

ESTERLINE TECHNOLOGIES CORP
Form 10-KT
November 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended .

OR

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

For the transition period from November 1, 2014 to October 2, 2015

Commission file number 1-6357

ESTERLINE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

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

500 108th Avenue N.E., Bellevue, Washington 98004

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code (425) 453-9400

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

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

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 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.

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 23, 2015, 29,571,387 shares of the Registrant’s common stock were outstanding. The aggregate market value of shares of common stock held by non-affiliates as of May 1, 2015, was \$3,429,704,787 (based upon the closing sales price of \$111.09 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 2, 2015.

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 10 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.

Explanatory Note Regarding the Transition Report

We changed our fiscal year to the twelve months ending the last Friday in September, effective beginning with the year ending on September 30, 2016. As a result, our current fiscal period was shortened from twelve months to an eleven-month transition period ended on October 2, 2015. We reported our first fiscal quarter as the three months ended January 30, 2015, second fiscal quarter as the three months ended May 1, 2015, and third fiscal quarter as the three months ended July 31, 2015, followed by a two-month transition period ended October 2, 2015.

When financial results for the 2015 transition period are compared with financial results for the prior-year period, the results compare the eleven-month periods ended October 2, 2015, and September 26, 2014. When financial results for the fourth quarter of fiscal 2015 are compared with the fourth quarter of fiscal 2014, the results compare the two-month periods ended October 2, 2015, and September 26, 2014. The results for the eleven-month period and two-month period ended September 26, 2014, are unaudited. When financial results for fiscal 2014 are compared with financial results for fiscal 2013, the results compare our previous fiscal years, or the twelve-month periods ended October 31, 2014, and October 25, 2013. The following tables show the months included in the various comparison periods:

Fiscal 2015
 (11-month)
 Results Compared
 with Fiscal 2014
 (11-month recast,
 unaudited)

Fiscal
 2014
 Fiscal (11-month
 2015 recast,
 (11-month) audited)

November
 2014 November
 - 2013 -
 September September
 2015 2014

Fourth Quarter of
Fiscal 2015
(2-month,
unaudited) Results

Compared with
Fourth Quarter of
Fiscal 2014
(2-month recast,
unaudited)

Fourth Fourth
QuarterQuarter of
of Fiscal
Fiscal 2014
2015 (2-month
(2-month recast,
unaudited)audited)

August
2015 August
- 2014 -
SeptemberSeptember
2015 2014

Fiscal 2014
Results Compared
with Fiscal 2013

2014 2013

November
2013 November
- 2012 -
OctoberOctober
2014 2013

Item 1. Business

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 current business and strategic plan focuses on continued development of our products principally for aerospace and defense markets in three key technology segments: Avionics & Controls, Sensors & Systems, and Advanced Materials. Our products are often mission critical, 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. We are concentrating our efforts to expand our capabilities in these markets, 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 realignment of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering. Such expansion included the January 2015 acquisition of the defense, aerospace and training display (DAT) business of Belgium-based Barco N.V. (Barco) and the December 2013 acquisition of the Sunbank Family of

Companies, LLC (Sunbank). These acquisitions 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.

In December 2013, we announced the acceleration of our plans to consolidate certain facilities and create cost efficiencies through shared services in sales, general and administrative and support functions. We incurred costs of \$11.7 million in fiscal 2015 and \$17.4 million in fiscal 2014 associated with these activities. The costs include severance, relocation of facilities, and losses from the write off of certain property, plant and equipment.

In March 2014, we entered into a Consent Agreement with the U.S. Department of State’s Directorate of Defense Trade Controls Office of Defense Trade Controls Compliance (DDTC) to resolve alleged International Traffic in Arms Regulations (ITAR) civil violations. Among other things, the Consent Agreement requires us to pay a \$20 million penalty, of which \$10 million was suspended and eligible for offset credit based upon verified expenditures for past and future actions, and to continue to implement ongoing compliance measures and to implement additional remedial measures related to ITAR compliance activities. Compliance expense associated with these measures was \$18.3 million in fiscal 2015 compared with \$8.3 million in fiscal 2014. More information about the Consent Agreement is set forth in Note 11 to the Consolidated Financial Statements under Item 8 of this report.

In September 2014, our board of directors approved the plan to sell certain non-core business units including Eclipse Electronic Systems, Inc. (Eclipse), a manufacturer of embedded communication intercept receivers for signal intelligence applications; Wallop Defence Systems, Ltd. (Wallop), a manufacturer of flare countermeasure devices; Pacific Aerospace and Electronics Inc. (PA&E), a manufacturer of hermetically sealed electrical connectors; and a small distribution business. These businesses are reported as discontinued operations. We recorded an estimated after-tax loss of \$49.5 million in fiscal 2014 on the assets held for sale in discontinued operations.

On June 5, 2015, we sold Eclipse for \$7.9 million. We retained ownership of the land, building and building improvements, which are being held for sale. In addition, on July 20, 2015, we sold PA&E for \$22.3 million. During the fourth quarter of fiscal 2015, we approved a plan to sell a small manufacturing business included in our Avionics & Controls segment, which is reported as discontinued operations in all periods presented. We recorded an estimated after-tax loss of \$31.2 million in fiscal 2015 on assets held for sale in discontinued operations.

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 75 years. In addition, our products are supplied to Airbus, many of the major regional and business jet manufacturers, and the major aircraft engine manufacturers. We work closely with OEMs on new, highly engineered products with the objective of such products becoming designed into our customers’ platforms; this integration often results in sole-source positions for OEM production and aftermarket business. We broadly categorize our commercial and military aerospace aftermarket sales as retrofit, repair services, and spare parts. Spare parts alone made up approximately 7.5% of total sales in fiscal 2015. Retrofit and repair services, which represent 4% of total sales in fiscal 2015, carry higher margins than OEM sales but lower margins than spare parts sales. In many cases, our aftermarket sales span the entire life of an aircraft.

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 Operating System, our way of approaching business that helps ensure all employees are focused on continuous improvement. In fiscal 2015, we formally reintroduced to the leadership across our businesses the Esterline Operating System, which retains continuous improvement, teamwork, culture and safe work environment as the basis of the program. 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 train our employees using a behavior-based approach that focuses on safety-designed work habits and on-going safety audits. Our industries are highly regulated, and compliance with applicable regulations, including export control and anti-bribery regulations, is an important focus in our business. For example, we have a global code of business conduct and ethics that covers compliance with laws, and we provide training on this code to our worldwide employees. In addition, we maintain local ethics advisors and export control specialists in our business units to support our compliance efforts. In fiscal 2015, we continued our significant efforts to build and strengthen our trade compliance program, driven in large part by the requirements of the Consent Agreement discussed above.

Our sales are diversified across three broad markets: defense, commercial aerospace, and general industrial. For fiscal 2015, approximately 30% of our sales were from the defense market, 50% from the commercial aerospace market, and 20% from the general industrial market.

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 2015, 2014, and 2013 is reported in Note 17 to the Company's Consolidated Financial Statements under Item 8 of this report.

Description of Business

Avionics & Controls

Our Avionics & Controls business segment includes avionics systems, control and communication systems, and interface technologies capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control and communication systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Additionally, control and communication systems designs and manufactures military audio and data products for severe battlefield environments and communication control systems to enhance security and aural clarity in military applications. Our recently acquired DAT business, which will be integrated into our avionics systems and control and communication systems capabilities, develops and manufactures visualization solutions for a variety of demanding defense and commercial aerospace applications. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and gaming industries. 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, highly reliable technology interface systems for commercial and military aircraft. These products include lighted push-button and rotary switches, keyboards, lighted indicators, panels and displays. 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 an ongoing source of 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 2015, some of our largest customers for these products included Airbus, BAE Systems, The Boeing Company, Hawker Beechcraft, Honeywell, Lockheed Martin, Raytheon, Rockwell Collins, Sikorsky, and Thales.

In addition, we design and manufacture ruggedized military personal communication equipment, primarily headsets, handsets and field communications. 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. We supply ANR headsets to the U.S. Army's tracked and wheeled vehicle fleets, including Mine-Resistant Ambush Protected (MRAPs) and MRAP All-Terrain Vehicle (M-ATVs) through the Vehicle Intercom System (VIS) and VIS-X programs comprising over 200,000 vehicles. We are the sole supplier to the U.S. Marine Corps for their MRAP and M-ATV fleets. 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 Australia, India, Saudi Arabia, and Spain. In fiscal 2015, some of our largest customers for these products included Aselsan Elektronik, BAE Systems, The Boeing Company, the British Ministry of Defence (MoD), L-3 Communications, Lockheed Martin, Northrop Grumman, Sierra Nevada, and Simex Defence.

We also manufacture a full line of keyboard, switch and input technologies for specialized medical equipment, high-tech gaming applications, and communication systems for military applications. These products include custom keyboards, keypads, and input devices that integrate cursor control devices, barcode scanners, displays, video, and voice activation. We also produce instruments that are used for point-of-use and point-of-care 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 2015, some of our largest customers for these products included Ainsworth Game Technology, Alere, Aristocrat Technologies, General Electric, Inspired Gaming, International Gaming, Nuance, Philips, Quidel, Roche, Siemens and Stat Diagnostic.

Sensors & Systems

Our Sensors & Systems business segment includes power systems, connection technologies and advanced sensors capabilities. We develop and manufacture high-precision temperature, pressure and speed sensors principally for aerospace customers, electrical interconnection systems for severe environments for aerospace, defense, geophysics & marine, and nuclear customers, as well as electrical power switching, control and data communication devices, and other related systems principally for aerospace and defense customers. We are the OEM sole-source and aftersales 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 28,000, is standard equipment on the current generation Boeing 737 aircraft, and was selected as the engine for approximately 60% of all Airbus single-aisle aircraft delivered to date. We manufacture sensors for the environmental control system for Boeing 787 aircraft, and provide the primary power distribution assembly for the Airbus A400M military transport. Additionally, we have a Tier 1 position with Rolls-Royce for a large suite of sensors for the engines that power the A400M and A350. We design and manufacture micro packaging, planet probe interconnectors, launcher umbilicals, and composite connectors for the Boeing 787. Unique electrical interconnection products account for a significant portion of our connection technologies sales. The principal customers for our products in this business segment are jet engine manufacturers, airframe and industrial manufacturers. In fiscal 2015, some of our largest customers for these products included Airbus, The Boeing Company, DCNS, Flame, General Electric, Heilind, Honeywell, Jupiter Corporation, Labinal, Rolls-Royce, Snecma, TTI, Inc., and United Technology Corporation Aerospace Systems (UTAS).

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 2015, some of the largest customers for these products included The Boeing Company, General Electric, KAPCO, KLX Aerospace Solutions, Lockheed Martin, Northrop Grumman, Orbital ATK, Pattonair, Spirit AeroSystems, UTAS and Wesco Aircraft.

We also develop and manufacture high temperature, lightweight metallic insulation systems for aerospace and marine applications. Our commercial aerospace programs include the Boeing 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 2015, some of the largest customers of these products included Airbus, BAE Systems, Babcock, GKN Aerospace, Rolls-Royce, Short Brothers, and Spirit AeroSystems.

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. We are currently the only supplier to the U.S. Army of countermeasures against radar based threats.

A summary of product lines contributing sales of 10% or more of total sales for fiscal years 2015, 2014, and 2013 is reported in Note 17 to the Consolidated Financial Statements under 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 Bangalore, India, facilitates marketing opportunities in India. 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 2, 2015, 384 sales people, 283 representatives, and 306 distributors supported our operations.

Backlog

Backlog was \$1.2 billion at October 2, 2015, and \$1.1 billion at October 31, 2014. We estimate that approximately \$300 million of backlog is scheduled to be shipped after fiscal 2016.

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 these companies have far greater sales volumes and financial resources than we do. 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, Eaton, Elbit, EMS, 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, Amphenol, Eaton, Meggitt, STPI-Deutsch, TE Connectivity, and Zodiac in our Sensors & Systems segment; and Chemring, Doncasters, Hi-Temp, J&M, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), Rheinmetall, Trelleborg, ULVA, UTAS, UMPCO, and Woodward Products 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 2015, we expended \$91.5 million for research, development and engineering, compared with \$97.6 million in fiscal 2014 and \$89.0 million in fiscal 2013. Research and development expense has averaged 4.9% of sales per year for the three years ended October 2, 2015. 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 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 foreign operations consist of manufacturing facilities located in Belgium, Canada, China, the Dominican Republic, France, Germany, India, Japan, Mexico, Morocco, and the United Kingdom, and include sales and service operations located in Brazil,

China, and Singapore. For further information regarding foreign operations, see Note 17 to the Consolidated Financial Statements under Item 8 of this report.

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 3% of our sales was made directly to the U.S. government in fiscal 2015. In addition, we estimate that our subcontracting activities to contractors for the U.S. government accounted for approximately 16% of sales during fiscal 2015. In total, we estimate that approximately 19% 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 has been terminated.

Trade Compliance Regulations

We are subject to U.S. export laws and regulations, including the ITAR, that generally restrict the export of defense products, technical data, and defense services. On March 5, 2014, the Company entered into a Consent Agreement with the DTCC to resolve alleged ITAR civil violations. The Consent Agreement settled the pending ITAR compliance matter with the DTCC previously reported by the Company that resulted from voluntary reports the Company filed with DTCC that disclosed possible technical and administrative violations of the ITAR. The Consent Agreement has a three-year term and provides for: (i) a payment of \$20 million, \$10 million of which is suspended and eligible for offset credit based on verified expenditures for past and future remedial compliance measures; (ii) the appointment of an external Special Compliance Official to oversee compliance with the Consent Agreement and the ITAR; (iii) two external audits of the Company's ITAR compliance program; and (iv) continued implementation of ongoing compliance measures and additional remedial compliance measures related to automated systems and ITAR compliance policies, procedures, and training.

The settlement amount in the Consent Agreement was consistent with the amount proposed by DTCC in August 2013, for which the Company estimated and recorded a \$10 million charge in the fiscal quarter ended July 26, 2013. The \$10 million portion of the settlement that is not subject to suspension will be paid in installments, with \$4 million paid in March 2014, \$2 million paid in February 2015, and \$2 million to be paid in each of March 2016 and 2017. The Company expects that some part of recent investments made in our ITAR compliance program will be eligible for credit against the suspended portion of the settlement amount, which includes: additional staffing, ongoing implementation of a new software system, employee training, and establishment of a regular compliance audit program and corrective action process. The Company expects recent and future investments in remedial compliance measures will be sufficient to cover the \$10 million suspended payment.

Our trade activities are also subject to customs and border control regulations, anti-bribery and anti-corruption regulations, and regulations that apply to supply chain activities, such as those relating to conflict minerals and the registration, evaluation, authorization and restriction of chemicals as well as the defense federal acquisition regulations. Our failure to comply with applicable regulations could result in penalties, loss, or suspension of contracts, breach of contract claims, or other consequences, and the costs to maintain compliance with these regulations may be higher than we anticipate. Any of these consequences could adversely affect our operations or financial condition.

Intellectual Property

Although we hold a number of patents and licenses, we do not believe that our operations are dependent on our patents and licenses. We have trademark registrations on our important business names and/or product names filed in key jurisdictions where our businesses operate and sell products. In general, we rely on technical superiority, continual product improvement, exclusive product features, lean manufacturing and 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. We changed our fiscal year to the twelve months ended the last Friday in September to better align with the aerospace industry's business cycle.

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. Environmental exposures are provided for at the time they are known to exist or are considered reasonably probable and estimable.

Employees

We had 13,290 employees at October 2, 2015, of which 5,122 were based in the United States, 4,684 in Europe, 1,072 in Canada, 988 in Mexico, 585 in Morocco, 393 in Asia, 293 in India, and 153 in the Dominican Republic. Approximately 12.5% of the U.S.-based employees were represented by labor unions. Our European operations are subject to national trade union agreements and to local regulations governing employment.

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.

Available Information About 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 required 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 November 25, 2015, are as follows:

Name	Position with the Company	Age
Curtis C. Reusser	Chairman, President and Chief Executive Officer	55
Robert D. George	Vice President, Chief Financial Officer and Corporate Development	59
Paul P. Benson	Vice President and Chief Human Resources Officer	51
Marcia J. Mason	Vice President and General Counsel	63
Roger A. Ross	President, Sensors & Systems Segment	47
Albert S. Yost	President, Avionics & Controls and Advanced Materials Segments	50

Mr. Reusser has been Chairman, President and Chief Executive Officer since March 2014. Prior to that time, he was President and Chief Executive Officer from October 2013 to March 2014. Previously, he was President, Aircraft Systems of UTC Aerospace Systems for United Technologies Corporation, a provider of a broad range of high-technology products and services to the global aerospace and building systems industries, from July 2012 to October 2013. Prior to that time, he was President of the Electronic Systems segment of Goodrich Corporation, an aerospace and defense company that was acquired by UTC in July 2012, from January 2008 to July 2012. Mr. Reusser has a B.S. degree in Industrial and Mechanical Engineering from the University of Washington and a Certificate in Business Management from the University of San Diego.

