MOOG INC
Form 10-K
November 25, 2008

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

(Mark One)

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

For the fiscal year ended September 27, 2008

OR

o **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

MOOG INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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 o No þ

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 þ No o

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. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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 28, 2008, the last business day of the registrant s most recently completed second quarter, was approximately $1,581 million.

The number of shares of common stock outstanding as of the close of business on November 19, 2008 was: Class A 38,718,361; Class B 4,015,817.

Portions of the 2008 Proxy Statement to Shareholders (2008 Proxy) are incorporated by reference into Part III of this Form 10-K.

Service Levels

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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.

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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 high performance precision motion and fluid controls and systems for a broad range of applications in aerospace and defense, industrial and medical markets. 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 2008, 2007 and 2006 are provided in Note 15 of Item 8, Financial Statements and Supplementary Data, on pages 102 through 105 of this report.

Aircraft Controls. We design, manufacture and integrate primary and secondary flight controls for military and commercial aircraft and provide aftermarket support. Our systems are used in large commercial transports, supersonic fighters, multi-role military aircraft, business jets and rotorcraft. We are well positioned on both development and production programs. Typically, development programs require concentrated periods of research and development by our engineering teams and involve design, development, testing and integration. We are currently working on several large development programs including the F-35 Joint Strike Fighter, Boeing 787 Dreamliner, Airbus A400M and A350 XWB and Boeing s extended range 747-8. Production programs are generally long term manufacturing efforts that extend for as long as the aircraft builder receives new orders. Our large military production programs include the F/A-18E/F Super Hornet, the V-22 Osprey, the Black Hawk/ Seahawk helicopter and the F-15 Eagle. Our large commercial production programs include the full line of Boeing 7-series aircraft, Airbus wide-body airplanes and a variety of business jets. Aftermarket sales, which represented 32% of 2008 sales for this segment, consist of the sale of spare and replacement parts along with repair services.

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

Principal competitors include Parker Hannifin, Nabtesco, GE, Goodrich, Liebherr, HR Textron, Curtiss-Wright and Hamilton Sundstrand.

Space and Defense Controls. Space and Defense Controls provides controls for satellites and space vehicles, armored combat vehicles, launch vehicles, tactical and strategic missiles, homeland security and other defense applications. For commercial and military satellites, we design, manufacture and integrate steering and propulsion controls and controls for positioning antennae and deploying solar panels. Launch vehicles and the Space Shuttle use our steering and propulsion controls. We are also developing products for the Ares I launch vehicle and Orion crew vehicle on the Constellation Program, NASA s replacement for the Space Shuttle. We supplied couplings, valves and actuators for the International Space Station. We design and build steering and propulsion controls for tactical and strategic missile programs and supply valves on the U.S. National Missile Defense development initiative. We design and manufacture systems for gun aiming, stabilization and automatic ammunition loading on armored combat vehicles. We also provide pan and tilt mechanisms for homeland security products.

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

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, Sargeant Industries, RVision, Directed Perception, ATA Engineering and Barry Controls.

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Industrial Systems. Industrial Systems serves a global customer base across a variety of markets. Six major markets, plastics making machinery, simulation, power generation, test, metal forming and heavy industry, generate over 60% of total sales in this segment. 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 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 systems to 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.

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

Principal competitors include Bosch Rexroth, Danaher, Baumueller, Siemens and Hydraudyne.

Components. Components serves many of the same military, aerospace, defense controls, industrial and medical equipment markets as our other segments. 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 through a rotating interface. They come in a range of sizes that allow them to be used in many applications that include diagnostic imaging CT scan medical equipment featuring high-speed data communications, de-icing and data transfer for rotorcraft, forward-looking infrared camera installations, radar pedestals, surveillance cameras and remotely operated vehicles for offshore oil exploration. Our motors are used in an equally broad range of markets, many of which are the same as for slip rings. Components designs and manufactures a series of miniature brushless motors that provide extremely low noise and reliable long life operation, with the largest market being sleep apnea equipment. 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 other product lines include 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.

Customers include Respironics, Raytheon, Lockheed Martin, Honeywell, Philips Medical and the U.S. Government.

Principal competitors include Danaher, Allied Motion, Ametek, MPC, Axsys, Schleifring, Airflyte, Smiths, Kearfott and Electro-Miniatures.

Medical Devices. Medical Devices, formed in April 2006, is our newest segment. This segment operates within three medical devices market areas: infusion therapy, enteral clinical nutrition and sensors and surgical handpieces. For 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, hospitals and 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.

Principal customers are leading medical distribution and manufacturing companies like B. Braun, Danone and DJO Inc. who provide us with access to multiple medical markets and distribution channels.

Principal competitors include Smiths Medical, Hospira, Alcon, Baxter International, CME, I-Flow, Kendall (Covidien), Fresenius Kabi and Ross (Abbott).

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

Industry and Competitive Conditions. We experience considerable competition in our aerospace and defense, 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, timeliness of delivery, effectiveness of the distribution organization and quality of support after the sale. We believe we compete effectively on all of these bases.

Government Contracts. All U.S. Government contracts are subject to termination by 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 58 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 80 of this report.

Seasonality. Our business is generally not seasonal.

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 development activity has been, and continues to be, significant for us. Research and development increased to $110 million in 2008 from $103 million in 2007 and $69 million in 2006. The increase in 2008 was evenly split between aircraft initiatives and acquisitions. Within Aircraft Controls, work on the Airbus A350 increased by $10 million and other aircraft projects increased by $6 million. These increases were offset by a $13 million decline on the Boeing 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.

Employees. On September 27, 2008, we employed 8,844 full-time employees compared to 8,364 full-time employees on September 29, 2007.

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 2008 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 38% of 2008 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 arising from U.S. Government prime or subcontracts were approximately 32% of sales in 2008. These sales are made primarily through Aircraft Controls, Space and Defense Controls and Components.

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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 102 through 105 of this report for information regarding sales by geographic area and Exhibit 21 of Item 15, Exhibits and Financial Statement Schedules, on pages 113 and 114 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 105 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 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 February 11, 2008, Jennifer Walter was named Controller and Principal Accounting Officer. Previously, she was Director of Financial Planning and Analysis, a position she held since 2004. Prior to that, she was the Manager of Financial Reporting.

On November 28, 2007, Donald R. Fishback was named Vice President of Finance. Previously, he was Controller and Principal Accounting Officer, a position he assumed in 1985.

On November 28, 2007, John R. Scannell was named Chief Financial Officer. Previously, he was Director of Contracts and Pricing, a position he held since 2006. Prior to that, he was the Program Director of 787, General Manager of Moog Ireland and General Manager of the Electric Drives Product Line.

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 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.

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.

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Executive Officers and Management	Age	Year First Elected Officer
Robert T. Brady Chairman of the Board; President; Chief Executive Officer; Director; Member, Executive Committee	67	1967
Richard A. Aubrecht Vice Chairman of the Board; Vice President Strategy and Technology; Director; Member, Executive Committee	64	1980
Joe C. Green Executive Vice President; Chief Administrative Officer; Director; Member, Executive Committee	67	1973
Stephen A. Huckvale Vice President	59	1990
Martin J. Berardi Vice President	52	2000
Warren C. Johnson Vice President	49	2000
Jay K. Hennig Vice President	48	2002
Lawrence J. Ball Vice President	54	2004
Harald E. Seiffer Vice President	49	2005
Sasidhar Eranki Vice President	54	2006
John R. Scannell Vice President and Chief Financial Officer	45	2006
Donald R. Fishback Vice President Finance	52	1985
Jennifer Walter Controller; Principal Accounting Officer	37	2008
Timothy P. Balkin Treasurer; Assistant Secretary	49	2000

John B. Drenning Secretary	71	1989

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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 2008, sales under U.S. Government contracts represented 32% of our total sales, primarily within Aircraft Controls, Space and Defense Controls and Components. Sales to foreign governments represented 6% 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 have resources applied to specific government contracts and if any of those contracts were terminated, we may incur substantial costs redeploying those 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 32% of 2008 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.

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We enter into fixed-price contracts, which could subject us to losses if we have cost overruns. For the year ended September 27, 2008, fixed-price contracts represented 74% 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 Airbus A350 XWB and Boeing 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 as a customer or a significant reduction in sales to Boeing could reduce our sales and earnings. We provide Boeing with controls for both military and commercial applications, which, in total, were 9% of our 2008 sales. Sales to Boeing s commercial airplane group were 4% of 2008 sales. These commercial sales are generally made under a long-term supply agreement through 2012. The loss of Boeing as a customer or a significant reduction in sales to Boeing could 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 our sales and 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 and more diversified and have greater financial, marketing, production and research and development resources. As a result, they may be better able to withstand the effects of periodic economic downturns. Our sales and operating margins will be negatively impacted if our competitors:

develop products that are superior to our products;

develop products of comparable quality and performance that are more competitively priced than our products;

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

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

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

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 actual results and 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.

We are subject to financing and interest rate exposure risks that could adversely affect our business and operating results. Changes in the availability, terms and cost of capital, increases in interest rates or a reduction in credit rating could cause our cost of doing business to increase, limit our ability to pursue acquisition opportunities and place us at a competitive disadvantage. At September 27, 2008, 73% of our debt was at fixed interest rates with the remaining 27% subject to variable interest rates. The current contraction in credit markets could impact our ability to finance our operations.

We are subject to the risk of loss resulting from financial institutions or customers defaulting on their obligations to us. We maintain significant amounts of cash and cash equivalents at financial institutions that are in excess of amounts insured by governments. The failure of these institutions could cause a loss of our cash balances or the ability to access them when needed. The inability of our customers to pay us due to adverse economic conditions or their inability to access available credit could have an adverse effect on our financial condition and liquidity.

