ESTERLINE TECHNOLOGIES CORP
Form 10-K
December 20, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 25, 2013.

OR

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

For the transition period from __________ to __________

Commission file number 1-6357

ESTERLINE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices)(Zip Code)

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

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

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

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

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 ¨

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

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

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

As of December 16, 2013, 31,575,039 shares of the Registrant s common stock were outstanding. The aggregate market value of shares of common stock held by non-affiliates as of April 26, 2013, was $2,308,350,938 (based upon the closing sales price of $73.86 per share).

Documents Incorporated by Reference

Part III incorporates information by reference to the registrant s definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended October 25, 2013.

PART I

This Report includes a number of forward-looking statements that reflect the Company s current views with respect to future events and financial performance. Please refer to the section addressing forward-looking information on page 10 for further discussion. In this report, we, our, us, Company, and Esterline refer to Esterline Technologie Corporation and subsidiaries, unless otherwise noted or context otherwise indicates.

Item 1. Business

General Development of Business

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

Our strategy is to maintain a leadership position in niche markets for the development and manufacture of highly engineered products that are essential to our customers. We are concentrating our efforts to expand selectively our capabilities in these markets, to anticipate the global needs of our customers and to respond to such needs with comprehensive solutions. Our current business and strategic growth plan focuses on the continuous development of these products in three key technology segments: Avionics & Controls, Sensors & Systems, and Advanced Materials. Our products are often mission critical, which have been designed into particular military and commercial platforms and in certain cases can only be replaced by products of other manufacturers following a formal certification process. As part of our implementation of this growth plan, we focus on expansion of our capabilities as a more comprehensive supplier to our customers. Such expansion included the February 4, 2013, acquisition of the Gamesman Group (Gamesman), which is a global supplier of input devices principally serving the gaming industry; the July 26, 2011, acquisition of the Souriau Group (Souriau), which is a leading global supplier of highly engineered connection technologies for harsh environments; and the December 30, 2010, acquisition of Eclipse Electronic Systems, Inc. (Eclipse), which develops and manufactures embedded communication intercept receivers for signal intelligence applications. These acquisitions are described in more detail in the Overview section of Management s Discussion and Analysis of Financial Condition and Results of Continuing Operations contained in Item 7 of this report.

Our products have a long history in the aerospace and defense industry and are found on most military and commercial aircraft, helicopters, and land-based systems. For example, our products are used on the majority of active and in-production U.S. military aircraft and on every Boeing commercial aircraft platform manufactured in the past 75 years. In addition, our products are supplied to Airbus, many of the major regional and business jet manufacturers, and the major aircraft engine manufacturers. We work closely with OEMs on new, highly engineered products with the objective of such products becoming designed into our customers platforms; this integration often results in sole-source positions for OEM production and aftermarket business. We broadly categorize our commercial and military aerospace aftermarket sales as retrofit, repair services, and spare parts. Spare parts alone made up approximately 10% of total sales in fiscal 2013. Retrofit and repair services, which represent 5% of total sales, carry higher margins than OEM sales, but lower margins than spare parts sales. In many cases, our aftermarket sales span the entire life of an aircraft.

We differentiate ourselves through our engineering and manufacturing capabilities and our reputation for safety, quality, on-time delivery, reliability, and innovation all embodied in the Esterline Performance System, our way of approaching business that helps ensure all employees are focused on continuous improvement. Safety of our operations is a critical factor in our business, and accordingly, we incorporate applicable regulatory guidance in the design of our facilities and train our employees using a behavior-based approach that focuses on safety-designed work habits and on-going safety audits. Our industries are highly regulated, and compliance with applicable regulations, including export control and anti-bribery regulations, is an important focus in our business. For example, we have a global code of business conduct and ethics that covers compliance with laws, and we provided training on this code to our worldwide employees in fiscal 2013. In addition, we maintain local ethics advisors and export control specialists in our business units to support our compliance efforts.

Our sales are diversified across three broad markets: defense, commercial aerospace, and general industrial. For fiscal 2013, approximately 35% of our sales were from the defense market, 45% from the commercial aerospace market, and 20% from the general industrial market.

Financial Information About Industry Segments

A summary of net sales to unaffiliated customers, operating earnings and identifiable assets attributable to our business segments for fiscal years 2013, 2012, and 2011 is reported in Note 16 to the Company s Consolidated Financial Statements, and appears in Item 8 of this report.

Description of Business

Avionics & Controls

Our Avionics & Controls business segment includes avionics systems, control and communication systems, and interface technologies capabilities. Avionics systems designs and develops cockpit systems integration and avionics subsystems for commercial and military applications. Control and communication systems designs and manufactures technology interface systems for military and commercial aircraft and land-based as well as sea-based military vehicles. Additionally, control and communication systems designs and manufactures military audio and data products for severe battlefield environments, embedded communication intercept receivers for signal intelligence applications, as well as communication control systems to enhance security and aural clarity in military applications. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and gaming industries. We are a market leader in global positioning systems (GPS), head-up displays, enhanced vision systems, and electronic flight management systems that are used in a broad variety of control and display applications. In addition, we develop, manufacture and market sophisticated, highly reliable technology interface systems for commercial and military aircraft. These products include lighted push-button and rotary switches, keyboards, lighted indicators, panels and displays. Our products have been integrated into many existing aircraft designs, including every Boeing commercial aircraft platform currently in production. Our large installed base provides us with a significant spare parts and retrofit business. We are a Tier 1 supplier on the Boeing 787 program to design and manufacture all of the cockpit overhead panels and embedded software for these systems. We manufacture control sticks, grips and wheels, as well as specialized switching systems. In this area, we primarily serve commercial and military aviation, and airborne and ground-based military equipment manufacturing customers. For example, we are a leading manufacturer of pilot control grips for most types of military fighter jets and helicopters. Additionally, our software engineering center supports our customers needs with such applications as primary flight displays, flight management systems, air data computers and engine control systems.

Our proprietary products meet critical operational requirements and provide customers with significant technological advantages in such areas as night vision compatibility and active-matrix liquid-crystal displays (a technology enabling pilots to read display screens in a variety of light conditions as well as from extreme angles). Our products are incorporated in a wide variety of platforms ranging from military helicopters, fighters and transports, to commercial wide- and narrow-body, regional and business jets. In fiscal 2013, some of our largest customers for these products included Alsalam Aircraft Company, BAE Systems, The Boeing Company, Canadian Commercial Corp., Fisco, Hawker Beechcraft, Honeywell, Lockheed Martin, Rockwell Collins, Sikorsky, Thales, and Triman.

In addition, we design and manufacture ruggedized military personal communication equipment, primarily headsets. We are the sole supplier of Active Noise Reduction (ANR) headsets to the British Army s tracked and wheeled vehicle fleets under the Bowman communication system program. In the U.S., we supply ANR headsets to the U.S. Army s tracked and wheeled vehicle fleets under the Vehicle Intercom System (VIS) and VIS-X programs comprising over 200,000 vehicles, and we are the sole supplier to the U.S. Marine Corps for their MRAP fleet. We are also the sole ANR headset supplier to the Canadian Army. We have a long-standing relationship with armies around the world, including forces in Australia, India, Saudi Arabia, and Spain. We design and manufacture signal intelligence and communications intelligence (SIGINT/COMINT) receiver hardware for the airborne intelligence, surveillance and reconnaissance (ISR) market. These products incorporate modern, open-architecture software/firmware configurable designs, are deployed on a wide range of U.S. and foreign manned airborne platforms, and on such next generation unmanned platforms as the Northrop Grumman Global Hawk and General Atomics Reaper and Predator. In fiscal 2013, some of our largest customers for these products included BAE Systems, The Boeing Company, the British Ministry of Defence (MoD), L-3 Communications, Lockheed Martin, Northrop Grumman, and Sanmina.

We also manufacture a full line of keyboard, switch and input technologies for specialized medical equipment and communication systems for military applications. These products include custom keyboards, keypads, and input devices that integrate cursor control devices, barcode scanners, displays, video, and voice activation. We also produce instruments that are used for point-of-use and point-of-care diagnostics. We have developed a wide variety of technologies, including plastic and vinyl membranes that protect high-use switches and fully depressible buttons, and backlit elastomer switch coverings that are resistant to exposure from harsh chemicals. These technologies now serve as the foundation for a small but growing portion of our product line. In fiscal 2013, some of our largest customers for these products included Alere, Aristocrat Technologies, General Electric, Inspired Gaming, Merck, Nuance, Philips, Quidel, Roche, and WMS.