Mr. George has been Vice President, Chief Financial Officer and Corporate Development since October 2012. From July 2011 to October 2012, he was Vice President, Chief Financial Officer, Corporate Development and Secretary. Prior to that time, he was 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. Benson has been Vice President and Chief Human Resources Officer since April 2015. Prior to that time, he was Vice President, Human Resources from December 2014 to March 2015 and Senior Director, Human Resources from November 2014 to December 2014. Prior to that time, he was Senior Human Resources Director at Hewlett Packard Company, a technology products and services company, from 2006 to November 2014. Mr. Benson has an M.B.A. from Arizona State University and a B.A. degree in Business from St. Martin's College.

Ms. Mason has been Vice President and General Counsel since September 2013. Prior to that time she was General Counsel and Vice President, Administration from August 2012 to September 2013, and Vice President, Human Resources from March 1993 to July 2012. 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. Ross has been President, Sensors & Systems Segment since August 2015. Prior to that time, he was Senior Vice President, Actuation & Propeller Systems, at UTC Aerospace Systems for United Technologies Corporation, a provider of a broad range of high-technology products and services to the global aerospace and building systems industries, from January 2014 to July 2015. From January 2010 to December 2013, he was Vice President, Aerostructures Aftermarket at UTC Aerospace Systems for United Technologies Corporation. Mr. Ross has an M.B.A. from the University of Colorado, an M.S. degree in Mechanical Engineering from Colorado State University

and a B.S. degree in Mechanical Engineering from Colorado State University.

Mr. Yost has been President, Avionics & Controls and Advanced Materials Segments since August 2015. Prior to that time, he was President, Advanced Materials Segment since March 2015 and President, Advanced Materials and Treasurer from March 2014 to February 2015. From July 2011 to February 2014, he was Group Vice President and Treasurer, and from November 2009 to June 2011 he was Group Vice President. 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,” “n,” “plan,” “potential,” “predict,” “should” or “will” or the 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 reduction in defense spending;
- Loss of a significant customer or defense program;
- Our ability to comply with the complex laws and regulations that affect our business;
- Our inability to execute on our accelerated integration plans or otherwise integrate acquired operations or complete acquisitions;
- A significant downturn in the aerospace industry; and
- A decrease in demand for our products as a result of competition, technological innovation or otherwise.

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

Risks Relating to Our Business and Our Industry

Reductions in defense spending could adversely affect our business.

Approximately 30% of our business is dependent on defense spending. The defense 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, which represents a significant portion of world-wide defense expenditures. While the 2015 Department of Defense budget provides for increased spending in 2016 and beyond, continued reductions in defense spending are possible which could have significant future consequences to our business and industry, including termination or disruption of programs and personnel reductions that could impact our manufacturing operations and engineering capabilities.

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 2015 included The Boeing Company, Flame, General Electric, Hawker Beechcraft, Honeywell, Lockheed Martin, Northrop Grumman, Rolls-Royce, UTAS, and the 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.

We are subject to numerous regulatory requirements, which could adversely affect our business.

Among other things, we are subject to the Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act and other anti-bribery and anti-corruption laws that generally prohibit 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 these laws. Any determination that we have violated the FCPA, the U.K. Bribery Act or similar laws 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 ITAR, which generally restrict the export of defense products, technical data and defense services. We have filed voluntary reports that disclosed certain technical and administrative violations of the ITAR with the DDTC Office of Defense Trade Controls Compliance (DDTC Office of Compliance). As further described in this report under “Item 1,” we recorded a \$10 million charge as of July 26, 2013, for penalties proposed by the DDTC Office of Compliance associated with our earlier handling of ITAR-controlled transactions, including the substance of our prior voluntary disclosures and other aspects of ITAR compliance errors. Our failure to comply with these regulations could result in penalties, loss, or suspension of contracts or other consequences. In addition, we may need to hold shipments or expend significant resources to re-work, re-design or re-certify

our products, to achieve compliance with applicable export control regulations. If we are required to take any of these measures, we may lose revenue opportunities and/or be exposed to late-delivery penalties or other claims from our customers. Any of these could adversely affect our operations and financial condition.

We may be unable to realize expected benefits from our business integration efforts and our profitability may be hurt or our business otherwise might be adversely affected.

In 2014, we began to consolidate certain facilities to create greater cost efficiencies through shared services in sales, general administration and support functions across our segments. We have never before pursued integration initiatives to this extent, and there is no assurance that our efforts will be successful. These integration activities are intended to generate operating expense savings through direct and indirect overhead expense reductions as well as other savings and realizing these savings may be difficult. If we do not successfully manage our current integration activities, or any other similar activities that we may undertake in the future, expected efficiencies and benefits might be delayed or not realized, and our operations and business could be disrupted. Risks associated with these actions include inability to complete or delay in the planned transfer of business activities to other locations due to dependency on third-party agreements or certification of projects affected by the transfer, unanticipated costs in implementing the initiatives, delays in implementation of anticipated workforce reductions, adverse effects on employee morale, creation of customer or supplier uncertainty that may impact our business, and the failure to meet operational targets due to the loss of employees. If any of these risks are realized, our ability to achieve anticipated cost reductions may be impaired or our business may otherwise be harmed, which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

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:

- 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;
- Competition laws and regulations preventing us from making certain acquisitions; and
- Acquisition financing not being available on acceptable terms or at all.

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.

Future operating results could be impacted by sanctions against Russia.

In 2014, the U.S. and other countries expanded the sanctions against Russia, which increased the restrictions on sales of certain products, including aviation products, to Russia and to specified restricted parties in or affiliated with Russia. Our Avionics & Controls and Sensors & Systems segments have programs with Russian customers. We evaluated the impact of these sanctions and determined the impact from Canadian, European Union and U.S. sanctions against Russia on our sales to Russia was not material; however, increased sanctions could have a material impact on our sales to Russia in future periods.

We may have exposure to greater than anticipated tax liabilities and a higher effective tax rate.

We are subject to income taxes in the United States and foreign jurisdictions. Our effective tax rate is influenced by a number of factors, including, but not limited to, modification on tax policy, interpretation of existing tax laws, and our ability to sustain our reporting positions on examination. Any adverse changes in those factors could have a negative effect on our effective tax rate and financial results.

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.

As we have grown through acquisitions, we have accumulated \$1.0 billion of goodwill, \$39.4 million of indefinite-lived intangible assets, and \$412.7 million of definite-lived intangible assets, out of total assets of \$3.0 billion at October 2, 2015. 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 annual impairment review for fiscal 2015 as of August 1, 2015, and our review indicates that no impairment of goodwill or other indefinite-lived assets exists at any of our reporting units.

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 2, 2015, we had approximately \$881.4 million of long-term debt outstanding. Under our existing secured credit facility, we have a \$500 million revolving line of credit and a \$250.0 million term loan (U.S. Term Loan). The 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 \$50.6 million. Available credit under the above credit facilities was \$370.2 million at October 2, 2015, reflecting bank borrowings of \$160.0 million and letters of credit of \$20.4 million.

We also have outstanding €330.0 million 3.625% Senior Notes due in April 2023 (2023 Notes). The indentures governing those notes and other debt agreements limit the amount of additional debt we may incur.

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, including our plan to repurchase up to \$400 million of outstanding shares of common stock, depending on market conditions, share price and other factors;

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.

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 a global recession could occur 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.

A global recession may adversely affect our business operations and results, capital, and cost of capital.

In the event of a global recession, our 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 for our products may adversely affect our earnings and cash flow. A recession could also adversely affect our future cost of debt and equity. 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.

Our operations depend on our production facilities throughout the world. These production facilities are subject to physical and other risks that could disrupt production.

Our production facilities could be damaged or disrupted by a natural disaster, labor strike, war, political unrest, terrorist activity or a pandemic. Several of our production facilities are located in California, and thus are in areas with above average seismic activity and may also be at risk of damage in wildfires. Although we have obtained property damage and business interruption insurance for our production facilities, a major catastrophe such as an earthquake or other natural disaster at any of our sites, or significant labor strikes, work stoppage, political unrest, war or terrorist activities in any of the areas where we conduct operations, could result in a prolonged interruption of our business. Any disruption resulting from these events could cause significant delays in shipments of products and the loss of sales and customers. We cannot assure you that we will have insurance to adequately compensate us for any of these events.

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

Foreign sales originating from non-U.S. locations were approximately 50% of our total sales in fiscal 2015, and we have manufacturing facilities in a number of foreign countries. A substantial portion of our Avionics & Controls operations is based in Belgium, 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 China, the Dominican Republic, Germany, India, Japan, Mexico, and Morocco. Doing business in foreign countries is subject to numerous risks, including political and economic instability, restrictive trade policies of foreign governments, changes in the local labor-relations climate, economic conditions in local markets, health concerns, inconsistent product regulations 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.

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 customers for manufacturers of commercial aircraft are the commercial and regional airlines, which can be adversely affected by a number of factors, including a recession, increasing 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. Any decrease in demand resulting from a downturn in the market could adversely affect 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, Eaton, ECE, Elbit, EMS, 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, Amphenol, Eaton, ECE, MPC Products, Meggitt, STPI-Deutsch, and TE Connectivity in our Sensors & Systems segment; and Chemring, Doncasters, Hi-Temp, J&M, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), Rheinmetall, Trelleborg, ULVA, UTAS, 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.

14

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.

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 accurately scope the statement of work, 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.

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 19% of our sales in fiscal 2015 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.

15

A significant portion of our business depends on U.S. government contracts, which 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 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, continue to have the needed financial resources to develop new products in a timely or cost-effective manner or execute on a research and development program effectively to yield expected or any return on investment.

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 (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 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 or 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. We had insurance coverage for asbestos exposures in products prior to November 1, 2003. Commencing November 1, 2003, insurance coverage for asbestos claims has been unavailable. Our policy coverage for exposures prior to November 1, 2003, declines ratably, by formula, as the number of years increases since coverage expired. Accordingly, we continue to have partial insurance coverage for exposure to asbestos contained in our products prior to November 1, 2003. To date, asbestos claims have not been material to our consolidated results of operations or financial position.

As a result of the termination of the NASA Space Shuttle program, manufacturing of rocket engine insulation material containing asbestos ceased in July 2010. In December 2011, we dismantled our facility used to manufacture the asbestos-based insulation for the Space Shuttle program. We have an agreement 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, and previously owned and operated, 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 our asset acquisition of the Electronic

Warfare Passive Expendables Division of BAE Systems North America (BAE), 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 agreed to perform and pay for these remedial obligations at the infrared decoy flare facility up to a maximum amount of \$25.0 million. BAE is currently conducting monitoring activities as required under the asset purchase agreement.

At the end of fiscal 2015, we had a \$1.6 million liability related to environmental remediation at a previously sold business for which the Company provided indemnification.

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 in the U.K. to help ensure performance is within industry standards. In addition, we perform on-going process safety hazard analyses, which are conducted by trained safety teams to identify risk areas that arise. We monitor progress through 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. We have had incidents in the past, including an accident at our Arkansas plant in 2014 that caused one serious injury. We are insured in excess of our deductible on losses from property, loss of business, and for personal liability claims from an accident; however, 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.

Our financial performance may be adversely affected by information technology business disruptions.

Our business may be impacted by information technology attacks or failures. Cybersecurity attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and

other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data. We have experienced cybersecurity attacks in the past and may experience them in the future, potentially with more frequency. We have taken measures to mitigate potential risks to our technology and our operations from these information technology-related potential disruptions. For example, we utilize third-party software and tools at many domestic operating locations to scan incoming e-mail for viruses and other harmful content and to scan networks maintained by certain of our domestic operating units that exclusively perform U.S. defense work. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, or other manipulation or improper use of our systems or networks. We may also experience financial losses from remedial actions, loss of business or potential liability under contracts or pursuant to regulations that require us to maintain confidential and other data securely, and/or damage to our reputation. Any of these consequences could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

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 2, 2015:

Location	Type of Facility	Business Segment	Approximate Square Footage	Owned or Leased
Brea, CA	Office & Plant	Advanced Materials	329,000	Owned
Stillington, U.K.	Office & Plant	Advanced Materials	287,000	Owned
East Camden, AR	Office & Plant	Advanced Materials	276,000	Leased
Montréal, Canada	Office & Plant	Avionics & Controls	272,000	Owned
Everett, WA	Office & Plant	Avionics & Controls	216,000	Leased
Champagné, France	Office & Plant	Sensors & Systems	191,000	Owned
Coeur d'Alene, ID	Office & Plant	Avionics & Controls	140,000	Leased
Coachella, CA	Office & Plant	Advanced Materials	140,000	Owned
Kortrijk, Belgium	Office & Plant	Avionics & Controls	130,000	Leased
Marolles, France	Office & Plant	Sensors & Systems	128,000	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
Kent, WA	Office & Plant	Advanced Materials	103,000	Owned
Hampshire, U.K.	Office & Plant	Advanced Materials	102,000	Owned
Sylmar, CA	Office & Plant	Avionics & Controls	96,000	Leased
Valencia, CA	Office & Plant	Advanced Materials	88,000	Owned
Gloucester, U.K.	Office & Plant	Advanced Materials	77,000	Leased

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

In total, we own approximately 2,300,000 square feet and lease approximately 2,400,000 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 business. We believe that adequate reserves for these liabilities have been made and that there is no litigation pending that could have a material adverse effect on our results of operations and financial condition.

See Note 11 to the consolidated financial statements included in Part 1, Item 8 of this report for information regarding legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

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	2015		2014	
	High	Low	High	Low
Quarter				
First	\$120.71	\$98.70	\$109.96	\$78.17
Second	120.45	103.31	113.06	97.12
Third	114.22	85.95	122.52	104.56
Fourth	89.15	69.77	120.50	102.65

Principal Market – New York Stock Exchange

At the end of fiscal 2015, there were approximately 257 holders of record of the Company's common stock. On November 23, 2015, there were 256 holders of record of our common stock.

On June 19, 2014, our board of directors approved a \$200 million share repurchase program. On March 11, 2015, our board of directors approved an additional \$200 million for the share repurchase program. Under the program, we are authorized to repurchase up to \$400 million of outstanding shares of common stock from time to time, depending on market conditions, share price and other factors. We made no repurchases of common stock during the fourth quarter of fiscal 2015. There is \$110.2 million available for purchase under our share repurchase program.

No cash dividends were paid during fiscal 2015 and 2014. Our current secured credit facility restricts the amount of dividends we can pay. 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 MidCap 400 Index, and the S&P 400 Aerospace & Defense Index for a \$100 investment made on October 29, 2010.

Item 6. Selected Financial Data

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	Eleven Months Ended		Twelve Months Ended		2012	2011
	2015	2014 (Unaudited)	2014	2013		
Operating Results ¹						
Net sales	\$ 1,774,449	\$ 1,801,127	\$ 2,029,471	\$ 1,866,659	\$ 1,853,467	\$ 1,603,400
Cost of Sales	1,185,056	1,176,413	1,314,762	1,168,632	1,182,959	1,041,013
Selling, general and administrative	346,781	323,957	361,190	364,149	346,024	277,462
Research, development and engineering	91,491	88,656	97,591	88,982	99,560	89,623
Restructuring charges	6,639	12,103	13,642	-	-	-
Gain on sale of product line	-	-	-	(2,264)	-	-
Gain on settlement of contingency	-	-	-	-	(11,891)	-
Goodwill impairment	-	-	-	3,454	52,169	-
Other income	(12,503)	-	-	-	(1,263)	(6,853)
Operating earnings from continuing operations	156,985	199,998	242,286	243,706	185,909	202,155
Interest income	(578)	(501)	(555)	(535)	(463)	(1,602)
Interest expense	30,090	29,986	33,010	39,637	46,227	40,633
Loss on extinguishment of debt	11,451	533	533	946	-	831
Earnings from continuing operations before income taxes	116,022	169,980	209,298	203,658	140,145	162,293
Income tax expense	18,956	35,759	43,716	32,803	27,073	26,588
Earnings from continuing operations including noncontrolling interests	97,066	134,221	165,582	170,855	113,072	135,705
Earnings (loss) from	(37,053)	(59,240)	(62,611)	(4,391)	503	(2,208)

discontinued operations												
attributable to Esterline,												
net of tax												
Net earnings attributable												
to Esterline	59,612		74,454		102,418		164,734		112,535		133,040	
Gross profit as a percent												
of sales	33.2	%	34.7	%	35.2	%	37.4	%	36.2	%	35.1	%
Selling, general and												
administrative as a												
percent of sales	19.5	%	18.0	%	17.8	%	19.5	%	18.7	%	17.3	%
Research, development and												
engineering as a percent												
of sales	5.2	%	4.9	%	4.8	%	4.8	%	5.4	%	5.6	%
Earnings (loss) per share attributable to Esterline - diluted:												
Continuing operations	\$3.10		\$4.12		\$5.09		\$5.33		\$3.58		\$4.34	
Discontinued operations	(1.19	)	(1.83	)	(1.93	)	(0.14	)	0.02		(0.07)
Earnings (loss) per share												
attributable to												
Esterline - diluted	1.91		2.29		3.16		5.19		3.60		4.27	

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	2015	2014	2013	2012	2011
Financial Structure					
Total assets	\$3,007,030	\$3,193,467	\$3,262,112	\$3,227,117	\$3,378,586
Credit facilities	160,000	100,000	130,000	240,000	360,000
Long-term debt, net	707,786	509,720	537,859	598,060	660,028
Total Esterline shareholders' equity	1,537,467	1,887,817	1,873,605	1,610,481	1,562,835
Weighted average shares					
outstanding - diluted	31,215	32,448	31,738	31,282	31,154
Other Selected Data					
Cash flows provided (used) by					
operating activities	\$144,295	\$216,364	\$250,772	\$194,171	\$192,429
Cash flows provided (used) by					
investing activities	(173,568)	(89,851)	(93,721)	(48,502)	(869,021)
Cash flows provided (used) by					
financing activities	967	(55,208)	(141,023)	(167,820)	436,420
Net increase (decrease) in cash	(46,789)	58,966	18,503	(24,360)	(237,085)
EBITDA from continuing					
operations ²	245,674	342,342	339,616	277,137	274,513
Capital expenditures ³	49,341	45,678	55,335	49,446	49,507
Interest expense	30,090	33,010	39,637	46,227	40,633
Depreciation and amortization					
from continuing operations	88,689	100,056	95,910	91,228	72,358
Ratio of debt to EBITDA ⁴	3.5	1.8	2.0	3.0	3.7

¹Operating results reflect the segregation of continuing operations from discontinued operations. See Note 1 to the Consolidated Financial Statements. Operating results include the acquisitions of DAT in January 2015, Sunbank in December 2013, Gamesman in February 2013, and Souriau in July 2011. See Note 14 to the Consolidated Financial Statements.