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 $49 million positive impact on sales for 2008 using average exchange rates for 2008 compared to average exchange rates for 2007 and a $29 million positive impact on sales for 2007 using average exchange rates for 2007 compared to average exchange rates for 2006.

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 27, 2008, goodwill was $561 million and other intangible assets were $75 million of our total assets of $2.2 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.

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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.

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 2008, 16% 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 2008, 42% of our consolidated revenue was from customers outside of the United States. 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 2008, 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 these government regulations may also subject us to additional fees and operating costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In order to sell our products in European Union countries, we must satisfy certain technical requirements. If we are unable to comply with those requirements with respect to a significant quantity of our products, our sales in Europe would be restricted. Doing business internationally also subjects us to numerous U.S. and foreign laws and regulations, including, 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.

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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 California, Japan and the Philippines are particularly susceptible to earthquakes. These facilities accounted for 23% of our manufacturing, assembly and test capacity in 2008. 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 could result in significant property loss and serious personal injury or death. We carry product liability insurance consistent with industry norms. However, these insurance coverages may not be sufficient to fully cover the payment of any potential claim. A product recall or a product liability claim not covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

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.

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Item 2. Properties.

On September 27, 2008, we occupied 3,654,000 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	1,092,000	238,000	1,330,000
Space and Defense Controls	311,000	149,000	460,000
Industrial Systems	724,000	415,000	1,139,000
Components	532,000	89,000	621,000
Medical Devices	51,000	32,000	83,000
Corporate Headquarters		21,000	21,000
Total	2,710,000	944,000	3,654,000

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 Utah and California. 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 2009 through 2017. 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.

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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 27, 2008				
1st Quarter	**$49.19**	**$41.18**	**$49.03**	**$41.77**
2nd Quarter	**48.24**	**38.79**	**48.00**	**39.18**
3rd Quarter	**46.37**	**37.46**	**46.16**	**37.80**
4th Quarter	**56.47**	**35.30**	**49.75**	**36.00**
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

The number of shareholders of record of Class A common stock and Class B common stock was 1,086 and 486, respectively, as of November 19, 2008.

We did not pay cash dividends on our Class A common stock or Class B common stock in 2007 or 2008 and have no plans to do so in the foreseeable future.

The following table summarizes our purchases of our common stock for the quarter ended September 27, 2008.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)(2)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number (or Approx. Dollar Value) of Shares that May Yet Be Purchased Under Plans or Programs (2)
June 30 July 31, 2008		$	N/A	N/A

August 1-31, 2008	15,423	$47.57	N/A	N/A
September 1-27, 2008	11,169	$48.18	N/A	N/A
Total	26,592	$47.83	N/A	N/A

(1) The issuer s purchases in August and September consist of the purchase of shares from the Moog Inc. Retirement Savings Plan.

(2) In connection with the exercise and vesting of stock options, we from time to time accept delivery of shares to pay the exercise price of employee stock options. During the periods presented, there were no shares accepted for delivery in connection with the exercise of stock options. As of September 27, 2008, we did not otherwise have any plan or program to purchase our common stock.

In October 2008, the Board of Directors authorized a share repurchase program. The program permits the purchase of up to 1,000,000 Class A or Class B common shares in open market or privately negotiated transactions at the discretion of management. The transactions will be made in accordance with rules and regulations of the U.S. Securities and Exchange Commission and other rules that govern such purchases.

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The following graph and table show the growth in the Company s Class A common stock compared to the NYSE Composite-Total Return Index and the S&P Aerospace and Defense Index for a $100 investment made on September 30, 2003, including the reinvestment of any dividends.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

	9/03	9/04	9/05	9/06	9/07	9/08
Moog Inc. Class A	**$100.00**	**$138.90**	**$169.44**	**$198.94**	**$252.21**	**$246.12**
NYSE Composite Total Return Index	**100.00**	**118.89**	**141.17**	**160.15**	**193.89**	**149.08**
S&P Aerospace & Defense Index	**100.00**	**133.81**	**155.16**	**188.04**	**249.91**	**186.37**

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Item 6. Selected Financial Data.

For a more detailed discussion of 2006 through 2008, refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, on pages 58 through 75 of this report and Item 8, Financial Statements and Supplementary Data, on pages 76 through 109 of this report.

(dollars in thousands except per share data)	**2008(1)(2)**	2007(1)	2006(1)(3)	2005(1)(2)(4)	2004(5)
RESULTS FROM OPERATIONS					
Net sales	**$ 1,902,666**	$ 1,558,099	$ 1,306,494	$ 1,051,342	$ 938,852
Net earnings	**119,068**	100,936	81,346	64,792	57,287
Net earnings per share					
Basic	**$ 2.79**	$ 2.38	$ 2.01	$ 1.68	$ 1.48
Diluted	**$ 2.75**	$ 2.34	$ 1.97	$ 1.64	$ 1.45
Weighted-average shares outstanding					
Basic	**42,604,268**	42,429,711	40,558,717	38,608,235	38,796,381
Diluted	**43,256,888**	43,149,481	41,247,689	39,498,834	39,592,224
FINANCIAL POSITION					
Total assets	**$ 2,227,247**	$ 2,006,179	$ 1,607,654	$ 1,303,327	$ 1,124,928
Working capital	**713,292**	616,623	420,495	312,706	321,805
Indebtedness senior	**270,988**	417,434	186,451	148,773	311,289
Indebtedness senior subordinated	**400,072**	200,089	200,107	200,124	
Shareholders equity	**994,410**	877,212	762,856	521,037	471,656
Shareholders equity per common share outstanding	**23.30**	20.63	18.04	13.48	12.23
SUPPLEMENTAL FINANCIAL DATA					
Capital expenditures	**$ 91,833**	$ 96,988	$ 83,555	$ 41,188	$ 34,297
Depreciation and amortization	**63,376**	52,093	47,077	36,207	35,508
Research and development	**109,599**	102,603	68,886	43,561	29,729
Twelve-month backlog	**861,694**	774,548	645,032	539,186	449,896
RATIOS					
Net return on sales	**6.3%**	6.5%	6.2%	6.2%	6.1%
Return on shareholders equity	**12.7%**	12.3%	12.9%	12.8%	12.6%
Current ratio	**2.89**	2.93	2.37	2.09	2.42
Net debt to capitalization (6)	**37.0%**	37.8%	30.1%	37.7%	35.1%

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

(2) Includes the effects of the issuance of Senior Subordinated notes. See Note 7 of the Consolidated Financial Statements at Item 8 of this report.

(3) Includes the effects of the adoption of SFAS No. 123(R), Share-Based Payment, under which we began recording equity-based compensation expense in 2006. Also includes the offering and sale of Class A common stock on February 21, 2006. See Note 11 of the Consolidated Financial Statements at Item 8 of this report.

(4) Includes the effects of the acquisition of the stock of FCS Control Systems on August 11, 2005, the acquisition of the stock of the Power and Data Technologies Group of the

Kaydon Corporation on July 26, 2005 and the acquisition of an industrial systems engineering business and a commercial aircraft repair business in the second quarter of 2005.

(5) Includes the effects of the acquisition of the net assets of the Poly-Scientific division of Litton Systems, Inc., a subsidiary of Northrop Grumman Corporation, on September 30, 2003.

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

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

OVERVIEW

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

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

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

- superior technical competence and customer intimacy,
- customer diversity and broad product portfolio,
- well-established international presence serving customers worldwide,
- proven ability to successfully integrate acquisitions, and
- conservative capital structure and solid financial performance.

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

- maintaining our technological excellence by building upon our systems integration capabilities while solving our customers most demanding technical problems,
- taking advantage of our global capabilities,
- growing our profitable aftermarket business,
- capitalizing on strategic acquisitions and opportunities,

entering and developing new markets, and

striving for continuing cost improvements.

Challenges facing us include improving shareholder value through increased profitability while experiencing pricing pressures from customers, strong competition, increases in costs such as health care benefits and adjusting to global economic conditions. We address these challenges by focusing on strategic revenue growth and by continuing to improve operating efficiencies through various process and manufacturing initiatives and using low cost manufacturing facilities without compromising quality.

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Acquisitions and Equity Investment

On June 4, 2008, we acquired a 40% ownership in LTi REEnergy GmbH for cash of $28 million. LTi REEnergy specializes in the design and manufacture of servo controllers as well as complete drive systems for electric rotor blade controls for wind turbines. Annual sales for the twelve months preceding the transaction were approximately $85 million. We are accounting for this investment using the equity method of accounting with our net investment reflected in other assets on the balance sheet. We expect to acquire the remaining 60% of the company in June 2009 subject to conventional conditions of closing. Our 40% share of the earnings of LTi REEnergy subsequent to the date of the investment was $1 million and is included in the operating results of our Industrial Systems segment.

All of our acquisitions are accounted for using the purchase method of accounting for business combinations and, accordingly, the results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition.

On May 2, 2008, we acquired CSA Engineering, Inc. The purchase price, net of cash acquired, was $15 million. We paid $13 million in cash, which was financed with credit facility borrowings, and issued a $2 million unsecured note to the sellers due June 30, 2009. CSA designs and supplies systems for vibration suppression, precision motion control and dynamic testing of structures for the aerospace and defense markets. CSA s specialized applications include satellite payload isolation systems, ground based test systems for space and missile hardware, tuned mass dampers for vibration control and a jitter reduction control system for the Airborne Laser optical bench. Sales in the most recent calendar year were approximately $14 million. This acquisition is included in our Space and Defense Controls segment.

