MOOG INC
Form 10-K
November 27, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

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

For the fiscal year ended **September 29, 2007**

OR

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

For the transition period from _____ to _____ Commission file number **1-5129**

(Exact Name of Registrant as Specified in its Charter)

New York	**16-0757636**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
East Aurora, New York	**14052-0018**
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $1.00 Par Value	New York Stock Exchange
Class B Common Stock, $1.00 Par Value	New York Stock Exchange

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

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

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

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

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

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

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

The aggregate market value of the common stock outstanding and held by non-affiliates (as defined in Rule 405 under the Securities Act of 1933) of the registrant, based upon the closing sale price of the common stock on the New York Stock Exchange on March 30, 2007, the last business day of the registrant s most recently completed second quarter, was approximately $1,536 million.

The number of shares of common stock outstanding as of the close of business on November 23, 2007 was:
Class A 38,330,731; Class B 4,116,950.

Portions of the 2007 Proxy Statement to Shareholders (2007 Proxy) are incorporated by reference into Part III of this Form 10-K.

FORM 10-K INDEX

EX-31.2
EX-32.1

Cautionary Statement

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

Table of Contents

PART I

The Registrant, Moog Inc., a New York corporation formed in 1951, is referred to in this Annual Report on Form 10-K as Moog or in the nominative we or the possessive our.

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

Item 1. Business.

Description of the Business. Moog is a worldwide designer, manufacturer and integrator of precision control components and systems. Moog s high-performance systems control military and commercial aircraft, satellites and space vehicles, launch vehicles, missiles, automated industrial machinery and medical equipment. We have five operating segments: Aircraft Controls, Space and Defense Controls, Industrial Systems, Components and Medical Devices.

Comparative segment revenues, operating profits and related financial information for 2007, 2006 and 2005 are provided in Note 15 of Item 8, Financial Statements and Supplementary Data, on pages 89 through 92 of this report.

Aircraft Controls. Our largest segment is Aircraft Controls. This segment generates revenues from three major markets: military aircraft, commercial aircraft and aftermarket support. We differentiate ourselves in these markets by offering a complete range of technologies, system integration capabilities and superior customer service.

We design, manufacture and integrate primary and secondary flight controls for military and commercial aircraft and provide aftermarket support. Our systems control large commercial transports, supersonic fighters, multi-role military aircraft, business jets and rotorcraft. Sales volume and margins in these markets are influenced by major factors that include whether the programs we are working on are in development or the number of new aircraft being built in production.

Typically, development programs require concentrated periods of research and development by our engineering teams and involve design, development, testing and integration. Production programs are generally long-term manufacturing efforts that extend for as long as the aircraft builder receives new orders. Margins are better on production programs because more consistent shipment rates create efficiencies. Revenues on production programs usually exhibit predictable trends driven by the demand for new aircraft. We are currently working on several large development programs including the F-35 Joint Strike Fighter, Boeing 787 Dreamliner, Indian Light Combat Aircraft, Airbus A400M and Boeing s extended range 747-8. Our large military production programs include the F/A-18E/F Super Hornet and the V-22 Osprey. Our large commercial production programs include the full line of Boeing 7-series aircraft. Aftermarket support is the result of our original equipment heritage. With our equipment flying on active aircraft around the world, we support the major commercial airlines globally, various U.S. government agencies and many of the U.S. s overseas allies. This part of our business is partially affected by hours flown for commercial transports and by hours flown and environmental factors for military aircraft. However, the largest factors in our aftermarket business are our ability to respond to customers needs for rapid turnaround times and their desire for factory warranted parts and repairs.

Aircraft Controls customers include Boeing, Lockheed Martin, Airbus, BAE, Bombardier, Gulfstream, Hawker Beechcraft, Honeywell, Northrop Grumman and the U.S. Government.

In Aircraft Controls, principal competitors include Parker Hannifin, Nabtesco, GE, Goodrich, Liebherr, HR Textron, Curtiss-Wright and Hamilton Sundstrand.