²EBITDA 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. EBITDA includes goodwill impairment charges of \$3,454 and \$52,169 in fiscal 2013 and 2012, respectively. The following table reconciles operating earnings from continuing operations to EBITDA from continuing operations:

In Thousands					
For Fiscal Years	2015	2014	2013	2012	2011
Operating earnings from					
continuing operations	\$ 156,985	\$ 242,286	\$ 243,706	\$ 185,909	\$ 202,155
Depreciation and amortization					
from continuing operations	88,689	100,056	95,910	91,228	72,358
EBITDA from continuing					
operations	\$ 245,674	\$ 342,342	\$ 339,616	\$ 277,137	\$ 274,513

³Excludes capital expenditures accounted for as a capitalized lease obligation of \$2,753 and \$11,691 in fiscal 2014 and 2013, respectively.

⁴We define the ratio of debt to EBITDA as total debt divided by EBITDA.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes in Item 8 of this report. This discussion and analysis contains forward-looking statements and estimates that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those discussed in the “Forward-Looking Statements” section in Item 1 of this report and the “Risk Factors” section in Item 1A of this report.

We changed our fiscal year to the twelve months ending the last Friday in September, effective beginning with the year ending on September 30, 2016. As a result, our current fiscal period was shortened from twelve months to an eleven-month transition period ended on October 2, 2015. We reported our first fiscal quarter as the three months ended January 30, 2015, second fiscal quarter as the three months ended May 1, 2015, and third fiscal quarter as the three months ended July 31, 2015, followed by a two-month transition period ended October 2, 2015.

When financial results for the 2015 transition period are compared to financial results for the prior-year period, the results compare the eleven-month periods ended October 2, 2015, and September 26, 2014. When financial results for the fourth quarter of fiscal 2015 are compared to the fourth quarter of fiscal 2014, the results compare the two-month periods ended October 2, 2015, and September 26, 2014. The results for the eleven-month period and two-month period ended September 26, 2014, are unaudited. When financial results for fiscal 2014 are compared with financial results for fiscal 2013, the results compare our previous fiscal years, or the twelve-month periods ended October 31, 2014, and October 25, 2013. The following tables show the months included in the various comparison periods:

Fiscal 2015
 (11-month)
 Results Compared
 with Fiscal 2014
 (11-month recast,
 unaudited)

Fiscal
 2014
 Fiscal (11-month
 2015 recast,
 (11-month) audited)

November
 2014 November
 - 2013 -
 September September
 2015 2014

Fourth Quarter of
 Fiscal 2015

(2-month,
unaudited) Results

Compared with
Fourth Quarter of
Fiscal 2014
(2-month recast,
unaudited)

Fourth Fourth
QuarterQuarter of
of Fiscal
Fiscal 2014
2015 (2-month
(2-month recast,
unaudited)audited)

August
2015 August
- 2014 -
SeptemberSeptember
2015 2014

Fiscal 2014
Results Compared
with Fiscal 2013

2014 2013

November
2013 November
- 2012 -
OctoberOctober
2014 2013

OVERVIEW

We operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. Our segments are structured around our technical capabilities. All segments include sales to domestic, international, defense and commercial customers.

The Avionics & Controls segment includes avionics systems, control and communication systems, and interface technologies capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control and communication systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Additionally, control and communication systems designs and manufactures military audio and data products for severe battlefield environments and communication control systems to enhance security and aural clarity in military applications. Defense, aerospace and training display (DAT), which will be integrated into our avionics systems and control and communication systems capabilities, develops and manufactures visualization solutions for a variety of demanding defense and commercial aerospace applications. Interface technologies manufactures and develops

custom control panels and input systems for medical, industrial, military and gaming industries.

The Sensors & Systems segment includes power systems, connection technologies and advanced sensors capabilities. Power systems develops and manufactures electrical power switching and other related systems, principally for aerospace and defense

23

customers. Connection technologies develops and manufactures highly engineered connectors for harsh environments and serves the aerospace, defense & space, power generation, rail and industrial equipment markets. 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.

Our current business and strategic plan focuses on the continued development of products and solutions principally for aerospace and defense markets. We are concentrating our efforts to expand our capabilities in these markets, 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 January 31, 2015, we acquired the DAT business of Belgium-based Barco N.V. (Barco) for €150 million net of acquired cash, or approximately \$171 million in cash. A working capital adjustment of approximately \$15 million was received from Barco in September 2015. We financed the acquisition primarily using international cash reserves, with the balance funded by borrowings under our existing credit facility. We incurred a \$2.9 million foreign currency exchange loss in funding the acquisition at the end of the first quarter of fiscal 2015. DAT develops and manufactures visualization solutions for a variety of demanding defense and commercial aerospace applications. DAT employs roughly 600 people in Belgium, France, Israel, Singapore and the U.S. The display business is included in our Avionics & Controls segment.

In September 2014, our board of directors approved the plan to sell certain non-core business units including Eclipse Electronic Systems, Inc. (Eclipse), a manufacturer of embedded communication intercept receivers for signal intelligence applications; Wallop Defence Systems, Ltd. (Wallop), a manufacturer of flare countermeasure devices; Pacific Aerospace and Electronics Inc. (PA&E), a manufacturer of hermetically sealed electrical connectors; and a small distribution business. These businesses are reported as discontinued operations for all periods presented. Based upon the estimated fair values, we incurred an after-tax loss of \$49.5 million in the fourth quarter of fiscal 2014 on the assets held for sale in discontinued operations.

On June 5, 2015, we sold Eclipse for \$7.9 million. We retained ownership of the land, building and building improvements, which are being held for sale. In addition, on July 20, 2015, we sold PA&E for \$22.3 million. During the fourth quarter of fiscal 2015, we approved a plan to sell a small manufacturing business included in our Avionics & Controls segment, which is reported as discontinued operations in all periods presented. During fiscal 2015 and 2014, we incurred a loss on discontinued operations of \$37.1 million and \$59.2 million, respectively.

On June 19, 2014, our board of directors approved a share repurchase program and authorized the repurchase of up to \$200 million of outstanding shares of common stock. In March 2015, our board of directors authorized an additional \$200 million for repurchase of outstanding shares of common stock under the program. Under the program, the Company is authorized to repurchase up to \$400 million of the outstanding shares of common stock from time to time, depending on market conditions, share price and other factors. During fiscal 2014 we repurchased 269,228 shares under this program at an average price paid per share of \$112.40, for an aggregate purchase price of \$30.3 million. During fiscal 2015, we repurchased 2,562,122 shares under this program at an average price paid per share of \$101.29, for an aggregate purchase price of \$259.5 million.

In March 2014, we entered into a Consent Agreement with the U.S. Department of State's Directorate of Defense Trade Controls Office of Defense Trade Controls Compliance (DDTC) to resolve alleged International Traffic in Arms Regulations (ITAR) civil violations. Among other things, the Consent Agreement requires us to pay a \$20 million penalty, of which \$10 million was suspended and eligible for offset credit based upon verified expenditures for past and future remedial actions, and to continue to implement ongoing compliance measures and to implement additional remedial measures related to ITAR compliance activities. Compliance expense associated with these measures was \$18.3 million in fiscal 2015 compared with \$8.3 million in fiscal 2014. We estimate that we will incur approximately \$18 million in remedial compliance expense in fiscal 2016. More information about the Consent Agreement is set forth in Note 11 to the Consolidated Financial Statements under Item 8 of this report.

In December 2013, we acquired the Sunbank Family of Companies, LLC (Sunbank) for \$51.7 million. The purchase price included \$5 million in additional contingent consideration based upon achievement of certain sales levels over a two-year period. We paid the first installment of \$1.3 million in the third fiscal quarter of 2015. Sunbank is a manufacturer of electrical cable accessories, connectors, and flexible conduit systems. Sunbank is included in the Sensors & Systems segment.

On December 5, 2013, we announced the acceleration of our plans to consolidate certain facilities and create cost efficiencies through shared services in sales, general and administrative and support functions. Total restructuring expenses were \$17.4 million, or 1.0% of sales, in fiscal 2014. Restructuring expenses were mainly comprised of \$5.3 million in severance, \$9.5 million in exit and relocation of facilities expenses, and a \$2.6 million loss on the write off of certain property, plant and equipment. Total restructuring expenses were \$11.7 million, or 0.7% of sales, for fiscal 2015. Restructuring expenses were mainly comprised of \$2.2 million in severance, \$8.8 million in exit and relocation of facilities expenses, and a \$0.7 million loss on the write off of certain property, plant and equipment. Expense savings were \$14.6 million for fiscal 2015. Restructuring expenses are expected to be approximately \$16 million in fiscal 2016, which includes DAT integration expense of \$12 million.

For further explanation about changes in sales and gross margin in the fourth quarter of fiscal 2015 over the prior-year period, please see the table at the end of the Overview section for a roll forward presentation of sales and gross margin.

Sales for the fourth quarter of fiscal 2015 increased by \$36.4 million, or 11.6%, to \$349.6 million, over the prior-year period, reflecting a \$39 million effect of a nine-week period in the fourth quarter of fiscal 2015 compared to an eight-week period in the fourth quarter of fiscal 2014 and incremental sales from the DAT acquisition of \$20 million. These increases were partially offset by the effects of a weakening Canadian dollar, U.K. pound and euro compared to the prior-year period of \$17 million. Sales volume decreased by \$2 million compared with the prior-year period, and was mainly due to lower demand for Advanced Materials segment products for defense applications of \$19 million partially offset by increased sales volumes of Avionics & Controls and Sensors & Systems products of \$17 million.

Consolidated gross margin was 32.7% in the fourth quarter of fiscal 2015 compared with 32.6% in the prior-year period. Gross margin in the fourth quarter of fiscal 2015 benefited from higher sales volumes due to the nine-week period in the fourth quarter of fiscal 2015 compared with the eight-week period in fiscal 2014.

Selling, general and administrative expense increased by \$6.1 million, by 10.8%, to \$62.4 million over the prior-year period. The increase in selling, general and administrative expense reflected incremental selling, general and administrative expenses from the acquisition of DAT of \$7.1 million. These increases were partially offset by the favorable translation effects of foreign currencies.

Research, development and engineering spending decreased by \$1.1 million over the prior-year period to 3.7% of sales due to decreased research, development and engineering expenses of Sensors & Systems.

In the fourth quarter of fiscal 2015, we refinanced our debt with the redemption of our 7% Senior Notes due in 2020. Our new credit facility currently bears an interest rate of 1.71% and the €330.0 million Senior Notes due in 2023 bear interest at 3.625%. Our debt level increased over last year, so notwithstanding lower interest rates for our outstanding debt, we expect interest expense to be approximately \$30 million in fiscal 2016, which is the same as it was for fiscal 2015. In connection with our redemption of our 7% Senior Notes due 2020, we incurred an \$8.75 million redemption premium and wrote off \$2.4 million in unamortized debt issuance costs as a loss on extinguishment of debt in the fourth quarter of fiscal 2015.

The income tax rate was 1.3% in the fourth quarter of fiscal 2015 compared with 19.1% in the prior-year period, mainly reflecting certain discrete tax benefits and additional tax benefits resulting from DAT operating losses.

Earnings from continuing operations in the fourth quarter of fiscal 2015 were \$20.7 million, or \$0.69 per diluted share, compared with \$20 million, or \$0.63 per diluted share, in the prior-year period. Loss from discontinued operations in the fourth quarter of fiscal 2015 was \$17.7 million, or \$0.59 per diluted share, compared with

\$51.5 million, or \$1.61 per diluted share, in the prior-year period. Net income in the fourth quarter of fiscal 2015 was \$3 million, or \$0.10 per diluted share, compared with a loss of \$31.4 million, or \$0.98 per diluted share, in the prior-year period.

Sales for fiscal 2015 decreased \$27 million, or 1.5%, to \$1.8 billion over fiscal 2014. Sales decreased \$84 million due to the effects of a weakening Canadian dollar, U.K. pound and euro compared with the prior-year period. Additionally, sales decreased \$18 million due to the settlement of forward foreign currency contracts qualifying under hedge accounting. These decreases were partially offset by \$88 million in incremental sales from the DAT and Sunbank acquisitions. Sales volume decreased \$12 million compared with the prior-year period, and was mainly due to lower demand for Advanced Materials products for defense applications of \$20 million and a \$3 million decrease on sales of Avionics & Controls. These decreases were partially offset by an \$11 million increase on sales of Sensors & Systems power system products.

Consolidated gross margin was 33.2% in fiscal 2015 compared with 34.7% in the prior-year period, reflecting lower gross margin on sales of Avionics & Controls and Advanced Materials products. Gross margin was largely impacted by the effect of weakening foreign currencies and the settlement of foreign currency forward contracts, higher manufacturing costs and a lower recovery of fixed costs due to decreased sales volumes. Gross margin was further impacted by an inventory fair value adjustment due to the shipment of acquired DAT inventory recognized at fair value.

Selling, general and administrative expense increased by \$22.8 million and by 1.6 percentage points over fiscal 2014 to 19.5% of sales, reflecting incremental selling, general and administrative expenses from the DAT acquisition of \$24.9 million and increased corporate expenses of \$13.8 million, partially offset by a decrease in segment selling, general and administrative expense. The increase in corporate expense was mainly due to increased expenses for compliance activities. The decrease in segment selling, general and administrative expense was principally due to the effect of translating selling, general and administrative expenses denominated in non-U.S. functional currencies to the U.S. dollar.

Research, development and engineering spending increased by \$2.8 million over fiscal 2014 to 5.2% of sales. The increase in research, development and engineering spending principally reflects incremental research, development and engineering expense from the DAT acquisition of \$10.5 million, partially offset by lower spending on Avionics & Controls developments.

During fiscal 2015 we recognized a \$15.7 million gain in other income and a \$2.4 million reduction in interest expense upon the lapse of a statutory period related to a liability for a non-income tax position of an acquired company. In addition, we incurred a \$2.9 million loss in other income on foreign currency exchange resulting from the funding of the acquisition of DAT.

The income tax rate was 16.3% in fiscal 2015 compared with 21.0% in the prior-year period, mainly reflecting additional tax benefits resulting from DAT operating losses.

Earnings from continuing operations in fiscal 2015 were \$96.7 million, or \$3.10 per diluted share, compared with \$133.7 million, or \$4.12 per diluted share, in the prior-year period. Loss from discontinued operations in fiscal 2015 was \$37.1 million, or \$1.19 per diluted share, compared with \$59.2 million, or \$1.83 per diluted share, in the prior-year period. Net income for fiscal 2015 was \$59.6 million, or \$1.91 per diluted share, compared with \$74.5 million, or \$2.29 per diluted share, in the prior-year period.

Cash flows from operating activities were \$144.3 million in fiscal 2015 compared with \$161.9 million in the prior-year period.

Our sales, gross margin and earnings results for the two-month and eleven-month period ended October 2, 2015, compared with the two-month and eleven-month period ended September 26, 2014, included a number of significant items which are summarized in the tables below.