Sensors & Systems

Our Sensors & Systems business segment includes power systems, connection technologies and advanced sensors capabilities. We develop and manufacture high-precision temperature, pressure and speed sensors principally for aerospace customers, electrical interconnection systems for severe environments for aerospace, defense, geophysics & marine, and nuclear customers, as well as electrical power switching, control and data communication devices, and other related systems principally for aerospace and defense customers. We are the OEM sole-source and aftersales supplier of temperature probes for use on all versions of the General Electric/Snecma CFM-56 jet engine. The CFM-56 jet engine has an installed base of 25,000, is standard equipment on the current generation Boeing 737 aircraft and was selected as the engine for approximately 60% of all Airbus single-aisle aircraft delivered to date. We have a contract to design and manufacture the Boeing 787 s sensors for the environmental control system, and provide the primary power distribution assembly for the Airbus A400M military transport. Additionally, we have secured a Tier 1 position with Rolls-Royce for the complete suite of sensors for the engines that will power the A400M and A350. We design and manufacture micro packaging, planet probe interconnectors, launcher umbilicals, and composite connectors for the Boeing 787. Unique electrical interconnection products account for about 75% of our connection technologies sales, and standard products qualified to customer standards or military specifications account for 25% of sales. The principal customers for our products in this business segment are jet engine manufacturers, airframe and industrial manufacturers. In fiscal 2013, some of our largest customers for these products included Airbus, Astrium, The Boeing Company, Bombardier, Dassault, Flame, General Electric, Honeywell, Labinal, Rolls-Royce, SAFRAN, Sercel, and UTC.

Advanced Materials

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

Specialized High-Performance Applications. We specialize in the development of proprietary formulations for silicone rubber and other elastomer products. Our elastomer products are engineered to address specific customer requirements where superior performance in high temperature, high pressure, caustic, abrasive and other difficult environments is critical. These products include clamping devices, thermal fire barrier insulation products, sealing systems, tubing and coverings designed in custom-molded shapes. Some of the products include proprietary elastomers that are specifically designed for use on or near a jet engine. We are a leading U.S. supplier of high-performance elastomer products to the aerospace industry, with our primary customers for these products being jet and rocket engine manufacturers, commercial and military airframe manufacturers, as well as commercial airlines. In fiscal 2013, some of the largest customers for these products included The Boeing Company, Goodrich, KAPCO, Lockheed Martin, Northrop Grumman, Pattonair, and Spirit AeroSystems. We also develop and manufacture high temperature, lightweight metallic insulation systems for aerospace and marine applications. Our commercial aerospace programs include the Boeing 737, A320, and A380 series aircraft and the V2500 and BR710 engines. Our insulation material is used on diesel engine manifolds for earthmoving and agricultural applications. In addition, we specialize in the development of thermal protection for fire, nuclear, and petro-chemical industries. We design and manufacture high temperature components for industrial and marine markets. Our manufacturing processes consist of cutting, pressing, and welding stainless steel, inconel and titanium fabrications. In fiscal 2013, some of the largest customers of these products included Acktiv Nuclear, Airbus, The Boeing Company, B/E Aerospace, Lockheed Martin, Northrop Grumman, Pattonair, Rolls-Royce, Short Brothers, Spirit AeroSystems, and Wesco Aircraft.

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

Army of infrared decoy flares used by aircraft to help protect against radar and infrared guided missiles. Additionally, we are a supplier of infrared decoy flares to the MoD and other international defense agencies. We are currently the only supplier of radar countermeasures to the U.S. Army.

A summary of product lines contributing sales of 10% or more of total sales for fiscal years 2013, 2012, and 2011 is reported in Note 16 to the Consolidated Financial Statements under Item 8 of this report.

Marketing and Distribution

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

In the technical and highly engineered product segments in which we compete, relationship selling is particularly appropriate in targeted marketing segments where customer and supplier design and engineering inputs need to be tightly integrated. Participation in industry trade shows is an effective method of meeting customers, introducing new products, and exchanging technical specifications. In addition to technical and industry conferences, our products are supported through direct internal international sales efforts, as well as through manufacturer representatives and selected distributors. As of October 25, 2013, 398 sales people, 324 representatives, and 340 distributors supported our operations internationally.

Backlog

Backlog was $1.3 billion at October 25, 2013, and October 26, 2012. We estimate that approximately $332 million of backlog is scheduled to be shipped after fiscal 2014.

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

Competition

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

Research and Development

Our product development and design programs utilize an extensive base of professional engineers, technicians and support personnel, supplemented by outside engineering and consulting firms when needed. In fiscal 2013, we expended $95.7 million for research, development and engineering, compared with $107.7 million in fiscal 2012 and $94.5 million in fiscal 2011. Research and development expense has averaged 5.2% of sales for the three years ended October 25, 2013. We believe continued product development is key to our long-term growth, and consequently, we consistently invest in research and development. Examples include research and development projects relating to avionics control panels, A350 engine sensors, high temperature, low observable material for military applications, and spectral countermeasure flares for military applications. We actively participate in customer-funded research and development programs, including applications on C-130 cockpit upgrades, P-8 aircraft and power systems for the HH-47 Chinook helicopter and A400M.

Foreign Operations

Our foreign operations consist of manufacturing facilities located in Canada, China, the Dominican Republic, France, Germany, India, Japan, Mexico, Morocco, and the United Kingdom, and include sales and service operations located in Brazil, China, and Singapore. For further information regarding foreign operations, see Note 16 to the Consolidated Financial Statements under Item 8 of this report.

U.S. Government Contracts and Subcontracts

As a contractor and subcontractor to the U.S. government (primarily the U.S. Department of Defense), we are subject to various laws and regulations that are more restrictive than those applicable to private sector contractors. Approximately 6% of our sales was made directly to the U.S. government in fiscal 2013. In addition, we estimate that our subcontracting activities to contractors for the U.S. government accounted for approximately 17% of sales during fiscal 2013. In total, we estimate that approximately 23% of our sales during the fiscal year was subject to U.S. government contracting regulations. Such contracts may be subject to termination, reduction or modification in the event of changes in government requirements, reductions in federal spending, and other factors.

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

We are subject to U.S. export laws and regulations, including the International Traffic in Arms Regulations (ITAR), that generally restrict the export of defense products, technical data, and defense services. We recorded a $10 million charge as of July 26, 2013, for penalties proposed by the DDTC Office of Compliance associated with our earlier handling of ITAR-controlled transactions and related compliance errors, as described further in this report under Item 3 Legal Proceedings. Our failure to comply with applicable regulations could result in penalties, loss, or suspension of contracts or other consequences, and the costs to maintain compliance with these regulations may be higher than we anticipate. Any of these consequences could adversely affect our operations or financial condition.

Patents and Licenses

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

Seasonality

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

Sources and Availability of Raw Materials and Components

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

Environmental Matters

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

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

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

Employees

We had 12,049 employees at October 25, 2013, of which 4,982 were based in the United States, 4,174 in Europe, 1,026 in Canada, 632 in Mexico, 584 in Asia, 516 in Morocco and 135 in the Dominican Republic. Approximately 12% of the U.S.-based employees were represented by a labor union. Our European operations are subject to national trade union agreements and to local regulations governing employment.

Financial Information About Foreign and Domestic Operations and Export Sales

See risk factor below entitled Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results under Item 1A of this report and Note 16 to the Consolidated Financial Statements under Item 8 of this report.

Available Information About the Registrant

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

8

Executive Officers of the Registrant

The names and ages of all executive officers of the Company and the positions and offices held by such persons as of December 20, 2013, are as follows:

Name	Position with the Company	Age
R. Bradley Lawrence	Executive Chairman	66
Curtis C. Reusser	President and Chief Executive Officer	53
Robert D. George	Chief Financial Officer, Vice President, and Corporate Development	57
Alain M. Durand	Group Vice President	46
C. Thomas Heine	Vice President, Human Resources	65
Frank E. Houston	Senior Group Vice President	62
Marcia J. Mason	Vice President and General Counsel	61
Albert S. Yost	Group Vice President and Treasurer	48

Mr. Lawrence has been Executive Chairman since September 2013. Previously, he was Chairman, Chief Executive Officer and President since March 2012. In addition, he served as President and Chief Executive Officer since November 2009, President and Chief Operating Officer since July 2009, and Group Vice President since January 2007. Mr. Lawrence has an M.B.A. from the University of Pittsburgh and a B.S. degree in Business Administration from Pennsylvania State University.

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

Mr. George has been Chief Financial Officer, Vice President, and Corporate Development since October 2012. From July 2011 to October 2012, he was Vice President, Chief Financial Officer, Corporate Development and Secretary. Prior to that time, he was Vice President, Chief Financial Officer, Secretary and Treasurer since July 1999. Mr. George has an M.B.A. from the Fuqua School of Business at Duke University and a B.A. degree in Economics from Drew University.

Mr. Durand has been Group Vice President since June 2011. Prior to that time, he was President of the Advanced Sensors business platform from May 2007 to June 2011. Mr. Durand has an M.B.A. from Ecole Supérieure de Commerce in Reims, France, and a Mechanical Engineering degree from Ecole Catholique d Arts et Métiers in Lyon, France.

Mr. Heine has been Vice President, Human Resources since August 2012. Prior to that time, he was Vice President, Leadership and Organizational Development since March 2007. He has an M.P.A. in Human Resource Management from the University of Colorado and a B.S. degree in English from Eastern Michigan University.

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

Ms. Mason has been Vice President and General Counsel since September 2013. Prior to that time she was General Counsel and Vice President, Administration from August 2012 to September 2013, and Vice President, Human Resources from March 1993 to July 2012. Ms. Mason has a J.D. degree from Northwestern University School of Law and a B.A. degree in Political Science from Portland State University.

Mr. Yost has been Group Vice President and Treasurer since November 2009 and July 2011, respectively. Previously, he was President of Advanced Input Systems, a subsidiary of the Company from January 2007, and held management responsibilities for Esterline s Interface Technologies business platform from May 2007. Mr. Yost has an M.B.A. from Utah State University and a B.A. degree in Economics from Brigham Young University.