Space and Defense Controls. Space and Defense Controls has several important markets that generate segment revenues such as satellites and space vehicles, defense controls, launch vehicles, strategic missiles, missile defense and tactical missiles. As a result of the 2007 acquisition of QuickSet International, Inc., we have accelerated business development in the homeland defense market. We differentiate ourselves in these markets by having unique competence in the most difficult applications, complex motion and fluid control systems technology, innovative design and comprehensive project management capabilities.

For the commercial and military satellite markets, we design, manufacture and integrate chemical and electric propulsion systems and space flight motion controls. We design and manufacture control systems for gun positioning and to automatically load ammunition on military combat vehicles. Launch vehicles and missiles use our steering and

propulsion controls, and the Space Station uses our couplings, valves and actuators. We design and build steering and propulsion controls for tactical and strategic missile programs. We supply valves on the final stage kill vehicle used in the U.S. National Missile Defense development initiative.

Table of Contents

Commercial satellites and launcher markets are influenced by the telecommunications companies needs for capacity and the age and condition of their existing satellites. Orders for military satellites and launchers depend on the need for bandwidth. Defense controls revenues are driven mostly by U.S. and European military spending priorities. Tactical and strategic missile production depends on customer inventory levels. NASA s various space programs and new exploration initiatives, such as the Constellation Program to replace the Space Shuttle, depend on relevant funding from NASA.

Customers include Alliant Techsystems, Lockheed Martin, Astrium, Raytheon, General Dynamics, United Technologies Pratt & Whitney Rocketdyne, Aerojet, DRS Technologies and Boeing.

In Space and Defense Controls, principal competitors include Honeywell, HR Textron, Parker Hannifin, MPC, Vacco, Valvetech, Marotta, Ketema, Starsys, Sabca, Curtiss-Wright, ESW, Ampac ISP, Aerojet, Valcor, Aeroflex, Oerliken, Hamilton Sundstrand, Limitorque, R Vision and Axys Technologies.

Industrial Systems. Industrial Systems is a diverse segment, serving customers around the world and in many markets. Six major markets, plastics making machinery, simulation, power generating turbines, test, metal forming and heavy industry, generate over 60% of total sales in this segment. We differentiate ourselves in industrial markets by providing performance-based, customized products and systems, process expertise, best-in-class products in every leading technology and superior aftermarket support.

For the plastics making machinery market, we design, manufacture and integrate systems for all axes of injection and blow molding machines using leading edge technology, both hydraulic and electric. We supply electromechanical motion simulation bases for the flight simulation and training markets. In the power generation turbine market, we design, manufacture and integrate complete control assemblies for fuel, steam and variable geometry control applications that include wind turbines. For the test markets, we supply controls for automotive, structural and fatigue testing. Metal forming markets use our designed and manufactured systems that provide precise control of position, velocity, force, pressure, acceleration and other critical parameters. Heavy industry uses our high precision electrical and hydraulic servovalves for steel and aluminum mill equipment. Other markets include oil exploration, material handling, auto racing, carpet tufting, paper mills and lumber mills.

The factors that influence the industrial markets are as varied as the markets themselves. Capital investment, product innovation, economic growth, cost-reduction efforts, technology upgrades and the need in developing countries for manufacturing capacity and power generation are among the most important drivers in this segment. Catalysts for growth include automotive manufacturers that are upgrading their metal forming, injection molding and material test capabilities, steel manufacturers that are seeking to reduce energy costs and injection molding machine manufacturers that need exquisite precision in the production of CDs and DVDs.

Customers include FlightSafety, Tuftco, Huskey, Cooper, CAE, Arburg, Metso and Schlumberger.

In Industrial Systems, principal competitors include Bosch Rexroth, Eaton Vickers, Danaher, Baumueller, Siemens and Hydraudyne.

Components. Components shares many of the same markets that drive sales in our other segments, including military and commercial aerospace, defense controls and industrial and medical applications. We also participate in the market for highly specialized marine applications.

