing on March 31, 2010, the first four payments equal to 1.25% of the original loan balance, the following four payments equal to 2.50%, with a final payment equal to 85.0% on March 13, 2012.

During fiscal 2009, we repaid the remaining balance of $35.4 million of our £57.0 million U.K. term loan. During fiscal 2008 we paid down £33.2 million, or $68.0 million, of our £57.0 million U.K. term loan and terminated an interest rate swap for a gain of $1.9 million. The interest rate swap exchanged the variable interest rate for a fixed interest rate of 4.75% plus an additional margin amount determined by reference to our leverage ratio.

We believe cash on hand, funds generated from operations and other available debt facilities are sufficient to fund operating cash requirements and capital expenditures through fiscal 2011. Current conditions in the capital markets are uncertain; however, we believe we will have adequate access to capital markets to fund future acquisitions.

Pension and Other Post-Retirement Benefit Obligations

Our pension plans principally include a U.S. pension plan maintained by Esterline and non-U.S. plans maintained by CMC. Our principal post-retirement plans include non-U.S. plans maintained by CMC, which are non-contributory health care and life insurance plans.

We account for pension expense using the end of the fiscal year as our measurement date and we make actuarially computed contributions to our pension plans as necessary to adequately fund benefits. Our funding policy is consistent with the minimum funding requirements of ERISA. In fiscal 2010 and 2009, operating cash flow included $21.3 million and $25.5 million, respectively, of cash funding to these pension plans. We expect pension funding requirements for the plans maintained by Esterline and CMC to be approximately $9.3 million and $6.8 million, respectively, in fiscal 2011. The rate of increase in future compensation levels is consistent with our historical experience and salary administration policies. The expected long-term rate of return on plan assets is based on long-term target asset allocations of 70% equity and 30% fixed income. We periodically review allocations of plan assets by investment type and evaluate external sources of information regarding long-term historical returns and expected future returns for each investment type and, accordingly, believe a 7.0 to 8.0% assumed long-term rate of return on plan assets is appropriate. Current allocations are consistent with the long-term targets.

We made the following assumptions with respect to our pension obligation in 2010 and 2009:

	2010		2009	
Principal assumptions as of fiscal year end:				
Discount rate	5.5	6.25%	5.875	6.75%
Rate of increase in future compensation levels	3.2	4.5%	3.1	4.5%
Assumed long-term rate of return on plan assets	7.0	8.0%	7.5	8.25%

We use a discount rate for expected returns that is a spot rate developed from a yield curve established from high-quality corporate bonds and matched to plan-specific projected benefit payments. Although future changes to the discount rate are unknown, had the discount rate increased or decreased by 25 basis points in 2010, pension liabilities in total would have decreased $8.1 million or increased $10.9 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2010 pension expense from a hypothetical 25 basis points increase or decrease in both the discount rate and expected long-term rate of return on plan assets would not have a material effect on our pension expense.

We made the following assumptions with respect to our post-retirement obligation in 2010 and 2009:

	2010		2009	
Principal assumptions as of fiscal year end:				
Discount rate	5.5	6.25%	5.875	6.75%
Initial weighted average health care trend rate	4.05	6.0%	4.08	9.0%
Ultimate weighted average health care trend rate	3.38	6.0%	3.38	9.0%

The assumed health care trend rate has a significant impact on our post-retirement benefit obligations. Our health care trend rate was based on the experience of our plan and expectations for the future. A 100 basis points increase in the health care trend rate would increase our post-retirement benefit obligation by $1.0 million. A 100 basis points decrease in the health care trend rate would decrease our post-retirement benefit obligation by $0.9 million. Assuming all other assumptions are held constant, the estimated effect on fiscal 2010 post-retirement benefit expense from a hypothetical 100 basis points increase or decrease in the health care trend rate would not have a material effect on our post-retirement benefit expense.

Research and Development Expense

For the three years ended October 29, 2010, research and development expense has averaged 5.0% of sales. We estimate that research and development expense in fiscal 2011 will be 4.5% to 5.0% of sales for the full year.

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of fiscal year end. Liabilities for income taxes were excluded from the table, as we are not able to make a reasonably reliable estimate of the amount and period of related future payments.

In Thousands

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 567,249	$ 12,670	$ 112,031	$ 3	$ 442,545
Credit facilities	1,979	1,979	0	0	0
Operating lease obligations	48,436	13,029	18,984	10,200	6,223
Capital lease obligations	118,713	3,634	7,448	7,788	99,843
Purchase obligations	265,474	237,580	27,080	362	452
Total contractual obligations	$ 1,001,851	$ 268,892	$ 165,543	$ 18,353	$ 549,063

Seasonality

The timing of our revenues is impacted by the purchasing patterns of our customers and, as a result, we do not generate revenues evenly throughout the year. Moreover, our first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America. This leads to decreased order and shipment activity; consequently, first quarter results are typically weaker than other quarters and not necessarily indicative of our performance in subsequent quarters.

Disclosures About Market Risk

Interest Rate Risks

Our debt includes fixed rate and variable rate obligations at October 29, 2010. We are not subject to interest rate risk on the fixed rate obligations. We are subject to interest rate risk on the U.S. term loan. For long-term debt, the table presents principal cash flows and the related weighted-average interest rates by contractual maturities.

A hypothetical 10% increase or decrease in average market rates would not have a material effect on our pretax income.

In Thousands	Long-Term Debt	Variable Rate
	Principal	Average
Maturing in:	Amount	Rates [1]
2011	$ 14,063	*
2012	106,250	*
Total	$ 120,313	
Fair Value at 10/29/2010	$ 120,313	

1 Borrowings under the U.S. term loan facility bear interest at a rate equal to either: (a) the LIBOR rate plus 2.50% or (b) the Base Rate (defined as the higher of Wachovia Bank, National Association s prime rate and the Federal funds rate plus 0.50%) plus 1.50%.

Currency Risks

We own significant operations in Canada, France and the United Kingdom. To the extent that sales are transacted in a foreign currency, we are subject to foreign currency fluctuation risk. Furthermore, we have assets denominated in foreign currencies that are not offset by liabilities in such foreign currencies. At October 29, 2010, we had the following monetary assets subject to foreign currency fluctuation risk: U.S. dollar-denominated backlog with customers whose functional currency is other than the U.S. dollar; U.S. dollar-denominated accounts receivable and payable; and certain forward contracts, which are not accounted for as a cash flow hedge. The foreign exchange rate for the dollar relative to the euro increased to 0.718 at October 29, 2010, from 0.679 at October 30, 2009; the dollar relative to the U.K. pound increased to 0.624 from 0.609; and the dollar relative to the Canadian dollar decreased to 1.02 from 1.08. Foreign currency transactions affecting monetary assets and forward contracts resulted in a $6.1 million gain in fiscal 2010, a $12.6 million loss in fiscal 2009, and a $3.7 million gain in fiscal 2008. The $12.6 million loss in fiscal 2009 was principally due to our holding of pounds sterling to fund the Racal Acoustics acquisition during a period of foreign exchange volatility, resulting in a $7.9 million foreign currency transaction loss in January 2009.