Forward-Looking Statements

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

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

- A significant downturn in the aerospace industry;
- A significant reduction in defense spending;
- A decrease in demand for our products as a result of competition, technological innovation or otherwise;
- Our inability to execute on our accelerated integration plans or otherwise integrate acquired operations or complete acquisitions;
- Our ability to comply with the complex applicable laws that affect our business; and
- Loss of a significant customer or defense program.

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

Item 1A. Risk Factors

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

Reductions in defense spending could adversely affect our business.

Approximately 35% of our business is dependent on defense spending. The defense industry is dependent upon the level of equipment expenditures by the armed forces of countries throughout the world, and especially those of the United States, which represents a significant portion of world-wide defense expenditures. In August 2011, Congress enacted the Budget Control Act of 2011 (BCA), which resulted in substantial, automatic reductions in both defense and discretionary spending. The automatic across-the-board budget cuts, or sequestration, are incremental to spending reductions already included in the defense funding over a ten-year period. These spending cuts impacted our financial results in fiscal 2013, and could have significant future consequences to our business and industry, including disruption of programs and personnel reductions that could impact our manufacturing operations and engineering capabilities.

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

Some of our operations are dependent on a relatively small number of customers and aerospace and defense programs, which change from time to time. Significant customers in fiscal 2013 included The Boeing Company, Flame, General Electric, Hawker Beechcraft, Honeywell, Lockheed Martin, Northrop Grumman, Rolls-Royce, Sikorsky, and the U.S. Department of Defense. There can be no assurance that our current significant customers will continue to buy our products at current levels. The loss of a significant customer or the cancellation of orders related to a sole-source defense program could have a material adverse effect on our operating results if we were unable to replace the related sales.

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

Among other things, we are subject to the Foreign Corrupt Practices Act, or FCPA, and the U.K. Bribery Act, which generally prohibit companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, we may be held liable for actions taken by our strategic or local partners even though our partners are not subject to the FCPA or the U.K. Bribery Act. Any determination that we have violated the FCPA or the U.K. Bribery Act could result in sanctions that could have a material adverse effect on our business, financial condition and results of operations.

We are also subject to a variety of international laws, as well as U.S. export laws and regulations, such as the International Traffic in Arms Regulations (ITAR), which generally restrict the export of defense products, technical data and defense services. We have filed voluntary reports that disclosed certain technical and administrative violations of the ITAR with the U.S. Department of State s Directorate of Defense Trade Controls (DDTC) Office of Defense Trade Controls Compliance (DDTC Office of Compliance). As further described in this report under Item 3 Legal Proceedings, we recorded a $10 million charge as of July 26, 2013, for penalties proposed by the DDTC Office of Compliance associated with our earlier handling of ITAR-controlled transactions, including the substance of our prior voluntary disclosures and other aspects of ITAR compliance errors. Our failure to comply with these regulations could result in penalties, loss, or suspension of contracts or other consequences. Any of these could adversely affect our operations and financial condition.

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

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

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

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

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

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

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

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

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

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

As we have grown through acquisitions, we have accumulated $1.1 billion of goodwill, and have $47.2 million of indefinite-lived intangible assets, out of total assets of $3.3 billion at October 25, 2013. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. For example, we recorded an impairment charge of $3.5 million in fiscal 2013, and an impairment charge of $52.2 million in fiscal 2012 at Racal Acoustics, Inc. (Racal Acoustics). In addition, we may incur additional charges.

We performed our annual impairment review for fiscal 2013 as of July 27, 2013, and our Step One analysis indicates that no impairment of goodwill or other indefinite-lived assets exists at any of our other reporting units. Our Souriau reporting unit s margin in passing the Step One analysis was approximately 12%, mainly reflecting lower market valuation assumptions in 2013. Management expects that continued improvements in operations will result in favorable actual results compared with our original plan. It is possible, however, that as a result of events or circumstances, we could conclude at a later date that goodwill of $347.6 million at Souriau may be considered impaired. We also may be required to record an earnings charge or incur unanticipated expenses if, due to a change in strategy or other reasons, we determined the value of other assets has been impaired. These other assets include trade names of $33.7 million and intangible assets of $181.7 million.

A long-lived asset to be disposed of is reported at the lower of its carrying amount or fair value less cost to sell. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future undiscounted cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows. As we have grown through acquisitions, we have accumulated $533.8 million of definite-lived intangible assets. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

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

As of October 25, 2013, we had approximately $689.1 million of long-term debt outstanding. Under our existing secured credit facility, we have a $460 million revolving line of credit, an 18.0 million term loan (Euro Term Loan), and a $170.6 million term loan (U.S. Term Loan). The credit facility is secured by substantially all of the Company s assets and interest is based on standard inter-bank offering rates. In addition, we have unsecured foreign currency credit facilities that have been extended by foreign banks for up to $66.2 million. Available credit under the above credit facilities was $363.5 million at October 25, 2013, reflecting bank borrowings of $130.0 million and letters of credit of $32.7 million.

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

- Depending on interest rates and debt maturities, a substantial portion of our cash flow from operations could be dedicated to paying principal and interest on our debt, thereby reducing funds available for our acquisition strategy, capital expenditures or other purposes;
- A significant amount of debt could make us more vulnerable to changes in economic conditions or increases in prevailing interest rates;
- Our ability to obtain additional financing for acquisitions, capital expenditures or for other purposes could be impaired;

The increase in the amount of debt we have outstanding increases the risk of non-compliance with some of the covenants in our debt agreements which require us to maintain specified financial ratios; and

We may be more leveraged than some of our competitors, which may result in a competitive disadvantage.

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

Our business is susceptible to seasonality and economic cycles, and as a result, our operating results have fluctuated widely in the past and are likely to continue to do so. Our revenue tends to fluctuate based on a number of factors, including domestic and foreign economic conditions and developments affecting the specific industries and customers we serve. For example, it is possible that a global recession could occur and result in a more severe downturn in commercial aviation and defense.

It is also possible that in the future our operating results in a particular quarter or quarters will not meet the expectations of securities analysts or investors, causing the market price of our common stock or senior notes to decline. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance and should not be relied upon to predict our future performance.

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

In the event of a global recession, our customers may choose to delay or postpone purchases from us until the economy and their business strengthen. Decisions by current or future customers to forgo or defer purchases and/or our customers inability to pay for our products may adversely affect our earnings and cash flow. A recession could also adversely affect our future cost of debt and equity. Any inability to obtain adequate financing from debt and equity sources could force us to self-fund strategic initiatives or even forgo some opportunities, potentially harming our financial position, results of operations, and liquidity.

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

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

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

Foreign sales originating from non-U.S. locations were approximately 50% of our total sales in fiscal 2013, and we have manufacturing facilities in a number of foreign countries. A substantial portion of our Avionics & Controls operations is based in Canada and the U.K., and a substantial portion of our Sensors & Systems operations is based in the U.K. and France. We also have manufacturing operations in China, the Dominican Republic, Germany, India, Japan, Mexico, and Morocco. Doing business in foreign countries is subject to numerous risks, including political and economic instability, restrictive trade policies of foreign governments, economic conditions in local markets, health concerns, inconsistent product regulation or unexpected changes in regulatory and other legal requirements by foreign agencies or governments, the imposition of product tariffs and the burdens of complying with a wide variety of international and U.S. export laws and differing regulatory requirements. To the extent that foreign sales are transacted in a foreign currency, we are subject to the risk of losses due to foreign currency fluctuations. In addition, we have substantial assets denominated in foreign currencies, primarily the Canadian dollar, U.K. pound and euro, that are not offset by liabilities denominated in those foreign currencies. These net foreign currency investments are subject to material changes in the event of fluctuations in foreign currencies against the U.S. dollar.

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

The aerospace industry is cyclical in nature and affected by periodic downturns that are beyond our control. The principal customers for manufacturers of commercial aircraft are the commercial and regional airlines, which can be adversely affected by a number of factors, including a recession, increasing fuel and labor costs, intense price competition, outbreak of infectious disease and terrorist attacks, as well as economic cycles, all of which can be unpredictable and are outside our control. Any decrease in demand resulting from a downturn in the market could adversely affect our business, financial condition and results of operations.

We may not be able to compete effectively.

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

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

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

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

In recent years, the trend in combat system design and development appears to be evolving toward the technological integration of various battlefield components, including combat vehicles, command and control network communications, advanced technology artillery systems and robotics. If the U.S. military procurement approach continues to require this kind of overall battlefield combat system integration, we expect to be subject to increased competition from aerospace and defense companies which have significantly greater resources than we do.

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

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

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

We estimate that approximately 23% of our sales in fiscal 2013 were attributable to contracts in which we were either the prime contractor to, or a subcontractor to a prime contractor to, the U.S. government. As a contractor and subcontractor to the U.S. government, we must comply with laws and regulations relating to the formation, administration and performance of federal government contracts that affect how we do business with our customers and may impose added costs to our business. For example, these regulations and laws include provisions that contracts we have been awarded are subject to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future asbestos claims could harm our business.