On November 20, 2007, we acquired PRIZM Advanced Communication Electronics Inc. The purchase price, net of cash acquired, was $12 million, which was financed with credit facility borrowings and the issuance of $3 million of unsecured notes to the sellers due on March 31, 2009. PRIZM specializes in the design of fiber optic and wireless video and data multiplexers used in commercial and military subsea markets for oil and gas exploration, terrestrial robots and remote sensing applications. This acquisition is included in our Components segment.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition on Long-Term Contracts

Revenue representing 32% of 2008 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 (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. This method of revenue recognition is predominately used within the Aircraft Controls and Space and Defense Controls segments due to the contractual nature of the business activities, with the exception of their respective aftermarket activities. The contractual arrangements are either firm fixed-price or cost-plus contracts and are with the U.S. Government or its prime subcontractors, foreign governments or commercial aircraft manufacturers, including Boeing and Airbus. The nature of the contractual arrangements includes customers requirements for delivery of hardware as well as funded nonrecurring development work in anticipation of follow-on production orders.

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

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Occasionally, it is appropriate under SOP 81-1 to combine or segment contracts. Contracts are combined in those limited circumstances when they are negotiated as a package in the same economic environment with an overall profit margin objective and constitute, in essence, an agreement to do a single project. In such cases, we recognize revenue and costs over the performance period of the combined contracts as if they were one. Contracts are segmented in limited circumstances if the customer had the right to accept separate elements of the contract and the total amount of the proposals on the separate components approximated the amount of the proposal on the entire project. For segmented contracts, we recognize revenue and costs as if they were separate contracts over the performance periods of the individual elements or phases.

Contract costs include only allocable, allowable and reasonable costs, as determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards for applicable U.S. Government contracts, and are included in cost of sales when incurred. The nature of these costs includes development engineering costs and product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material in 2008, 2007 and 2006.

Contract Loss Reserves

At September 27, 2008, we had contract loss reserves of $21 million. For contracts with anticipated losses at completion, a provision for the entire amount of the estimated remaining loss is charged against income in the period in which the loss becomes known. Contract losses are determined considering all direct and indirect contract costs, exclusive of any selling, general or administrative cost allocations that are treated as period expenses. Loss reserves are more common on firm fixed-price contracts that involve, to varying degrees, the design and development of new and unique controls or control systems to meet the customers specifications.

Reserves for Inventory Valuation

At September 27, 2008, we had net inventories of $408 million, or 37% of current assets. Reserves for inventory were $63 million, or 13% of gross inventories. Inventories are stated at the lower-of-cost-or-market with cost determined primarily on the first-in, first-out method of valuation.

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

Reviews for Impairment of Goodwill

At September 27, 2008, we had $561 million of goodwill, or 25% of total assets. We test goodwill for impairment at least annually, during our fourth quarter, and whenever events occur or circumstances change that indicate there may be an impairment. These events or circumstances could include a significant adverse change in the business climate, poor indicators of operating performance or a sale or disposition of a significant portion of a reporting unit.

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

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Testing goodwill for impairment requires us to determine the amount of goodwill associated with reporting units, estimate fair values of those reporting units and determine their carrying values. These processes are subjective and require significant estimates. These estimates include judgments about future cash flows that are dependent on internal forecasts, long-term growth rates, allocations of commonly shared assets and estimates of the weighted-average cost of capital used to discount future cash flows. Changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill.

Based on these tests, goodwill was not impaired in 2008, 2007 or 2006.

Purchase Price Allocations for Business Combinations

During 2008, we acquired CSA and PRIZM. Under purchase accounting, we recorded assets and liabilities at fair value as of the acquisition dates. We identified and ascribed value to customer relationships, trade names, patents and backlog, and estimated the useful lives over which these intangible assets would be amortized. Valuations of these assets were performed largely using discounted cash flow models. These valuations support the conclusion that intangible assets other than goodwill had a value of $7 million. The resulting goodwill was $20 million, reflecting the strong cash flows of the acquired operations.

During 2008, we completed our purchase price allocations for the 2007 acquisitions of ZEVEX, Thermal Control Products, Techtron and Quickset. This resulted in a $2 million increase in goodwill and a $2 million decrease in intangible assets.

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

Pension Assumptions

We maintain various defined benefit pension plans covering employees at certain locations. Pension expense for all defined benefit plans for 2008 was $20 million. Pension obligations and the related costs are determined using actuarial valuations that involve several assumptions. The most critical assumptions are the discount rate and the long-term expected return on assets. Other assumptions include salary increases, retirement age and mortality.

The discount rate is used to state expected future cash flows at present value. Using a higher discount rate decreases the present value of pension obligations and reduces pension expense. In determining expense for 2008 for our U.S. plans, we used a 6.2% discount rate, compared to 6.0% for 2007. We will use a 7.3% discount rate to determine our expense in 2009 for these U.S. plans. This 110 basis point increase in the discount rate will decrease our pension expense by $3 million in 2009.

Beginning with the determination of our 2009 expense and the measurement of our projected benefit obligation as of August 31, 2008, we are using the Mercer Pension Discount Yield Curve (Mercer Yield Curve) for our U.S. plans. The Mercer Yield Curve uses a portfolio of high quality bonds rated AA or higher by Moody s. Previously, we used the Moody s AA Corporate Bond Index yield to determine the discount rate. We believe the Mercer Yield Curve is a more appropriate indicator for determining the discount rate, since it matches the future cash flow from the bond portfolio against the expected cash outflows of our plans. The Mercer Yield Curve would have produced a 6.5% discount rate in 2008, had we elected to use this method to determine expense last year.

The return on assets assumption reflects the average rate of earnings expected on funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In determining the return on assets assumption, we consider our current and target asset allocations. We consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and to provide adequate liquidity to meet immediate and future benefit payment requirements. In determining expense for 2008 for our largest plan, we used an 8.9% return on assets assumption, the same we used in 2007. A 50 point basis decrease in the return on assets assumption would increase our annual pension expense by $2 million.

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Deferred Tax Asset Valuation Allowances

At September 27, 2008, we had gross deferred tax assets of $100 million and a deferred tax asset valuation allowance of $8 million. The deferred tax assets principally relate to benefit accruals, inventory obsolescence and contract loss reserves. The deferred tax assets include $9 million related to net operating losses in Luxembourg and The Netherlands for which an $8 million deferred tax asset valuation allowance is recorded.

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

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CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(dollars in millions)	**2008**	2007	2006
Net sales	**$1,903**	$1,558	$1,306
Gross margin	**32.0%**	34.0%	32.6%
Research and development expenses	**$ 110**	$ 103	$ 69
Selling, general and administrative expenses as a percentage of sales	**15.5%**	16.2%	16.4%
Interest expense	**$ 38**	$ 30	$ 22
Effective tax rate	**29.1%**	29.8%	32.3%
Net earnings	**$ 119**	$ 101	$ 81

Our fiscal year ends on the Saturday in September or October that is closest to September 30. The consolidated financial statements include 52 weeks for the years ended September 27, 2008 and September 29, 2007 and 53 weeks for the year ended September 30, 2006. While management believes this affects the comparability of financial results presented, the impact has not been determined.

Net sales increased $345 million, or 22%, in 2008 and $252 million, or 19%, in 2007. Sales increased in each of our segments. We estimate that acquisitions accounted for approximately one-third of the growth in 2008 and one-quarter of the growth in 2007.

Our gross margin declined in 2008 compared to 2007. Approximately one-third of the decline was a result of increased charges to our contract loss reserves, most of which relate to aircraft development contracts. We also had a less favorable product mix in 2008, particularly within Aircraft Controls and Space and Defense Controls. Our gross margin improved in 2007 compared to 2006. Approximately one-half of the improvement was a result of reduced charges to our contract loss reserves, most of which relate to aircraft development contracts. We also benefited from a favorable product mix in 2007, particularly in Space and Defense Controls and Medical Devices.

Research and development expenses increased in both 2008 and 2007, reflecting increases in aircraft projects and recent acquisitions. During 2008, the increase was evenly split between aircraft initiatives and acquisitions. Within Aircraft Controls, work on the Airbus A350 increased by $10 million and other aircraft projects increased by $6 million. These increases were offset by a $13 million decline on the Boeing 787 Dreamliner. During 2007, $15 million of the increase was attributable to work on the Boeing 787, another $8 million to other aircraft projects and $3 million from acquired businesses.

Selling, general and administrative expenses as a percentage of sales declined in both 2008 and 2007. The decrease in 2008 resulted from higher bid and proposal and sales support costs on the A350 and other aircraft projects in 2007. During 2007, we were able to increase our sales without corresponding increases in our cost structure, somewhat offset by the higher cost structure of the new Medical Devices segment. In addition, during 2006 we incurred a $2 million charge for the termination of an agreement with a long-standing sales representative.

Interest expense increased in both 2008 and 2007. The increase in 2008 was a result of higher debt levels, with slightly more than half associated with our acquisitions and the remainder coming from working capital and capital expenditure requirements. Approximately 85% of the increase in 2007 was a result of higher debt levels associated with our acquisitions and additional pension contributions. Higher interest rates in 2007 contributed the remaining increase.

The effective tax rate for 2008 was lower than 2007 mainly as a result of lower state tax rates and a greater portion of our income coming from foreign operations with lower tax rates. The effective tax rate for 2007 was lower than 2006 mainly as a result of a tax charge in 2006 related to a tax opinion rendered by the European tax court. We also utilized previously unrecognized tax loss carryforwards in 2007.

In 2008, both net earnings and diluted earnings per share increased 18% compared to 2007. In 2007, net earnings increased 24% and diluted earnings per share increased 19%. Average common shares outstanding in 2007 increased

primarily as a result of the sale of 2,875,000 shares of Class A common stock in February 2006.

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2009 Outlook - We expect sales in 2009 to increase to $2.0 billion with increases in each of our segments. Sales are expected to increase between $23 million and $63 million in Industrial Systems, $26 million in Components, $22 million in Space and Defense Controls, $15 million in Medical Devices and $7 million in Aircraft Controls. We expect operating margins to be 12.0% in 2009, the same as in 2008. We expect operating margins to increase in Medical Devices and Aircraft Controls, maintain their levels in Industrial Systems and decline in Components and Space and Defense Controls. We expect net earnings to increase to between $132 million and $136 million. We expect diluted earnings per share to increase by a range of 10% to 14% to between $3.03 and $3.13.