Our policy is to hedge a portion of our forecasted transactions using forward exchange contracts with maturities up to 20 months. The Company does not enter into any forward contracts for trading purposes. At October 29, 2010, and October 30, 2009, the notional value of foreign currency forward contracts was $245.5 million and $275.3 million, respectively. The net fair value of these contracts was an $11.1 million asset and a $15.4 million asset at October 29, 2010, and October 30, 2009, respectively. If the U.S. dollar increased or decreased by a hypothetical 5%, the effect on the fair value of the foreign currency contracts would be $13.0 million.

The following tables provide information about our significant derivative financial instruments, including foreign currency forward exchange agreements and certain firmly committed sales transactions denominated in currencies other than the functional currency at October 29, 2010, and October 30, 2009. The information about certain firmly committed sales contracts and derivative financial instruments is in U.S. dollar equivalents. For forward foreign currency exchange agreements, the following tables present the notional amounts at the current exchange rate and weighted-average contractual foreign currency exchange rates by contractual maturity dates.

Firmly Committed Sales Contracts

Operations with Foreign Functional Currency

At October 29, 2010

Principal Amount by Expected Maturity

In Thousands Fiscal Years	Firmly Committed Sales Contracts in United States Dollar Canadian Dollar	Euro	U.K. Pound
2011	$ 211,481	$ 55,841	$ 33,198
2012	30,692	11,920	2,646
2013	849	20	116
2014	383	0	116
2015 and thereafter	7,145	0	0
Total	$ 250,550	$ 67,781	$ 36,076

Derivative Contracts

Operations with Foreign Functional Currency

At October 29, 2010

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) [1]

Related Forward Contracts to Sell U.S. Dollar for Euro

Dollars in Thousands, Except for Average Contract Rate Fiscal Years	United States Dollar Notional Amount	Avg. Contract Rate
2011	$ 31,248	1.357
2012	3,210	1.321
Total	$ 34,458	
Fair Value at 10/29/2010	$ 937	

[1] The Company has no derivative contracts maturing after fiscal 2012.

Derivative Contracts

Operations with Foreign Functional Currency

At October 29, 2010

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) [1]

Related Forward Contracts to Sell U.S. Dollar for U.K. Pound

Dollars in Thousands, Except for Average Contract Rate	United States Dollar	
Fiscal Years	Notional Amount	Avg. Contract Rate
2011	$ 43,253	1.561
2012	11,740	1.556
Total	$ 54,993	
Fair Value at 10/29/2010	$ 1,223	

[1] The Company has no derivative contracts maturing after fiscal 2012.

Derivative Contracts

Operations with Foreign Functional Currency

At October 29, 2010

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) [1]

Related Forward Contracts to Sell U.S. Dollar for Canadian Dollar

Dollars in Thousands, Except for Average Contract Rate	United States Dollar		
Fiscal Years		Notional Amount	Avg. Contract Rate
2011	$	112,854	.908
2012		43,220	.944
Total	$	156,074	
Fair Value at 10/29/2010	$	9,541	

[1] The Company has no derivative contracts maturing after fiscal 2012.

Firmly Committed Sales Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Principal Amount by Expected Maturity

In Thousands	Firmly Committed Sales Contracts in United States Dollar					
Fiscal Years		Canadian Dollar		Euro		U.K. Pound
2010	$	126,982	$	52,951	$	36,276
2011		69,028		11,933		3,756
2012		28,052		0		177
2013		9,539		0		637
2014 and thereafter		25,067		0		116
Total	$	258,668	$	64,884	$	40,962

Derivative Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) [1]

Related Forward Contracts to Sell U.S. Dollar for Euro

Dollars in Thousands, Except for Average Contract Rate	United States Dollar		
Fiscal Years		Notional Amount	Avg. Contract Rate
2010	$	31,840	1.365
2011		2,850	1.442
Total	$	34,690	
Fair Value at 10/30/2009	$	2,493	

[1] The Company has no derivative contracts maturing after fiscal 2011.

Derivative Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) [1]

Related Forward Contracts to Sell U.S. Dollar for U.K. Pound

Dollars in Thousands, Except for Average Contract Rate	United States Dollar	
Fiscal Years	Notional Amount	Avg. Contract Rate
2010	$ 57,700	1.648
2011	4,365	1.641
Total	$ 62,065	
Fair Value at 10/30/2009	$ (87)	

[1] The Company had no derivative contracts maturing after fiscal 2011.

Derivative Contracts

Operations with Foreign Functional Currency

At October 30, 2009

Notional Amount by Expected Maturity

Average Foreign Currency Exchange Rate (USD/Foreign Currency) [1]

Related Forward Contracts to Sell U.S. Dollar for Canadian Dollar

Dollars in Thousands, Except for Average Contract Rate	United States Dollar	
Fiscal Years	Notional Amount	Avg. Contract Rate
2010	$ 100,141	.859
2011	73,780	.813
2012	4,620	.842
Total	$ 178,541	
Fair Value at 10/30/2009	$ 13,284	

[1] The Company had no derivative contracts maturing after fiscal 2012.

On February 10, 2006, we borrowed £57.0 million, or approximately $100.0 million, under our term loan facility. We designated the £57.0 million loan as a hedge of the investment in a certain U.K. business unit. The term loan was fully repaid in June 2009. A cumulative foreign currency loss of $4.8 million resulting from the accounting of the U.K. term loan as a net investment hedge will remain in other comprehensive income in shareholders equity until the hedged investment is disposed of or sold.

Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates under different assumptions or conditions. These estimates and assumptions are affected by our application of accounting policies. Our critical accounting policies include revenue recognition, accounting for the allowance for doubtful accounts receivable, accounting for inventories at the lower of cost or market, accounting for goodwill and intangible assets in business combinations, impairment of goodwill and intangible assets, accounting for legal contingencies, accounting for pension benefits, and accounting for income taxes.

Revenue Recognition

We recognize revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an agreement, delivery has occurred or services have been rendered, the price is determinable, and the collectibility is reasonably assured. We recognize product revenues at the point of shipment or delivery in accordance with the terms of sale. Sales are net of returns and allowances. Returns and allowances are not significant because products are manufactured to customer specification and are covered by the terms of the product warranty.

Revenues and profits on fixed-price contracts with significant engineering as well as production requirements are recorded based on the achievement of contractual milestones and the ratio of total actual incurred costs to date to total estimated costs for each contract (cost-to-cost method). We review cost performance and estimates to complete on our ongoing contracts at least quarterly. The impact of revisions of profit estimates are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period they become evident. Amounts representing contract change orders are included in revenue only when they can be reliably estimated and realization is probable, and are determined on a percentage-of-completion basis measured by the cost-to-cost method. Claims are included in revenue only when they are probable of collection.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts for losses expected to be incurred on accounts receivable balances. Judgment is required in estimation of the allowance and is based upon specific identification, collection history and creditworthiness of the debtor.

Inventories

We account for inventories on a first-in, first-out or average cost method of accounting at the lower of its cost or market. The determination of market requires judgment in estimating future demand, selling prices and cost of disposal. Judgment is required when determining inventory cost adjustments. Inventory cost adjustments are recorded when inventory is considered to be excess or obsolete based upon an analysis of actual on-hand quantities on a part-level basis to forecasted product demand and historical usage.

Impairment of Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets are required to be tested for impairment at least annually. We are also required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity s market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors.