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

As a result of the termination of the NASA Space Shuttle program, manufacturing of rocket engine insulation material containing asbestos ceased in July 2010. In December 2011, we dismantled our facility used to manufacture the asbestos-based insulation for the Space Shuttle program. We have an agreement with the customer for indemnification for certain losses we may incur as a result of asbestos claims relating to a product we previously manufactured, but we cannot assure that this indemnification agreement will fully protect us from losses arising from asbestos claims.

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

Environmental laws and regulations may subject us to significant liability.

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

Because we own and operate, and previously owned and operated, a number of facilities that use, manufacture, store, handle or arrange for the disposal of various hazardous materials, we may incur costs for investigation, removal and remediation, as well as capital costs, associated with compliance with environmental laws. At the time of our asset acquisition of the Electronic Warfare Passive Expendables Division of BAE Systems North America (BAE), certain environmental remedial activities were required under a Part B Permit issued to the infrared decoy flare facility by the Arkansas Department of Environmental Quality under the Federal Resource Conservation and Recovery Act. The Part B Permit was transferred to our subsidiary, Armtec, along with the remedial obligations. Under the terms of the asset purchase agreement, BAE agreed to perform and pay for these remedial obligations at the infrared decoy flare facility up to a maximum amount of $25.0 million. BAE is currently conducting monitoring activities as required under the asset purchase agreement. Although environmental costs have not been material in the past, we cannot assure that these matters, or any similar liabilities that arise in the future, will not exceed our resources, nor can we completely eliminate the risk of accidental contamination or injury from these materials.

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

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

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

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

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

Our business may be impacted by information technology attacks or failures. Cybersecurity attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data. We have experienced cybersecurity attacks in the past and may experience them in the future, potentially with more frequency. We have taken measures to mitigate potential risks to our technology and our operations from these information technology-related potential disruptions. For example, we utilized third-party software and tools at many domestic operating locations to scan incoming email for viruses and other harmful content and to scan networks maintained by certain of our domestic operating units that exclusively perform U.S. defense work. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, or other manipulation or improper use of our systems or networks. We may also experience financial losses from remedial actions, loss of business or potential liability under contracts or pursuant to regulations that require us to maintain confidential and other data securely, and/or damage to our reputation. Any of these consequences could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

Item 2. Properties

The following table summarizes our properties that are greater than 100,000 square feet or related to a principal operation, including identification of the business segment, as of October 25, 2013:

Location	Type of Facility	Business Segment	Approximate Square Footage	Owned or Leased
Brea, CA	Office & Plant	Advanced Materials	329,000	Owned
Montréal, Canada	Office & Plant	Avionics & Controls	269,000	Owned
East Camden, AR	Office & Plant	Advanced Materials	266,000	Leased
Stillington, U.K.	Office & Plant	Advanced Materials	222,000	Owned
Everett, WA	Office & Plant	Avionics & Controls	216,000	Leased
Champagné, France	Office & Plant	Sensors & Systems	191,000	Owned
Coeur d Alene, ID	Office & Plant	Avionics & Controls	140,000	Leased
Coachella, CA	Office & Plant	Advanced Materials	140,000	Owned
Marolles, France	Office & Plant	Sensors & Systems	128,000	Owned
Buena Park, CA	Office & Plant	Sensors & Systems	110,000	Owned*
Bourges, France	Office & Plant	Sensors & Systems	109,000	Owned
Farnborough, U.K.	Office & Plant	Sensors & Systems	103,000	Leased
Kent, WA	Office & Plant	Advanced Materials	103,000	Owned
Hampshire, U.K.	Office & Plant	Advanced Materials	102,000	Owned
Wenatchee, WA	Office & Plant	Sensors & Systems	96,000	Leased
Milan, TN	Office & Plant	Advanced Materials	96,000	Leased
Sylmar, CA	Office & Plant	Avionics & Controls	96,000	Leased
Valencia, CA	Office & Plant	Advanced Materials	88,000	Owned
Kanata, Canada	Office & Plant	Avionics & Controls	83,000	Leased
Gloucester, U.K.	Office & Plant	Advanced Materials	59,000	Leased

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

In total, we own approximately 2,300,000 square feet and lease approximately 2,000,000 square feet of manufacturing facilities and properties.

Item 3. Legal Proceedings

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

We are subject to U.S. export laws and regulations, including the International Traffic in Arms Regulations (ITAR), that generally restrict the export of defense products, technical data, and defense services. We have filed voluntary reports that disclosed certain technical and administrative violations of the ITAR with the U.S. Department of State s Directorate of Defense Trade Controls (DDTC) Office of Defense Trade Controls Compliance (DDTC Office of Compliance). To address these problems, we have made a number of investments in our export compliance functions, including: additional staffing, ongoing implementation of a new software system, employee training, and establishment of a regular compliance audit program and corrective action process. The DDTC Office of Compliance acknowledged our progress and continuing improvements, but nevertheless informed us that it intends to impose civil monetary fines and administrative sanctions based on the information it had concerning our earlier history in handling ITAR-controlled transactions, including the substance of our prior voluntary disclosures and other aspects of ITAR compliance errors. Management has been in discussions with the agency and provided supplemental information with the intent of reaching a settlement. On August 15, 2013, the DDTC Office of Compliance proposed a total penalty of $20 million, with $10 million suspended and eligible for offset credit based on verified expenditures for past and future remedial compliance measures. Based on this proposal, we estimated and recorded a $10 million charge as of July 26, 2013, for this matter. We have continued discussions with the DDTC Office of Compliance on final settlement terms, and the final settlement is subject to approval by the agency. While we cannot be certain of the outcome, management believes that the final resolution of this matter will not be materially different from our estimated accrual.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Price of Esterline Common Stock

In Dollars

For Fiscal Years	2013		2012	
	High	Low	High	Low
Quarter				
First	$ 69.16	$ 54.77	$ 62.35	$ 48.50
Second	77.90	62.61	76.86	60.55
Third	83.87	69.16	70.47	56.88
Fourth	85.30	74.81	60.85	51.13

Principal Market   New York Stock Exchange

At the end of fiscal 2013, there were approximately 295 holders of record of the Company s common stock. On December 16, 2013, there were 294 holders of record of our common stock.

No cash dividends were paid during fiscal 2013 and 2012. We are restricted from paying dividends under our current secured credit facility, and we do not anticipate paying any dividends in the foreseeable future.

The following graph shows the performance of the Company s common stock compared to the S&P 500 Index, the S&P MidCap 400 Index, and the S&P 400 Aerospace & Defense Index for a $100 investment made on October 31, 2008.

Item 6. Selected Financial Data

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	2013	2012	2011	2010	2009
Operating Results[1]					
Net sales	$ 1,969,754	$ 1,992,318	$ 1,717,985	$ 1,526,601	$ 1,407,459
Cost of sales	1,243,758	1,273,365	1,128,265	1,010,390	954,161
Selling, general and administrative	391,147	382,887	304,154	258,290	235,483
Research, development and engineering	95,736	107,745	94,505	69,753	64,456
Gain on sale of product line	(2,264)	0	0	0	0
Gain on settlement of contingency	0	(11,891)	0	0	0
Goodwill impairment	3,454	52,169	0	0	0
Other (income) expense	0	(1,263)	(6,853)	(8)	7,970
Operating earnings from continuing operations	237,923	189,306	197,914	188,176	145,389
Interest income	(539)	(465)	(1,615)	(960)	(1,634)
Interest expense	39,667	46,238	40,216	33,181	28,689
Earnings from continuing operations before income taxes	197,849	143,533	158,482	154,749	118,334
Income tax expense	30,085	29,958	24,938	24,504	12,549
Earnings from continuing operations including noncontrolling interests	167,764	113,575	133,544	130,245	105,785
Earnings (loss) from discontinued operations attributable to Esterline, net of tax	(1,300)	0	(47)	11,881	14,230
Net earnings attributable to Esterline	164,734	112,535	133,040	141,920	119,798
Gross margin as a percent of sales	36.9%	36.1%	34.3%	33.8%	32.2%
Selling, general and administrative as a percent of sales	19.9%	19.2%	17.7%	16.9%	16.7%
Research, development and engineering as a percent of sales	4.9%	5.4%	5.5%	4.6%	4.6%

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	2013	2012	2011	2010	2009
Operating Results[1]					
Earnings (loss) per share attributable to Esterline diluted:					
Continuing operations	$ 5.23	$ 3.60	$ 4.27	$ 4.27	$ 3.52
Discontinued operations	(.04)	.00	.00	.39	.48
Earnings (loss) per share attributable to Esterline diluted	5.19	3.60	4.27	4.66	4.00
Financial Structure					
Total assets	$ 3,262,112	$ 3,227,117	$ 3,378,586	$ 2,587,738	$ 2,314,247
Credit facilities	130,000	240,000	360,000	0	0
Long-term debt, net	537,859	598,060	660,028	598,972	520,158
Total Esterline shareholders equity	1,873,605	1,610,481	1,562,835	1,412,796	1,253,021
Weighted average shares outstanding diluted	31,738	31,282	31,154	30,477	29,951
Other Selected Data					
Cash flows provided (used) by operating activities	$ 250,772	$ 194,171	$ 192,429	$ 179,801	$ 156,669
Cash flows provided (used) by investing activities	(93,721)	(48,502)	(869,021)	(20,719)	(250,357)
Cash flows provided (used) by financing activities	(141,023)	(167,820)	436,420	84,260	103,515
Net increase (decrease) in cash	18,503	(24,360)	(237,085)	245,326	16,149
EBITDA from continuing operations [2]	348,278	295,221	280,926	257,815	214,553
Capital expenditures [3]	55,335	49,446	49,507	45,417	58,694
Interest expense	39,667	46,238	40,216	33,181	28,689
	110,355	105,915	83,012	69,639	69,164

Depreciation and amortization from continuing operations					
Ratio of debt to EBITDA [4]	2.0	2.9	3.7	2.4	2.5

[1] Operating results reflect the segregation of continuing operations from discontinued operations. See Note 1 to the Consolidated Financial Statements. Operating results include the acquisitions of Gamesman in February 2013, Souriau in July 2011, Eclipse in December 2010, and Racal Acoustics in January 2009. See Note 14 to the Consolidated Financial Statements.