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SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit is reconciled to earnings before income taxes in Note15 of Item 8, Financial Statements and Supplementary Data, of this report.

Aircraft Controls

(dollars in millions)	**2008**	2007	2006
Net sales military aircraft	**$402**	$ 326	$ 330
Net sales commercial aircraft	**271**	261	197
	$673	$ 587	$ 527
Operating profit	**$ 55**	$ 61	$ 67
Operating margin	**8.2%**	10.4%	12.6%
Backlog	**$372**	$ 322	$ 282

Net sales in Aircraft Controls increased $86 million, or 15%, in 2008. Military aircraft sales increased $76 million. Sales increased $37 million on the F-35 Joint Strike Fighter program primarily due to increased activity on the design, development and manufacture of hardware and, to a lesser extent, a profit rate adjustment for having achieved certain weight objectives. Military aftermarket sales increased $20 million and sales on the V-22 Osprey production program increased $12 million. Commercial aircraft sales increased by 4% over 2007 as a $19 million sales increase in business jets was offset by a $6 million decline in sales to Boeing on the 7-series, including the 787 program, and a $6 million decline in aftermarket sales.

Net sales in Aircraft Controls increased 11% in 2007 due to strong commercial aircraft sales. Commercial sales were led by a $37 million increase in OEM sales to Boeing, including $20 million associated with the Boeing 787. Business jet revenues were up $13 million and aftermarket revenues increased $11 million, reflecting higher activity in commercial and business jets. Military aircraft sales declined in 2007 as sales increases on the V-22, and Seahawk and Black Hawk helicopter programs were more than offset by $12 million of lower sales on the F-35 cost-plus development program.

Our operating margin decreased in 2008 and 2007. Our operating margin was lower in 2008 compared to 2007 as a greater proportion of sales in 2008 came from the cost-plus F-35 program. In addition, we established a loss reserve of $7 million in 2008 on our Boeing business related to delays in Boeing s production schedule and increased costs of certain purchased critical components. Partially offsetting those effects was a decline in research and development costs as a percentage of sales, primarily resulting from a $13 million decline on the 787 program. The operating margin decline in 2007 mostly reflects significant research and development costs, particularly on the Boeing 787 program. Research and development expenses on the 787 program were $46 million in 2007 and $31 million in 2006. Charges to contract loss reserves were lower in 2007 compared to 2006 by $8 million; however, this was offset by a $4 million gain related to our negotiations with Boeing and the U.S. Army for the Comanche termination in 2006 and an unfavorable shift in product mix.

Twelve-month backlog for Aircraft Controls increased to $372 million at September 27, 2008. This increase is largely related to strong commercial orders. The increase in backlog at September 29, 2007 from September 30, 2006 was also largely the result of strong commercial orders.

2009 Outlook for Aircraft Controls We expect sales in Aircraft Controls to increase 1% to $680 million in 2009. Within military aircraft, we expect sales to increase 1% to $407 million mainly due to increases in aftermarket, offset by a decline on the F-35 program. Commercial aircraft sales are expected to increase 1% to $273 million, principally

related to sales to Airbus and business jets which will offset declines in aftermarket and Boeing. We expect our operating margin to be 8.4% in 2009, an improvement from 8.2% in 2008, resulting mainly from lower research and development spending.

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Space and Defense Controls

(dollars in millions)	**2008**	2007	2006
Net sales	**$ 253**	$ 185	$148
Operating profit	**$ 29**	$ 24	$ 13
Operating margin	**11.6%**	13.1%	9.0%
Backlog	**$ 153**	$ 142	$127

Net sales in Space and Defense Controls increased $69 million, or 37%, in 2008 compared to 2007. The increase resulted primarily from the acquisition of QuickSet, which contributed $53 million of incremental sales. QuickSet sales include $33 million on the Driver s Vision Enhancer (DVE) program in the defense controls market, which more than offset a decline of $15 million on the Marine s Light-Armored Vehicle (LAV-25) program. QuickSet also contributed $18 million in sales of surveillance systems in our homeland security product line. The Constellation Program, which we began working on in 2007, generated $24 million in 2008, more than offsetting the $5 million decline on the Space Shuttle. The third quarter of 2008 acquisition of CSA also contributed $6 million of the increase.
Net sales in Space and Defense Controls increased 25% in 2007 due principally to new defense controls programs. Sales on the LAV-25 program increased $13 million in 2007. Future Combat Systems, which started in 2006 with a negligible amount of sales, generated over $10 million of sales. In addition, sales of controls for commercial and military satellites increased $7 million.
Our operating margin for Space and Defense Controls declined in 2008. Additions to contract loss reserves were $6 million higher in 2008 compared to 2007 as we established a $4 million loss reserve for thruster valves used on satellites in 2008. This impact was partially offset by strong margins on the DVE program. Our operating margin for Space and Defense Controls increased significantly in 2007, due largely to strong sales volume and a more favorable product mix. In addition, we had a $2 million charge in 2006 associated with the termination of a sales representative agreement.
Twelve-month backlog for Space and Defense Controls increased to $153 million at September 27, 2008 primarily as a result of the backlog associated with the CSA acquisition. Backlog at September 29, 2007 increased from September 30, 2006 primarily as a result of backlog associated with the acquisition of QuickSet just prior to year-end.
2009 Outlook for Space and Defense Controls We expect sales in Space and Defense Controls to increase 9% to $276 million in 2009. We expect $20 million in revenue from our newest acquisition, CSA, a $14 million increase over 2008. We also expect increases in the homeland security, tactical missiles, launch vehicles and naval applications, which will more than offset the decline in defense controls as a result of fewer orders for the DVE program. We expect our operating margin in 2009 to decrease to 11.2%, down from 11.6% in 2008, as a result of a larger portion of sales coming from lower margin cost-plus contracts.

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Industrial Systems

(dollars in millions)	**2008**	2007	2006
Net sales	**$ 532**	$ 436	$ 381
Operating profit	**$ 73**	$ 57	$ 45
Operating margin	**13.8%**	13.2%	11.8%
Backlog	**$ 161**	$ 150	$ 122

Net sales in Industrial Systems increased $96 million, or 22%, in 2008. Stronger foreign currencies, in particular the euro, compared to the U.S. dollar had a positive impact on sales, representing 38% of the sales increase. Sales, inclusive of foreign currency effect, were up in nearly all of our major markets including simulation, metal forming and presses, heavy industry, power generation and plastics making machinery. Sales in the motion simulator business grew $27 million as a result of very strong deliveries to CAE and Flight Safety. The metal forming market continued to grow as sales were up $13 million due to strong demand in Europe. Sales growth in heavy industry, which represents equipment used in steel mills, was $12 million, with increases coming mainly in China and Europe. We had increases of $9 million each in distribution and aftermarket. Sales in power generation increased $7 million for the year as a result of strong demand in Asia and sales of controls for plastics making machinery also increased $7 million.

Net sales in Industrial Systems increased 14% in 2007 reflecting substantial growth in most of our major markets. Sales increases of controls for presses and metal forming and plastics making machinery reflected strong demand in Europe. In addition, sales increased in our motion simulation and heavy industry markets. Stronger foreign currencies, in particular the euro, compared to the U.S. dollar, accounted for more than one-third of the sales increase.

Our operating margin for Industrial Systems improved in both 2008 and 2007 due to higher sales volume and operating efficiencies.

The higher level of twelve-month backlog for Industrial Systems at September 27, 2008 compared to September 29, 2007 relates primarily to increased orders for power generation programs. The higher level of twelve-month backlog at September 29, 2007 compared to September 30, 2006 largely relates to increased orders for motion simulators and stronger foreign currencies compared to the U.S. dollar.

2009 Outlook for Industrial Systems We expect sales in Industrial Systems to increase between 4% and 12% to an amount in the range of $555 million to $595 million in 2009. We expect the sales growth will come from completing the LTi REEnergy acquisition, which will be in the power generation market. We expect our operating margin to be 13.8% in 2009, similar to the strong performance we achieved in 2008.

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Components

(dollars in millions)	**2008**	2007	2006
Net sales	**$ 341**	$ 283	$ 238
Operating profit	**$ 61**	$ 45	$ 37
Operating margin	**17.8%**	15.7%	15.5%
Backlog	**$ 167**	$ 149	$ 110

Net sales in Components increased $58 million, or 20%, in 2008. We experienced improvements in every market. Recent acquisitions contributed $13 million of the sales increase. Marine sales increased $16 million as the high price of oil drove demand. Marine sales were also helped by the PRIZM acquisition. Aircraft sales increased $14 million due largely to work on the Guardian program and Multi-Spectral Targeting System. Sales of space and defense controls were up $13 million due to strong orders for defense controls. Industrial sales increased $10 million, largely a result of the Thermal Control Products and Techtron acquisitions.

Net sales in Components increased 19% in 2007 with growth in every major market. Aircraft sales increased $18 million due mainly to increased military procurement on the Black Hawk and the Eurofighter, as well as growth in the commercial avionics market. Sales of space and defense controls, including foreign military sales of fiber optic modems for battlefield communication and various components supplied on the commander s independent viewer for the Bradley Fighting Vehicle and Abrams tank, contributed $11 million of the increase for the year. Marine sales increased $7 million reflecting increased interest in exploration and production of oil. In addition, sales of medical equipment components improved by $6 million.

Our operating margin for 2008 improved over 2007 primarily as a result of higher sales volume. The operating margin for 2007 was comparable to 2006.

The higher level of twelve-month backlog at September 27, 2008 compared to September 29, 2007 primarily relates to increased orders for military aircraft programs, most notably on the Guardian program. The higher level of twelve-month backlog at September 29, 2007 compared to September 30, 2006 primarily relates to increased orders for space and defense controls and military aircraft programs.