Goodwill is tested for impairment in a two-step process. The first step (Step One) of the goodwill impairment test involves estimating the fair value of a reporting unit. Fair value (Fair Value) is defined as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced liquidation sale. A reporting unit is generally defined at the operating segment level or at the component level one level below the operating segment, if said component constitutes a business. The Fair Value of a reporting unit is then compared to its carrying value, which is defined as the book basis of total assets less total liabilities. In the event a reporting unit s carrying value exceeds its estimated Fair Value, evidence of potential impairment exists. In such a case, the second step (Step Two) of the impairment test is required, which involves allocating the Fair Value of the reporting unit to all of the assets and liabilities of that unit, with the excess of Fair Value over allocated net assets representing the Fair Value of goodwill. An impairment loss is measured as the amount by which the carrying value of the reporting unit s goodwill exceeds the estimated Fair Value of goodwill.

As we have grown through acquisitions, we have accumulated $739.7 million of goodwill and $47.9 million of indefinite-lived intangible assets out of total assets of $2.6 billion at October 29, 2010. The amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. We performed our impairment review for fiscal 2010 as of July 31, 2010, and our Step One analysis indicates that no impairment of goodwill or other indefinite-lived assets exists at any of our reporting units.

During fiscal 2009, management determined that the trade name useful life was no longer indefinite as a result of further integration of advanced sensors units and promotion of the Advanced Sensors brand name. An impairment test was required to be performed to value the trade name at fair value, which resulted in the impairment charge of $3.0 million.

The valuation of reporting units requires judgment in estimating future cash flows, discount rates and estimated product life cycles. In making these judgments, we evaluate the financial health of the business, including such factors as industry performance, changes in technology and operating cash flows.

We used available market data and a discounted cash flow analysis in completing our 2010 annual impairment test. We believe that our cash flow estimates are reasonable based upon the historical cash flows and future operating and strategic plans of our reporting units. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions. The fair value of all but one of our reporting units exceeds its book value by greater than 30%. The fair value of one of our reporting units exceeds its book value by approximately 13%. A 0.5% change in the discount rate used in the cash flow analysis would result in a change in the fair value of our reporting units of approximately $89.4 million. A 0.5% change in the growth rate assumed in the calculation of the terminal value of cash flows would result in a change in the fair value of our reporting units by $73.4 million. None of these changes would have resulted in any of our reporting units to be impaired.

Impairment of Long-lived Assets

Long-lived assets that are to be disposed of are required to be reported at the lower of its carrying amount or fair value less cost to sell. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows.

As we have grown through acquisitions, we have accumulated $494.0 million of definite-lived intangible assets. The amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

Contingencies

We are party to various lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business. We are covered by insurance for general liability, product liability, workers compensation and certain environmental exposures, subject to certain deductible limits. We are self-insured for amounts less than our deductible and where no insurance is available. An estimated loss from a contingency should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

Pension and Other Post-Retirement Benefits

We account for pension expense using the end of the fiscal year as our measurement date. We select appropriate assumptions including discount rate, rate of increase in future compensation levels and assumed long-term rate of return on plan assets and expected annual increases in costs of medical and other health care benefits in regard to our post-retirement benefit obligations. Our assumptions are based upon historical results, the current economic environment and reasonable expectations of future events. Actual results which vary from our assumptions are accumulated and amortized over future periods and, accordingly, are recognized in expense in these periods. Significant differences between our assumptions and actual experience or significant changes in assumptions could impact the pension costs and the pension obligation.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position and results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We hereby incorporate by reference the information set forth under the section Disclosures About Market Risk under Item 7.

Item 8. Financial Statements and Supplementary Data

Consolidated Statement of Operations

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years in the Period Ended October 29, 2010	**2010**	**2009**	**2008**
Net Sales	$ 1,526,601	$ 1,407,459	$ 1,462,196
Cost of Sales	1,010,390	954,161	981,934
	516,211	453,298	480,262
Expenses			
Selling, general and administrative	258,290	235,483	234,451
Research, development and engineering	69,753	64,456	85,097
Other (income) expense	(8)	7,970	86
Total Expenses	328,035	307,909	319,634
Operating Earnings From Continuing Operations	188,176	145,389	160,628
Interest income	(960)	(1,634)	(4,373)
Interest expense	33,181	28,689	29,922
Loss on extinguishment of debt	1,206	0	0
Gain on derivative financial instrument	0	0	(1,850)
Income From Continuing Operations Before Income Taxes	154,749	118,334	136,929
Income Tax Expense	24,504	12,549	25,288
Income From Continuing Operations Including Noncontrolling Interests	130,245	105,785	111,641
Income Attributable to Noncontrolling Interests	(206)	(217)	(383)
Income From Continuing Operations Attributable to Esterline, Net of Tax	130,039	105,568	111,258
Income From Discontinued Operations Attributable to Esterline, Net of Tax	11,881	14,230	9,275
Net Earnings Attributable to Esterline	$ 141,920	$ 119,798	$ 120,533

Consolidated Statement of Operations

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years in the Period Ended October 29, 2010		**2010**		**2009**		**2008**
Earnings Per Share Attributable to Esterline Basic:						
Continuing operations	$	4.34	$	3.55	$	3.77
Discontinued operations		.39		.48		.31
Earnings Per Share Attributable to Esterline Basic	$	4.73	$	4.03	$	4.08
Earnings Per Share Attributable to Esterline Diluted:						
Continuing operations	$	4.27	$	3.52	$	3.72
Discontinued operations		.39		.48		.31
Earnings Per Share Attributable to Esterline Diluted	$	4.66	$	4.00	$	4.03

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In Thousands, Except Share and Per Share Amounts

As of October 29, 2010 and October 30, 2009	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 422,120	$ 176,794
Accounts receivable, net of allowances		
of $4,865 and $5,297	309,242	270,976
Inventories	262,373	275,282
Income tax refundable	17,806	7,638
Deferred income tax benefits	37,539	31,434
Prepaid expenses	16,264	17,425
Other current assets	11,241	17,048
Total Current Assets	1,076,585	796,597
Property, Plant and Equipment		
Land	28,583	23,656
Buildings	186,435	179,758
Machinery and equipment	330,986	312,414
	546,004	515,828
Accumulated depreciation	272,234	252,577
	273,770	263,251
Other Non-Current Assets		
Goodwill	739,730	736,808
Intangibles, net	389,017	422,082
Debt issuance costs, net of accumulated		
amortization of $4,536 and $7,842	7,774	7,136
Deferred income tax benefits	87,622	79,114
Other assets	13,240	9,259
Total Assets	$ 2,587,738	$ 2,314,247

See Notes to Consolidated Financial Statements.