This segment s three largest product categories are slip rings, fiber optic rotary joints and motors. Slip rings and fiber optic rotary joints use sliding contacts and optical technology to allow unimpeded rotation while delivering power and data across a rotating interface. They come in a range of sizes that allow them to be used in many applications that include diagnostic imaging, particularly CT scan medical equipment featuring high-speed data communications, de-icing and data transfer for rotorcraft, forward-looking infrared camera installations, radar pedestals, material handling, surveillance cameras, packaging and robotics.

Motors designed and manufactured by Components are also used in a wide variety of markets, many of which are the same as for slip rings. For the medical pump and blower market, and particularly sleep apnea equipment, Components designs and manufactures a series of miniature brushless motors that provide extremely low noise and reliable long life operation. Industrial markets use our motors for material handling, fuel cells and electric pumps. Military applications use our motors for gimbals, missiles and radar pedestals.

Components has several other product lines including electromechanical actuators for military, aerospace and commercial applications, fiber optic modems that provide electrical-to-optical conversion of communication and data signals, avionic instrumentation, optical switches and resolvers.

Table of Contents

Continuous demand for product innovation in the medical equipment, homeland defense, aircraft protection, underwater installations, navigation systems and industrial machinery markets influence Components. Recent product innovation has resulted in lighter and smaller motors and increases in fiber optic bandwidth for CT scans. Other opportunities for growth will come from this segment s penetration of international markets as it increasingly collaborates with our international sales engineers in our European and Pacific markets.

Customers include Respironics, Raytheon, Lockheed Martin, Honeywell, Philips Medical and the U.S. Government. In Components, principal competitors include Danaher, Allied Motion, Ametek, MPC, Axsys, Schleifring, Airflyte, Smiths, Kearfott and Electro-Miniatures.

Medical Devices. Medical Devices is our newest segment, formed as a result of the acquisition of Curlin Medical in April 2006. The segment further expanded with the acquisitions of McKinley Medical in August 2006 and ZEVEX International in March 2007. This segment operates within the overall healthcare market, which is experiencing significant growth. We are beginning to differentiate ourselves in this market by advancing technology used in infusion therapy and enteral feeding and establishing key relationships with distribution and manufacturing companies.

The segment operates within three medical devices market areas: infusion therapy, enteral clinical nutrition and sensors and surgical handpieces. Within infusion therapy, our primary products are electronic ambulatory infusion pumps along with the necessary administration sets and disposable infusion pumps. Applications of these products include hydration, nutrition, patient controlled analgesia, local anesthesia, chemotherapy and antibiotics. We manufacture and distribute a complete line of portable pumps, stationary pumps, and disposable sets that are used in the delivery of enteral nutrition for patients in their own homes, in hospitals and in long-term care facilities. We manufacture and distribute ultrasonic and optical sensors used to detect air bubbles and ensure accurate fluid delivery. Our surgical handpieces are used to safely fragment and aspirate tissue in common medical procedures such as cataract removal.

The medical devices markets we operate in are influenced by trends in post-operative pain management, use of regional anesthesia, overall demographics and the aging of technology, all of which have created significant opportunities for us.

Key relationships with leading medical distribution and manufacturing companies like B. Braun, Royal Numico and DJO Inc. provide us with access to multiple medical markets and distribution channels.

In Medical Devices, principal competitors include Smiths Medical, Hospira, Alcon, Baxter International, CME, I-Flow, Kendall, Fresenius Kabi and Ross.

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

Industry and Competitive Conditions. We experience considerable competition in our aerospace, defense, industrial and medical markets.

We believe that the principal points of competition in our markets are product quality, design and engineering capabilities, product development, conformity to customer specifications, quality of support after the sale, timeliness of delivery and effectiveness of the distribution organization. We believe we compete effectively on all of these bases.

Government Contracts. All U.S. Government contracts may be subject to termination at the election of the Government.

Backlog. Substantially all backlog will be realized as sales in the next twelve months. Also see the discussion in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, beginning on page 49 of this report.