The following is a roll forward of sales and gross margin from the fourth quarter of fiscal 2014 to the fourth quarter of fiscal 2015:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Sales:				
Two-month period ended September 26, 2014	\$ 112,412	\$ 110,719	\$ 90,069	\$ 313,200
Foreign currency loss	(3,180)	(12,007)	(1,775)	(16,962)
Forward contract loss	(2,699)	(1,117)	-	(3,816)
Nine week vs. eight week	14,107	13,857	11,276	39,240
Acquired business	19,979	-	-	19,979
Sales volume	10,467	6,383	(18,864)	(2,014)

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

Two-month period ended October 2, 2015	\$ 151,086	\$ 117,835	\$ 80,706	\$ 349,627
Gross Margin:				
Two-month period ended September 26, 2014	34,324	37,880	29,896	102,100
Foreign currency gain (loss)	(306)	(2,997)	(583)	(3,886)
Forward contract loss	(2,616)	(1,117)	-	(3,733)
Nine week vs. eight week	4,990	4,735	3,737	13,462
Acquired business	2,118	-	-	2,118
Volume/mix	7,659	1,760	(4,224)	5,195
DAT inventory fair value adjustment	(1,564)	-	-	(1,564)
Lower (higher) manufacturing costs	(2,432)	-	-	(2,432)
Inventory reserves and EAC adjustment	5,438	-	-	5,438
Other	109	(884)	(1,758)	(2,533)
Two-month period ended October 2, 2015	\$ 47,720	\$ 39,377	\$ 27,068	\$ 114,165

The following is a roll forward of sales and gross margin from fiscal 2014 to fiscal 2015:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Sales:				
Eleven-month period ended September 26, 2014	\$668,595	\$689,850	\$442,682	\$1,801,127
Foreign currency loss	(9,593)	(65,479)	(9,268)	(84,340)
Forward contract loss	(10,550)	(7,634)	-	(18,184)
Acquired business	82,525	5,065	-	87,590
Sales volume	(3,176)	11,644	(20,212)	(11,744)
Eleven-month period ended October 2, 2015	\$727,801	\$633,446	\$413,202	\$1,774,449
Gross Margin:				
Eleven-month period ended September 26, 2014	241,826	232,446	150,442	624,714
Foreign currency gain (loss)	4,492	(11,036)	(2,645)	(9,189)
Forward contract loss	(10,473)	(7,634)	-	(18,107)
Acquired business	26,350	1,974	-	28,324
Volume/mix	(14,515)	5,939	(6,604)	(15,180)
DAT inventory fair value adjustment	(7,021)	-	-	(7,021)
Lower (higher) manufacturing costs/lower recovery of fixed costs	(5,554)	2,221	(7,917)	(11,250)
Inventory reserves and EAC adjustment	(2,371)	630	-	(1,741)
Other	2,188	(3,322)	(23)	(1,157)
Eleven-month period ended October 2, 2015	\$234,922	\$221,218	\$133,253	\$589,393

Results of Operations

For further explanation, please see the roll forward table of sales and gross margin at the end of the Overview section.

Fiscal 2015 Compared with Fiscal 2014

Sales for fiscal 2015 decreased 1.5% from fiscal 2014. Sales by segment were as follows:

In Thousands	Increase (Decrease) From Prior Year	2015	2014 (Unaudited)
Avionics & Controls	8.9%	\$727,801	\$668,595
Sensors & Systems	(8.2)%	633,446	689,850

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

Advanced Materials (6.7)%	413,202	442,682
Total Net Sales	\$1,774,449	\$1,801,127

The \$59.2 million, or 8.9%, increase in Avionics & Controls sales over fiscal 2014 reflected incremental sales from the DAT acquisition of \$83 million. This increase was partially offset by the effect of weakening foreign currencies, which reduced segment sales by \$10 million compared with the prior-year period. In addition, the settlement of forward foreign currency contracts qualifying under hedge accounting reduced sales by \$11 million. Sales volume decreased by \$3 million and mainly reflected lower sales of avionics systems for defense applications of \$10 million partially offset by higher sales of interface technologies for gaming applications of \$8 million.

The \$56.4 million, or 8.2%, decrease in Sensors & Systems sales over fiscal 2014 reflected the impact of weakening foreign currencies of \$65 million and the impact of forward contracts under hedge accounting of \$8 million. This decrease in sales was partially offset by incremental sales from the Sunbank acquisition of \$5 million. Sales volume increased by \$12 million, reflecting a \$7 million increase in advanced sensors sales for OEM and aftermarket and an \$11 million increase in power systems sales for commercial aviation applications. These increases were partially offset by an \$8 million decrease in connection technologies sales mainly due to lower demand from defense and industrial customers, including oil and gas.

The \$29.5 million, or 6.7%, decrease in Advanced Materials sales compared with fiscal 2014 reflected a \$20 million decrease in sales volume and a \$9 million impact of weakening foreign currencies. The decrease in sales volume reflected a \$16 million

decrease in defense technologies sales due to lower demand for flare countermeasures and a \$4 million decrease in sales of engineered materials due to lower demand for defense applications.

Foreign sales originating from non-U.S. locations, including export sales by domestic operations, totaled \$1.1 billion and \$1.3 billion for fiscal 2015 and 2014, respectively, and accounted for 60.2% and 61.9% of our sales in fiscal 2015 and 2014, respectively.

Overall, gross margin as a percentage of sales was 33.2% and 34.7% for fiscal 2015 and 2014, respectively. Gross margin was \$589.4 million and \$624.7 million for fiscal 2015 and 2014, respectively. Gross margin was impacted by restructuring expense of \$5.1 million, or 0.3% of sales, for fiscal 2015, and \$5.3 million, or 0.3% of sales, in fiscal 2014.

Avionics & Controls segment gross margin as a percentage of sales was 32.3% and 36.2% for fiscal 2015 and 2014, respectively. Segment gross margin was \$234.9 million compared with \$241.8 million in the prior-year period. The decrease in gross margin reflected a \$15 million decrease on sales of avionics systems, an \$8 million decrease on sales of control and communication systems, and a \$3 million decrease on sales of interface technologies. The decrease in avionics systems gross margin was mainly due to lower sales volumes of \$8 million, a \$1 million inventory write-off due to the uncertainty over a specific cockpit integration program, and a \$2 million estimate-at-completion adjustment due to development program realignments. Additionally, gross margin was impacted by the effect of foreign currencies and the settlement of forward contracts of \$5 million. The decrease in control and communication systems was mainly due to lower sales volumes and mix of \$4 million and higher manufacturing costs of \$4 million. The decrease in interface technologies gross margin was mainly due to sales mix. These decreases were partially offset by incremental gross profit from the DAT acquisition of \$19 million. DAT gross profit included the effect of shipping acquired inventory valued at fair value at acquisition. A fair value adjustment of \$7 million lowered incremental gross profit from DAT from \$26 million to \$19 million.

Sensors & Systems segment gross margin was 34.9% and 33.7% for fiscal 2015 and 2014, respectively. Segment gross profit was \$221.2 million and \$232.4 million for fiscal 2015 and 2014, respectively. The decrease in gross margin mainly reflected a \$10 million decrease on sales of connection technologies, and a \$2 million decrease on sales of advanced sensors, partially offset by a \$1 million increase on sales of power systems. The decrease in connection technologies gross margin was due to lower sales volumes of \$4 million and the effects of weakening foreign currencies of \$8 million, partially offset by incremental gross margin from the Sunbank acquisition. The decrease in advanced sensors gross margin was due to the effect of weakening foreign currencies and the settlement of forward contracts of \$4 million and higher cost initiative expense of \$2 million, partially offset by higher sales volume and mix. The increase in gross margin of power systems was due to higher sales volume and mix of \$5 million and lower manufacturing expense of \$2 million, partially offset by the effect of weakening foreign currencies of \$7 million.

Advanced Materials segment gross margin was 32.2% and 34.0% for fiscal 2015 and 2014, respectively. Segment gross profit was \$133.3 million and \$150.4 million for fiscal 2015 and 2014, respectively. The decrease in segment gross margin principally reflected lower gross margin on sales of engineered materials of \$17 million, mainly due lower sales volume and mix of \$3 million, a lower recovery of fixed costs of \$4 million and higher operating expenses of \$7 million due mainly to manufacturing inefficiencies and the effects of weakening foreign currencies of \$3 million. Defense technologies gross margin was even with prior-year period. The impact of lower sales volumes of \$4 million was offset by lower manufacturing costs from our cost initiative project.

Selling, general and administrative expenses (which include corporate expenses) totaled \$346.8 million, or 19.5% of sales, and \$324.0 million, or 18.0% of sales, for fiscal 2015 and 2014, respectively. The increase in selling, general and administrative expense reflected incremental selling, general and administrative expenses from the DAT acquisition of \$24.9 million and increased corporate expenses of \$13.9 million, partially offset by a decrease in

segment selling, general and administrative expense. The increase in corporate expense was mainly due to higher compliance expense and \$3.5 million in higher pension costs due to our settlement with vested terminated pension plan participants. These increases in corporate expense were partially offset by a \$9 million reduction in incentive compensation. The decrease in segment selling, general and administrative expense reflected the effect of translating selling, general and administrative expenses denominated in non-U.S. functional currencies to the U.S. dollar of \$19.0 million and a decrease in segment incentive compensation expense of \$4.3 million. These decreases were partially offset by a \$2.1 million write-off of fixed assets associated with an avionics systems program and mainly higher compliance expense.

In fiscal 2014, we offered vested terminated participants of our U.S. pension plan a one-time opportunity to elect a lump-sum payment from the plan in lieu of a lifetime annuity. In the first fiscal quarter of 2015, we made \$16.6 million in lump-sum payments to vested terminated pension plan participants from the plan, which resulted in an actuarial settlement charge of \$3.5 million.

Total restructuring expenses were \$11.7 million, or 0.7% of sales, in fiscal 2015, of which \$6.6 million is reported separately as restructuring expenses and \$5.1 million is included in cost of goods sold. Total restructuring expenses were \$17.4 million, or 1.0% of sales, in fiscal 2014, of which \$12.1 million is reported separately as restructuring expenses and \$5.3 million is included in cost of goods sold.

Research, development and engineering spending was \$91.5 million, or 5.2% of sales, for fiscal 2015 compared with \$88.7 million, or 4.9% of sales, for fiscal 2014. The increase in research, development and engineering spending reflects incremental research, development and engineering expense from the DAT acquisition of \$10.5 million, partially offset by lower spending on control and communication systems developments. Fiscal 2016 research, development and engineering spending is expected to be approximately 5% of sales.

Segment earnings (operating earnings excluding corporate expenses and other income or expense) for fiscal 2015 totaled \$218.6 million, or 12.3% of sales, compared with \$260.3 million, or 14.5% of sales, for fiscal 2014. Excluding restructuring expenses of \$11.7 million, segment earnings were \$230.4 million, or 13.0% of sales, for fiscal 2015. Excluding restructuring expenses of \$17.4 million, segment earnings were \$277.8 million, or 15.4% of sales, for fiscal 2014.

Avionics & Controls segment earnings were \$65.9 million, or 9.1% of sales, in fiscal 2015 compared with \$92.2 million, or 13.8% of sales, in fiscal 2014, mainly reflecting a \$5 million decrease in avionics systems, a \$16 million incremental loss from the DAT acquisition, and a \$5 million decrease in control and communication systems earnings. The decrease in avionics systems earnings mainly reflected lower gross margin as explained above, partially offset by an \$8 million decrease in selling, general and administrative expense and a \$1 million decrease in research, development and engineering. The decrease in avionics systems selling, general and administrative expense was mainly due to gains on monetary assets and translation gains and lower restructuring expenses. The decrease in earnings from sales of control and communication systems principally reflected lower gross margin as explained above, partially offset by lower research, engineering and development expense and selling, general and administrative expenses. Segment restructuring expenses were \$0.7 million and \$5.1 million in fiscal 2015 and 2014, respectively. The effect of foreign currencies and settlement of forward contracts on segment earnings had a favorable \$2 million impact in fiscal 2015 compared with the prior-year period.

Sensors & Systems segment earnings were \$71.8 million, or 11.3% of sales, in fiscal 2015 compared with \$73.7 million, or 10.7% of sales, in fiscal 2014, reflecting a \$10 million decrease in gross margin on sales of connection technologies as described above, substantially offset by lower selling, general and administrative expenses due to foreign currency translation gains. Additionally, segment restructuring expenses were \$7.1 million and \$6.8 million in fiscal 2015 and 2014, respectively. The effect of foreign currencies and settlement of forward contracts on segment earnings had an unfavorable \$3 million impact in fiscal 2015 compared with the prior-year period.

Advanced Materials segment earnings were \$81.0 million, or 19.6% of sales, for fiscal 2015 compared with \$94.5 million, or 21.3% of sales, for fiscal 2014, primarily reflecting lower earnings from sales of engineered materials. Earnings from sales of defense technologies improved mainly due to lower restructuring expense. Segment restructuring expense was \$2.8 million and \$4.9 million in fiscal 2015 and 2014, respectively. The effect of foreign currencies and settlement of forward contracts on segment earnings had an unfavorable \$2 million impact in fiscal 2015 compared with the prior-year period.

Interest expense was \$30.1 million during fiscal 2015, compared with \$30.0 million in the prior-year period.

The income tax rates were 16.3% and 21.0% for fiscal 2015 and 2014, respectively. The income tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense

deductions. During fiscal 2015, we recognized \$1 million of discrete tax benefits principally related to the following items. The first item was a \$1.5 million tax benefit due to the retroactive extension of the U.S. federal research and experimentation credits. The second item was a \$1.2 million tax benefit due to the release of reserves upon the expiration of a statute of limitations. The third item was a \$1.7 million tax expense due to the income tax return to provision adjustments. During fiscal 2014, we recognized \$1.6 million of discrete tax benefits principally related to the following items. The first item was a \$0.9 million tax benefit due to the release of reserves upon the expiration of a statute of limitations. The second item consisted of income tax return to provision adjustments of \$0.7 million.

We expect the income tax rate to be approximately 22% in fiscal 2016.

It is reasonably possible that within the next twelve months approximately \$0.9 million of tax benefits associated with research and experimentation tax credits, capital and operating losses that are currently unrecognized could be recognized as a result of settlement of examinations and/or expiration of a statute of limitations.

New orders for fiscal 2015 were \$1.9 billion compared with \$1.8 billion for fiscal 2014. Orders by segment for fiscal 2015 increased for our Avionics & Controls segment compared to the prior-year period due to the acquisition of DAT. Orders for

Sensors & Systems and Advanced Materials decreased compared to the prior-year period mainly due to the effects of foreign currency and the timing of receiving orders. Backlog at October 2, 2015, was \$1.2 billion compared with \$1.1 billion at October 31, 2014. Approximately \$300 million is scheduled to be delivered after fiscal 2016. Backlog is subject to cancellation until delivery.

Fiscal 2014 Compared with Fiscal 2013

Sales for fiscal 2014 increased 8.7% over the prior year. Sales by segment were as follows:

In Thousands	Increase (Decrease) From Prior Year	2014	2013
Avionics & Controls	6.9%	\$766,838	\$717,656
Sensors & Systems	14.1%	771,369	676,331
Advanced Materials	3.9%	491,264	472,672
Total Net Sales		\$2,029,471	\$1,866,659

The 6.9% increase in Avionics & Controls sales mainly reflected increased sales volumes of control and communication systems of \$21 million and interface technologies of \$30 million. The increase in control and communication systems sales mainly reflected increased sales volumes of control panels and switches of \$15 million for OEM commercial aviation applications. Additionally, the increase reflected higher sales volumes of communication systems to enhance security and aural clarity in military communication applications of \$10 million. The increase in interface technologies sales reflected higher gaming sales.

The 14.1% increase in sales of Sensors & Systems principally reflected increased sales of connection technologies of \$60 million and power systems of \$23 million. The increase in connection technologies reflected incremental sales from the Sunbank acquisition of \$33 million and higher sales volumes of connection technologies for commercial aviation and industrial applications. The increase in power systems sales mainly reflected higher OEM sales for commercial aviation applications. Advanced sensors sales increased \$12 million on improved OEM sales partially offset by lower aftermarket sales. For fiscal 2014, segment sales also benefited from a stronger euro and U.K. pound relative to the U.S. dollar compared with the prior-year period. During the fourth quarter of fiscal 2014, the euro and U.K. pound weakened relative to the U.S. dollar.

The 3.9% increase in sales of Advanced Materials principally reflected increased sales of engineered materials for defense and commercial aviation applications of \$43 million, partially offset by lower sales volumes of defense technologies of \$25 million due to lower sales of countermeasures and combustible ordnance.

Foreign sales originating from non-U.S. locations, including export sales by domestic operations, totaled \$1.3 billion and \$1.1 billion in fiscal 2014 and 2013, respectively, and accounted for 61.9% and 60.0% of our sales in fiscal 2014 and 2013, respectively.

Overall, gross margin as a percentage of sales was 35.2% and 37.4% in fiscal 2014 and 2013, respectively. Gross profit was \$714.7 million and \$698.0 million in fiscal 2014 and 2013, respectively. Gross margin was impacted by restructuring expense of \$6.7 million, or 0.3% of sales, in fiscal 2014.

Avionics & Controls segment gross margin was 37.3% and 38.9% for fiscal 2014 and 2013, respectively. Segment gross profit was \$286.1 million compared with \$279.2 million in the prior-year period. The increase reflected increased gross profit on higher gaming sales. The decrease in segment gross margin as a percentage of sales reflected lower margins on sales of control panels, displays and cockpit control devices due to lower spare sales, product mix and a decreased recovery of fixed overhead due to lower sales of cockpit control devices.

Sensors & Systems segment gross margin was 34.0% and 37.6% for fiscal 2014 and 2013, respectively. Segment gross profit was \$262.3 million and \$254.4 million for fiscal 2014 and 2013, respectively. The increase in gross profit mainly reflected incremental gross profit from the Sunbank acquisition of \$4 million and increased gross profit on higher sales of power systems for commercial aviation. The decrease in segment gross margin as a percentage of sales principally reflected lower margins on sales of connection technologies and advanced sensors. The decrease in gross margin on connection technologies was due to a \$1.4 million fair value of inventory adjustment resulting from the Sunbank acquisition and Sunbank's current gross margin being lower than segment gross margin. In addition, connection technologies had lower defense sales and lower recovery of fixed overhead. The decrease in advanced sensors gross margin reflected lower aftermarket sales and higher operating expenses.