2009 Outlook for Components - We expect sales in Components to increase 8% to $367 million in 2009. We expect sales increases to come from nearly every market with the largest increase coming from aircraft sales, which is primarily driven by the Guardian program. Other increases are expected to come from space and defense markets, marine markets and industrial markets. We expect our operating margin to decline to 16.5% in 2009 primarily as a result of product mix changes.

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Medical Devices

(dollars in millions)	**2008**	2007	2006
Net sales	**$103**	$ 68	$ 13
Operating profit	**$ 9**	$ 7	$
Operating margin	**8.8%**	10.2%	(1.6%)
Backlog	**$ 8**	$ 12	$ 4

The Medical Devices segment was established in the third quarter of 2006 as a result of the acquisition of Curlin Medical. The fourth quarter of 2006 acquisition of McKinley Medical and the second quarter of 2007 acquisition of ZEVEX have further expanded this segment. The increase in 2008 reflects a full year of sales for ZEVEX partially offset by decreased sales of intravenous and disposable pumps. The increase in 2007 reflects a full year of sales for the Curlin and McKinley product lines and a little over six months of sales from ZEVEX.

The comparability of our operating margins in Medical Devices is affected by first year, non-recurring purchase accounting charges for inventory step-up and backlog. In 2007 and 2006, these charges were $1.6 million and $2.6 million, respectively. Excluding these charges, operating margins would have been 12.6% in 2007 and 18.4% in 2006. The decrease in our operating margin in 2008 after considering these charges is attributable to both the product mix and sales volume of certain products. In 2008, we had lower sales of higher margin intravenous pumps. The ZEVEX acquisition also impacted the product mix with sales of lower margin enteral pumps and the administration sets used with them. The decrease in operating margins after taking out the effects of these first year, non-recurring charges in 2007 is mainly attributable to the product mix, reflecting proportionately lower sales of intravenous pumps in 2007 compared to 2006, and the addition of ZEVEX enteral pump sales in 2007 that have historically carried lower margins compared to our intravenous pump product lines.

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

2009 Outlook for Medical Devices - We expect sales in Medical Devices to increase 14% to $118 million in 2009 with most of the increase from administration sets, while pump sales are expected to be stable. We expect our operating margin to increase to 11.4% as a result of sales volume increases and operating efficiencies.

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FINANCIAL CONDITION AND LIQUIDITY

(dollars in millions)	**2008**	2007	2006
Net cash provided (used) by:			
Operating activities	**$ 108**	$ 25	$ 77
Investing activities	**(149)**	(231)	(170)
Financing activities	**42**	227	115

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

Operating activities

Net cash provided by operating activities increased $83 million in 2008. This increase resulted from increased earnings, slower growth in working capital requirements as sales growth moderated in the fourth quarter of 2008 compared to the third quarter, lower pension contributions and higher non-cash charges. The majority of the decrease in 2007 relates to higher working capital requirements, related primarily to receivables and inventories associated with our increasing sales. Depreciation and amortization was $63 million in 2008, $52 million in 2007 and $47 million in 2006. Provisions for losses were $37 million in 2008, $21 million in 2007 and $30 million in 2006.

Investing activities

Net cash used by investing activities of $149 million in 2008 consisted principally of $92 million for capital expenditures, the $28 million investment in 40% of LTi REEnergy and $22 million for the acquisitions of PRIZM and CSA. Net cash used by investing activities of $231 million in 2007 consisted principally of $136 million used for five acquisitions and $97 million for capital expenditures. Our major cash outlays for acquisitions included $82 million for the March 2007 acquisition of ZEVEX and $41 million for the September 2007 acquisition of QuickSet. In 2006, the $170 million of net cash used by investing activities consisted primarily of $90 million for acquisitions and $84 million for capital expenditures. The major cash outlays for 2006 acquisitions were $65 million for Curlin Medical to start our Medical Devices segment and $26 million for Flo-Tork.

Over the past few years our capital expenditures have been at fairly high levels compared to our historical averages. We have invested in major program initiatives and facility expansions. We expect this level of investment to continue into 2009.

Financing activities

The decrease in cash provided by financing activities in 2008 compared to 2007 is a result of the use of our U.S. revolving credit facility to fund the ZEVEX and QuickSet acquisitions and the growth in our working capital in 2007. Net cash provided by financing activities in 2007 of $227 million principally relates to increased borrowings under our U.S. revolving credit facility. The increase in cash provided by financing activities in 2007 compared to 2006 reflects larger acquisitions and increased investments in working capital requirements to fund our sales growth. Net cash provided by financing activities in 2006 is primarily related to net proceeds of $84 million received from the sale of Class A common stock and additional borrowings under our U.S. revolving credit facility.

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CAPITAL STRUCTURE AND RESOURCES

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

On March 14, 2008, we amended our U.S. revolving credit facility. Previously, it was a $600 million revolving credit facility that was due to mature on October 25, 2011. Our new U.S. revolving credit facility, which matures on March 14, 2013, increased our borrowing capacity to $750 million. We had an outstanding balance of $253 million on this credit facility at September 27, 2008. Interest on outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 150 basis points at September 27, 2008. The U.S. revolving credit facility is secured by substantially all of our U.S. assets.

The U.S. revolving credit facility contains various covenants. The covenant for minimum net worth, defined as total shareholders equity adjusted to maintain the amounts of accumulated other comprehensive loss at the level in existence as of September 30, 2006 is $600 million. The covenant for minimum interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The covenant for the maximum leverage ratio, defined as the ratio of net debt including letters of credit to EBITDA for the most recent four quarters, is 3.5. The covenant for maximum capital expenditures is $100 million annually. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income. We are in compliance with all covenants.

We are required to obtain the consent of lenders of the U.S. revolving credit facility before raising significant additional debt financing. In recent years, we have demonstrated our ability to secure consents to access debt markets, as demonstrated most recently by our June 2, 2008 sale of $200 million aggregate principal amount of senior subordinated notes. We have also been successful in accessing capital markets and have shown strong, consistent financial performance. We believe that we will be able to obtain additional debt or equity financing as needed.

At September 27, 2008, we had $526 million of unused borrowing capacity, including $485 million from the U.S. revolving credit facility after considering standby letters of credit.

Net debt to capitalization was 37% at September 27, 2008 and 38% at September 29, 2007.

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

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Off Balance Sheet Arrangements

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

Contractual Obligations and Commercial Commitments

Our significant contractual obligations and commercial commitments at September 27, 2008 are as follows:

(dollars in millions)	Payments due by period				
	Total	2009	2010-2011	2012-2013	After 2013
Contractual Obligations					
Long-term debt	$ 663	$ 1	$ 4	$258	$400
Interest on long-term debt	221	28	55	54	84
Operating leases	100	21	34	24	21
Purchase obligations	504	376	75	34	19
Total contractual obligations	$1,488	$426	$168	$370	$524

In addition to the obligations in the table above, we have recorded $9 million in accordance with FASB Interpretation No. 48 (FIN 48) for unrecognized tax benefits in current liabilities, which includes $1 million of related accrued interest. We are unable to determine if and when any of those amounts will be settled, nor can we estimate any potential changes to the unrecognized tax benefits.

Interest on long-term debt consists of payments on fixed-rate debt, primarily senior subordinated notes.

Total contractual obligations exclude pension obligations. In 2009, we anticipate making pension contributions of $31 million.

(dollars in millions)	Commitments expiring by period				
	Total	2009	2010-2011	2012-2013	After 2013
Other Commercial Commitments					
Standby letters of credit	$12	$9	$3	$	$

We have agreed to purchase the remaining 60% ownership in LTi REEnergy in June 2009 subject to conventional conditions of closing for a minimum amount of 12 million or $18 million using the exchange rate as of September 27, 2008.

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ECONOMIC CONDITIONS AND MARKET TRENDS

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

Aerospace and Defense

Approximately 58% of our 2008 sales were generated in aerospace and defense markets. The military aircraft market is dependent on military spending for development and production programs. Production programs are typically long-term in nature, offering predictability as to capacity needs and future revenues. We maintain positions on numerous high priority programs, including the F-35 Joint Strike Fighter, F/A-18E/F Super Hornet and V-22 Osprey. The large installed base of our products leads to attractive aftermarket sales and service opportunities. Aftermarket revenues are expected to continue to grow due to a number of scheduled military retrofit programs and increased flight hours resulting from increased military commitments.

The commercial OEM market has historically exhibited cyclical swings and sensitivity to economic conditions, while the aftermarket, which is driven by usage of the existing aircraft fleet, has proven to be more stable. Higher aircraft utilization rates result in the need for increased maintenance and spare parts and enhance aftermarket sales. Boeing and Airbus have increased production over the last several years as air traffic volume has grown.

The military and government space market is primarily dependent on the authorized levels of funding for satellite communications. Government spending on military satellites has risen in recent years as the military s need for improved intelligence gathering has increased. The commercial space market is comprised of large satellite customers, traditionally telecommunications companies. Trends for this market, as well as for commercial launch vehicles, follow the telecommunications companies need for increased capacity and the satellite replacement lifecycle of 7-10 years. Our position on NASA s Constellation Program for the exploration of the Moon and possibly Mars holds the potential to be a long-run production program.

The tactical missile, missile defense and defense controls markets are dependent on many of the same market conditions as military aircraft, including overall military spending and program funding levels. Our homeland security product line is dependent on government funding at federal and local levels, as well as private sector demand.

Industrial

Approximately 34% of our 2008 sales were generated in industrial markets. The industrial markets we serve are influenced by several factors, including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. Our opportunities for growth include:

- demand in China to support its economic growth, particularly in power generation and steel manufacturing markets,
- global automotive manufacturers that are upgrading their metal forming, injection molding and material test capabilities,
- steel manufacturers seeking to reduce energy costs,
- increasing demand for aircraft training simulators,
- the need for precision controls on plastic injection molding machines, and
- demand for pitch control systems for the growing wind energy market.