As of October 29, 2010 and October 30, 2009	2010	2009
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	$ 82,275	$ 82,304
Accrued liabilities	215,094	191,667
Credit facilities	1,980	5,896
Current maturities of long-term debt	12,646	5,409
Deferred income tax liabilities	7,155	7,294
Federal and foreign income taxes	5,227	1,669
Total Current Liabilities	324,377	294,239
Long-Term Liabilities		
Long-term debt, net of current maturities	598,972	520,158
Deferred income tax liabilities	127,081	130,456
Pension and post-retirement obligations	105,333	93,615
Other liabilities	16,476	20,027
Shareholders Equity		
Common stock, par value $.20 per share,		
authorized 60,000,000 shares, issued and		
outstanding 30,279,509 and 29,773,630 shares	6,056	5,955
Additional paid-in capital	528,724	504,549
Retained earnings	874,781	732,861
Accumulated other comprehensive income	3,235	9,656
Total Esterline shareholders equity	1,412,796	1,253,021
Noncontrolling interests	2,703	2,731
Total Shareholders Equity	1,415,499	1,255,752
Total Liabilities and Shareholders Equity	$ 2,587,738	$ 2,314,247

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In Thousands

For Each of the Three Fiscal Years in the Period Ended October 29, 2010	2010	2009	2008
Cash Flows Provided (Used) by Operating Activities			
Net earnings including noncontrolling interests	$ 142,126	$ 120,015	$ 120,916
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided (used) by operating activities:			
Depreciation and amortization	72,117	71,511	66,299
Deferred income tax	(9,997)	(11,468)	(22,921)
Share-based compensation	7,134	7,349	8,711
Gain on sale of discontinued operations	(14,625)	(26,481)	0
Working capital changes, net of effect of acquisitions:			
Accounts receivable	(39,164)	54,546	(54,602)
Inventories	10,734	6,054	(28,424)
Prepaid expenses	1,114	(3,890)	(1,624)
Other current assets	2,285	(15,428)	(1,058)
Accounts payable	856	(18,787)	12,784
Accrued liabilities	21,303	(11,933)	18,724
Federal and foreign income taxes	(6,607)	737	(3,347)
Other liabilities	(7,571)	(7,663)	(151)
Other, net	96	(7,893)	3,586
	179,801	156,669	118,893
Cash Flows Provided (Used) by Investing Activities			
Purchases of capital assets	(45,540)	(59,184)	(40,665)
Proceeds from sale of discontinued operations, net of cash	24,994	62,944	0
Proceeds from sale of capital assets	595	1,089	1,101
Acquisitions of businesses, net of cash acquired	(768)	(255,206)	9,425
	(20,719)	(250,357)	(30,139)

For Each of the Three Fiscal Years in the Period Ended October 29, 2010		**2010**		**2009**		**2008**
Cash Flows Provided (Used) by Financing Activities						
Proceeds provided by stock issuance under employee stock plans		13,654		3,137		7,516
Excess tax benefits from stock option exercises		3,488		119		1,983
Net change in credit facilities		(4,015)		99		(2,191)
Repayment of long-term debt		(183,082)		(34,444)		(70,032)
Proceeds from issuance of long-term debt		250,000		125,000		0
Proceeds from government assistance		9,168		11,145		0
Dividends paid to noncontrolling interests		(234)		(283)		(554)
Debt and other issuance costs		(4,719)		(1,258)		0
		84,260		103,515		(63,278)
Effect of Foreign Exchange Rates on Cash and Cash Equivalents		1,984		6,322		(11,900)
Net Increase in Cash and Cash Equivalents		245,326		16,149		13,576
Cash and Cash Equivalents Beginning of Year		176,794		160,645		147,069
Cash and Cash Equivalents End of Year	$	422,120	$	176,794	$	160,645
Supplemental Cash Flow Information						
Cash paid for interest	$	30,629	$	27,988	$	29,119
Cash paid for taxes		53,704		40,293		47,359
Supplemental Non-cash Investing and Financing Activities						
Capital asset and lease obligation additions		8,139		28,202		7,981

See Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders

Equity and Comprehensive Income (Loss)

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years in the Period Ended October 29, 2010	**2010**	**2009**	**2008**
Common Stock, Par Value $.20 Per Share			
Beginning of year	$ 5,955	$ 5,927	$ 5,873
Shares issued under stock option plans	101	28	54
End of year	6,056	5,955	5,927
Additional Paid-in Capital			
Beginning of year	504,549	493,972	475,816
Shares issued under stock option plans	17,041	3,228	9,445
Share-based compensation expense	7,134	7,349	8,711
End of year	528,724	504,549	493,972
Retained Earnings			
Beginning of year	732,861	613,063	493,269
Net earnings	141,920	119,798	120,533
Change in accounting for tax contingencies	0	0	(739)
End of year	874,781	732,861	613,063
Accumulated Other Comprehensive Income (Loss)			
Beginning of year	9,656	(86,621)	146,868
Change in fair value of derivative financial instruments, net of tax (expense) benefit of $1,045, $(11,072), and $7,881	(1,407)	24,179	(15,607)
Change in pension and post-retirement obligations, net of tax (expense) benefit of $3,741, $11,636, and $17,558	(10,618)	(20,265)	(33,635)
Foreign currency translation adjustment	5,604	92,363	(184,247)
End of year	3,235	9,656	(86,621)
Noncontrolling Interests			
Beginning of year	2,731	2,797	2,968
Net changes in equity attributable to noncontrolling interest	(28)	(66)	(171)
End of year	2,703	2,731	2,797
Total Shareholders Equity	$ 1,415,499	$ 1,255,752	$ 1,029,138
Comprehensive Income (Loss)			
Net earnings	$ 141,920	$ 119,798	$ 120,533

Change in fair value of derivative financial instruments, net of tax	(1,407)	24,179	(15,607)
Change in pension and post-retirement obligations, net of tax	(10,618)	(20,265)	(33,635)
Foreign currency translation adjustment	5,604	92,363	(184,247)
Comprehensive Income (Loss)	$ 135,499	$ 216,075	$ (112,956)

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE 1: **Accounting Policies**

Nature of Operations

Esterline Technologies Corporation (the Company) designs, manufactures and markets highly engineered products. The Company serves the aerospace and defense industry, primarily in the United States and Europe. The Company also serves the industrial/commercial and medical markets.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated. Classifications have been changed for certain amounts in prior periods to conform with the current year s presentation. The Company s fiscal year ends on the last Friday of October. The fiscal years ended October 29, 2010, and October 30, 2009, contained 52 weeks, while the October 31, 2008, period contained 53 weeks.

Management Estimates

To prepare financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Risks

The Company s products are principally focused on the aerospace and defense industry, which includes military and commercial aircraft original equipment manufacturers and their suppliers, commercial airlines, and the United States and foreign governments. Accordingly, the Company s current and future financial performance is dependent on the economic condition of the aerospace and defense industry. The commercial aerospace market has historically been subject to cyclical downturns during periods of weak economic conditions or material changes arising from domestic or international events. Management believes that the Company s sales are fairly well balanced across its customer base, which includes not only aerospace and defense customers but also medical and industrial commercial customers. However, material changes in the economic conditions of the aerospace industry could have a material effect on the Company s results of operations, financial position or cash flows.

Revenue Recognition

The Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an agreement, delivery has occurred or services have been rendered, the price is determinable, and the collectibility is reasonably assured. The Company recognizes product revenues at the point of shipment or delivery in accordance with the terms of sale. Sales are net of returns and allowances. Returns and allowances are not significant because products are manufactured to customer specification and are covered by the terms of the product warranty.

Revenues and profits on fixed-price contracts with significant engineering as well as production requirements are recorded based on the achievement of contractual milestones and the ratio of total actual incurred costs to date to total estimated costs for each contract (cost-to-cost method). Types of milestones include design review and prototype completion. The Company reviews cost performance and estimates to complete on its ongoing contracts at least quarterly. The impact of revisions of profit estimates are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period they become evident. Amounts representing contract change orders are included in revenue only when they can be reliably estimated and realization is probable, and are determined on a percentage-of-completion basis measured by the cost-to-cost method. Claims are included in revenue only when they are probable of collection.