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

Working Capital. See the discussion on operating cycle in Note 1 of Item 8, Financial Statements and Supplementary Data, on page 69 of this report.

Seasonality. Our business is generally not seasonal.

Table of Contents

Patents. We own numerous patents and have filed applications for others. While the protection afforded by these patents is of value, we do not consider the successful conduct of any material part of our business to be dependent upon such protection. Our patents and patent applications, including U.S. and international patents, relate to electrohydraulic, electro pneumatic and electromechanical actuation mechanisms and control valves, electronic control component systems and interface devices. We have trademark and trade name protection in major markets throughout the world.

Research Activities. Research and product development activity has been, and continues to be, significant for us. Research and development increased to $103 million in 2007 from $69 million in 2006 and $44 million in 2005. The increases in 2007 and 2006 are largely a result of increasing development activities on Boeing s next generation commercial aircraft, the 787 Dreamliner. During 2007, $15 million of the increase was attributable to work on the Boeing 787, which in total was $46 million in 2007. We also had another $8 million of increases on other aircraft projects and $3 million was a result of acquisitions. Boeing 787 was almost three-quarters of the increase in 2006 from 2005.

Employees. On September 29, 2007, we employed 8,364 full time employees, compared to 7,273 full-time employees on September 30, 2006.

Customers. Our customers fall into three groups, Original Equipment Manufacturers, or OEMs, that are customers of our aerospace and defense markets, OEM customers of our industrial and medical businesses and aftermarket customers in all of our markets. Aerospace and defense OEM customers collectively represented approximately 44% of 2007 sales. The majority of these sales are to a small number of large companies. Due to the long-term nature of many of the programs, many of our relationships with aerospace and defense OEM customers are based on long term agreements. Our OEM sales of industrial and medical controls and devices, which represented approximately 37% of 2007 sales, are to a wide diversity of customers around the world and are normally based on lead times of 90 days or less. We also provide aftermarket support, consisting of spare and replacement parts and repair and overhaul services, for all of our product applications. Our major aftermarket customers are the U.S. Government and commercial airlines.

Sales to the Boeing Company represented approximately 10% of consolidated sales in 2007, including sales to Boeing Commercial, which represented approximately 5% of 2007 sales. Sales to Lockheed Martin were approximately 7% of sales. Sales arising from U.S. Government prime or subcontracts, including military sales to Boeing and Lockheed Martin, were approximately 30% of sales. Sales to these customers are made primarily through Aircraft Controls, Space and Defense Controls and Components.

International Operations. Our operations outside the United States are conducted through wholly owned foreign subsidiaries and are located predominantly in Europe and the Asian Pacific region. See Note 15 of Item 8, Financial Supplementary Data, on pages 89 through 92 of this report for information regarding sales by geographic area and Exhibit 21 of Item 15, Exhibits and Financial Statement Schedules, on pages 100 and 101 of this report for a list of subsidiaries. Our international operations are subject to the usual risks inherent in international trade, including currency fluctuations, local governmental restrictions on foreign investment and repatriation of profits, exchange controls, regulation of the import and distribution of foreign goods, as well as changing economic and social conditions in countries in which such operations are conducted.

Environmental Matters. See the discussion in Note 16 of Item 8, Financial Statements and Supplementary Data, on page 92 of this report.

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

Executive Officers of the Registrant. Other than Lawrence J. Ball and John B. Drenning, the principal occupations of our officers for the past five years have been their employment with us. John B. Drenning s principal occupation is

partner in the law firm of Hodgson Russ LLP.

On January 16, 2004, Lawrence J. Ball was named Vice President and General Manager of the Components Group. His employment with Moog began on September 30, 2003, when we acquired the Poly Scientific division of Litton Systems, Inc., a subsidiary of Northrop Grumman Corporation. Previously he was Poly-Scientific s President, a position he assumed in 1996.

On January 14, 2005, Harald E. Seiffer was named Vice President and continues as Business Development Manager for Moog Europe. Previously he was General Manager of Moog GmbH.