Medical

Approximately 8% of our 2008 sales were generated in medical markets. The medical markets we serve are influenced by population demographics, medical advances, patient demands and the need for precision control components and systems. Advances in medical technology and medical treatments have had the effect of extending the average life

span, in turn resulting in greater need for medical services. These same technology and treatment advances also drive increased demand from the general population as a means to improve quality of life. Greater access to medical insurance, whether through government funded health care plans or private insurance, also increases the demand for medical services.

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Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in Industrial Systems. About one-third of our 2008 sales were denominated in foreign currencies including the euro, British pound and Japanese yen. During 2008, the translation of the results of our foreign subsidiaries into U.S. dollars increased sales by $49 million compared to 2007. During 2007, the translation of the results of our foreign subsidiaries into U.S. dollars increased sales by $29 million compared to 2006.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on income tax returns. We adopted the provisions of FIN 48 on September 30, 2007. Previously, we had accounted for tax contingencies in accordance with SFAS No. 5, Accounting for Contingencies. As required by FIN 48, which clarifies SFAS No. 109, we recognized the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, we applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, we recognized an increase of $0.5 million in the liability for unrecognized tax benefits, which was accounted for as a reduction to the September 30, 2007 balance of retained earnings.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No.157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158. Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires entities to recognize an asset for a defined benefit postretirement plan s overfunded status or a liability for a plan s underfunded status in its balance sheet, with changes in funded status being recognized in comprehensive income in the year in which the changes occur. This requirement is effective for fiscal years ending after December 15, 2006. We have adopted these provisions of SFAS No. 158 as of September 29, 2007, the effect of which was to increase retirement liabilities by $42 million, deferred tax assets by $16 million and accumulated other comprehensive loss by $26 million. There was no impact to net earnings for the year ended September 29, 2007. This statement also requires an entity to measure a defined benefit postretirement plan s assets and obligations that determine its funded status as of the end of the employers fiscal year. This requirement is effective for fiscal years ending after December 15, 2008. This requirement will result in an approximate $1.5 million decrease to retained earnings in 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedging accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This statement replaces SFAS No. 141. The objective of SFAS No. 141(R) is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for the acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, the goodwill acquired or a gain

from a bargain purchase. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

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In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51. The objective of SFAS No. 160 is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing additional accounting and reporting standards. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133. The objective of SFAS No. 161 is to amend and expand the disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

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

In the normal course of business, we have exposures to interest rate risk from our long-term debt and foreign exchange rate risk related to our foreign operations and foreign currency transactions. To manage these risks, we may enter into derivative instruments such as interest rate swaps and forward contracts. We do not hold or issue financial instruments for trading purposes. In 2008, our derivative instruments consisted of interest rate swaps designated as cash flow hedges and foreign currency forwards.

At September 27, 2008, we had $181 million of borrowings subject to variable interest rates. On June 2, 2008, we completed the sale of $200 million aggregate principal amount of senior subordinated notes with a coupon interest rate of 7 1/4%. We used the net proceeds to repay indebtedness under our bank credit facility. As a result, during 2008, our average borrowings subject to variable interest rates was $330 million and, therefore, if interest rates had been one percentage point higher during 2008, our interest expense would have been $3 million higher. At September 27, 2008, we had a $75 million notional amount of outstanding interest rate swaps, of which $60 million matures in the first quarter of 2010 and $15 million in the second quarter of 2010. Based on the applicable margin, the interest rate swaps effectively convert this amount of variable rate debt to fixed rate debt at 5.6% through their maturities in 2010, at which time the interest will revert back to a variable rate based on LIBOR.

We have foreign currency exposure on intercompany loans. To minimize our foreign currency exposure, we have foreign currency forwards with a notional amount of $10 million outstanding at September 27, 2008.

Although the majority of our sales, expenses and cash flows are transacted in U.S. dollars, we have exposure to changes in foreign currency exchange rates such as the euro, British pound and Japanese yen. If average annual foreign exchange rates collectively weakened against the U.S. dollar by 10%, our pre-tax earnings in 2008 would have decreased by $11 million from foreign currency translation, primarily related to the euro, offset by $8 million from changes in operating margins for products sourced outside of the U.S.

We may also enter into forward contracts to reduce fluctuations in foreign currency cash flows related to third party purchases, intercompany product shipments and intercompany loans and to reduce fluctuations in the value of foreign currency investments in, and long-term advances to, subsidiaries.

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Item 8. Financial Statements and Supplementary Data.

MOOG INC.
Consolidated Statements of Earnings

(dollars in thousands except per share data)	Fiscal Years Ended **September 27, 2008**	September 29, 2007	September 30, 2006
NET SALES	**$ 1,902,666**	$ 1,558,099	$ 1,306,494
COST OF SALES	**1,293,452**	1,028,852	880,744
GROSS PROFIT	**609,214**	529,247	425,750
Research and development	**109,599**	102,603	68,886
Selling, general and administrative	**294,936**	252,173	213,657
Interest	**37,739**	29,538	21,861
Other	**(1,095)**	1,182	1,197
EARNINGS BEFORE INCOME TAXES	**168,035**	143,751	120,149
INCOME TAXES	**48,967**	42,815	38,803
NET EARNINGS	**$ 119,068**	$ 100,936	$ 81,346
NET EARNINGS PER SHARE			
Basic	**$ 2.79**	$ 2.38	$ 2.01
Diluted	**$ 2.75**	$ 2.34	$ 1.97
WEIGHTED-AVERAGE SHARES OUTSTANDING			
Basic	**42,604,268**	42,429,711	40,558,717
Diluted	**43,256,888**	43,149,481	41,247,689

See accompanying Notes to Consolidated Financial Statements.

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MOOG INC.
Consolidated Balance Sheets

(dollars in thousands except per share data)	September 27, 2008	September 29, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 86,814	$ 83,856
Receivables	517,361	431,978
Inventories	408,295	359,250
Deferred income taxes	53,102	46,789
Prepaid expenses and other current assets	24,813	14,978
TOTAL CURRENT ASSETS	1,090,385	936,851
PROPERTY, PLANT AND EQUIPMENT, net	428,120	386,813
GOODWILL	560,735	538,433
INTANGIBLE ASSETS, net of accumulated amortization of $45,060 in 2008 and $30,802 in 2007	74,755	81,916
OTHER ASSETS	73,252	62,166
TOTAL ASSETS	$2,227,247	$2,006,179
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 7,579	$ 3,354
Current installments of long-term debt	1,487	2,537
Accounts payable	128,723	113,942
Accrued salaries, wages and commissions	107,076	97,034
Customer advances	41,507	34,224
Contract loss reserves	20,536	12,362
Other accrued liabilities	70,185	56,775
TOTAL CURRENT LIABILITIES	377,093	320,228
LONG-TERM DEBT, excluding current installments		
Senior debt	261,922	411,543
Senior subordinated notes	400,072	200,089
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	108,072	113,354
DEFERRED INCOME TAXES	80,754	80,419
OTHER LONG-TERM LIABILITIES	4,924	3,334
TOTAL LIABILITIES	1,232,837	1,128,967
COMMITMENTS AND CONTINGENCIES (Note 16)		
SHAREHOLDERS EQUITY		
Common stock par value $1.00		
Class A Authorized 100,000,000 shares		

Issued 40,793,523 and outstanding 38,685,574 shares at September 27, 2008		
Issued 40,739,556 and outstanding 38,327,731 shares at September 29, 2007	40,794	40,740
Class B Authorized 20,000,000 shares. Convertible to Class A on a one-for-one basis		
Issued 7,811,190 and outstanding 3,997,799 shares at September 27, 2008		
Issued 7,865,157 and outstanding 4,197,350 shares at September 29, 2007	7,811	7,865
Additional paid-in capital	311,159	301,778
Retained earnings	688,585	570,063
Treasury shares	(40,607)	(39,873)
Stock Employee Compensation Trust	(22,179)	(15,928)
Accumulated other comprehensive income	8,847	12,567
TOTAL SHAREHOLDERS EQUITY	994,410	877,212
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$2,227,247	$2,006,179

See accompanying Notes to Consolidated Financial Statements.

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MOOG INC.
Consolidated Statements of Shareholders Equity

(dollars in thousands)	**September 27, 2008**	Fiscal Years Ended September 29, 2007	September 30, 2006
COMMON STOCK			
Beginning of year	**$ 48,605**	$ 48,605	$ 45,730
Sale of Class A Common Stock			2,875
End of year	**48,605**	48,605	48,605
ADDITIONAL PAID-IN CAPITAL			
Beginning of year	**301,778**	292,565	187,025
Sale of Class A Common Stock, net of issuance costs			81,622
Issuance of treasury shares at more than cost, including $12,616 for the acquisition of McKinley Medical in 2006	**3,906**	1,086	15,919
Equity-based compensation expense	**4,551**	3,299	3,482
Adjustment to market SECT, and other	**924**	4,828	4,517
End of year	**311,159**	301,778	292,565
RETAINED EARNINGS			
Beginning of year	**570,063**	469,127	387,781
Net earnings	**119,068**	100,936	81,346
Adjustment for Adoption of FIN 48	**(546)**		
End of year	**688,585**	570,063	469,127
TREASURY SHARES, AT COST*			
Beginning of year	**(39,873)**	(40,354)	(42,916)
Shares issued as consideration for purchase of McKinley Medical (2006 - 445,730)			2,377
Shares issued related to options (2008 - 363,784 Class A shares; 2007 - 185,437 Class A shares; 2006 - 342,695 Class A shares)	**1,940**	989	1,828
Shares purchased (2008 - 59,908 Class A shares; 2007 - 13,019 Class A shares; 2006 - 51,900 Class A shares)	**(2,674)**	(508)	(1,643)
End of year	**(40,607)**	(39,873)	(40,354)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)**			
Beginning of year	**(15,928)**	(14,652)	(12,952)
Sale of SECT stock to RSP Plan (2008 - 21,527 Class B shares;	**942**	2,930	2,386