Research and Development

Expenditures for internally-funded research and development are expensed as incurred. Customer-funded research and development projects performed under contracts are accounted for as work in process as work is performed and recognized as cost of sales and sales under the proportional performance method. Research and development expenditures are net of government assistance and tax subsidies, which are not contingent upon paying income tax. In addition, government assistance for research and development is recorded as a reduction of research and development expense when repayment royalties are contingent upon sales generated directly from the funded research and development. If reimbursement is not tied directly to sales generated from the funded research and development, the assistance is accounted for as a loan until the criteria for forgiveness has been met.

Financial Instruments

Fair Value of Financial Instruments

The Company s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings, long-term debt, foreign currency forward contracts, and interest rate swap agreements. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their respective fair values because of the short-term maturities or expected settlement dates of these instruments. The fair market value of the Company s long-term debt and short-term borrowings was estimated at $640.5 million and $527.6 million at fiscal year end 2010 and 2009, respectively. These estimates were derived using discounted cash flows with interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities.

Foreign Currency Exchange Risk Management

The Company is subject to risks associated with fluctuations in foreign currency exchange rates from the sale of products in currencies other than its functional currency. Furthermore, the Company has assets denominated in foreign currencies that are not offset by liabilities in such foreign currencies. The Company has significant operations in Canada, France, Germany and the United Kingdom and, accordingly, we may experience gains or losses due to foreign exchange fluctuations.

The Company s policy is to hedge a portion of its forecasted transactions using forward exchange contracts, with maturities up to 20 months. These forward contracts have been designated as cash flow hedges. The portion of the net gain or loss on a derivative instrument that is effective as a hedge is reported as a component of other comprehensive income in shareholders equity and is reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining net gain or loss on the derivative in excess of the present value of the expected cash flows of the hedged transaction is recorded in earnings immediately. If a derivative does not qualify for hedge accounting, or a portion of the hedge is deemed ineffective, the change in fair value is recorded in earnings. The amount of hedge ineffectiveness has not been material in any of the three fiscal years in the period ended October 29, 2010. At October 29, 2010, and October 30, 2009, the notional value of foreign currency forward contracts accounted for as a cash flow hedge was $205.7 million and $234.1 million, respectively. The fair value of these contracts was a $10.7 million asset and a $16.4 million asset at October 29, 2010, and October 30, 2009, respectively. The Company does not enter into any forward contracts for trading purposes.

In February 2006, the Company entered into a U.K. term loan for £57.0 million. The Company designated the U.K. term loan as a hedge of the investment in a certain U.K. business unit. The foreign currency gain or loss that is effective as a hedge is reported as a component of other comprehensive income in shareholders equity. To the extent that this hedge is ineffective, the foreign currency gain or loss is recorded in earnings. There was no ineffectiveness in 2010. The U.K. term loan was paid off in fiscal 2009. The loss included in Accumulated Other Comprehensive Income will remain until the underlying investment in a certain U.K. business unit is liquidated. The amount of foreign currency translation included in Other Comprehensive Income was a loss of $4.8 million net of taxes at October 29, 2010, and October 30, 2009.

Interest Rate Risk Management

Depending on the interest rate environment, the Company may enter into interest rate swap agreements to convert the fixed interest rates on notes payable to variable interest rates or terminate any swap agreements in place. These interest rate swap agreements have been designated as fair value hedges. Accordingly, gain or loss on swap agreements as well as the offsetting loss or gain on the hedged portion of notes payable are recognized in interest expense during the period of the change in fair values. The Company attempts to manage exposure to counterparty credit risk by only entering into agreements with major financial institutions which are expected to be able to fully perform under the terms of the agreement.

In June 2009, the Company entered into an interest rate swap agreement on the $175.0 million Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate of 7.75% for a variable interest rate on the $175.0 million principal amount outstanding. The variable interest rate is based upon LIBOR plus 5.37% and was 5.61% at October 29, 2009. The swap was terminated in fourth quarter of fiscal 2010 upon the repayment of the $175.0 million Senior Subordinated Notes due in 2013.

In September 2003, the Company entered into an interest rate swap agreement on $75.0 million of its Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate for a variable interest rate on $75.0 million of the $175.0 million principal amount outstanding. The interest rate swap was terminated in 2009, and the deferred gain was being amortized in proportion to the repayment of the underlying debt.

A deferred gain of $3.7 million from both of these swap agreements was recognized in fiscal 2010 upon the repayment of the $175.0 million Senior Subordinated Notes due 2013. A loss on extinguishment debt was recorded for $1.2 million, which includes the recognition of the previously deferred gains of $3.7 million.

Depending on the interest rate environment, the Company may enter into interest rate swap agreements to convert the variable interest rates on notes payable to fixed interest rates. These swap agreements are accounted for as cash flow hedges and the fair market value of the hedge instrument is included in Other Comprehensive Income. In February 2006, the Company entered into an interest rate swap agreement on the full principal amount of its £57.0 million U.K. term loan facility. The swap agreement exchanged the variable interest rate for a fixed interest rate of 4.75% plus an additional margin amount determined by reference to the Company s leverage ratio. The agreement was terminated in 2008 for a gain of $1.9 million.

The fair market value of the interest rate swaps was estimated by discounting expected cash flows using quoted market interest rates.

Foreign Currency Translation

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on year end exchange rates. Revenue and expense accounts are translated at average exchange rates. Aggregate exchange gains and losses arising from the translation of foreign assets and liabilities are included in shareholders equity as a component of comprehensive income. Accumulated gain or (loss) on foreign currency translation adjustment was $58.8 million, $53.2 million and $(39.2) million as of the fiscal years ended October 29, 2010, October 30, 2009, and October 31, 2008, respectively.

Foreign Currency Transaction Gains and Losses

Foreign currency transaction gains and losses are included in results of operations and are primarily the result of revaluing assets and liabilities denominated in a currency other than the functional currency, gains and losses on forward exchange contracts and the change in value of foreign currency embedded derivatives in backlog. These foreign currency transactions resulted in a $6.1 million gain in fiscal 2010, a $12.6 million loss in fiscal 2009, and a $3.7 million gain in fiscal 2008.

Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less at the date of purchase. Fair value of cash equivalents approximates carrying value. Cash equivalents included $28.8 million and $15.0 million in cash for a letter of credit at October 29, 2010, and October 30, 2009, respectively.

Accounts Receivable

Accounts receivable are recorded at the net invoice price for sales billed to customers. Accounts receivable are considered past due when outstanding more than normal trade terms allow. An allowance for doubtful accounts is established when losses are expected to be incurred. Accounts receivable are written off to the allowance for doubtful accounts when the balance is considered to be uncollectible.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) or average cost method. Inventory cost includes material, labor and factory overhead. The Company defers pre-production engineering costs as work-in-process inventory in connection with long-term supply arrangements that include contractual guarantees for reimbursement from the customer. Inventory cost adjustments are recorded when inventory is considered to be excess or obsolete based upon an analysis of actual on-hand quantities on a part level basis to forecasted product demand and historical usage.