Table of Contents

On January 10, 2006, Sasidhar Eranki was named Vice President and continues as Deputy General Manager of the Aircraft Group and Director of Engineering.
On January 10, 2006, John R. Scannell was named Vice President and continues as Director of Contracts and Pricing. Previously he was the Program Director of 787, General Manager of Moog Ireland and General Manager of the Electric Drives Product Line.

Executive Officers and Management	Age	Year First Elected Officer
Robert T. Brady Chairman of the Board; President; Chief Executive Officer; Director; Member, Executive Committee	66	1967
Richard A. Aubrecht Vice Chairman of the Board; Vice President Strategy and Technology; Director; Member, Executive Committee	63	1980
Robert R. Banta Executive Vice President; Chief Financial Officer; Assistant Secretary; Director; Member, Executive Committee	65	1983
Joe C. Green Executive Vice President; Chief Administrative Officer; Director; Member, Executive Committee	66	1973
Stephen A. Huckvale Vice President	58	1990
Martin J. Berardi Vice President	51	2000
Warren C. Johnson Vice President	48	2000
Jay K. Hennig Vice President	47	2002
Lawrence J. Ball Vice President	53	2004
Harald E. Seiffer Vice President	48	2005
Sasidhar Eranki Vice President	53	2006
John R. Scannell		

Vice President	44	2006
Donald R. Fishback Controller; Principal Accounting Officer	51	1985
Timothy P. Balkin Treasurer; Assistant Secretary	48	2000
John B. Drenning Secretary	70	1989

Table of Contents

Item 1A. Risk Factors.

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate. The markets we serve are sensitive to fluctuations in general business cycles and domestic and foreign economic conditions and events. For example, demand for our industrial systems products is dependent upon several factors, including capital investment, product innovations, economic growth, cost-reduction efforts and technology upgrades. In addition, the commercial airline industry is highly cyclical and sensitive to fuel price increases, labor disputes and economic conditions. These factors could result in a reduction in the amount of air travel. A reduction in air travel could reduce orders for new aircraft for which we supply flight controls and for spare parts and services and reduce our sales. A reduction in air travel may also result in our commercial airline customers being unable to pay our invoices on a timely basis or at all.

We depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs. Sales to the U.S. Government and its prime contractors and subcontractors represent a significant portion of our business. In 2007, sales under U.S. Government contracts represented 30% of our total sales, primarily within Aircraft Controls, Space and Defense Controls and Components. Sales to foreign governments represented 8% of our total sales. We expect that the percentage of our revenues from government contracts will continue to be substantial in the future. Government programs can be structured into a series of individual contracts. The funding of these programs is generally subject to annual congressional appropriations, and congressional priorities are subject to change. In addition, government expenditures for defense programs may decline or these defense programs may be terminated. A decline in government expenditures may result in a reduction in the volume of contracts awarded to us. We may have resources applied to specific government contracts and, if any of those contracts were terminated, we may incur substantial costs redeploying these resources.

If our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted. Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract or our hiring of personnel of a subcontractor. Failure by our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could result in a customer terminating our contract for default. A default termination could expose us to liability and substantially impair our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers needs and may have an adverse effect upon our profitability.

We make estimates in accounting for long-term contracts, and changes in these estimates may have significant impacts on our earnings. We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls. Revenue representing 34% of 2007 sales was accounted for using the percentage of completion, cost-to-cost method of accounting in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. We recognize revenue on contracts using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods.

Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. A significant change in an estimate on one or more contracts could have a material effect on our results of operations. For contracts with anticipated losses at completion, we establish a provision for the entire amount of the

estimated remaining loss and charge it against income in the period in which the loss becomes known. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable.