Advanced Materials segment gross margin was 33.9% and 34.8% for fiscal 2014 and 2013, respectively. Segment gross profit was \$166.4 million and \$164.4 million for fiscal 2014 and 2013, respectively. The increase in gross profit was principally due to higher sales of elastomer materials primarily for defense applications, partially offset by a \$19 million reduction in gross profit on sales of defense technologies. The decrease in defense technologies gross profit reflected lower sales of combustible ordnance and flare countermeasures. The decrease in gross margin as a percent of sales was mainly due to lower first pass yields on the production of flare countermeasure devices.

Selling, general and administrative expenses (which include corporate expenses) decreased to \$361.2 million, or 17.8% of sales, in fiscal 2014 compared with \$364.1 million, or 19.5% of sales, in fiscal 2013. The \$3.0 million decrease in selling, general and administrative expenses mainly reflects a \$7.7 million decrease in segment expense (excluding \$12.8 million in restructuring expense), partially offset by a \$5.3 million increase in corporate expense. The decrease in segment expense principally reflects a \$10.9 million decrease in pension expense, partially offset by incremental selling, general and administrative expense from the acquisition of Sunbank. The increase in corporate expense reflects higher compliance expense and acquisition expense, partially offset by the \$10 million charge for the DDTC matter in the prior-year period.

Research, development and related engineering spending increased to \$97.6 million, or 4.8% of sales, in fiscal 2014 compared with \$89.0 million, or 4.8% of sales, in fiscal 2013. The increase in research, development and engineering spending principally reflects higher spending on avionics systems, power systems and advanced sensors.

Segment earnings for fiscal 2014 were \$310.6 million, or 15.3% of sales, compared with \$305.9 million, or 16.4% of sales, for fiscal 2013. Excluding restructuring expenses of \$20.3 million, segment earnings were \$330.9 million, or 16.3% of sales, for fiscal 2014. Segment earnings in fiscal 2013 were impacted by the \$3.5 million impairment charge against goodwill of Racal Acoustics.

Avionics & Controls segment earnings were \$119.6 million, or 15.6% of sales, in fiscal 2014 compared with \$108.2 million, or 15.1% of sales, in fiscal 2013. The \$11.4 million increase in segment earnings reflected a \$9 million increase in control and communication earnings. The increase in control and communication earnings was due to a \$3 million improvement in operating results on sales of communication systems to enhance security and aural clarity in military communication applications and increased earnings on sales of secure communication devices. The prior-year period was impacted by a \$3.5 million goodwill impairment of Racal Acoustics, which was substantially offset by a \$2.3 million gain on the sale of a product line and certain contractual recoveries of non-recurring engineering expense. In addition, earnings from sales of interface technologies increased \$4 million on higher gaming sales. Segment earnings were partially offset by a \$2 million decrease in earnings on sales of avionics systems. Avionics systems earnings were impacted by \$4 million in restructuring charges, net of \$1 million in savings, a \$5 million increase in the estimate at completion expense for certain long-term contracts, and a \$4 million increase in research, development and engineering, all of which was partially offset by favorable foreign currency exchange gains and government development credits.

Sensors & Systems segment earnings were \$86.1 million, or 11.2% of sales, in fiscal 2014 compared with \$88.1 million, or 13.0% of sales, in fiscal 2013. Sensors & Systems was impacted by lower earnings on sales of advanced sensors of \$5 million, net of restructuring expenses of \$3 million. The decrease in advanced sensors reflected lower aftermarket sales, partially offset by a \$1.7 million curtailment gain on a post-retirement health insurance plan. Power systems earnings increased \$4 million, net of \$2 million in restructuring charges. The increase in power systems earnings was due to higher sales for commercial aviation.

Advanced Materials segment earnings were \$104.8 million, or 21.3% of sales, in fiscal 2014 compared with \$109.6 million, or 23.2% of sales, in fiscal 2013, primarily reflecting weaker earnings from sales of defense technologies of \$20 million, net of \$5 million in restructuring charges. This decrease was partially offset by increased

earnings from sales of engineered materials of \$15 million due to the increase in gross profit.

Interest expense decreased to \$33.0 million during fiscal 2014 compared with \$39.6 million in the prior year, reflecting lower borrowings.

The income tax rate for fiscal 2014 was 20.9% compared with 16.1% in fiscal 2013. The tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense deductions. During fiscal 2014, we recognized \$1.6 million of discrete tax benefits principally related to the following items. The first item was a \$0.9 million tax benefit related to the release of tax reserves due to the expiration of a statute of limitations. The second item consisted of income tax return to provision adjustments of \$0.7 million. During fiscal 2013, we recognized \$11.6 million of discrete tax benefits principally related to the following items. The first item was approximately \$1.2 million of tax benefits due to the retroactive extension of the U.S. federal research and experimentation credits. The second item was approximately \$2.1 million of tax benefits related to the settlement of U.S. and foreign tax examinations. The third item was a \$4.9 million tax benefit related to the release of tax reserves due to the expiration of a statute of limitations. The fourth item was a

\$3.4 million reduction of net deferred income tax liabilities as a result of the enactment of tax laws reducing the U.K. statutory income tax rate.

New orders for fiscal 2014 were \$2.0 billion compared with \$1.9 billion for fiscal 2013. Orders by segment for fiscal 2014 increased for our Sensors & Systems and Advanced Materials segments compared to the prior-year period. Orders for Avionics & Controls for fiscal 2014 were even with the prior-year period. Backlog at the end of fiscal 2014 was \$1.1 billion compared with \$1.2 billion at the end of the prior year.

Liquidity and Capital Resources

Working Capital and Statement of Cash Flows

Cash and cash equivalents at the end of fiscal 2015 totaled \$191.4 million, a decrease of \$46.8 million from October 31, 2014. Net working capital decreased to \$718.0 million at the end of fiscal 2015 from \$761.4 million at the end of the prior year.

Cash flows from operating activities were \$144.3 million and \$161.9 million in fiscal 2015 and 2014, respectively. The decrease principally reflected lower net earnings partially offset by lower payments for inventory, interest, pension plan contributions and income taxes. Sources and uses of cash flows from operating activities principally consisted of cash received from the sale of products and cash payments for material, labor and operating expense.

Cash flows used by investing activities were \$173.6 million and \$84.4 million in fiscal 2015 and 2014, respectively. Cash flows used by investing activities in fiscal 2015 reflected cash paid for an acquisition of \$156.0 million, net of cash acquired, and capital expenditures of \$49.3 million, partially offset by proceeds from the sale of discontinued operations of \$30.2 million. Cash flows used by investing activities in fiscal 2014 reflected cash paid for an acquisition of \$44.7 million, net cash acquired, and capital expenditures of \$39.6 million.

Cash flows provided by financing activities were \$1.0 million in fiscal 2015. Cash flows used by financing activities were \$36.6 million in fiscal 2014. Cash flows provided by financing activities in fiscal 2015 primarily reflected \$465.0 million in proceeds from our credit facilities, \$356.5 million in proceeds from issuance of the 2023 Notes, \$250.0 million in proceeds from the issuance of the U.S. Term Loan, due 2020, and \$14.1 million from the issuance of common stock under our employee stock plans, partially offset by \$259.5 million in shares repurchased, \$821.8 million in debt repayment, and \$8.3 million of debt issuance costs. Cash flows used by financing activities in fiscal 2014 primarily reflected proceeds from our credit facilities of \$25.0 million, proceeds provided by stock issuance from employee stock plans of \$28.7 million, repayment of long-term debt and credit facilities of \$78.8 million, and \$20.5 million in shares repurchased.

Capital Expenditures

Net property, plant and equipment was \$309.4 million at the end of fiscal 2015 compared with \$319.3 million at October 31, 2014. Capital expenditures for fiscal 2015 and 2014 were \$49.3 million and \$39.6 million, respectively (excluding acquisitions), and included facilities, machinery, equipment and enhancements to information technology systems. Capital expenditures are anticipated to approximate \$70.0 million for fiscal 2016. We will continue to support expansion through investments in infrastructure including machinery, equipment, and information systems.

Acquisitions

On January 31, 2015, we acquired the defense, aerospace and training display (DAT) business of Belgium-based Barco N.V. (Barco) for €150 million, or approximately \$171 million, in cash before a working capital adjustment of approximately \$15 million. The working capital adjustment decreased the purchase price and was received in the fourth quarter of fiscal 2015. We incurred a \$2.9 million foreign currency exchange loss in the funding of the acquisition in the first quarter of fiscal 2015. Acquisition related costs of \$3.4 million have been recognized as selling, general and administrative expense. We financed the acquisition primarily using international cash reserves, with the balance funded by borrowings under its existing credit facility. The DAT business develops and manufactures visualization solutions for a variety of demanding defense and commercial aerospace applications and is included in our Avionics & Controls segment.

On December 20, 2013, we acquired Sunbank Family of Companies, LLC (Sunbank) for approximately \$51.7 million. The purchase price included \$5 million in contingent consideration based upon achievement of certain sales levels over a two-year period. We paid the first installment of \$1.3 million in the third fiscal quarter of 2015. Sunbank is a manufacturer of electrical cable accessories, connectors and flexible conduit systems. Sunbank is included in the Sensors & Systems segment.

Debt Financing

Total debt increased \$258.9 million from the prior year to approximately \$881.4 million at the end of fiscal 2015. Total debt outstanding at the end of fiscal 2015 consisted of \$250.0 million of U.S. Term Loan, due 2020, \$370.1 million (€330.0 million) of the 2023 Notes, \$160.0 million in borrowings under our secured credit facility, \$43.3 million government

refundable advances, \$57.9 million under capital lease obligations, and \$0.1 million in various foreign currency debt agreements and other debt agreements.

U.S. Credit Facility

On April 9, 2015, we amended the secured credit facility to extend the expiration to April 9, 2020, increase the revolving credit facility to \$500 million, and provide for a delayed-draw term loan facility of \$250 million. The credit facility is secured by substantially all of the Company's assets and interest is based on standard inter-bank offering rates. The interest rate ranges from LIBOR plus 1.25% to LIBOR plus 2.00%, depending on the leverage ratios at the time the funds are drawn. At October 2, 2015, we had \$160.0 million outstanding under the secured credit facility at an interest rate of LIBOR plus 1.50%, which equaled 1.71%. An additional \$50.6 million of unsecured foreign currency credit facilities have been extended by foreign banks for a total of \$550.6 million available companywide. Available credit under the above credit facilities was \$370.2 million at fiscal 2015 year end, when reduced by outstanding borrowings of \$160.0 million and letters of credit of \$20.4 million.

U.S. Term Loan, due July 2016

In April 2013, we amended the secured credit facility to provide for a \$175.0 million term loan (U.S. Term Loan, due 2016). On April 8, 2015, we paid off the \$175 million U.S. Term Loan, due 2016. In connection with the redemption, we wrote off \$0.3 million in unamortized debt issuance costs as a loss on extinguishment of debt in the second quarter of fiscal 2015.

U.S. Term Loan, due April 2020

On August 3, 2015, we borrowed \$250 million under the delayed-draw term loan provided for under the amended credit facility (U.S. Term Loan, due 2020). The interest rate on the U.S. Term Loan, due 2020, ranges from LIBOR plus 1.25% to LIBOR plus 2.00%, depending on the leverage ratios at the time the funds are drawn. At October 2, 2015, the interest rate was LIBOR plus 1.5%, which equaled 1.71%. The loan amortizes at 1.25% of the original principal balance quarterly through March 2020, with the remaining balance due in April 2020.

7% Senior Notes, due August 2020

In August 2010, we issued \$250.0 million in 7% Senior Notes due August 2020 (2020 Notes), requiring semi-annual interest payments in March and September of each year until maturity.

On August 4, 2015, the proceeds from the U.S. Term Loan, due 2020, were used to redeem all of the 2020 Notes. In connection with the redemption, we incurred an \$8.75 million redemption premium and wrote off \$2.4 million in unamortized debt issuance costs as a loss on extinguishment of debt in the fourth quarter of fiscal 2015.

3.625% Senior Notes, due April 2023

In April 2015, we issued €330.0 million in 3.625% Senior Notes due April 2023 (2023 Notes), requiring semi-annual interest payments in April and October of each year until maturity. The net proceeds from the sale of the notes, after deducting \$5.7 million of debt issuance costs, were \$350.8 million. The 2023 Notes are general unsecured senior obligations of the Company. The 2023 Notes are unconditionally guaranteed on a senior basis by the Company and certain subsidiaries of the Company that are guarantors under the Company's existing secured credit facility. The 2023 Notes are subject to redemption at the option of the Company at any time prior to April 15, 2018, 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 Company may also redeem up to 35% of the 2023 Notes before April 15, 2018, with the net cash proceeds from equity offerings. The 2023 Notes are also subject to redemption at the option of the Company, in whole or in part, on or after April 15, 2018, at redemption prices starting at 102.719% of the principal amount plus accrued interest during the period beginning April 15, 2018, and declining annually to 100% of principal and accrued interest on or after April 15, 2021.

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 2016. We believe we will have adequate access to capital markets to fund future acquisitions.

Share Repurchase Program

On June 19, 2014, our board of directors approved a share repurchase program and authorized the repurchase of up to \$200 million of outstanding shares of common stock. In March 2015, our board of directors authorized an additional \$200 million for repurchase of outstanding shares of common stock under the program. Under the program, the Company is authorized to repurchase up to \$400 million of the outstanding shares of common stock from time to time, depending on market conditions, share price and other factors. During fiscal 2014 we repurchased 269,228 shares under this program at an average price paid per share of \$112.40, for an aggregate purchase price of \$30.3 million. During fiscal 2015, we repurchased 2,562,122 shares under this program at an average price paid per share of \$101.29, for an aggregate purchase price of \$259.5 million.

Permanent Investment of Undistributed Earnings of Foreign Subsidiaries

Our non-U.S. subsidiaries have \$171.7 million in cash and cash equivalents at October 2, 2015. Cash and cash equivalents at our U.S. parent and subsidiaries aggregated \$19.7 million at October 2, 2015, and cash flow from these operations and credit facilities are sufficient to fund working capital, capital expenditures, acquisitions and debt repayments of our domestic operations. We have available credit to our U.S. parent and subsidiaries of \$319.6 million on our U.S. secured credit facility. The earnings of our non-U.S. subsidiaries are considered to be indefinitely invested, and accordingly, no provision for federal income taxes has been made on accumulated earnings of foreign subsidiaries. The amount of the unrecognized deferred income tax liability for temporary differences related to investments in foreign subsidiaries is not practical to determine because of the complexities regarding the calculation of unremitted earnings and the potential for tax credits.

Government Refundable Advances

Government refundable advances consist of payments received from the Canadian government to assist in the research and development related to commercial aviation. These advances totaled \$43.3 million and \$51.9 million at October 2, 2015, and October 31, 2014, respectively. The repayment of the advances is based on year-over-year commercial aviation revenue growth at CMC Electronics, Inc. (CMC) beginning in 2014. Imputed interest on the advances was 3.4% at October 2, 2015.

Pension and Other Post-Retirement Benefit Obligations

Our pension plans principally include a U.S. pension plan maintained by Esterline, Non-U.S. plans maintained by CMC, and Other Non-U.S. plans. 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 2015 and 2014, operating cash flow included \$9.2 million and \$23.5 million, respectively, of cash funding to these pension plans. There is no funding requirement for fiscal 2016 for the U.S. pension plans maintained by Esterline. We expect pension funding requirements for the CMC plans and other non-U.S. plans to be approximately \$6.7 million in fiscal 2016. 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 3.25% to 8.0% assumed long-term rate of return on plan assets is appropriate for the pension plans. Current allocations are consistent with the long-term targets.

We made the following assumptions with respect to our Esterline pension obligation in fiscal 2015 and 2014:

	2015	2014
Principal assumptions as of fiscal year end:		
Discount rate	4.40%	4.25%
Rate of increase in future compensation levels	4.22%	4.21%
Assumed long-term rate of return on plan assets	7.00%	7.00%

We made the following assumptions with respect to our CMC pension obligation in fiscal 2015 and 2014:

	2015	2014
Principal assumptions as of fiscal year end:		
Discount rate	4.00%	4.10%
Rate of increase in future compensation levels	3.00%	3.00%
Assumed long-term rate of return on plan assets	5.70%	6.35%

We made the following assumptions with respect to our Other Non-U.S. pension obligations in fiscal 2015 and 2014:

	2015	2014
Principal assumptions as of fiscal year end:		
Discount rate	1.80 - 8.25%	2.00 - 8.75%
Rate of increase in future compensation levels	4.50 - 8.90%	4.50 - 8.83%
Assumed long-term rate of return on plan assets	3.25 - 8.00%	3.25 - 8.00%

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 fiscal 2015, pension liabilities in total would have decreased \$13.2 million or increased \$13.8 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2015 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 Esterline post-retirement obligation in fiscal 2015 and 2014:

	2015	2014
Principal assumptions as of fiscal year end:		
Discount rate	4.40%	4.25%
Initial weighted average health care trend rate	6.00%	6.00%
Ultimate weighted average health care trend rate	6.00%	6.00%

We made the following assumptions with respect to our CMC post-retirement obligation in fiscal 2015 and 2014:

	2015	2014
Principal assumptions as of fiscal year end:		
Discount rate	4.00%	4.10%
Initial weighted average health care trend rate	3.70%	6.20%
Ultimate weighted average health care trend rate	3.10%	4.20%

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 \$1.3 million at October 2, 2015. A 100 basis points decrease in the health care trend rate would decrease our post-retirement benefit obligation by \$1.2 million at October 2, 2015. Assuming all other assumptions are held constant, the estimated effect on fiscal 2015 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 2, 2015, research and development expense has averaged 4.9% of sales. We estimate that research and development expense in fiscal 2016 will be about 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.