Property, Plant and Equipment, and Depreciation

Property, plant and equipment is carried at cost and includes expenditures for major improvements. Depreciation is generally provided on the straight-line method based upon estimated useful lives ranging from 15 to 30 years for buildings and 3 to 10 years for machinery and equipment. Depreciation expense was $39.5 million, $39.2 million, and $41.1 million for fiscal years 2010, 2009 and 2008, respectively. Assets under capital leases were $44.4 million at October 29, 2010, and $36.2 million at October 30, 2009. Amortization expense of assets accounted for as capital leases is included with depreciation expense. The fair value of liabilities related to the retirement of property is recorded when there is a legal or contractual obligation to incur asset retirement costs and the costs can be estimated. The Company records the asset retirement cost by increasing the carrying cost of the underlying property by the amount of the asset retirement obligation. The asset retirement cost is depreciated over the estimated useful life of the underlying property.

Debt Issuance Costs

Costs incurred to issue debt are deferred and amortized as interest expense over the term of the related debt using a method that approximates the effective interest method.

Long-lived Asset Impairments

The carrying amount of long-lived assets is reviewed periodically for impairment. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows.

Goodwill and Intangibles

Goodwill is not amortized, but is tested for impairment at least annually. A reporting unit is generally defined at the operating segment level or at the component level one level below the operating segment, if said component constitutes a business. Goodwill is allocated to reporting units based upon the purchase price of the acquired unit, the valuation of acquired tangible and intangible assets, and liabilities assumed. When a reporting unit s carrying value exceeds its estimated fair value, an impairment test is required. This test involves allocating the fair value of the reporting unit to all of the assets and liabilities of that unit, with the excess of fair value over allocated net assets representing the fair value of goodwill. An impairment loss is measured as the amount by which the carrying value of goodwill exceeds the estimated fair value of goodwill.

Intangible assets are amortized over their estimated period of benefit, ranging from 2 to 20 years. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists.

Indefinite-lived intangible assets (other than goodwill) are tested annually for impairment or more frequently on an interim basis if circumstances require.

Environmental

Environmental exposures are provided for at the time they are known to exist or are considered probable and reasonably estimable. No provision has been recorded for environmental remediation costs which could result from changes in laws or other circumstances currently not contemplated by the Company. Costs provided for future expenditures on environmental remediation are not discounted to present value.

Pension Plan and Post-Retirement Benefit Plan Obligations

The Company accounts for pension expense using the end of the fiscal year as its measurement date. Management selects appropriate assumptions including discount rate, rate of increase in future compensation levels and assumed long-term rate of return on plan assets and expected annual increases in costs of medical and other health care benefits in regard to the Company s post-retirement benefit obligations. These assumptions are based upon historical results, the current economic environment and reasonable expectations of future events. Actual results which vary from assumptions are accumulated and amortized over future periods and, accordingly, are recognized in expense in these periods. Significant differences between our assumptions and actual experience or significant changes in assumptions could impact the pension costs and the pension obligation.

Share-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

Product Warranties

Estimated product warranty expenses are recorded when the covered products are shipped to customers and recognized as revenue. Product warranty expense is estimated based upon the terms of the warranty program.

Income Taxes

The Company recognizes the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns.

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share also includes the dilutive effect of stock options. Common shares issuable from stock options that are excluded from the calculation of diluted earnings per share because they were anti-dilutive were 50,984, 1,385,596, and 499,850 for fiscal 2010, 2009 and 2008, respectively. The weighted average number of shares outstanding used to compute basic earnings per share was 29,973,000, 29,717,000, and 29,507,000 for fiscal years 2010, 2009 and 2008, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 30,477,000, 29,951,000, and 29,908,000 for fiscal years 2010, 2009 and 2008, respectively.

Subsequent Events

The Company has evaluated subsequent events through the date the Consolidated Financial Statements were issued.

NOTE 2: **Discontinued Operations**

On September 8, 2010, the Company sold Pressure Systems, Inc., which was included in the Sensors & Systems segment, for approximately $25.0 million, resulting in an after tax gain of $10.4 million. As a result, the consolidated income statement presents Pressure Systems, Inc. as discontinued operations.

On November 3, 2008, the Company sold U.K.-based Muirhead Aerospace Limited and Traxsys Input Products Limited, which were included in the Sensors & Systems segment, for approximately £40.0 million or $63.4 million, resulting in an after tax gain of $12.6 million. As a result, the consolidated income statement presents Muirhead Aerospace Limited and Traxsys Input Products Limited as discontinued operations.

The operating results of the discontinued operations for fiscal year 2010, 2009 and 2008 consisted of the following:

In Thousands	2010	2009	2008
Sales	$ 16,509	$ 17,979	$ 85,134
Income before taxes	16,960	29,071	12,432
Tax expense	5,079	14,841	3,157
Income from discontinued operations	$ 11,881	$ 14,230	$ 9,275

NOTE 3: **Inventories**

Inventories at the end of fiscal 2010 and 2009 consisted of the following:

In Thousands	2010	2009
Raw materials and purchased parts	$ 109,595	$ 113,521
Work in process	73,336	82,952
Inventory costs under long-term contracts	26,256	17,083
Finished goods	53,186	61,726
	$ 262,373	$ 275,282

NOTE 4: **Goodwill**

The following table summarizes the changes in goodwill by segment for fiscal 2010 and 2009:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Balance, October 31, 2008	$ 297,014	$ 105,951	$ 173,896	$ 576,861
Goodwill from acquisitions	93,416	0	40,796	134,212
Goodwill adjustments	(3,713)	157	(282)	(3,838)
Sale of businesses	0	(17,029)	0	(17,029)
Foreign currency translation adjustment	41,261	3,543	1,798	46,602
Balance, October 30, 2009	427,978	92,622	216,208	736,808
Goodwill adjustments	1,007	0	0	1,007
Sale of businesses	0	(3,319)	0	(3,319)
Foreign currency translation adjustment	9,354	(1,914)	(2,206)	5,234
Balance, October 29, 2010	$ 438,339	$ 87,389	$ 214,002	$ 739,730

NOTE 5: **Intangible Assets**

Intangible assets at the end of fiscal 2010 and 2009 were as follows:

		2010		**2009**	
In Thousands	Weighted Average Years Useful Life	Gross Carrying Amount	Accum. Amort.	Gross Carrying Amount	Accum. Amort.
Amortized Intangible Assets:					
Programs	16	$ 442,104	$ 120,220	$ 444,275	$ 93,550
Core technology	16	9,589	4,916	9,689	4,364
Patents and other	13	42,336	27,728	43,484	25,769
Total		$ 494,029	$ 152,864	$ 497,448	$ 123,683
Indefinite-lived Intangible Assets:					
Trademark		$ 47,852		$ 48,317	

Programs represent the valuation of systems or components sold under long-term supply agreements with aerospace companies, military contractors, and OEM manufacturers using similar technology. The valuation of the program includes the values of the program-specific technology, the backlog of contracts, and the relationship with customers which lead to potential future contracts.

In fiscal 2009, management determined that a certain trade name useful life was no longer indefinite as a result of further integration of advanced sensors units and promotion of the Advanced Sensors brand name. An impairment test was required to be performed to value the trade name at fair value, which resulted in a $3.0 million impairment charge. The fair value of the trade name was determined by the relief-from-royalty method of the income approach. The remaining book value of the trade name will be amortized to expense over its five-year useful life.