2007 - 70,900 Class B shares; 2006 - 75,350 Class B shares)			
Purchase of SECT stock (2008 - 167,111 Class B shares;			
2007 - 14,108 Class B shares; 2006 - 47,350 Class B shares)	**(7,530)**	(559)	(1,599)
Adjustment to market SECT	**337**	(3,647)	(2,487)
End of Year	**(22,179)**	(15,928)	(14,652)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Beginning of year	**12,567**	7,565	(43,631)
Other comprehensive (loss) income	**(3,720)**	30,890	51,196
Initial adjustment to adopt SFAS No. 158, net of income taxes of $16,409		(25,888)	
End of year	**8,847**	12,567	7,565
TOTAL SHAREHOLDERS EQUITY	**$994,410**	$877,212	$762,856
COMPREHENSIVE INCOME			
Net earnings	**$119,068**	$100,936	$ 81,346
Other comprehensive income (loss):			
Foreign currency translation adjustment	**(2,854)**	29,047	7,568
Retirement liability adjustment	**(357)**	1,929	44,230
Accumulated (loss) on derivatives adjustment	**(509)**	(86)	(602)
COMPREHENSIVE INCOME	**$115,348**	$131,826	$132,542

* Class A Common Stock in treasury: 2,107,949 shares at September 27, 2008; 2,411,825 shares at September 29, 2007; 2,584,243 shares at September 30, 2006.

Class B Common Stock in treasury: 3,305,971 shares at September 27, 2008, September 29, 2007 and September 30, 2006.

** Class B Common Stock in SECT: 507,420 shares at September 27, 2008; 361,836 shares at September 29, 2007; 418,628 shares at

September 30, 2006.

The shares in the SECT are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the Trust agreement, the SECT trustee votes all shares held by the SECT on all matters submitted to shareholders.

See accompanying Notes to Consolidated Financial Statements.

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MOOG INC.
Consolidated Statements of Cash Flows

(dollars in thousands)	Fiscal Years Ended September 27, 2008	September 29, 2007	September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	$ 119,068	$ 100,936	$ 81,346
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	48,065	40,226	36,239
Amortization	15,311	11,867	10,838
Provisions for non-cash losses on contracts, inventories and receivables	36,563	20,755	30,230
Deferred income taxes	(5,698)	(545)	15,715
Equity-based compensation expense	4,551	3,299	3,482
Other	1,507	(116)	100
Change in assets and liabilities providing (using) cash, excluding the effects of acquisitions:			
Receivables	(79,302)	(72,848)	(26,082)
Inventories	(62,439)	(64,737)	(64,468)
Other assets	(3,190)	(943)	(4,355)
Accounts payable and accrued liabilities	16,653	(1,112)	18,753
Other liabilities	10,122	(12,994)	(12,881)
Customer advances	6,681	1,296	(12,042)
NET CASH PROVIDED BY OPERATING ACTIVITIES	107,892	25,084	76,875
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of businesses, net of cash acquired	(22,383)	(136,291)	(90,138)
Investment in LTi REEnergy Gmbh	(28,288)		
Purchases of property, plant and equipment	(91,761)	(96,960)	(83,555)
Other	(6,448)	2,371	4,022
NET CASH USED IN INVESTING ACTIVITIES	(148,880)	(230,880)	(169,671)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (repayments of) proceeds from notes payable	(709)	(15,707)	4,076
Proceeds from revolving lines of credit	450,705	666,209	298,100
Payments on revolving lines of credit	(599,705)	(400,209)	(262,000)
Proceeds from issuance of long-term debt, other than senior subordinated notes			2,390
Payments on long-term debt, other than senior subordinated notes	(1,933)	(28,690)	(17,616)

Proceeds from senior subordinated notes, net of issuance costs	196,393		
Proceeds from sale of Class A Common Stock, net of issuance costs			84,497
Proceeds from sale of treasury stock	5,846	2,075	5,131
Purchase of outstanding shares for treasury	(2,674)	(508)	(1,643)
Proceeds from sale of stock held by Stock Employee Compensation Trust	942	2,930	2,386
Purchase of stock held by Stock Employee Compensation Trust	(7,530)	(559)	(1,599)
Excess tax benefits from equity-based payment arrangements	1,137	1,147	1,243
Other		(17)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	42,472	226,671	114,965
Effect of exchange rate changes on cash and cash equivalents	1,474	5,160	1,902
INCREASE IN CASH AND CASH EQUIVALENTS	2,958	26,035	24,071
Cash and cash equivalents at beginning of year	83,856	57,821	33,750
Cash and cash equivalents at end of year	$ 86,814	$ 83,856	$ 57,821
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for:			
Interest	$ 35,402	$ 27,627	$ 21,074
Income taxes, net of refunds	50,555	41,066	31,775
Non-cash investing and financing activities:			
Treasury shares issued as consideration for purchase of McKinley Medical	$	$	$ 14,993
Unsecured notes issued as partial consideration for acquisitions	5,000	2,850	12,000
Equipment acquired under capital leases	72	28	

See accompanying Notes to Consolidated Financial Statements.

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

Note 1 Summary of Significant Accounting Policies

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

Fiscal Year: Our fiscal year ends on the Saturday in September or October that is closest to September 30. The consolidated financial statements include 52 weeks for the years ended September 27, 2008, and September 29, 2007 and 53 weeks for the year ended September 30, 2006. While management believes this affects the comparability of financial statements presented, the impact has not been determined.

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

Foreign Currency Translation: Foreign subsidiaries assets and liabilities are translated using rates of exchange as of the balance sheet date and the statements of earnings are translated at the average rates of exchange for each reporting period.

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

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

Percentage of completion method for contracts: Revenue representing 32% of 2008 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 (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. This method of revenue recognition is predominately used within the Aircraft Controls and Space and Defense Controls segments due to the contractual nature of the business activities, with the exception of their respective aftermarket activities. The contractual arrangements are either firm fixed-price or cost-plus contracts and are primarily with the U.S. Government or its prime subcontractors, foreign governments or commercial aircraft manufacturers, including Boeing and Airbus. The nature of the contractual arrangements includes customers requirements for delivery of hardware as well as funded nonrecurring development work in anticipation of follow-on production orders.

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

Occasionally, it is appropriate under SOP 81-1 to combine or segment contracts. Contracts are combined in those limited circumstances when they are negotiated as a package in the same economic environment with an overall profit margin objective and constitute, in essence, an agreement to do a single project. In such cases, revenue and costs are recognized over the performance period of the combined contracts as if they were one. Contracts are segmented in limited circumstances if the customer had the right to accept separate elements of the contract and the total amount of the proposals on the separate components approximated the amount of the proposal on the entire project. For segmented contracts, revenue and costs are recognized as if they were separate contracts over the performance periods of the individual elements or phases.

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Contract costs include only allocable, allowable and reasonable costs, as determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards for applicable U.S. Government contracts, and are included in cost of sales when incurred. The nature of these costs includes development engineering costs and product manufacturing costs including direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material for 2008, 2007 and 2006.

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

As units are delivered or services are performed: In 2008, 68% of our sales were recognized as units were delivered or as service obligations were satisfied in accordance with the Securities and Exchange Commission s Staff Accounting Bulletin No. 104, Revenue Recognition. Revenue is recognized when the risks and rewards of ownership and title to the product are transferred to the customer. When engineering or similar services are performed, revenue is recognized upon completion of the obligation including any delivery of engineering drawings or technical data. This method of revenue recognition is predominately used within the Industrial Systems, Components and Medical Devices segments, as well as with aftermarket activity. Profits are recorded as costs are relieved from inventory and charged to cost of sales and as revenue is recognized. Inventory costs include all product-manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead cost allocations.

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

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

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

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

	2008	2007	2006
Basic weighted-average shares outstanding	**42,604,268**	42,429,711	40,558,717
Dilutive effect of equity-based awards	**652,620**	719,770	688,972
Diluted weighted-average shares outstanding	**43,256,888**	43,149,481	41,247,689

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

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

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

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

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

Goodwill and Acquired Intangible Assets: We test goodwill for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that indicate that the fair value of a reporting unit could be below its carrying amount. The impairment test consists of comparing the fair value of a reporting unit, determined using discounted cash flows, with its carrying amount including goodwill, and, if the carrying amount of the reporting unit exceeds its fair value, comparing the implied fair value of goodwill with its carrying amount. An impairment loss would be recognized for the carrying amount of goodwill in excess of its implied fair value. There were no impairment charges recorded in 2008, 2007 or 2006.

Acquired identifiable intangible assets are recorded at cost and are amortized over their estimated useful lives. There were no identifiable intangible assets with indefinite lives at September 27, 2008.

Impairment of Long-Lived Assets: Long-lived assets, including acquired identifiable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. We use undiscounted cash flows to determine whether impairment exists and measure any impairment loss using discounted cash flows. There were no impairment charges recorded in 2008, 2007 or 2006.

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

	2008	2007	2006
Warranty accrual at beginning of year	**$ 7,123**	$ 5,968	$ 4,733
Additions from acquisitions	**100**	196	
Warranties issued during current period	**7,971**	7,049	6,594
Reductions for settling warranties	**(5,533)**	(6,416)	(5,488)
Foreign currency translation	**354**	326	129
Warranty accrual at end of year	**$10,015**	$ 7,123	$ 5,968

Financial Instruments: Our financial instruments consist primarily of cash and cash equivalents, receivables, notes payable, accounts payable, long-term debt, interest rate swaps and foreign currency forwards. The carrying values for our financial instruments approximate fair value with the exception at times of long-term debt. See Note 7 for fair value of long-term debt. We do not hold or issue financial instruments for trading purposes.