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

In Thousands	Total	Less than 1 year	1 3 years	4 5 years	After 5 years
Long-term debt ¹	\$948,021	\$18,165	\$35,970	\$383,751	\$510,135
Interest obligations	100,613	13,415	26,830	26,830	33,538
Operating lease obligations	55,412	14,960	19,650	11,906	8,896
Purchase obligations	672,166	626,777	34,320	11,069	-
Total contractual obligations	\$1,776,212	\$673,317	\$116,770	\$433,556	\$552,569

¹Includes \$66.6 million representing interest on capital lease obligations.

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. We changed our fiscal year to the twelve months ended the last Friday of September to better align with the aerospace industry's business cycle.

Disclosures About Market Risk

Interest Rate Risks

Our debt includes fixed rate and variable rate obligations at October 2, 2015. 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 and U.S. credit facility. 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 Amount	Average Rates ¹
Maturing in:		
2016	\$ 12,500	*
2017	12,500	*
2018	12,500	*
2019	12,500	*
2020	360,000	*
2021 and thereafter	-	*
Total	\$410,000	

Fair value at 10/2/2015

¹ Borrowings under the U.S. Term Loan bear interest at a rate equal to either: (a) the LIBOR rate plus 1.50% or (b) the “Base Rate” (defined as the higher of Wells Fargo Bank, National Association’s prime rate and the Federal funds rate plus 0.50%).

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 2, 2015, 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 0.892 at October 2, 2015, from 0.799 at October 31, 2014; the dollar relative to the U.K. pound increased to 0.659 from 0.625; and the dollar relative to the Canadian dollar increased to 1.315 from 1.127. Foreign currency transactions affecting monetary assets, forward contracts and backlog resulted in a \$1.3 million loss in fiscal 2015, a \$0.9 million gain in fiscal 2014, and a \$1.7 million loss in fiscal 2013.

Our policy is to hedge a portion of our forecasted transactions using forward exchange contracts. The Company does not enter into any forward contracts for trading purposes. At October 2, 2015, and October 31, 2014, the notional

value of foreign currency forward contracts was \$403.4 million and \$397.9 million, respectively. The net fair value of these contracts was a \$25.4 million liability and a \$17.7 million liability at October 2, 2015, and October 31, 2014, respectively. If the U.S. dollar increased by a hypothetical 5%, the effect on the fair value of the foreign currency contracts at October 2, 2015, would be a decrease in the net liability of \$19.2 million. If the U.S. dollar decreased by a hypothetical 5%, the effect on the fair value of the foreign currency contracts would be an increase in net liability of \$21.3 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 2, 2015, and October 31, 2014. 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 2, 2015

Principal Amount by Expected Maturity

In Thousands Fiscal Years	Firmly Committed Sales Contracts in United States		
	Dollar Canadian Dollar	Euro	U.K. Pound
2016	\$111,192	\$105,213	\$32,949
2017	25,152	20,663	8,106
2018	10,583	4,566	318
2019	4,311	2,597	-
2020 and thereafter	3,279	1,447	-
Total	\$154,517	\$134,486	\$41,373

Derivative Contracts

Operations with Foreign Functional Currency

At October 2, 2015

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate Fiscal Years	United States Dollar	
	Notional Amount	Avg. Contract Rate
2016	\$93,585	1.131
2017	4,500	1.121
Total	\$98,085	
Fair value at 10/2/2015	\$(336)	

¹The Company has no derivative contracts maturing after fiscal 2017.

Derivative Contracts

Operations with Foreign Functional Currency

At October 2, 2015

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

Fiscal Years	In Thousands, Except for Average Contract Rate	United States Dollar	
		Notional Amount	Avg. Contract Rate
2016		\$60,673	1.570
2017		41,475	1.546
Total		\$102,148	
	Fair value at 10/2/2015	\$(2,777)	

¹The Company has no derivative contracts maturing after fiscal 2017.

Derivative Contracts

Operations with Foreign Functional Currency

At October 2, 2015

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

Fiscal Years	In Thousands, Except for Average Contract Rate	United States Dollar	
		Notional Amount	Avg. Contract Rate
2016		\$121,600	0.881
2017		79,600	0.814
Total		\$201,200	
	Fair value at 10/2/2015	\$(22,296)	

¹The Company has no derivative contracts maturing after fiscal 2017.
Firmly Committed Sales Contracts

Operations with Foreign Functional Currency

At October 31, 2014

Principal Amount by Expected Maturity

Fiscal Years	In Thousands	Firmly Committed Sales Contracts in United States		
		Dollar	Canadian Dollar	Euro U.K. Pound
2015		\$119,900	\$81,243	\$59,569
2016		44,997	15,960	15,091
2017		14,938	365	18
2018		6,748	-	-
2019 and thereafter		4,590	426	-
Total		\$191,173	\$97,994	\$74,678

Derivative Contracts

Operations with Foreign Functional Currency

At October 31, 2014

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate	United States	
	Dollar	
Fiscal Years	Notional Amount	Avg. Contract Rate
2015	\$87,397	1.344
2016	4,390	1.288
Total	\$91,787	
Fair value at 10/31/2014	\$(5,845)	

¹The Company has no derivative contracts maturing after fiscal 2016.

Derivative Contracts

Operations with Foreign Functional Currency

At October 31, 2014

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

In Thousands, Except for Average Contract Rate	United States Dollar	
	Notional Amount	Avg. Contract Rate
Fiscal Years		
2015	\$51,967	1.600
2016	25,388	1.618
Total	\$77,355	
Fair value at 10/31/2014	\$(312)	

¹The Company has no derivative contracts maturing after fiscal 2016.

Derivative Contracts

Operations with Foreign Functional Currency

At October 31, 2014

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

In Thousands, Except for Average Contract Rate	United States Dollar	
	Notional Amount	Avg. Contract Rate
Fiscal Years		
2015	\$141,100	0.942
2016	86,000	0.907

Total	\$227,100
Fair value at 10/31/2014	\$(11,518)

¹The Company has no derivative contracts maturing after fiscal 2016.

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, impairment of goodwill and intangible assets, impairment of long-lived assets, accounting for assets held for sale, 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 collectability 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. When change orders have been approved by both the company and the customer for both scope and price and realization is deemed probable, the original contract price is adjusted and revenues are recognized on contract performance (as determined by the achievement of contractual milestones and the cost-to-cost method). For partially approved change orders, costs attributable to unpriced change orders are treated as costs of the contract performance in the period the costs are incurred. Claims are also recognized as contract revenue when approved by both the company and the customer, based on contract performance.

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 \$1.0 billion of goodwill and \$39.4 million of indefinite-lived intangible assets out of total assets of \$3.0 billion at October 2, 2015. 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 annual impairment review for fiscal 2015 as of August 1, 2015, and our Step One analysis indicates that no impairment of goodwill or other indefinite-lived assets exists at any of our reporting units.

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 2015 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 our reporting units exceeds its book value by greater than 24%. 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 other reporting units of approximately \$142.4 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 other reporting units by \$95.3 million. None of these changes would have resulted in any of our other reporting units being 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. The first step (Step One) of an impairment test of long-lived assets is to determine the amount of future undiscounted cash flow of the long-lived asset. In the event the undiscounted future cash flow is less than the carrying amount of the long-lived asset, a second step is required (Step Two), and the long-lived 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 \$412.7 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.

Assets Held for Sale

Assets held for sale are to be reported at the lower of its carrying amount or fair value less cost to sell. Judgment is required in estimating the sales price of assets held for sale and the time required to sell the assets. These estimates are based upon available market data and operating cash flows of the assets held for sale.

As more fully described in Note 16 of the consolidated financial statements, in September 2014, the Company's board of directors approved a plan to sell certain non-core business units including Eclipse Electronic Systems, Inc., Wallop Defence Systems, Ltd., Pacific Aerospace and Electronics Inc., and a small distribution business. As a result, we recorded a \$49.5 million after-tax loss in fiscal 2014 on assets held for sale in discontinued operations. During the fourth quarter of fiscal 2015, we approved a plan to sell a small manufacturing business included in our Avionics & Controls segment, which is reported as discontinued operations in all periods presented. During fiscal 2015, we recorded a \$31.2 million after-tax loss on assets held for sale in discontinued operations.

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

	Eleven Months Ended		Twelve Months Ended	
	2015	2014	2014	2013
	(Unaudited)			
Net Sales	\$1,774,449	\$1,801,127	\$2,029,471	\$1,866,659
Cost of Sales	1,185,056	1,176,413	1,314,762	1,168,632
	589,393	624,714	714,709	698,027
Expenses				
Selling, general & administrative	346,781	323,957	361,190	364,149
Research, development and engineering	91,491	88,656	97,591	88,982
Restructuring charges	6,639	12,103	13,642	-
Gain on sale of product line	-	-	-	(2,264)
Goodwill impairment	-	-	-	3,454
Other income	(12,503)	-	-	-
Total Expenses	432,408	424,716	472,423	454,321
Operating Earnings from Continuing Operations	156,985	199,998	242,286	243,706
Interest Income	(578)	(501)	(555)	(535)
Interest Expense	30,090	29,986	33,010	39,637
Loss on Extinguishment of Debt	11,451	533	533	946
Earnings from Continuing Operations Before Income Taxes	116,022	169,980	209,298	203,658
Income Tax Expense	18,956	35,759	43,716	32,803
Earnings from Continuing Operations Including				
Noncontrolling Interests	97,066	134,221	165,582	170,855
Earnings Attributable to Noncontrolling Interests	(401)	(527)	(553)	(1,730)
Earnings from Continuing Operations Attributable to				
Esterline, Net of Tax	96,665	133,694	165,029	169,125
Loss from Discontinued Operations Attributable to				
Esterline, Net of Tax	(37,053)	(59,240)	(62,611)	(4,391)
Net Earnings Attributable to Esterline	\$59,612	\$74,454	\$102,418	\$164,734
Earnings (Loss) Per Share Attributable to Esterline - Basic:				

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

Continuing operations	\$3.15	\$4.20	\$5.19	\$5.42
Discontinued operations	(1.21	) (1.86	) (1.97	) (0.14
Earnings (Loss) Per Share Attributable to Esterline -				
Basic	\$1.94	\$2.34	\$3.22	\$5.28
Earnings (Loss) Per Share Attributable to Esterline - Diluted:				
Continuing operations	\$3.10	\$4.12	\$5.09	\$5.33
Discontinued operations	(1.19	) (1.83	) (1.93	) (0.14
Earnings (Loss) Per Share Attributable to Esterline -				
Diluted	\$1.91	\$2.29	\$3.16	\$5.19

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In Thousands, Except Share and Per Share Amounts

As of October 2, 2015 and October 31, 2014	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 191,355	\$ 238,144
Accounts receivable, net of allowances of \$10,050 and \$10,023	380,748	379,889
Inventories	446,768	433,595
Income tax refundable	12,575	5,266
Deferred income tax benefits	41,082	48,679
Prepaid expenses	23,008	20,336
Other current assets	5,427	2,149
Current assets of businesses held for sale	27,851	41,446
Total Current Assets	1,128,814	1,169,504
Property, Plant and Equipment		
Land	28,361	29,940
Buildings	225,237	225,594
Machinery and equipment	475,719	465,926
	729,317	721,460
Accumulated depreciation	419,918	402,118
	309,399	319,342
Other Non-Current Assets		
Goodwill	1,041,991	1,071,786
Intangibles, net	452,040	471,377
Debt issuance costs, net of accumulated amortization of \$662 and \$5,743	8,467	4,295

Deferred income tax benefits	28,979	71,307
Other assets	12,423	14,179
Non-current assets of businesses held for sale	24,917	71,677
Total Assets	\$ 3,007,030	\$ 3,193,467

See Notes to Consolidated Financial Statements.

As of October 2, 2015 and October 31, 2014	2015	2014
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 117,976	\$ 115,284
Accrued liabilities	259,734	262,536
Current maturities of long-term debt	13,589	12,774
Deferred income tax liabilities	11	1,773
Federal and foreign income taxes	2,393	1,571
Current liabilities of businesses held for sale	17,106	14,191
Total Current Liabilities	410,809	408,129
Long-Term Liabilities		
Credit facilities	160,000	100,000
Long-term debt, net of current maturities	707,786	509,720
Deferred income tax liabilities	73,849	149,165
Pension and post-retirement obligations	75,019	62,693
Other liabilities	29,367	46,884
Non-current liabilities of businesses held for sale	2,409	18,876
Shareholders' Equity		
Common stock, par value \$.20 per share, authorized 60,000,000 shares,		
issued 32,378,185 and 32,123,717 shares	6,476	6,425
Additional paid-in capital	682,479	655,723
Treasury stock at cost, repurchased 2,831,350 and 269,228 shares	(289,780)	(30,262)
Retained earnings	1,447,120	1,387,508
Accumulated other comprehensive loss	(308,828)	(131,577)
Total Esterline shareholders' equity	1,537,467	1,887,817
Noncontrolling interests	10,324	10,183
Total Shareholders' Equity	1,547,791	1,898,000
Total Liabilities and Shareholders' Equity	\$3,007,030	\$3,193,467

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In Thousands

	Eleven Months Ended		Twelve Months Ended	
	2015	2014	2014	2013
	(Unaudited)			
Cash Flows Provided (Used) by Operating Activities				
Net earnings including noncontrolling interests	\$60,013	\$ 74,981	\$102,971	\$166,464
Adjustments to reconcile net earnings including				
noncontrolling interests to net cash provided (used)				
by operating activities:				
Depreciation and amortization	90,575	112,849	116,027	112,132
Deferred income taxes	(17,976)	(14,704)	(14,893)	(21,812)
Share-based compensation	10,771	11,709	13,044	9,575
Loss (gain) on disposal of capital assets	-	3,174	3,174	(2,303)
Gain on release of non-income tax liability	(15,656)	-	-	-
Goodwill impairment	-	-	-	3,454
Loss on assets held for sale	31,154	49,472	49,472	-
Working capital changes, net of effect of acquisitions:				
Accounts receivable	10,188	9,555	(17,375)	5,015
Inventories	(7,746)	(37,086)	(21,491)	(28,317)
Prepaid expenses	(4,268)	(3,618)	(3,237)	3,604
Other current assets	(3,567)	787	1,009	(1,558)
Accounts payable	(10,476)	(17,059)	1,341	9,008
Accrued liabilities	10,880	(4,991)	13,461	(3,120)
Federal and foreign income taxes	(12,821)	(9,875)	(11,175)	3,179
Other liabilities	8,994	(15,336)	(13,852)	(7,602)
Other, net	(5,770)	2,004	(2,112)	3,053
	144,295	161,862	216,364	250,772
Cash Flows Provided (Used) by Investing Activities				
Purchase of capital assets	(49,341)	(39,638)	(45,678)	(55,335)
Proceeds from sale of discontinued operations	30,156	-	-	-
Proceeds from sale of capital assets	1,592	-	572	2,303
Acquisition of business, net of cash acquired	(155,975)	(44,745)	(44,745)	(40,689)
	(173,568)	(84,383)	(89,851)	(93,721)

	Eleven Months Ended		Twelve Months	
	2015	2014	2014	2013
	(Unaudited)			
Cash Flows Provided (Used) by Financing Activities				
Proceeds provided by stock issuance under employee				
stock plans	14,063	28,705	31,215	22,854
Excess tax benefits from stock option exercises	1,973	6,450	7,090	2,961
Shares repurchased	(259,518)	(20,523)	(30,262)	-
Repayment of long-term credit facilities	(405,000)	(55,000)	(55,000)	(110,000)
Repayment of long-term debt	(416,827)	(23,800)	(35,810)	(235,428)
Proceeds from issuance of long-term credit facilities	465,000	25,000	25,000	175,000
Proceeds from issuance of long-term debt	606,532	-	-	-
Proceeds from government assistance	3,007	3,360	3,337	5,092
Dividends paid to noncontrolling interests	-	(780)	(778)	(1,048)
Debt and other issuance costs	(8,263)	-	-	(454)
	967	(36,588)	(55,208)	(141,023)
Effect of Foreign Exchange Rates on Cash and Cash				
Equivalents	(18,483)	(6,818)	(12,339)	2,475
Net Increase (Decrease) in Cash and Cash Equivalents	(46,789)	34,073	58,966	18,503
Cash and Cash Equivalents - Beginning of Year	238,144	179,178	179,178	160,675
Cash and Cash Equivalents - End of Year	\$ 191,355	\$ 213,251	\$ 238,144	\$ 179,178
Supplemental Cash Flow Information:				
Cash paid for interest	\$ 26,638	\$ 27,157	\$ 28,593	\$ 38,376
Cash paid for taxes	34,550	56,172	65,147	43,842
Supplemental Non-cash Investing and Financing Activities:				
Capital asset and lease obligation additions	\$-	\$ 2,753	\$ 2,753	\$ 11,691

See Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity,

Noncontrolling Interests and Comprehensive Income (Loss)

In Thousands, Except Per Share Amounts

	Eleven Months Ended 2015	Twelve Months Ended 2014	2013
Common Stock, Par Value \$.20 Per Share			
Beginning of year	\$6,425	\$6,288	\$6,174
Shares issued under employee stock plans	51	137	114
End of year	6,476	6,425	6,288
Additional Paid-in Capital			
Beginning of year	655,723	604,511	569,235
Shares issued under employee stock plans	15,985	38,168	25,701
Share-based compensation expense	10,771	13,044	9,575
End of year	682,479	655,723	604,511
Treasury Stock			
Beginning of year	(30,262)	-	-
Shares repurchased	(259,518)	(30,262)	-
End of year	(289,780)	(30,262)	-
Retained Earnings			
Beginning of year	1,387,508	1,285,090	1,120,356
Net earnings	59,612	102,418	164,734
End of year	1,447,120	1,387,508	1,285,090
Accumulated Other Comprehensive Income (Loss)			
Beginning of year	(131,577)	(22,284)	(85,284)
Change in fair value of derivative financial instruments, net of			
tax benefit of \$2,147, \$3,534 and \$913	(6,616)	(8,793)	(3,119)
Change in pension and post-retirement obligations, net of			
tax benefit (expense) of \$3,703, \$2,041 and \$(22,897)	(5,796)	(3,968)	42,994
Foreign currency translation adjustment	(164,839)	(96,532)	23,125
End of year	(308,828)	(131,577)	(22,284)
Noncontrolling Interests			
Beginning of year	10,183	11,147	10,054
Net changes in equity attributable to noncontrolling interest	141	(964)	1,093
End of year	10,324	10,183	11,147

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

Total Shareholders' Equity	\$1,547,791	\$1,898,000	\$1,884,752
Comprehensive Income (Loss)			
Net earnings	\$59,612	\$102,418	\$164,734
Change in fair value of derivative financial instruments, net of tax	(6,616)	(8,793)	(3,119)
Change in pension and post-retirement obligations, net of tax	(5,796)	(3,968)	42,994
Foreign currency translation adjustment	(164,839)	(96,532)	23,125
Comprehensive Income (Loss)	\$(117,639)	\$(6,875)	\$227,734

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.