[2] EBITDA from continuing operations is a measurement not calculated in accordance with GAAP. We define EBITDA from continuing operations as operating earnings from continuing operations plus depreciation and amortization (excluding amortization of debt issuance costs). We do not intend EBITDA from continuing operations to represent cash flows from continuing operations or any other items calculated in accordance with GAAP, or as an indicator of Esterline s operating performance. Our definition of EBITDA from continuing operations may not be comparable with EBITDA from continuing operations as defined by other companies. We believe EBITDA is commonly used by financial analysts and others in the aerospace and defense industries and thus provides useful information to investors.

Our management and certain financial creditors use EBITDA as one measure of our leverage capacity and debt servicing ability, and is shown here with respect to Esterline for comparative purposes. EBITDA is not necessarily indicative of amounts that may be available for discretionary uses by us. EBITDA includes goodwill impairment charges of $3,454 and $52,169 in fiscal 2013 and 2012, respectively. The following table reconciles operating earnings from continuing operations to EBITDA from continuing operations:

In Thousands For Fiscal Years		**2013**		**2012**		**2011**		**2010**		**2009**
Operating earnings from continuing operations	$	237,923	$	189,306	$	197,914	$	188,176	$	145,389
Depreciation and amortization from continuing operations		110,355		105,915		83,012		69,639		69,164
EBITDA from continuing operations	$	348,278	$	295,221	$	280,926	$	257,815	$	214,553

[3] Excludes capital expenditures accounted for as a capitalized lease obligation of $11,691, $8,139 and $28,202 in fiscal 2013, 2010, and 2009, respectively.

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

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

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

OVERVIEW

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

The Avionics & Controls segment includes avionics systems, control and communication systems, and interface technologies capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control and communication systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Additionally, control and communication systems designs and manufactures military audio and data products for severe battlefield environments, embedded communication intercept receivers for signal intelligence applications, as well as communication control systems to enhance security and aural clarity in military applications. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and gaming industries.

The Sensors & Systems segment includes power systems, connection technologies and advanced sensors capabilities. Power systems develops and manufactures electrical power switching and other related systems, principally for aerospace and defense customers. Connection technologies develops and manufactures highly engineered connectors for harsh environments and serves the aerospace, defense & space, power generation, rail and industrial equipment markets. Advanced sensors develops and manufactures high precision temperature and pressure sensors for aerospace and defense customers.

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

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

On December 5, 2013, we announced the acceleration of our plans to consolidate certain facilities and create cost-efficiency through shared services in sales, general and administrative and support functions. We are currently launching integration activities in each segment and expect to record charges and expenses of approximately $40 million. We expect to incur costs of $25 million to $30 million in fiscal 2014 to support these efforts, with the balance to be incurred in fiscal 2015. The costs are mainly for severance, relocation of facilities and long-lived asset impairment losses. Expense savings on short-cycle activities will commence in fiscal 2014, with substantially more savings expected in fiscal 2015. We expect these projects to build to anticipated savings in excess of $15 million annually starting in fiscal 2016. The projects have payback periods of approximately two years.

On February 4, 2013, we acquired the Gamesman Group (Gamesman). Gamesman is a global supplier of input devices principally serving the gaming industry. Gamesman is included in the Avionics & Controls segment.

On July 26, 2011, we acquired the Souriau Group (Souriau). Souriau is a leading global supplier of highly engineered connection technologies for harsh environments. Souriau is included in our Sensors & Systems segment.

During the fourth fiscal quarter of 2013, earnings from continuing operations were $66.2 million, or $2.07 per diluted share, compared with $61.7 million, or $1.97 per diluted share, in the prior-year period.

Sales during the fourth fiscal quarter of 2013 were $534.2 million compared with $530.7 million in the prior-year period. Avionics & Controls segment sales increased 2.3% to $225.4 million from the prior-year period, mainly reflecting the Gamesman acquisition. Sensors & Systems sales increased 1.6% to $177.3 million and Advanced Materials sales decreased 3.2% to $131.5 million. Total sales were impacted by reductions in defense spending mainly due to the continued uncertainty of U.S. congressional budget cuts, or sequestration, on defense spending. The impact of sequestration is yet to be fully determined, and additional reductions in defense spending over the next decade could occur.

Gross margin in the fourth fiscal quarter of 2013 was 38.4% of sales compared with 38.5% in the prior-year period. Research, development and engineering decreased $1.7 million during the fourth fiscal quarter of 2013 to 4.3% of sales. Selling, general and administrative expense decreased $4.9 million during the fourth fiscal quarter of 2013 to 17.3% of sales, mainly reflecting a favorable settlement of an environmental claim.

Segment earnings (operating earnings excluding corporate expenses and other income or expense) totaled $101.2 million, or 19.0% of sales, compared with $90.3 million, or 17.0% of sales, in the prior-year period. The increase in segment earnings reflected improved operating earnings from Sensors & Systems and Advanced Materials, while Avionics & Controls earnings were even compared to the prior-year period. Avionics & Controls earnings in the fourth fiscal quarter of 2013 benefited from a gain on sale of a product line and recognition of previously deferred revenue. Operating earnings of Sensors & Systems increased due to improved gross margin and lower research, development and engineering expense. Advanced Materials earnings compared favorably to the prior-year period mainly reflecting a favorable settlement of an environmental claim and a recovery of non-recurring engineering expense from a customer. The income tax rate for the fourth fiscal quarter of 2013 was 20.4% compared to 13.0% in the prior-year period. Our income tax rate in the fourth fiscal quarter of 2012 was favorably impacted by a $1.4 million release of valuation allowance related to foreign tax credits as a result of a tax examination.

Loss from discontinued operations for the fourth fiscal quarter of 2013 was $0.3 million or $0.01 per diluted share. There was no income or loss from discontinued operations in the prior-year period.

Net income for the fourth fiscal quarter of 2013 was $65.9 million, or $2.06 per diluted share, compared with $61.7 million, or $1.97 per diluted share, in the fourth fiscal quarter of 2012.

During fiscal 2013, earnings from continuing operations was $166.0 million, or $5.23 per diluted share, compared with $112.5 million, or $3.60 per diluted share, during fiscal 2012. In fiscal 2013 we recorded a $3.5 million, or $0.11 per diluted share, impairment charge against goodwill of Racal Acoustics, Inc. (Racal Acoustics), our military headset business, which is included in our Avionics & Controls segment, due to continued weakness in Racal Acoustics fiscal 2013 and five-year forecast resulting from further delays and reductions in global defense programs. The results for fiscal 2013 also were impacted by a $10 million charge, or $0.32 per diluted share, related to our pending matter with the DDTC, as more fully discussed below. In the prior-year period, we recorded a $52.2 million, or $1.67 per diluted share, impairment charge against goodwill of Racal Acoustics. In fiscal 2012, all contingencies relating to a dispute between CMC Electronics, Inc. (CMC) and a former parent company were resolved, and accordingly, we recorded a gain of approximately $11.9 million or $9.5 million after tax.

During fiscal 2013, sales declined 1.1% to $1.97 billion. Gross margin increased to 36.9%. Research, development and engineering decreased $12.0 million across all segments to 4.9% of sales. Selling, general and administrative expense increased $8.3 million to 19.9% of sales, mainly due to the $10.0 million charge for the DDTC matter.

We are subject to U.S. export laws and regulations, including the International Traffic in Arms Regulations (ITAR), that generally restrict the export of defense products, technical data, and defense services. We have filed voluntary disclosure reports concerning certain technical and administrative violations of the ITAR with the U.S. Department of State s Directorate of Defense Trade Controls (DDTC) Office of Defense Trade Controls Compliance (DDTC Office of Compliance). To address these problems, we have made a number of investments in our export compliance functions, including: additional staffing, ongoing implementation of a new software system, employee training, and establishment of a regular compliance audit program and corrective action process. The DDTC Office of Compliance acknowledged our progress and continuing improvements, but nevertheless informed us that it intends to impose civil monetary fines and administrative sanctions based on the information it had concerning our earlier history in handling ITAR-controlled transactions, including the substance of our prior voluntary disclosures and other aspects of ITAR compliance errors. Management has been in discussions with the agency and provided supplemental information with the intent of reaching a settlement. On August 15, 2013, the DDTC Office of Compliance proposed a total penalty of $20 million, with $10 million suspended and eligible for offset credit based on verified expenditures for past and future remedial compliance measures. Based on this proposal, we estimated and recorded a $10 million charge in fiscal 2013. We have continued discussions with the DDTC Office of Compliance on final settlement terms, and the final settlement is subject to approval by the agency. While we cannot be certain of the outcome, management believes that the final resolution of this matter will not be materially different from our estimated accrual. Management believes that the additional expense associated with improving our compliance program will increase compliance cost about $10 million in fiscal 2014 compared to the prior-year period.