Amortization of intangible assets was $30,705,000, $30,613,000, and $23,689,000 in fiscal years 2010, 2009, and 2008, respectively.

Estimated amortization expense related to intangible assets for each of the next five fiscal years is as follows:

In Thousands	
Fiscal Year	
2011	$ 30,814
2012	30,218
2013	29,573
2014	28,987
2015	27,659

NOTE 6: **Accrued Liabilities**

Accrued liabilities at the end of fiscal 2010 and 2009 consisted of the following:

In Thousands	2010	2009
Payroll and other compensation	$ 81,530	$ 72,705
Commissions	4,873	3,994
Casualty and medical	14,605	14,244
Interest	6,370	5,981
Warranties	17,159	14,685
State and other tax accruals	4,785	4,956
Customer deposits	21,378	23,656
Deferred revenue	17,435	9,038
Contract reserves	13,218	9,189
Forward foreign exchange contracts	2,112	2,192
Unclaimed property non-U.S.	11,530	10,874
Environmental reserves	2,713	2,539
Asset retirement obligations	1,645	2,019
Rent and future lease obligations	1,687	1,790
Other	14,054	13,805
	$ 215,094	$ 191,667

Accrued liabilities are recorded to reflect the Company s contractual obligations relating to warranty commitments to customers. Warranty coverage of various lengths and terms is provided to customers depending on standard offerings and negotiated contractual agreements. An estimate for warranty expense is recorded at the time of sale based on the length of the warranty and historical warranty return rates and repair costs.

Changes in the carrying amount of accrued product warranty costs are summarized as follows:

In Thousands	2010	2009
Balance, beginning of year	$ 14,685	$ 10,596
Warranty costs incurred	(4,478)	(3,406)
Product warranty accrual	8,488	5,811
Acquisitions	0	2,223
Release of reserves	(1,794)	(1,146)
Sale of businesses	(90)	(237)
Foreign currency translation adjustment	348	844
Balance, end of year	$ 17,159	$ 14,685

NOTE 7: **Retirement Benefits**

Approximately 47% of U.S. employees have a defined benefit earned under the Esterline pension plan.

Under the Esterline plan, pension benefits are based on years of service and five-year average compensation or the highest five consecutive years compensation during the last ten years of employment. Esterline amended its defined benefit plan to add the cash balance formula with annual pay credits ranging from 2% to 6% effective January 1, 2003. Participants elected either to continue earning benefits under the current plan formula or to earn benefits under the cash balance formula. Effective January 1, 2003, all new participants are enrolled in the cash balance formula. Esterline also has an unfunded supplemental retirement plan for key executives providing for periodic payments upon retirement.

CMC sponsors defined benefit pension plans and other retirement benefit plans for its non-U.S. employees. Pension benefits are based upon years of service and final average salary. Other retirement benefit plans are non-contributory health care and life insurance plans.

The Company accounts for pension expense using the end of the fiscal year as its measurement date. In addition, the Company makes actuarially computed contributions to these plans as necessary to adequately fund benefits. The Company s funding policy is consistent with the minimum funding requirements of ERISA. The accumulated benefit obligation and projected benefit obligation for the Esterline plans are $220,929,000 and $226,979,000, respectively, with plan assets of $168,450,000 as of October 29, 2010. The underfunded status for the Esterline plans is $58,529,000 at October 29, 2010. Contributions to the Esterline plans totaled $13,910,000 and $21,828,000 in fiscal years 2010 and 2009, respectively. The expected funding requirement for fiscal 2011 for the U.S. pension plans maintained by Esterline is $9,276,000. The accumulated benefit obligation and projected benefit obligation for the CMC plans are $119,522,000 and $121,991,000, respectively, with plan assets of $98,537,000 as of October 29, 2010. The underfunded status for these CMC plans is $23,454,000 at October 29, 2010. Contributions to the CMC plans totaled $6,091,000 and $2,933,000 in fiscal 2010 and 2009, respectively. The expected funding requirement for fiscal 2011 for the CMC plans is $6,782,000.

	Defined Benefit Pension Plans		Post-Retirement Benefit Plans	
	2010	**2009**	**2010**	**2009**
Principal assumptions as of fiscal year end:				
Discount Rate	5.5 6.25%	5.875 6.75%	5.5 6.25%	5.875 6.75%
Rate of increase in future compensation levels	3.2 4.5%	3.1 4.5%	0.0%	0.0%
Assumed long-term rate of return on plan assets	7.0 8.0%	7.5 8.25%	0.0%	0.0%
Initial weighted average health care trend rate	0.0%	0.0%	4.05 6.0%	4.08 9.0%
Ultimate weighted average health care trend rate	0.0%	0.0%	3.38 6.0%	3.38 9.0%

The Company uses a discount rate for expected returns that is a spot rate developed from a yield curve established from high-quality corporate bonds and matched to plan-specific projected benefit payments. Although future changes to the discount rate are unknown, had the discount rate increased or decreased by 25 basis points, pension liabilities in total would have decreased $8.1 million or increased $10.9 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2010 pension expense from a hypothetical 25 basis points increase or decrease in both the discount rate and expected long-term rate of return on plan assets would not have a material effect on our pension expense. Management is not aware of any legislative or other initiatives or circumstances that will significantly impact the Company s pension obligations in fiscal 2011.

The assumed health care trend rate has a significant impact on the Company s post-retirement benefit obligations. The Company s health care trend rate was based on the experience of its plan and expectations for the future. A 100 basis points increase in the health care trend rate would increase the post-retirement benefit obligation by $1.0 million. A 100 basis points decrease in the health care trend rate would decrease the post-retirement benefit obligation by $0.9 million. Assuming all other assumptions are held constant, the estimated effect on fiscal 2010 post-retirement benefit expense from a hypothetical 100 basis points increase or decrease in the health care trend rate would not have a material effect on our post-retirement benefit expense.

Plan assets are invested in a diversified portfolio of equity and debt securities, consisting primarily of common stocks, bonds and government securities. The objective of these investments is to maintain sufficient liquidity to fund current benefit payments and achieve targeted risk-adjusted returns. Management periodically reviews allocations of plan assets by investment type and evaluates external sources of information regarding the long-term historical returns and expected future returns for each investment type and, accordingly, believes a 7.0% to 8.0% assumed long-term rate of return on plan assets is appropriate. Allocations by investment type are as follows:

		Actual	
	Target	**2010**	**2009**
Plan assets allocation as of fiscal year end:			
Equity securities	55 75%	57.0%	58.0%
Debt securities	25 45%	39.0%	36.0%
Cash	0%	4.0%	6.0%
Total		100.0%	100.0%

The following table presents the fair value of the Company s Pension Plan assets as of October 29, 2010, by asset category segregated by level within the fair value hierarchy, as described in Note 8.

	Fair Value Hierarchy		
In Thousands	Level 1	Level 2	Total
Asset category:			
Equity Funds			
Registered Investments Company Funds U.S. Equity	$ 44,705	$ 0	$ 44,705
Commingled Trust Funds U.S. Equity	0	25,885	25,885
U.S. Equity Securities	24,113	0	24,113
Non-U.S. Equity Securities	21,932	0	21,932
Commingled Trust Fund Non-U.S. Securities	0	35,545	35,545
Fixed Income Securities			
Registered Investments Company Funds Fixed Income	28,075	0	28,075
Commingled Trust Fund Fixed Income	0	33,413	33,413
Mortgage and Asset-backed	0	449	449
Non-U.S. Foreign Commercial and Government Bonds	43,797	0	43,797
Cash and Cash Equivalents	11,975	0	11,975
Total	$ 174,597	$ 95,292	$ 269,889

Valuation Techniques

Level 1 Equity Securities are actively traded on U.S. and non-U.S. exchanges and are either valued using the market approach at quoted market prices on the measurement date or at the net asset value of the shares held by plan on the measurement date based on quoted market prices.