We carry derivative instruments on the balance sheet at fair value, determined by reference to quoted market prices. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and

qualifies as part of a hedging relationship and, if so, the reason for holding it. Our use of derivative instruments is generally limited to cash flow hedges of certain interest rate risks and minimizing foreign currency exposure on intercompany loans.

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Recent Accounting Pronouncements: In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on income tax returns. We adopted the provisions of FIN 48 on September 30, 2007. Previously, we had accounted for tax contingencies in accordance with SFAS No. 5, Accounting for Contingencies. As required by FIN 48, which clarifies SFAS No. 109, we recognized the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, we applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, we recognized an increase of $546 in the liability for unrecognized tax benefits, which was accounted for as a reduction to the September 30, 2007 balance of retained earnings.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No.157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158. Employers Accounting for defined benefit pension and other postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires entities to recognize an asset for a defined benefit postretirement plan s overfunded status or a liability for a plan s underfunded status in its balance sheet, with changes in funded status being recognized in comprehensive income in the year in which the changes occur. This requirement is effective for fiscal years ending after December 15, 2006. We have adopted these provisions of SFAS No. 158 as of September 29, 2007, the effect of which was to increase retirement liabilities by $42,297, deferred tax assets by $16,409 and accumulated other comprehensive loss by $25,888. There was no impact to net earnings for the year ended September 29, 2007. This statement also requires an entity to measure a defined benefit postretirement plan s assets and obligations that determine its funded status as of the end of the employers fiscal year. This requirement is effective for fiscal years ending after December 15, 2008. This requirement will result in an approximate $1,500 decrease to retained earnings in 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedging accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This statement replaces SFAS No. 141. The objective of SFAS No. 141(R) is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for the acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, the goodwill acquired or a gain from a bargain purchase. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. The objective of SFAS No. 160 is to improve the relevance, comparability and

transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing additional accounting and reporting standards. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

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In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. The objective of SFAS No. 161 is to amend and expand the disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

Note 2 Acquisitions and Equity investment

On June 4, 2008, we acquired a 40% ownership in LTi REEnergy GmbH for cash of $28,288. LTi REEnergy specializes in the design and manufacture of servo controllers as well as complete drive systems for electric rotor blade controls for wind turbines. Annual sales for the twelve months preceding the transaction were approximately $85,000. We are accounting for this investment using the equity method of accounting with our net investment reflected in other assets on the balance sheet. We expect to acquire the remaining 60% of the company in June 2009 subject to conventional conditions of closing. Our 40% share of the earnings of LTi REEnergy subsequent to the date of the investment was $874 and is included in the operating results of our Industrial Systems segment.

All of our acquisitions are accounted for under the purchase method for business combinations and, accordingly, the results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition.

On May 2, 2008, we acquired CSA Engineering, Inc. The purchase price, net of cash acquired, was $15,277, which was financed with credit facility borrowings, and a $2,000 unsecured note to the sellers due June 30, 2009. CSA designs and supplies systems for vibration suppression, precision motion control and dynamic testing of structures for the aerospace and defense markets. CSA s specialized applications include satellite payload isolation systems, ground based test systems for space and missile hardware, tuned mass dampers for vibration control and a jitter reduction control system for the Airborne Laser optical bench. Sales in the most recent calendar year were approximately $14,000. The acquisition is included as part of our Space and Defense Controls segment.

On November 20, 2007, we acquired PRIZM Advanced Communication Electronics Inc. The purchase price, net of cash acquired, was $12,000, which was financed with credit facility borrowings and issuance of $3,000 of unsecured notes to the sellers due on March 31, 2009. PRIZM specializes in the design of fiber optic and wireless video and data multiplexers used in commercial and military subsea markets for oil and gas exploration, terrestrial robots and remote sensing applications. This acquisition is included as part of our Components segment.

On September 12, 2007, we acquired QuickSet International, Inc. The purchase price, net of cash acquired, was $41,114, which was financed with credit facility borrowings. QuickSet is a manufacturer of precision positioning systems and pan and tilt mechanisms. QuickSet s products are used to position surveillance cameras, thermal imagers, sensors and communication antennae for military, homeland security and commercial surveillance for securing national borders, commercial ports, strategic missile silos and military protection systems. This acquisition is principally included as part of our Space and Defense Controls segment and will contribute to growth in our defense controls market and accelerate our business development in homeland security. Annual sales for the twelve months preceding the acquisition were approximately $22,000. During 2008, we completed our purchase price allocation for the acquisition and, as a result, goodwill increased by $2,300 and intangible assets decreased by $2,081.

On September 6, 2007, we acquired Techtron, a commercial slip ring manufacturer, for $5,600 in cash. This acquisition is included as part of our Components segment.

On May 3, 2007, we acquired Thermal Control Products Inc. The purchase price, net of cash acquired, was $6,887. We paid $4,037 in cash, which was financed with credit facility borrowings, and issued unsecured notes to the sellers payable over three years with a discounted present value of $2,850. Thermal Control Products specializes in the design, prototype and manufacture of electronic cooling and air moving systems for the automotive, telecommunications, server and electronic storage markets and is included as part of our Components segment.

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On March 16, 2007, we acquired ZEVEX International, Inc. The purchase price, net of cash acquired, was $82,473, which was financed with credit facility borrowings, and $1,796 in assumed debt. ZEVEX manufactures and distributes a line of ambulatory pumps, stationary pumps and disposable sets that are used in the delivery of enteral nutrition for hospital, long-term care facilities, neonatal and patient home use. ZEVEX also designs, develops and manufactures surgical tools and sensors and provides engineered solutions for the medical marketplace. This acquisition further expands our participation in medical markets. Annual sales for the twelve months preceding the acquisition were approximately $43,000.

In the first quarter of 2007, we acquired a ball screw manufacturer. The purchase price was $2,567 paid in cash and $2,935 in assumed debt and is included as part of our Industrial Systems segment.

On August 24, 2006, we acquired McKinley Medical by issuing 445,725 shares of Moog Class A common stock valued at $14,993 and $550 in cash. McKinley Medical designs, assembles and distributes disposable pumps and accessories used principally to administer therapeutic drugs for chemotherapy and antibiotic applications and post-operative medication for pain management. This acquisition further expands our participation in medical markets within our Medical Devices segment.

On April 7, 2006, we acquired Curlin Medical and affiliated companies. The adjusted purchase price was $77,056, which was financed with credit facility borrowings of $65,056 and a $12,000 unsecured note held by the sellers, which was paid on April 9, 2007. Curlin Medical is a manufacturer of infusion pumps that provide controlled delivery of therapeutic drugs to patients. This acquisition formed our newest segment, Medical Devices.

On November 23, 2005, we acquired Flo-Tork. The adjusted purchase price was $25,739, which was financed with credit facility borrowings. Flo-Tork is a leading designer and manufacturer of hydraulic and pneumatic rotary actuators and specialized cylinders for niche military and industrial applications. This acquisition not only expands our reach within Industrial Systems, but also provides new opportunities for naval applications within Space and Defense Controls.

Our purchase price allocations for our current year acquisitions are substantially complete.

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Note 3 Receivables

Receivables consist of:

	September 27, 2008	September 29, 2007
Accounts receivable	**$234,785**	$207,405
Long-term contract receivables:		
Amounts billed	**65,531**	52,830
Unbilled recoverable costs and accrued profits	**208,894**	170,458
Total long-term contract receivables	**274,425**	223,288
Other	**11,500**	4,371
Total receivables	**520,710**	435,064
Less allowance for doubtful accounts	**(3,349)**	(3,086)
Receivables	**$517,361**	$431,978

Long-term contract receivables are primarily associated with prime contractors and subcontractors in connection with U.S. Government contracts and commercial aircraft and satellite manufacturers. Amounts billed under long-term contracts to the U.S. Government were $17,164 at September 27, 2008 and $11,475 at September 29, 2007. Unbilled recoverable costs and accrued profits under long-term contracts to be billed to the U.S. Government were $9,008 at September 27, 2008 and $9,673 at September 29, 2007. Unbilled recoverable costs and accrued profits principally represent revenues recognized on contracts that were not billable on the balance sheet date. These amounts will be billed in accordance with contract terms, generally as certain milestones are reached or upon shipment. Approximately 75% of unbilled amounts are expected to be collected within one year. In situations where billings exceed revenues recognized, the excess is included in customer advances.

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

Concentrations of credit risk on receivables are limited to those from significant customers that are believed to be financially sound. Receivables from Boeing were $92,127 at September 27, 2008 and $74,509 at September 29, 2007. We perform periodic credit evaluations of our customers financial condition and generally do not require collateral.

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Note 4 Inventories

Inventories, net of reserves, consist of:

	September 27, 2008	September 29, 2007
Raw materials and purchased parts	**$150,984**	$121,622
Work in process	**203,331**	183,810
Finished goods	**53,980**	53,818
Inventories	**$408,295**	$359,250

Note 5 Property, Plant and Equipment

Property, plant and equipment consists of:

	September 27, 2008	September 29, 2007
Land	**$ 23,269**	$ 23,395
Buildings and improvements	**263,817**	239,345
Machinery and equipment	**540,840**	485,193
Property, plant and equipment, at cost	**827,926**	747,933
Less accumulated depreciation and amortization	**(399,806)**	(361,120)
Property, plant and equipment	**$ 428,120**	$ 386,813

Assets under capital leases included in property, plant and equipment are summarized as follows:

	September 27, 2008	September 29, 2007
Assets under capital leases, at cost	**$ 4,168**	$ 4,153
Less accumulated amortization	**(621)**	(518)
Net assets under capital leases	**$ 3,547**	$ 3,635