Table of Contents

We enter into fixed-price contracts, which could subject us to losses if we have cost overruns. For the year ended September 29, 2007, fixed-price contracts represented 80% of our sales that were accounted for using the percentage of completion, cost-to-cost method of accounting. On fixed-price contracts, we agree to perform the scope of work specified in the contract for a predetermined price. Depending on the fixed price negotiated, these contracts may provide us with an opportunity to achieve higher profits based on the relationship between our total contract costs and the contract s fixed price. However, we bear the risk that increased or unexpected costs may reduce our profit or cause us to incur a loss on the contract, which could reduce our net sales and net earnings. Loss reserves are more common on fixed-price contracts that involve the design and development of new and unique controls or control systems to meet the customer s specifications.

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

If we are unable to adapt to technological change, demand for our products may be reduced. The technologies related to our products have undergone, and in the future may undergo, significant changes. To succeed in the future, we will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. Historically, our technology has been developed through customer-funded and internally funded research and development and through business acquisitions. 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 uncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We may have to modify our products significantly in the future to remain competitive, and new products we introduce may not be accepted by our customers.

Our new product and research and development efforts may not be successful, which would result in a reduction in our sales and earnings. In the past, we have incurred, and we expect to continue to incur, expenses associated with research and development activities and the introduction of new products. For instance, we are currently incurring substantial development costs in connection with our work on the 787. We may experience difficulties that could delay or prevent the successful development of new products or product enhancements, and new products or product enhancements may not be accepted by our customers. In addition, the research and development expenses we incur may exceed our cost estimates, and new products we develop may not generate sales sufficient to offset our costs. If any of these events occur, our sales and profits could be adversely affected.

The loss of Boeing or Lockheed Martin as a customer or a significant reduction in sales to either company would reduce our sales and earnings. We provide Boeing with controls for both military and commercial applications, which, in total, were 10% of our 2007 sales. Sales to Boeing s commercial airplane group were 5% of 2007 sales. These commercial sales are generally made under a long-term supply agreement through 2012. Sales to Lockheed Martin were 7% of our 2007 sales. The loss of Boeing or Lockheed Martin as a customer or a significant reduction in sales to either company would significantly reduce our sales and earnings.

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

- develop products that are superior to our products;

develop products that are more competitively priced than our products;

develop methods of more efficiently and effectively providing products and services; or

adapt more quickly than we do to new technologies or evolving customer requirements.

Table of Contents

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

Significant changes in discount rates, rates of return on pension assets, mortality tables and other factors could affect our future earnings, equity and pension funding requirements. Pension obligations and the related costs are determined using actuarial valuations that involve several assumptions. Our funding requirements are also based on these assumptions. The most critical assumptions are the discount rate, the long-term expected return on assets and mortality. Other assumptions include salary increases and retirement age. Some of these assumptions, such as the discount rate and return on pension assets, are largely outside of our control. Changes in these assumptions could affect our future earnings, equity and funding requirements.

A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth and cause us to violate covenants in our bank credit facility. Goodwill and other intangible assets are a substantial portion of our assets. At September 29, 2007, goodwill was $538 million and other intangible assets were $82 million of our total assets of $2 billion. Our goodwill may increase in the future since our strategy includes growing through acquisitions. We may have to write-off all or part of our goodwill or other intangible assets if their value becomes impaired. Although this write-off would be a non-cash charge, it could reduce our earnings and net worth significantly. A write-off of goodwill or other intangible assets could also cause us to violate covenants in our bank credit facility that require a minimum level of net worth. This could result in our being unable to borrow under our bank credit facility or being obliged to refinance or renegotiate the terms of our bank indebtedness.

Our sales and earnings growth may be reduced if we cannot implement our acquisition strategy. Acquisitions are a key part of our growth strategy. Our historical growth has depended, and our future growth is likely to depend, in large part, on our ability to successfully implement our acquisition strategy, and the successful integration of acquired businesses into our existing operations. We intend to continue to seek additional acquisition opportunities in accordance with our acquisition strategy, both to expand into new markets and to enhance our position in existing markets throughout the world. If we are unable to successfully identify suitable candidates, negotiate appropriate acquisitions, successfully integrate acquired businesses into our existing operations or expand into new markets, our sales and earnings growth would be reduced.