The income tax rate for fiscal 2013 was 15.2% compared with 20.9% for fiscal 2012, mainly reflecting the impact of fiscal 2012 expense associated with the Racal Acoustics impairment, which was not deductible for income tax purposes.

Loss from discontinued operations for fiscal 2013 was $1.3 million or $0.04 per diluted share. There was no income or loss from discontinued operations in the prior-year period.

Net income for fiscal 2013 was $164.7 million, or $5.19 per diluted share, compared with $112.5 million, or $3.60 per diluted share, for fiscal 2012.

Cash flows from operating activities were $250.8 million in fiscal 2013 compared to $194.2 million in the prior-year period.

Results of Operations

Fiscal 2013 Compared with Fiscal 2012

Sales for fiscal 2013 decreased 1.1% over the prior year. Sales by segment were as follows:

In Thousands	Increase (Decrease) From Prior Year	2013	2012
Avionics & Controls	(2.3)%	$ 771,657	$ 790,015
Sensors & Systems	(0.1)%	701,930	702,394
Advanced Materials	(0.7)%	496,167	499,909
Total		$ 1,969,754	$ 1,992,318

The $18.4 million, or 2.3% decrease in Avionics & Controls mainly reflected decreased sales volumes of avionics systems of $12 million and control and communication systems of $41 million, partially offset by an increase in sales volumes of interface technologies. The decrease in avionics systems was principally due to lower cockpit integration sales volumes for the T-6B military trainer and retrofits for military transport aircraft. The decrease in control and communication sales mainly reflected a $28 million decrease in sales of communication intercept receivers for signal intelligence applications and a $7 million decrease in communication systems to enhance security and aural clarity in military communication applications. The increase in interface technologies was principally due to incremental sales from the Gamesman acquisition.

Sensors & Systems sales were even with the prior-year period. A $6 million decrease in sales of advanced sensors was offset by an equal increase in power systems sales. The decrease in advanced sensors sales reflected lower OEM and aftermarket sales. The increase in power systems sales principally reflected retrofit sales. Connection technologies sales were even with the prior-year period reflecting a weaker euro relative to the U.S. dollar compared to the prior-year period. Strong sales of connection technologies for commercial aviation were offset by weaker sales for industrial equipment and defense applications.

The $3.7 million, or 0.7% decrease, in sales of Advanced Materials principally reflected lower sales volumes of combustible ordnance reflecting the impact from sequestration, partially offset by higher international sales of flare countermeasures.

Foreign sales originating from non-U.S. locations, including export sales by domestic operations, totaled $1.2 billion in both fiscal 2013 and 2012, and accounted for 59.5% and 59.2% of our sales in fiscal 2013 and 2012, respectively.

Overall, gross margin as a percentage of sales was 36.9% and 36.1% in fiscal 2013 and 2012, respectively. Gross profit was $726.0 million and $719.0 million in fiscal 2013 and 2012, respectively.

Avionics & Controls segment gross margin was 38.5% and 39.5% for fiscal 2013 and 2012, respectively. Segment gross profit was $296.9 million compared to $311.7 million in the prior-year period. The decrease in gross profit mainly reflected lower sales of communication intercept receivers for signal intelligence applications and communication systems to enhance security and aural clarity in military communication applications.

Sensors & Systems segment gross margin was 37.4% and 34.8% for fiscal 2013 and 2012, respectively. Segment gross profit was $262.8 million and $244.6 million for fiscal 2013 and 2012, respectively. The increase in gross profit was mainly due to increased gross profit in connection technologies, reflecting a $12 million charge recorded in the first quarter of fiscal 2012 due to recording Souriau s acquired inventory at its fair value. Segment gross profit also benefited from strong retrofit sales of power systems.

Advanced Materials segment gross margin was 33.5% and 32.5% for fiscal 2013 and 2012, respectively. Segment gross profit was $166.2 million and $162.7 million for fiscal 2013 and 2012, respectively. The increase in gross profit was principally due to higher sales of elastomer materials primarily for defense applications.

Selling, general and administrative expenses (which include corporate expenses) increased to $391.2 million, or 19.9% of sales, in fiscal 2013 compared with $382.9 million, or 19.2% of sales, in fiscal 2012. The $8.3 million increase in selling, general and administrative expenses reflects a $19 million increase in corporate expense, a $5.1 million reduction in Avionics & Controls and an $8.7 million reduction in Advanced Materials expense. The increase in corporate expense was mainly due to the $10 million loss contingency related to the DDTC matter, professional fees for regulatory compliance and expenses related to our European headquarters. The decrease in Avionics & Controls expense reflected a $1 million reduction of our allowance for doubtful accounts for Hawker Beechcraft; in addition, the prior-year period reflected bad debt expense of $2.3 million due to the bankruptcy of Hawker Beechcraft. The $8.7 million decrease in Advanced Materials mainly reflected recovery of a prior-year $2.4 million estimated liability for an environmental claim. The claim was settled in fiscal 2013 for $0.5 million and fully indemnified by the prior owner of the business. Advanced Materials selling, general and administrative expenses were also lower due to decreased legal, bad debt and severance expenses.

Research, development and related engineering spending decreased to $95.7 million, or 4.9% of sales, in fiscal 2013 compared with $107.7 million, or 5.4% of sales, in fiscal 2012. The decrease in research, development and engineering spending principally reflects lower spending on avionics systems.

Segment earnings for fiscal 2013 were $300.1 million, or 15.2% of sales, compared with $219.4 million, or 11.0% of sales, for fiscal 2012. The increase in segment earnings reflects the $52.2 million impairment charge against goodwill of Racal Acoustics in fiscal 2012. We also recorded an impairment charge of $3.5 million against goodwill of Racal Acoustics in the third fiscal quarter of 2013. If the impairment charges in each period in fiscal 2013 and 2012 are excluded, segment earnings totaled $303.5 million, or 15.4% of sales, and $271.5 million, or 13.6% of sales, for fiscal 2013 and 2012, respectively.

Avionics & Controls segment earnings were $103.2 million, or 13.4% of sales, in fiscal 2013 compared with $54.9 million, or 7.0% of sales, in fiscal 2012. Excluding the impairment charges in both fiscal 2013 and 2012 referred to above, segment earnings were $106.7 million, or 13.8% of sales, and $107.1 million, or 13.6% of sales, in fiscal 2013 and 2012, respectively. Control and communication systems earnings decreased $12 million mainly due to decreased sales of communication intercept receivers for signal intelligence applications. Avionics systems earnings increased from the prior period reflecting decreased research, development and engineering expense of $7 million. Segment earnings also benefited from a $2.3 million gain on sale of a product line and certain contractual recoveries of non-recurring engineering expense.

Sensors & Systems segment earnings were $89.7 million, or 12.8% of sales, in fiscal 2013 compared with $70.9 million, or 10.1% of sales, in fiscal 2012, reflecting the $12.0 million charge in 2012 due to recording Souriau s acquired inventory at its fair value. Sensors & Systems earnings also benefited from increased earnings of power systems from improved gross margin.

Advanced Materials segment earnings were $107.2 million, or 21.6% of sales, in fiscal 2013 compared with $93.5 million, or 18.7% of sales, in fiscal 2012, primarily reflecting increased earnings from sales of engineered materials of $7 million, partially offset by weaker earnings from sales of defense technologies. The increase in engineered materials earnings reflected the increase in gross profit.

In the fourth quarter of fiscal 2013, we sold a product line in our Avionics & Controls segment and realized a $2.3 million gain.

In the second quarter of fiscal 2012, all contingencies relating to a dispute between CMC and a former parent company were resolved, and accordingly, we recorded a gain of approximately $11.9 million or $9.5 million after tax.

Interest expense decreased to $39.7 million during fiscal 2013 compared with $46.2 million in the prior year, reflecting lower borrowings.

The income tax rate for fiscal 2013 was 15.2% compared with 20.9% in fiscal 2012. The tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense deductions. During fiscal 2013, we recognized $12.7 million of discrete tax benefits principally related to the following items. The first item was approximately $1.5 million of tax benefits due to the retroactive extension of the U.S. federal research and experimentation credits. The second item was approximately $2.5 million of tax benefits related to the settlement of U.S. and foreign tax examinations. The third item was a $4.9 million tax benefit related to the release of tax reserves due to the expiration of a statute of limitations. The fourth item was a $3.8 million reduction of net deferred income tax liabilities as a result of the enactment of tax laws reducing the U.K. statutory income tax rate.

In fiscal 2012, we recognized $8.7 million of discrete income tax benefits as a result of the following items. The first item was a $2.3 million tax benefit due to a change in French tax laws associated with the holding company structure and the financing of the Souriau acquisition. The second item was a $2.9 million reduction of the U.K. statutory income tax rate. The third item was a $2.1 million tax benefit as a result of reconciling the prior-year s income tax return to the U.S. income tax provision and settlement of tax examinations. The fourth item was a $1.4 million release of a valuation allowance related to foreign tax credits as a result of a tax examination.