On June 5, 2014, the Company's board of directors authorized a change in the Company's fiscal year end to the last Friday of September from the last Friday in October effective beginning with the year-ended on September 30, 2016. As a result, the Company's current fiscal period was shortened from twelve months to an eleven-month transition period ended on October 2, 2015. The Company reported its fourth fiscal quarter as a two-month transition period ended October 2, 2015. Thereafter, the Company will file its annual report for each twelve-month period ending the last Friday of September of each year, beginning with the twelve-month period ending September 30, 2016.

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. Sales directly to the U.S. government or indirectly through subcontractors to the U.S. government account for approximately 19% and 18% of sales in fiscal 2015 and 2014, respectively. Accordingly, the Company's current and future financial performance is dependent on the economic condition of the aerospace and defense industry. The commercial aerospace and defense markets have 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 balanced across its customer base, which includes not only aerospace and defense customers but also medical and industrial commercial customers.

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

collectability 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. When change orders have been approved by both the company and the customer for both scope and price and realization is deemed probable, the original contract price is adjusted and revenues are recognized on contract performance (as determined by the achievement of contractual milestones and the cost-to-cost method). For partially approved change orders, costs attributable to unpriced change orders are treated as costs of the contract performance in the period the costs are incurred. Claims are also recognized as contract revenue when approved by both the company and the customer, based on contract performance.

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 from time to time 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 \$859.0 million and \$639.4 million at the end of fiscal 2015 and 2014, 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, and the United Kingdom, and accordingly, the Company 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, in general with maturities up to 23 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 periods ended October 2, 2015. At October 2, 2015, and October 31, 2014, the notional value of foreign currency forward contracts accounted for as a cash flow hedge was \$306.4 million and \$283.0 million, respectively. The fair value of these contracts was a liability of \$23.3 million and a \$14.6 million liability at October 2, 2015, and October 31, 2014, respectively. The Company does not enter into any forward contracts for trading purposes.

In April 2015, the Company issued €330.0 million in 3.625% Senior Notes due April 2023 (2023 Notes) and requiring semi-annual interest payments in April and October each year until maturity. The Company designated the 2023 Notes and accrued interest as a hedge of the investment in certain foreign business units. The foreign currency gain or loss that is effective as a hedge is reported as a component of other comprehensive income (loss) 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 since inception of the hedge.

In July 2011, the Company entered into a Euro Term Loan for €125.0 million under the secured credit facility. The Company designated the Euro Term Loan a hedge of the investment in a certain French business unit. The foreign currency gain or loss that is effective as a hedge is reported as a component of accumulated 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 has been no ineffectiveness since inception of the hedge. In the third fiscal quarter of 2014, the Company paid off the remaining balance of the Euro Term Loan. As a result, the Company recorded a net loss of \$0.5 million on extinguishment of debt in fiscal 2014.

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, a 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.

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.

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 \$(226.0) million, \$(61.1) million, and \$35.4 million as of the fiscal period ended October 2, 2015, October 31, 2014, and October 25, 2013, 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 \$1.3 million loss in fiscal 2015, a \$0.9 million gain in fiscal 2014, and a \$1.7 million loss in fiscal 2013.

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.

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 \$45.0 million, \$56.2 million, and \$55.4 million for fiscal 2015, 2014, and 2013, respectively. Depreciation expense included in discontinued operations was \$0.3 million, \$5.0 million and \$5.0 million in fiscal 2015, 2014, and 2013, respectively. Assets under capital leases were \$40.7 million, \$43.1 million, and \$47.1 million for fiscal 2015, 2014, and 2013, respectively. 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 undiscounted 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.

Assets of Business Held for Sale

Assets held for sale are to be reported at lower of its carrying amount or fair value less cost to sell. Judgment is required in estimating the sales price of assets held for sale and the time required to sell the assets. These estimates are based upon available market data and operating cash flows of the assets held for sale.

Contingencies

The Company is party to various lawsuits and claims, both as plaintiff and defendant, and has contingent liabilities arising from the conduct of business. The Company is covered by insurance for general liability, product liability, workers' compensation

and certain environmental exposures, subject to certain deductible limits. The Company is 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. The Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

Goodwill and Intangibles

Goodwill is not amortized, but is tested for impairment at least annually or when circumstances require. 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. Amortization expense is reflected in selling, general and administrative expense on the Consolidated Statement of Operations. 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 known 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.

Legal Expenses

The Company recognizes legal costs related to loss contingencies when the expense is incurred.

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 and restricted stock units. Common shares issuable from stock options that are excluded from the calculation of diluted earnings per share because they were anti-dilutive were 409,050, 136,200, and 162,100 for fiscal 2015, 2014, and 2013, respectively. The weighted average number of shares

outstanding used to compute basic earnings per share was 30,729,000, 31,840,000, and 31,173,000 for fiscal years 2015, 2014, and 2013, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 31,215,000, 32,448,000, and 31,738,000 for fiscal years 2015, 2014, and 2013, respectively. The weighted average number of shares outstanding used to compute basic and diluted earnings per share were 31,839,000 and 32,443,000 for the eleven-month ended fiscal 2014, respectively.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued guidance that modifies the criteria used to qualify divestitures for classification as discontinued operations and expands disclosure related to disposals of significant components. The amendment will become effective for the Company in fiscal 2016, with early adoption permitted; however, the Company did not early adopt the amended guidance. The amended guidance is expected to decrease the likelihood that future disposals will qualify for discontinued operations treatment, meaning that the results of operation of some future disposals may be reported as continuing operations.

In May 2014, FASB amended requirements for an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted. The updated standard becomes effective for the Company in the first fiscal quarter of 2019. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on consolidated financial statements and related disclosures.

In April 2015, FASB amended requirements related to the presentation of debt issuance costs. The updated standard requires debt issuance costs related to recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. The recognition and measurement of debt issuance costs are not affected by this amendment. The updated standard is effective for the Company in the first fiscal quarter of 2016. The Company does not expect that the standard will have a material impact on its consolidated financial statements and related disclosures.

NOTE 2: Inventories

Inventories at the end of fiscal 2015 and 2014 consisted of the following:

In Thousands	2015	2014
Raw materials and purchased parts	\$ 169,153	\$ 165,839
Work in progress	162,434	160,884
Inventory costs under long-term contracts	18,753	17,470
Finished goods	96,428	89,402
	\$446,768	\$433,595

NOTE 3: Goodwill

The following table summarizes the changes in goodwill by segment for fiscal 2015 and 2014:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Balance, October 25, 2013	\$464,703	\$449,483	\$214,791	\$1,128,977
Goodwill from acquisitions	-	17,741	-	17,741
Goodwill adjustments	-	(1,427)	-	(1,427)
Goodwill write off on assets held for sale	(6,333)	(8,702)	(7,427)	(22,462)
Foreign currency translation adjustment	(18,355)	(31,742)	(946)	(51,043)
Balance, October 31, 2014	440,015	425,353	206,418	1,071,786
Goodwill from acquisitions	48,537	-	-	48,537
Goodwill adjustments	(841)	(3,295)	-	(4,136)
Goodwill write off on assets held for sale	(2,043)	-	-	(2,043)
Foreign currency translation adjustment	(35,069)	(34,351)	(2,733)	(72,153)
Balance, October 2, 2015	\$450,599	\$387,707	\$203,685	\$1,041,991

On September 3, 2014, the Board of Directors approved a plan to sell certain non-core business units. These business units are reported as discontinued operations. Based upon the estimated fair values, the Company recorded an estimated after-tax loss of \$49.5 million in fiscal 2014 on the assets held for sale in discontinued operations, of which \$22.5 million was recorded against goodwill. In fiscal 2015, based upon the estimated fair values, the Company recorded and estimated after-tax loss of \$31.2 million on the assets held for sale in discontinued operations, of which \$2.0 million was recorded against goodwill.

NOTE 4: Intangible Assets

Intangible assets at the end of fiscal 2015 and 2014 were as follows:

In Thousands	Weighted Average Years Useful Life	2015		2014	
		Gross Carrying Amount	Accum. Amort.	Gross Carrying Amount	Accum. Amort.
Amortized Intangible Assets:					
Programs	16	\$635,761	\$270,830	\$619,175	\$251,199
Core technology	12	15,926	10,273	15,926	8,893
Patents and other	12	87,506	45,402	95,459	42,874
Total		\$739,193	\$326,505	\$730,560	\$302,966
Indefinite-lived Intangible Assets:					
Trademark		\$39,352		\$43,783	

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. The valuation of the program is based upon its discounted cash flow at a market-based discount rate.

Amortization of intangible assets from continuing operations was \$44.0 million, \$49.4 million, and \$46.1 million in fiscal years 2015, 2014, and 2013, respectively. Amortization of intangible assets related to discontinued operations was \$9.1 million and \$8.9 million in fiscal years 2014 and 2013, respectively.

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

In Thousands

Fiscal Year

2016	\$47,763
2017	47,018
2018	46,231
2019	44,718
2020	42,432

54

NOTE 5: Accrued Liabilities

Accrued liabilities at the end of fiscal 2015 and 2014 consisted of the following:

In Thousands	2015	2014
Payroll and other compensation	\$107,912	\$123,317
Commissions	5,373	5,014
Casualty and medical	14,881	14,027
Interest	6,999	7,006
Warranties	14,658	16,243
State and other tax accruals	3,986	6,811
Customer deposits	32,566	19,624
Deferred revenue	19,647	23,522
Contract reserves	13,008	11,260
Forward foreign exchange contracts	20,932	15,505
Litigation reserves	6,657	5,534
Environmental reserves	646	650
Rent and future lease obligations	1,958	1,251
Other	10,511	12,772
	\$259,734	\$262,536

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	2015	2014
Balance, beginning of year	\$16,243	\$19,372
Warranty costs incurred	(1,917)	(3,074)
Reclassification to liabilities held for sale	(108)	(858)
Product warranty accrual	7,762	8,185
Release of reserves	(6,702)	(6,371)
Acquisitions	1,024	-
Foreign currency translation adjustment	(1,644)	(1,011)
Balance, end of year	\$14,658	\$16,243

NOTE 6: Retirement Benefits

Approximately 41% 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 for 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 Electronics, Inc. (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 sponsors a number of other non-U.S. defined benefit pension plans primarily in Belgium, France and Germany. These defined benefit plans generally provide benefits to employees based on formulas recognizing length of service and earnings.

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 \$275.8 million and \$287.5 million, respectively, with plan assets of \$253.9 million as of October 2, 2015. The underfunded status for the Esterline plans is \$33.6 million at October 2, 2015. Contributions to the Esterline plans totaled \$1.2 million and \$13.3 million in fiscal years 2015 and 2014, respectively. There is no funding requirement for fiscal 2016 for the U.S. pension plans maintained by Esterline.

The accumulated benefit obligation and projected benefit obligation for the CMC plans are \$123.2 million and \$124.1 million, respectively, with plan assets of \$119.5 million as of October 2, 2015. The underfunded status for these CMC plans is \$4.6 million at October 2, 2015. Contributions to the CMC plans totaled \$6.3 million and \$7.5 million in fiscal 2015 and 2014, respectively. The expected funding requirement for fiscal 2016 for the CMC plans is \$6.2 million.

The accumulated benefit obligation and projected benefit obligation for the other non-U.S. plans are \$34.1 million and \$41.7 million, respectively, with plan assets of \$16.1 million as of October 2, 2015. The underfunded status for these other non-U.S. plans is \$25.6 million at October 2, 2015. Contributions to the other non-U.S. plans totaled \$1.7 million and \$2.7 million in fiscal 2015 and 2014, respectively. The expected funding requirement for fiscal 2016 for the other non-U.S. plans is \$0.5 million.

Principal assumptions of the Esterline, CMC and Other Non-U.S. plans are as follows:

	Esterline Defined Benefit Pension Plans		CMC Defined Benefit Pension Plans		Other Non-U.S. Defined Benefit Pension Plans	
	2015	2014	2015	2014	2015	2014
Principal assumptions as of year end:						
Discount rate	4.40%	4.25%	4.00%	4.10%	1.80 - 8.25%	2.00 - 8.75%
Rate of increase in future compensation levels	4.22%	4.21%	3.00%	3.00%	4.50 - 8.90%	4.50 - 8.83%
Assumed long-term rate of return on plan assets	7.00%	7.00%	5.70%	6.35%	3.25 - 8.00%	3.25 - 8.00%

	Esterline Post-Retirement Pension Plans		CMC Post-Retirement Pension Plans	
	2015	2014	2015	2014
Principal assumptions as of year end:				
Discount rate	4.40%	4.25%	4.00%	4.10%
Initial weighted average health care trend rate	6.00%	6.00%	3.70%	6.20%
Ultimate weighted average health care trend rate	6.00%	6.00%	3.10%	4.20%

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 \$13.2 million or increased \$13.8 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2015 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 2016.

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 \$1.3 million. A 100 basis points decrease in the health care trend rate would decrease the post-retirement benefit obligation by \$1.2 million. Assuming all other assumptions are held constant, the estimated effect on fiscal 2015 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, the 3.25% to 8.00% assumed long-term rate of return on plan assets is considered to be appropriate. Allocations by investment type are as follows:

	Target	Actual	
		2015	2014
Plan assets allocation as of fiscal year end:			
Equity securities	55 - 75%	56.8 %	62.2 %
Debt securities	25 - 45%	38.2 %	35.7 %
Cash	0%	5.0 %	2.1 %
Total		100.0%	100.0%

The following table presents the fair value of the Company's Pension Plan assets as of October 2, 2015, by asset category segregated by level within the fair value hierarchy, as described in Note 7.

In Thousands	Fair Value Hierarchy		
	Level 1	Level 2	Total
Asset category:			
Equity Funds:			
Registered Investments Company Funds - U.S. Equity	\$95,481	\$-	\$95,481
Commingled Trust Funds - U.S. Equity	-	25,307	25,307
U.S. Equity Securities	30,868	-	30,868
Non-U.S. Equity Securities	20,898	-	20,898
Commingled Trust Funds - Non-U.S. Securities	-	48,592	48,592
Fixed Income Securities:			
Commingled Trust Funds - Fixed Income	-	80,424	80,424
Non-U.S. Foreign Commercial and Government Bonds	68,390	-	68,390
Cash and Cash Equivalents	19,501	-	19,501
Total	\$235,138	\$154,323	\$389,461

The following table presents the fair value of the Company's Pension Plan assets as of October 31, 2014, by asset category segregated by level within the fair value hierarchy, as described in Note 7.