We may incur losses and liabilities as a result of our acquisition strategy. Growth by acquisition involves risks that could adversely affect our financial condition and operating results, including:

- diversion of management time and attention from our core business;
- the potential exposure to unanticipated liabilities;
- the potential that expected benefits or synergies are not realized and that operating costs increase;
- the risks associated with incurring additional acquisition indebtedness, including that additional indebtedness could limit our cash flow availability for operations and our flexibility;
- difficulties in integrating the operations and personnel of acquired companies; and
- the potential loss of key employees, suppliers or customers of acquired businesses.

In addition, any acquisition, once successfully integrated, could negatively impact our financial performance if it does not perform as planned, does not increase earnings, or does not prove otherwise to be beneficial to us.

Our future growth and continued success is dependent on our key personnel. Our future success depends to a significant degree upon the continued contributions of our management team and technical personnel. The loss of members of our management team could have a material and adverse effect on our business. In addition, competition for qualified technical personnel in our industries is intense, and we believe that our future growth and success will

depend on our ability to attract, train and retain such personnel.

Table of Contents

Future terror attacks, war, or other civil disturbances could negatively impact our business. Terror attacks, war or other disturbances could lead to economic instability and decreases in demand for commercial products, which could negatively impact our business, financial condition and results of operations. Terrorist attacks worldwide have caused instability from time to time in global financial markets and the aviation industry. In 2007, 18% of our net sales was related to commercial aircraft. The long-term effects of terrorist attacks on us are unknown. These attacks and the U.S. Government s continued efforts against terrorist organizations may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability.

Our operations in foreign countries expose us to political risks and adverse changes in local legal, tax and regulatory schemes. In 2007, 39% of our consolidated revenue was from customers outside of North America. We expect international operations and export sales to continue to contribute to our earnings for the foreseeable future. Both the sales from international operations and export sales are subject in varying degrees to risks inherent in doing business outside of the United States. Such risks include, without limitation, the following:

- the possibility of unfavorable circumstances arising from host country laws or regulations;
- partial or total expropriation;
- potential negative consequences from changes to significant taxation policies, laws or regulations;
- changes in tariff and trade barriers and import or export licensing requirements;
- political or economic instability, insurrection, civil disturbance or war; and
- potential negative consequences from the requirements of partial local ownership of operations in certain countries.

Government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business. In 2007, 14% of our sales was subject to compliance with the United States Export Administration regulations. Our failure to obtain the requisite licenses, meet registration standards or comply with other government export regulations would hinder our ability to generate revenues from the sale of our products outside the United States. Compliance with the government regulations may also subject us to additional fees and operating costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In order to sell our products in European Union countries, we must satisfy certain technical requirements. If we are unable to comply with those requirements with respect to a significant quantity of our products, our sales in Europe would be restricted. Doing business internationally also subjects us to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, foreign corrupt practices and anti-boycott provisions. Failure by us or our sales representatives or consultants to comply with these laws and regulations could result in administrative, civil or criminal liabilities and could, in the extreme case, result in suspension or debarment from government contracts or suspension of our export privileges, which would have a material adverse effect on us.

Our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers. We conduct our operations in facilities located throughout the world. Any of these facilities could be damaged by fire, floods, earthquakes, power loss, telecommunication and information systems failure or similar events. Our facilities in Southern California, Japan and the Philippines are particularly susceptible to earthquakes. These facilities accounted for 20% of our manufacturing, assembly and test capacity in 2007. Although we carry property insurance, including earthquake insurance and business interruption insurance, our inability to meet customers schedules as a result of a catastrophe may result in a loss of customers or significant additional costs such as penalty claims under customer contracts.