We expect the income tax rate to be in the range of 21% to 22% in fiscal 2014.

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

We use forward contracts to hedge our foreign currency exchange risk. To the extent that these hedges qualify under U.S. GAAP, the amount of gain or loss is deferred in Accumulated Other Comprehensive Income (AOCI) until the related sale occurs. Also, we are subject to foreign currency gains or losses from embedded derivatives on backlog denominated in a currency other than the functional currency of our operating companies or its customers. Gains and losses on forward contracts, embedded derivatives, and revaluation of assets and liabilities denominated in a currency other than the functional currency of the Company for fiscal 2013 and 2012 were as follows:

In Thousands

Gain (Loss)

		2013		2012
Forward foreign currency contracts	$	2,559	$	(5,735)
Forward foreign currency contracts reclassified from AOCI		(1,024)		784
Embedded derivatives		755		426
Revaluation of monetary assets/liabilities		(4,016)		981
Total	$	(1,726)	$	(3,544)

New orders for fiscal 2013 were $1.9 billion compared with $2.1 billion for fiscal 2012. Orders by segment for fiscal 2013 decreased for our Avionics & Controls and Advanced Materials segments compared to the prior-year period and increased for Sensors & Systems compared to the prior-year period. The decrease in orders for Avionics & Controls and Advanced Materials was mainly due to the effects of sequestration. Backlog at the end of fiscal 2013 and 2012 was $1.3 billion. Approximately $332 million is scheduled to be delivered after fiscal 2014. Backlog is subject to cancellation until delivery.

28

Fiscal 2012 Compared with Fiscal 2011

Sales for fiscal 2012 increased 16.0% over the prior year. Sales by segment were as follows:

In Thousands	Increase (Decrease) From Prior Year	2012	2011
Avionics & Controls	(6.2)%	$ 790,015	$ 841,939
Sensors & Systems	69.4%	702,394	414,609
Advanced Materials	8.3%	499,909	461,437
Total		$ 1,992,318	$ 1,717,985

The $51.9 million, or 6.2% decrease, in Avionics & Controls mainly reflected decreased sales volumes of avionics systems of $64 million and communication systems offset by an increase in sales volumes of control systems. The decrease in avionics systems was principally due to lower cockpit integration sales volumes for the T-6B military trainer and retrofits for military transport aircraft. The decrease in sales for the T-6B was due the bankruptcy filing of Hawker Beechcraft. The decrease in segment sales also reflected a $16 million decrease in sales of hearing protection headsets due to reduced demand and order delays, of which about 50% was offset by higher sales of communication intercept receivers for signal intelligence applications. The increase in control systems sales was mainly due to higher sales to OEM customers. The prior-year period benefited from a $4.4 million retroactive price settlement due to product scope changes.

The $287.8 million, or 69.4% increase, in Sensors & Systems principally reflected incremental sales from the Souriau acquisition of $250 million and increased sales volume of advanced sensors and power systems of $36 million. About 60% of the increase in advanced sensors and power systems sales reflected increased sales of power systems due to higher demand for commercial aviation products. The increase in advanced sensors reflected higher OEM sales and strong aftermarket demand for aerospace and industrial customers. Sales in fiscal 2012 reflected a weaker euro relative to the U.S. dollar compared with the prior-year period.

The $38.5 million, or 8.3% increase, in sales of Advanced Materials principally reflected increased sales volumes of engineered materials of $40 million, partially offset by decreased sales volumes of defense technologies. The increase in engineered materials primarily reflected strong demand for elastomer and insulation materials for commercial aviation products. The decrease in defense technologies principally reflected a decrease in sales of non-U.S. countermeasure flares due to reduced demand and order delays as well as lower demand for combustible ordnance.

Foreign sales originating from non-U.S. locations, including export sales by domestic operations, totaled $1.2 billion and $971.0 million, and accounted for 59.2% and 56.5% of our sales in fiscal 2012 and 2011, respectively.

Overall, gross margin as a percentage of sales was 36.1% and 34.3% in fiscal 2012 and 2011, respectively. Gross profit was $719.0 million and $589.7 million in fiscal 2012 and 2011, respectively.

Avionics & Controls segment gross margin was 39.5% and 38.8% for fiscal 2012 and 2011, respectively. Segment gross profit was $311.7 million compared to $326.5 million in the prior-year period. The decrease in gross profit was mainly due to lower sales volumes for the T-6B military trainer cockpit and retrofits of military aircraft, partially offset by increased gross profit of our avionics software testing business.

Sensors & Systems segment gross margin was 34.8% and 28.3% for fiscal 2012 and 2011, respectively. Segment gross profit was $244.6 million and $117.4 million for fiscal 2012 and 2011, respectively. Approximately 10% of the increase in gross profit reflected strong demand for power systems for commercial aviation applications. Approximately 85% of the increase in gross profit was due to incremental gross profit from the Souriau acquisition. Souriau s gross profit was impacted by a $12 million charge in the first fiscal quarter of 2012 due to recording Souriau s acquired inventory at its fair value. The prior-year period included a $27.9 million inventory fair value adjustment, recognized principally in the fourth fiscal quarter of 2011.

Advanced Materials segment gross margin was 32.5% and 31.6% for fiscal 2012 and 2011, respectively. Segment gross profit was $162.7 million and $145.8 million for fiscal 2012 and 2011, respectively. The increase in gross profit was principally due to higher sales of elastomer materials and insulation materials primarily for commercial aviation applications. Gross profit on defense technologies increased slightly, principally reflecting an increase in gross profit and margin on flare countermeasures, partially offset by lower gross profit on combustible ordnance due to decreased sales volumes.

Selling, general and administrative expenses (which include corporate expenses) increased to $382.9 million, or 19.2% of sales, in fiscal 2012 compared with $304.2 million, or 17.7% of sales, in fiscal 2011. The increase in selling, general and administrative expense principally reflected a $65.1 million increase in selling, general and administrative expense at our Sensors & Systems segment due to incremental selling, general and administrative expense from the Souriau acquisition. Selling, general and administrative expense increased $19.4 million at Avionics & Controls and Advanced Materials. This increase reflects a $2.8 million increase in bad debt due to the bankruptcy filing of Hawker Beechcraft, $5 million in incremental selling, general and administrative expense from the Eclipse acquisition, and $4.3 million in severance costs. Corporate expense decreased $5.8 million from fiscal 2011, principally reflecting lower acquisition-related expenses.

Research, development and related engineering spending increased to $107.7 million, or 5.4% of sales, in fiscal 2012 compared with $94.5 million, or 5.5% of sales, in fiscal 2011. The $13.2 million increase in research, development and related engineering expense principally reflects the incremental spending of $9 million on connection technologies reflecting a full-year impact due to the acquisition of Souriau and $6 million on power systems.

Segment earnings for fiscal 2012 were $219.4 million, or 11.0% of sales, compared with $240.0 million, or 14.0% of sales, for fiscal 2011. The decrease in segment earnings reflects the $52.2 million impairment charge against goodwill of Racal Acoustics. If the impairment charge is excluded, segment earnings totaled $271.5 million, or 13.6% of sales, for fiscal 2012.

Avionics & Controls segment earnings were $54.9 million, or 7.0% of sales, in fiscal 2012 compared with $135.2 million, or 16.1% of sales, in fiscal 2011. Excluding the $52.2 million impairment charge, segment earnings were $107.1 million, or 13.6% of sales, in fiscal 2012. The decrease in segment earnings from the prior-year period reflects a $22 million decrease in avionics systems earnings and a $5 million decrease in control systems earnings. Avionics systems earnings were impacted by decreased gross profit and a $2.3 million bad debt expense due to the bankruptcy of Hawker Beechcraft, partially offset by a decrease in spending on research, development and engineering. Control systems earnings were impacted by an increase in research, development and engineering expense. Additionally, the second fiscal quarter of 2011 benefited from a $1.1 million recovery of non-recurring engineering expense upon settlement with a customer of control systems.

Sensors & Systems segment earnings were $70.9 million, or 10.1% of sales, in fiscal 2012 compared with $22.5 million, or 5.4% of sales, in fiscal 2011, principally reflecting $40 million in incremental earnings from the Souriau acquisition and increases in sales in both power systems and advanced sensors. Souriau incurred an operating loss of $22.4 million in fiscal 2011 principally reflecting the inventory fair value adjustment referenced above. Power systems benefited from increased gross profits, partially offset by higher research, development and engineering spending. Advanced sensors benefited from increased gross profits mainly due to higher aftermarket demand and a $1.9 million recovery of non-recurring engineering and higher French tax credits on research, development and engineering expense.

Advanced Materials segment earnings were $93.5 million, or 18.7% of sales, in fiscal 2012 compared with $82.3 million, or 17.8% of sales, in fiscal 2011, primarily reflecting increased earnings from sales of engineered materials of $9 million and improved earnings from sales of defense technologies. The increase in engineered materials earnings reflected the increase in gross profit. The prior-year period benefited from a $3.2 million gain on sale of a facility, partially offset by a $1.7 million increase in an estimated liability for an environmental issue, which was paid in fiscal 2012. The improvement in results for defense technologies principally reflected an increase in earnings for countermeasures operations partially offset by decreased earnings of combustible ordnance of $3 million.