In Thousands	Fair Value Hierarchy		
	Level 1	Level 2	Total
Asset category:			
Equity Funds:			
Registered Investments Company Funds - U.S. Equity	\$117,014	\$-	\$117,014

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

Commingled Trust Funds - U.S. Equity	-	28,734	28,734
U.S. Equity Securities	35,276	-	35,276
Non-U.S. Equity Securities	22,457	-	22,457
Commingled Trust Funds - Non-U.S. Securities	-	62,418	62,418
Fixed Income Securities:			
Commingled Trust Funds - Fixed Income	-	87,078	87,078
Non-U.S. Foreign Commercial and Government Bonds	65,703	-	65,703
Cash and Cash Equivalents	8,794	-	8,794
Total	\$249,244	\$178,230	\$427,474

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 the 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 include 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			Post-Retirement Benefit Plans		
	2015	2014	2013	2015	2014	2013
Components of Net Periodic Cost						
Service cost	\$11,811	\$11,367	\$11,848	\$359	\$489	\$508
Interest cost	16,159	19,387	17,893	464	685	674
Expected return on plan assets	(23,872)	(25,999)	(22,476)	-	-	-
Contractual termination	-	94	-	-	-	-
Curtailment	-	23	-	-	(1,747)	-
Settlement	3,522	-	-	-	-	-
Amortization of prior service cost	404	107	384	(63)	(151)	(150)
Amortization of actuarial						
(gain) loss	5,165	6,052	14,255	-	38	103
Net periodic cost (benefit)	\$13,189	\$11,031	\$21,904	\$760	\$(686)	\$1,135

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

The funded status of the defined benefit pension and post-retirement plans at the end of fiscal 2015 and 2014 were as follows:

In Thousands	Defined Benefit Pension Plans		Post-Retirement Benefit Plans	
	2015	2014	2015	2014
Benefit Obligations				
Beginning balance	\$473,348	\$443,133	\$13,797	\$16,713
Currency translation adjustment	(23,642)	(13,285)	(1,923)	(1,230)
Service cost	11,811	11,367	359	489
Interest cost	16,159	19,387	464	685
Plan participants contributions	256	104	-	-
Amendment	3,407	-	-	-
Acquisitions	13,982	-	-	-
Contractual termination	-	94	-	-
Curtailment	-	(241)	-	(2,075)
Actuarial (gain) loss	(2,552)	37,423	(67)	(10)
Other adjustments	(1,096)	(1,615)	-	-
Benefits paid	(38,390)	(23,019)	(443)	(775)
Ending balance	\$453,283	\$473,348	\$12,187	\$13,797
Plan Assets - Fair Value				
Beginning balance	\$427,474	\$390,809	\$-	\$-
Currency translation adjustment	(19,977)	(10,144)	-	-
Realized and unrealized gain (loss) on plan assets	2,021	48,424	-	-
Plan participants contributions	256	104	-	-
Company contribution	9,185	23,524	443	776
Acquisitions	9,988	-	-	-
Other adjustments	-	(122)	-	-
Expenses paid	(1,096)	(2,102)	-	-
Benefits paid	(38,390)	(23,019)	(443)	(776)
Ending balance	\$389,461	\$427,474	\$-	\$-
Funded Status				
Fair value of plan assets	\$389,461	\$427,474	\$-	\$-
Benefit obligations	(453,283)	(473,348)	(12,187)	(13,797)
Net amount recognized	\$(63,822)	\$(45,874)	\$(12,187)	\$(13,797)
Amount Recognized in the Consolidated Balance Sheet				
Non-current asset	\$2,172	\$5,940	\$-	\$-
Current liability	(2,463)	(2,214)	(699)	(704)
Non-current liability	(63,531)	(49,600)	(11,488)	(13,093)
Net amount recognized	\$(63,822)	\$(45,874)	\$(12,187)	\$(13,797)
Amounts Recognized in Accumulated Other Comprehensive Income				
Net actuarial loss (gain)	\$96,073	\$89,266	\$232	\$339
Prior service cost	3,436	700	(17)	(80)

Ending balance	\$99,509	\$89,966	\$215	\$259
----------------	----------	----------	-------	-------

The accumulated benefit obligation for all pension plans was \$433.1 million at October 2, 2015, and \$458.9 million at October 31, 2014.

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

In Thousands

Fiscal Year

2016	\$25,801
2017	26,953
2018	28,375
2019	28,725
2020	29,805
2021 - 2025	162,097

Employees may participate in certain defined contribution plans. The Company's contribution expense under these plans totaled \$9.5 million, \$10.3 million, and \$9.4 million in fiscal 2015, 2014, and 2013, respectively. The Company contributes a matching amount that varies by participating company and employee group based on the first 6% of earnings contributed. The three formulas used are: 25% of the first 6%; or 50% of the first 6%; or 100% of the first 2% and 50% on the next 4%.

In fiscal 2014, the Company offered vested terminated participants in the Esterline plan a one-time opportunity to elect a lump-sum payment from the plan in lieu of a lifetime annuity. In the first fiscal quarter of 2015, the Company paid \$16.6 million in lump-sum payments to vested terminated pension plan participants from the plan, which resulted in an actuarial settlement charge of \$3.0 million. During the remainder of fiscal 2015, an additional \$1.4 million in lump-sum payments was distributed to cash balance participants under the ongoing terms of the plan, which resulted in an additional settlement charge of \$0.5 million in fiscal 2015.

NOTE 7: 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. A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value. An asset's 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.

60

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 the end of fiscal 2015 and 2014:

In Thousands	Level 2	
	2015	2014
Assets:		
Derivative contracts designated as hedging instruments	\$1,386	\$24
Derivative contracts not designated as hedging instruments	189	1,081
Embedded derivatives	3,992	2,351
Liabilities:		
Derivative contracts designated as hedging instruments	\$24,660	\$14,592
Derivative contracts not designated as hedging instruments	2,324	4,188
Embedded derivatives	380	15

In Thousands	Level 3	
	2015	2014
Liabilities:		
Contingent purchase obligation	\$3,750	\$5,000

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

The Company's derivative contracts consist of foreign currency exchange contracts and, from time to time, 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. These contracts are categorized as Level 2 in the fair value hierarchy.

The Company's contingent purchase obligations consist of additional contingent consideration in connection with the acquisition of Sunbank Family of Companies, LLC (Sunbank) of \$3.8 million as of October 2, 2015, and \$5.0 million as of October 31, 2014. The contingent considerations will be payable to the sellers if certain performance objectives are met following the acquisition in accordance with the terms of the purchase agreement. The values recorded on the balance sheet were derived from the estimated probability that the performance objectives will be met. The contingent purchase obligation is categorized as Level 3 in the fair value hierarchy.

NOTE 8: Derivative Financial Instruments

The Company may use 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 derivative instruments with credit-risk-

related contingent features or that required the posting of collateral as of October 2, 2015. The cash flows from derivative contracts are recorded in operating activities in the Consolidated Statement of Cash Flows.

Foreign Currency Forward Exchange Contracts

The Company transacts business in various foreign currencies which subjects the Company's cash flows and earnings to exposure related to changes in foreign currency exchange rates. These exposures arise primarily from purchases or sales of products and services from third parties. Foreign currency forward exchange contracts provide for the purchase or sale of foreign currencies at specified future dates at specified exchange rates, and are used to offset changes in the fair value of certain assets or liabilities or forecasted cash flows resulting from transactions denominated in foreign currencies. As of October 2, 2015, and October 31, 2014, the Company had outstanding foreign currency forward exchange contracts principally to sell U.S. dollars with notional amounts of \$402.9 million and \$396.2 million, respectively. These notional values consist primarily of contracts for the European euro, British pound sterling and Canadian dollar, and are stated in U.S. dollar equivalents at spot exchange rates at the respective dates.

Interest Rate Swaps

The Company manages its exposure to interest rate risk by maintaining an appropriate mix of fixed and variable rate debt, which over time should moderate the costs of debt financing. When considered necessary, the Company may use financial instruments in the form of interest rate swaps to help meet this objective.

Embedded Derivative Instruments

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.

Net Investment Hedge

In April 2015, the Company issued €330.0 million in 3.625% Senior Notes due April 2023 (2023 Notes) and requiring semi-annual interest payments in April and October each year until maturity. The Company designated the 2023 Notes and accrued interest as a hedge of the investment in certain foreign business units. The foreign currency gain or loss that is effective as a hedge is reported as a component of other comprehensive income (loss) 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 since inception of the hedge.

In July 2011, the Company entered into a Euro Term Loan for €125.0 million under the secured credit facility. The Company designated the Euro Term Loan a hedge of the investment in a certain French 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 has been no ineffectiveness since inception of the hedge. In the third fiscal quarter of 2014, the Company paid off the remaining balance of the Euro Term Loan. As a result, the Company recorded a net loss of \$0.5 million on extinguishment of debt in fiscal 2014.

Fair Value of Derivative Instruments

Fair values of derivative instruments in the Consolidated Balance Sheet at the end of fiscal 2015 and 2014 consisted of:

In Thousands	Classification	Fair Value	
		2015	2014
Foreign Currency Forward Exchange Contracts:			
	Other current assets	\$1,527	\$1,052
	Other assets	48	53
	Accrued liabilities	20,688	15,490
	Other liabilities	6,296	3,290
Embedded Derivative Instruments:			
	Other current assets	\$2,913	\$296
	Other assets	1,079	2,055
	Accrued liabilities	351	15
	Other liabilities	29	-

The effect of derivative instruments on the Consolidated Statement of Operations for fiscal 2015 and 2014 consisted of:

Fair Value Hedges

We recognized the following gains (losses) on contracts designated as fair value hedges:

In Thousands	2015	2014
Embedded derivatives:		
Gain (loss) recognized in sales	\$1,433	\$2,011

Cash Flow Hedges

We recognized the following gains (losses) on contracts designated as cash flow hedges:

In Thousands	2015	2014
Foreign currency forward exchange contracts:		
Gain (loss) recognized in AOCI (effective portion)	\$15,484	\$(6,245)
Gain (loss) reclassified from AOCI into sales	(24,246)	(6,083)

Net Investment Hedges

We recognized the following gains (losses) on contracts designated as net investment hedges:

In Thousands	2015	2014
Euro term loan:		
Gain (loss) recognized in AOCI	\$-	\$134
2023 Notes and Accrued Interest:		
Gain (loss) recognized in AOCI	\$(13,596)	\$-

During fiscal years 2015 and 2014, the Company recorded a loss of \$0.7 million and a loss of \$6.4 million on foreign currency forward exchange contracts that have not been designated as an accounting hedge, respectively. These foreign currency exchange gains (losses) are included in selling, general and administrative expense.

There was no significant impact to the Company's earnings related to the ineffective portion of any hedging instruments during fiscal years 2015 and 2014. In addition, there was no significant impact to the Company's earnings when a hedged firm commitment no longer qualified as a fair value hedge or when a hedged forecasted transaction no longer qualified as a cash flow hedge during fiscal years 2015 and 2014.

Amounts included in AOCI are reclassified into earnings when the hedged transaction settles. The Company expects to reclassify approximately \$17.8 million of net loss into earnings in fiscal year 2016. The maximum duration of a foreign currency cash flow hedge contract at October 2, 2015, is 23 months.

NOTE 9: Income Taxes

Income tax expense from continuing operations for each of the fiscal years consisted of:

In Thousands	2015	2014	2013
Current			
U.S. Federal	\$11,045	\$27,243	\$25,716
State	492	1,732	3,978
Foreign	24,131	28,944	24,044
	35,668	57,919	53,738
Deferred			
U.S. Federal	(7,686)	(1,024)	(2,257)
State	(195)	(10)	(1,563)
Foreign	(8,831)	(13,169)	(17,115)
	(16,712)	(14,203)	(20,935)
Income tax expense	\$18,956	\$43,716	\$32,803

U.S. and foreign components of earnings from continuing operations before income taxes for each of the fiscal years were:

In Thousands	2015	2014	2013
U.S.	\$43,592	\$101,803	\$97,902
Foreign	72,430	107,495	105,756
Earnings from continuing operations before income taxes	\$116,022	\$209,298	\$203,658

Primary components of the Company's deferred tax assets (liabilities) at the end of the fiscal years resulted from temporary tax differences associated with the following:

In Thousands	2015	2014
Reserves and liabilities	\$48,918	\$55,906
Loss carryforwards	49,667	261
Tax credit carryforwards	32,015	31,082
Employee benefits	12,316	13,086
Retirement benefits	17,055	10,431
Non-qualified stock options	11,908	11,063
Hedging activities	6,092	5,091
Other	2,176	856

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form 10-KT

Total deferred tax assets	180,147	127,776
Less valuation allowance	(42,694)	(151)
Total deferred tax assets, net of valuation allowance	137,453	127,625
Depreciation and amortization	(9,352)	(15,925)
Intangibles and amortization	(124,941)	(136,116)
Deferred costs	(5,779)	(5,453)
Other	(1,180)	(1,083)
Total deferred tax liabilities	(141,252)	(158,577)
Net deferred tax liabilities	\$(3,799)	\$(30,952)

The tax credit carryforwards can be carried forward indefinitely.

The Company operates in numerous taxing jurisdictions and is subject to regular examinations by various U.S. federal, state and foreign jurisdictions for various tax periods. Additionally, the Company has retained tax liabilities and the rights to tax refunds in connection with various acquisitions and divestitures of businesses in prior years. The Company's income tax positions are based on research and interpretations of income tax laws and rulings in each of the jurisdictions in which the Company does business. Due to the subjectivity and complexity of the interpretations of the tax laws and rulings in each

jurisdiction, the differences and interplay in the tax laws between those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company's estimates of income tax liabilities and assets may differ from actual payments, assessments or refunds.

Management believes that it is more likely than not that the Company will realize the current and long-term deferred tax assets as a result of future taxable income. Significant factors management considered in determining the probability of the realization of the deferred tax assets include expected future earnings, the Company's historical operating results, and the reversal of deferred tax liabilities. Accordingly, no valuation allowance has been recorded on the deferred tax assets other than certain capital and net operating losses. The majority of the losses will expire in fiscal 2020.

U.S. and various state and foreign income tax returns are open to examination, and presently there are foreign income tax returns under examination. Such examinations could result in challenges to tax positions taken, and accordingly, the Company may record adjustments to provisions based on the outcomes of such matters. However, the Company believes that the resolution of these matters, after considering amounts accrued, will not have a material adverse effect on its consolidated financial statements.

The incremental tax benefit received by the Company upon exercise of non-qualified employee stock options was \$2.0 million, \$7.1 million, and \$3.0 million in fiscal years 2015, 2014, and 2013, respectively.

A reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate for each of the fiscal years was as follows:

	2015	2014	2013
U.S. statutory income tax rate	35.0 %	35.0 %	35.0 %
Foreign taxes	-10.7 %	-7.6 %	-8.2 %
Difference in foreign tax rates	-5.2 %	-4.4 %	-3.8 %
Research & development credits	-5.1 %	-2.5 %	-4.3 %
Non-deductible under consent agreement	2.2 %	0.4 %	1.7 %
Domestic manufacturing deduction	-0.7 %	-1.3 %	-1.3 %
Net change in tax reserves	-0.2 %	0.1 %	-3.0 %
State income taxes	0.2 %	0.5 %	0.6 %
Change in foreign tax rates and laws	0.0 %	0.0 %	-1.5 %
Goodwill impairment	0.0 %	0.0 %	0.4 %
Other, net	0.8 %	0.7 %	0.6 %
Effective income tax rate	16.3 %	20.9 %	16.2 %

No provision for federal income taxes has been made on accumulated earnings of foreign subsidiaries, since such earnings are considered indefinitely reinvested. The amount of undistributed foreign earnings which are considered to be indefinitely reinvested at October 2, 2015, is approximately \$526.0 million. Furthermore, the Company determined it was not practical to estimate the deferred taxes on these earnings. The amount of deferred income taxes is not practical to compute due to the complexity of the Company's international holding company structure, layers of regulatory requirements that have to be evaluated to determine the amount of allowable dividends, numerous potential repatriation scenarios that could be created to facilitate the repatriation of earnings to the U.S., and the complexity of computing foreign tax credits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

In Thousands	
Unrecognized tax benefits as of October 31, 2014	\$ 11,227
Unrecognized gross benefit change:	
Gross increase due to prior period adjustments	672
Gross increase due to current period adjustments	743
Gross decrease due to a lapse with taxing authorities	(2,059)
Total change in unrecognized gross benefit	(644)
Unrecognized tax benefits as of October 2, 2015	\$ 10,583
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	\$ 10,583
Statement of operations:	
Total amount of interest income (expense)	\$(37)

included in
income tax
expense

Recognized in
the statement
of financial
position:
Total amount
of accrued
interest
included in
income taxes
payable \$891

During the next 12 months, it is reasonably possible that approximately \$0.9 million of previously unrecognized tax benefits related to operating losses and tax credits could decrease as a result of settlement of examinations and/or the expiration of statutes of limitations. The Company recognizes interest related to unrecognized tax benefits in income tax expense.

The Company is no longer subject to income tax examinations by tax authorities in its major tax jurisdictions as follows:

Tax Jurisdiction	Years No Longer Subject to Audit
U.S. Federal	2011 and prior
Canada	2007 and prior
France	2011 and prior
United Kingdom	2012 and prior

NOTE 10: Debt

Long-term debt at the end of fiscal 2015 and 2014 consisted of the following:

In Thousands	2015	2014
U.S. credit facility	\$160,000	\$100,000
U.S. Term Loan, due July 2016	-	161,875
U.S. Term Loan, due April 2020	250,000	