The failure of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages. Defects in the design

and manufacture of our products may necessitate a product recall. We include complex system design and components in our products that could contain errors or defects, particularly when we incorporate new technology into our products. If any of our products are defective, we could be required to redesign or recall those products or pay substantial damages or warranty claims. Such an event could result in significant expenses, disrupt sales and affect our reputation and that of our products. We are also exposed to product liability claims. Many of our products are used in applications where their failure is likely to result in significant property loss and serious personal injury or death. We carry aircraft and non-aircraft product liability insurance consistent with industry norms. However, these insurance coverages may not be sufficient to fully cover the payment of any potential claim. A product recall or a product liability claim not covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Our international operations pose currency and other risks that may adversely impact sales and earnings. We have significant manufacturing and sales operations in foreign countries. In addition, our domestic operations have sales to foreign customers. Our financial results may be adversely affected by fluctuations in foreign currencies and by the translation of the financial statements of our foreign subsidiaries from local currencies into U.S. dollars. The translation of our sales in foreign currencies, primarily the euro, British pound and Japanese yen, to the U.S. dollar had a $29 million positive impact on sales for 2007 using average exchange rates for 2007 compared to average exchange rates for 2006 and a $9 million negative impact on sales for 2006 using average exchange rates for 2006 compared to average exchange rates for 2005.

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

Item 1B. Unresolved Staff Comments.

None.

Table of Contents

Item 2. Properties.

On September 29, 2007, we occupied 3,492,000 square feet of space in the United States and countries throughout the world, distributed by segment as follows:

	Square Feet		
	Owned	Leased	Total
Aircraft Controls	1,012,000	239,000	1,251,000
Space and Defense Controls	268,000	116,000	384,000
Industrial Systems	758,000	382,000	1,140,000
Components	513,000	100,000	613,000
Medical Devices	51,000	32,000	83,000
Corporate Headquarters		21,000	21,000
Total	2,602,000	890,000	3,492,000

Aircraft Controls has principal manufacturing facilities located in New York, Utah, California, England and the Philippines. Space and Defense Controls has primary manufacturing facilities located in New York, California, Ohio, Illinois and Germany. Industrial Systems has principal manufacturing facilities located in New York, Germany, Italy, Japan, The Netherlands, Luxembourg, Ireland and India. Components has principal manufacturing facilities located in Virginia, North Carolina, Pennsylvania, Canada and England. Medical Devices has manufacturing facilities in California and Utah. Our corporate headquarters is located in East Aurora, New York.

We believe that our properties have been adequately maintained and are generally in good condition. Operating leases for properties expire at various times from 2008 through 2018. Upon the expiration of our current leases, we believe that we will be able to either secure renewal terms or enter into leases for alternative locations at market terms.

Item 3. Legal Proceedings.

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

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

None.

Table of Contents

PART II

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

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

Quarterly Stock Prices

	Class A		Class B	
Fiscal Year Ended	High	Low	High	Low
September 29, 2007				
1st Quarter	**$ 40.50**	**$ 33.91**	**$ 40.35**	**$ 33.97**
2nd Quarter	**41.74**	**35.03**	**41.34**	**35.75**
3rd Quarter	**45.16**	**40.22**	**45.00**	**40.26**
4th Quarter	**49.42**	**37.20**	**45.50**	**37.75**
September 30, 2006				
1st Quarter	$ 32.24	$ 27.41	$ 32.15	$ 27.86
2nd Quarter	36.00	27.53	35.34	28.00
3rd Quarter	40.65	32.65	40.90	33.00
4th Quarter	37.22	29.60	36.70	30.22

The number of shareholders of record of Class A common stock and Class B common stock was 1,149 and 514, respectively, as of November 23, 2007.

We did not pay dividends on our Class A common stock or Class B common stock in 2006 or 2007 and have no plans to do so in the forseeable future.

The following table summarizes our purchases of our common stock for the quarter ended September 29, 2007.

Issuer Purchases of Equity Securities

			(c) Total Number of Shares	(d) Maximum Number (or Approx. Dollar Value) of

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid Per Share	Purchased as Part of Publicly Announced Plans or Programs (1)	Shares that May Be Purchased Under Plans or Programs (1)
July 1-31, 2007		$	N/A	N/A