Level 1 fixed income securities are primarily valued using the market approach at either quoted market prices, pricing models that use observable market data, or bids provided by independent investment brokerage firms.

Level 2 primarily consists of commingled trust funds that are primarily valued at the net asset value provided by the fund manager. Net asset value is based on the fair value of the underlying investments.

Cash and cash equivalents includes cash which is used to pay benefits and cash invested in a short-term investment fund that holds securities with values based on quoted market prices, but for which the funds are not valued on quoted market basis.

Net periodic pension cost for the Company s defined benefit plans at the end of each fiscal year consisted of the following:

In Thousands	Defined Benefit Pension Plans 2010	2009	2008	Post-Retirement Benefit Plans 2010	2009	2008
Components of Net Periodic Cost						
Service cost	$ 7,370	$ 5,413	$ 6,217	$ 326	$ 366	$ 280
Interest cost	18,950	19,151	16,736	785	773	635
Expected return on plan assets	(17,954)	(14,878)	(20,982)	0	0	0
Amortization of prior service cost	21	18	18	0	0	0
Amortization of actuarial (gain) loss	7,602	3,961	330	(78)	(90)	12
Other	0	0	0	0	0	(10)
Net periodic cost	$ 15,989	$ 13,665	$ 2,319	$ 1,033	$ 1,049	$ 917

The funded status of the defined benefit pension and post-retirement plans at the end of fiscal 2010 and 2009 were as follows:

In Thousands	Defined Benefit Pension Plans 2010	2009	Post-Retirement Benefit Plans 2010	2009
Benefit Obligation				
Beginning balance	$ 313,071	$ 244,805	$ 12,891	$ 11,020
Currency translation adjustment	5,111	10,369	498	1,290
Service cost	7,370	5,413	326	366
Interest cost	18,950	19,151	785	773
One-time charge benefit adjustment	646	0	(425)	0
Plan participants contributions	146	127	0	0
Actuarial (gain) loss	35,117	50,125	1,774	164
Acquisitions	0	343	0	0
Benefits paid	(19,552)	(17,262)	(771)	(722)
Ending balance	$ 360,859	$ 313,071	$ 15,078	$ 12,891
Plan Assets Fair Value				
Beginning balance	$ 230,186	$ 184,737	$ 0	$ 0
Currency translation adjustment	4,932	7,948	0	0
Realized and unrealized gain (loss) on plan assets	33,610	29,739	0	0
Acquisitions	0	0	0	0
Plan participants contributions	146	127	0	0
Company contribution	21,284	25,531	1,062	722
Expenses paid	(610)	(634)	0	0
Benefits paid	(19,659)	(17,262)	(771)	(722)
Ending balance	$ 269,889	$ 230,186	$ 291	$ 0

Funded Status								
Fair value of plan assets	$	269,889	$	230,186	$	291	$	0
Benefit obligations		(360,859)		(313,071)		(15,078)		(12,891)
Net amount recognized	$	(90,970)	$	(82,885)	$	(14,787)	$	(12,891)

In Thousands	Defined Benefit Pension Plans 2010	2009	Post-Retirement Benefit Plans 2010	2009
Amount Recognized in the Consolidated Balance Sheet				
Current liability	$ (1,096)	$ (975)	$ (586)	$ (866)
Non-current liability	(89,874)	(81,910)	(14,201)	(12,025)
Net amount recognized	$ (90,970)	$ (82,885)	$ (14,787)	$ (12,891)
Amounts Recognized in Accumulated Other Comprehensive Income				
Net actuarial loss (gain)	$ 99,469	$ 87,386	$ (39)	$ (1,260)
Prior service cost	297	239	0	0
Transition asset (obligation)	0	0	0	(997)
Ending balance	$ 99,766	$ 87,625	$ (39)	$ (2,257)

The accumulated benefit obligation for all pension plans was $349,489,000 at October 29, 2010, and $300,615,000 at October 29, 2010.

Estimated future benefit payments expected to be paid from the plan or from the Company s assets are as follows:

In Thousands	
Fiscal Year	
2011	$ 22,153
2012	23,033
2013	23,780
2014	24,496
2015	25,148
2016 2020	139,546

Employees may participate in certain defined contribution plans. The Company s contribution expense under these plans totaled $7,533,000, $7,418,000, and $7,256,000 in fiscal 2010, 2009, and 2008, respectively.

NOTE 8: **Fair Value Measurements**

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. This topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. An asset or liability s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy of fair value measurements is described below:

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

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

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

The following table sets forth the Company s financial assets and liabilities that were measured at fair value on a recurring basis by level within the fair value hierarchy at October 29, 2010, and October 30, 2009:

In Thousands	Level 2 **2010**	**2009**
Assets:		
Derivative contracts designated as hedging instruments	$ 11,552	$ 16,590
Derivative contracts not designated as hedging instruments	$ 1,256	$ 442
Embedded derivatives	$ 23	$ 0
Liabilities:		
Derivative contracts designated as hedging instruments	$ 950	$ 181
Derivative contracts not designated as hedging instruments	$ 782	$ 1,405
Embedded derivatives	$ 1,815	$ 588

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

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

NOTE 9: **Derivative Financial Instruments**

The Company uses derivative financial instruments in the form of foreign currency forward exchange contracts and interest rate swap contracts for the purpose of minimizing exposure to changes in foreign currency exchange rates on business transactions and interest rates, respectively. The Company s policy is to execute such instruments with banks the Company believes to be credit worthy and not to enter into derivative financial instruments for speculative purposes. These derivative financial instruments do not subject the Company to undue risk, as gains and losses on these instruments generally offset gains and losses on the underlying assets, liabilities, or anticipated transactions that are being hedged.

All derivative financial instruments are recorded at fair value in the Consolidated Balance Sheet. For a derivative that has not been designated as an accounting hedge, the change in the fair value is recognized immediately through earnings. For a derivative that has been designated as an accounting hedge of an existing asset or liability (a fair value hedge), the change in the fair value of both the derivative and underlying asset or liability is recognized immediately through earnings. For a derivative designated as an accounting hedge of an anticipated transaction (a cash flow hedge), the change in the fair value is recorded on the Consolidated Balance Sheet in Accumulated Other Comprehensive Income (AOCI) to the extent the derivative is effective in mitigating the exposure related to the anticipated transaction. The change in the fair value related to the ineffective portion of the hedge, if any, is immediately recognized in earnings. The amount recorded within AOCI is reclassified into earnings in the same period during which the underlying hedged transaction affects earnings.

The fair values of derivative instruments are presented on a gross basis, as the Company does not have any derivative contracts which are subject to master netting arrangements. The Company does not have any hedges with credit-risk-related contingent features or that required the posting of collateral as of October 29, 2010. The cash flows from derivative contracts are recorded in operating activities in the Consolidated Statement of Cash Flows.