Prior to our March 2007 acquisition of CMC, CMC was involved in a transaction in which CMC shareholders had a limited amount of time in which to tender their shares in exchange for cash. In May 2008, after the prescribed time period had expired, CAD $11.8 million remained unclaimed. As a result, the paying agent returned the unclaimed amount to CMC in accordance with Canadian law. In December 2008, CMC s former parent company instituted a legal action against the paying agent, alleging negligence and breached contract terms by returning the funds to CMC. The plaintiff lost at trial and appealed. In the second quarter of fiscal 2012, CMC received notice that the plaintiff abandoned its appeal. In addition, CMC and the paying agent settled all remaining issues. All contingencies relating to this matter were resolved, and accordingly, the Company recorded a gain of approximately CAD $11.8 million or $11.9 million, or $9.5 million after tax, in the second fiscal quarter of 2012.

Interest expense increased to $46.2 million during fiscal 2012 compared with $40.2 million in the prior year, reflecting higher borrowings.

The income tax rate for fiscal 2012 was 20.9% compared with 15.7% in fiscal 2011. The tax rate was lower than the statutory rate, as both years benefited from various tax credits and certain foreign interest expense deductions. During fiscal 2012, we recognized $8.7 million of discrete income tax benefits as a result of the following items: The first item was a $2.3 million tax benefit due to a change in French tax laws associated with the holding company structure and the financing of the Souriau acquisition. The second item was a $2.9 million reduction of the U.K. statutory income tax rate. The third item was a $2.1 million tax benefit as a result of reconciling the prior year s income tax return to the U.S. income tax provision and settlement of tax examinations. The fourth item was a $1.4 million release of valuation allowance related to foreign tax credits as a result of a tax examination.

In fiscal 2011, we recognized $11.4 million of discrete income tax benefits as result of the following items. The first item was $3.1 million of income tax benefits due to the retroactive extension of the U.S. federal research and experimentation credits and the release of a valuation allowance related to a net operating loss of an acquired subsidiary. The second item was $5.6 million of income tax benefits associated with net operating losses of an acquired subsidiary as a result of concluding a tax examination. The third item was $3.5 million of net reduction of deferred income tax liabilities as a result of a reduction in the U.K. statutory income tax rate. The fourth item was $0.8 million of income tax expense as a result of reconciling the prior-year s income tax returns to the prior year s provision for income tax.

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

We use forward contracts to hedge our foreign currency exchange risk. To the extent that these hedges qualify under U.S. GAAP, the amount of gain or loss is deferred in Accumulated Other Comprehensive Income (AOCI) until the related sale occurs. Also, we are subject to foreign currency gains or losses from embedded derivatives on backlog denominated in a currency other than the functional currency of our operating companies or its customers. Gains and losses on forward contracts, embedded derivatives, and revaluation of assets and liabilities denominated in a currency other than the functional currency of the Company for fiscal 2012 and 2011 were as follows:

In Thousands Gain (Loss)		**2012**		**2011**
Forward foreign currency contracts	$	(5,735)	$	701
Forward foreign currency contracts reclassified from AOCI		784		10,185
Embedded derivatives		426		797
Revaluation of monetary assets/liabilities		981		2,108
Total	$	(3,544)	$	13,791

New orders for fiscal 2012 were $2.1 billion compared with $1.9 billion in fiscal 2011. Orders increased across all our segments. Backlog at the end of fiscal 2012 and 2011 was $1.3 billion.

Liquidity and Capital Resources

Working Capital and Statement of Cash Flows

Cash and cash equivalents at the end of fiscal 2013 totaled $179.2 million, an increase of $18.5 million from the prior year. Net working capital increased to $683.6 million at the end of fiscal 2013 from $639.3 million at the end of the prior year.

Cash flows from operating activities were $250.8 million and $194.2 million in fiscal 2013 and 2012, respectively. The increase principally reflected higher net earnings. Sources and uses of cash flows from operating activities principally consisted of cash received from the sale of products and cash payments for material, labor and operating expense.

Cash flows used by investing activities were $93.7 million and $48.5 million in fiscal 2013 and 2012, respectively. Cash flows used by investing activities in fiscal 2013 principally reflected cash paid for acquisitions of $40.7 million, net of cash acquired, and capital expenditures of $55.3 million. Cash flows used by investing activities in fiscal 2012 principally reflected the use of cash for the purchase of capital assets of $49.4 million.

Cash flows used by financing activities were $141.0 million and $167.8 million in fiscal 2013 and 2012, respectively. Cash flows used by financing activities in fiscal 2013 primarily reflected proceeds from our new credit facility of $175.0 million and repayment of long-term debt and credit facilities of $345.4 million. Cash flows used by financing activities in fiscal 2012 primarily reflected cash repayments of our long-term debt and credit facilities of $223.1 million.

Capital Expenditures

Net property, plant and equipment was $371.2 million at the end of fiscal 2013 compared with $356.4 million at the end of the prior year. Capital expenditures for fiscal 2013 and 2012 were $55.3 million and $49.4 million, respectively (excluding acquisitions), and included facilities, machinery, equipment and enhancements to information technology systems. Capital expenditures are anticipated to approximate $75.0 million for fiscal 2014. We will continue to support expansion through investments in infrastructure including machinery, equipment, and information systems.

Acquisitions

On December 20, 2013, we acquired Sunbank Family of Companies, LLC (Sunbank) for approximately $45 million and up to $5 million in contingent consideration based upon achievement of certain sales levels over a two-year period. Sunbank is a manufacturer of electrical cable accessories, connectors and flexible conduit systems. Sunbank is included in the Sensors & Systems segment. The acquisition was funded under our credit facility and available cash.

On February 4, 2013, we acquired the Gamesman Group (Gamesman) for $40.8 million. Gamesman is a global supplier of input devices principally serving the gaming industry. Gamesman is included in our Avionics & Controls segment.

On July 26, 2011, we acquired the Souriau Group (Souriau) for $726.7 million, net of acquired cash. Souriau is a leading global supplier of highly engineered connectors for harsh environments serving aerospace, defense & space, power generation, rail, and industrial equipment markets. Souriau is included in our Sensors & Systems segment.

On December 30, 2010, we acquired Eclipse Electronic Systems, Inc. (Eclipse) for $123.8 million. Eclipse is a designer and manufacturer of embedded communication intercept receivers for signal intelligence applications. Eclipse is included in our Avionics & Controls segment.

Debt Financing

Total debt decreased $159.5 million from the prior year to approximately $689.1 million at the end of fiscal 2013. Total debt outstanding at the end of fiscal 2013 consisted of $250.0 million of 2020 Notes, $170.6 million of the U.S. Term Loan, $24.8 million (18.0 million) under our Euro Term Loan, $130.0 million in borrowings under our secured credit facility, $56.9 million government refundable advances, $56.2 million under capital lease obligations, and $0.5 million in various foreign currency debt agreements and other debt agreements.

In April 2013, we amended the secured credit facility to provide for $175.0 million term loan (U.S. Term Loan). The interest rate on the U.S. Term Loan ranges from LIBOR plus 1.5% to LIBOR plus 2.25%, depending on the leverage ratios at the time the funds are drawn. At October 25, 2013, we had $170.6 million outstanding under the U.S. Term Loan at an interest rate of LIBOR plus 1.75%, which is currently 1.93%. The loan amortizes at 1.25% of the original principal balance quarterly through March 2016, with the remaining balance due in July 2016.

In July 2011, we amended the secured credit facility to provide for a new   125.0 million term loan (Euro Term Loan). The interest rate on the Euro Term Loan ranges from euro LIBOR plus 1.5% to euro LIBOR plus 2.25%, depending on the leverage ratios at the time the funds are drawn. At October 25, 2013, we had   18.0 million outstanding or $24.8 million under the Euro Term Loan at an interest rate of euro LIBOR plus 1.75%, which is currently 1.84%. The loan amortizes at 1.25% of the original principal balance quarterly through March 2016, with the remaining balance due in July 2016.

In March 2011, we entered into a secured credit facility for $460.0 million made available through a group of banks. The credit facility is secured by substantially all of our assets and interest is based on standard inter-bank offering rates. The credit facility expires in July 2016. The interest rate ranges from LIBOR plus 1.5% to LIBOR plus 2.25%, depending on the leverage ratios at the time the funds are drawn. At October 25, 2013, we had $130.0 million outstanding under the secured credit facility at an interest rate of LIBOR plus 1.75%, which is currently 1.93%. An additional $66.2 million of unsecured foreign currency credit facilities have been extended by foreign banks for a total of $526.2 million available companywide. Available credit under the above credit facilities was $363.5 million at fiscal 2013 year end, when reduced by outstanding borrowings of $130.0 million and letters of credit of $32.7 million.

On August 2, 2010, we issued $250.0 million of 2020 Notes requiring semi-annual interest payments in March and September of each year until maturity. The net proceeds from the sale of the notes, after deducting $4.4 million of debt issuance cost, were $245.6 million. The 2020 Notes are general unsecured senior obligations of the company. The 2020 Notes are guaranteed, jointly and severally on a senior basis, by all the existing and future domestic subsidiaries of the company unless designated as an unrestricted subsidiary, and those foreign subsidiaries that executed related subsidiary guarantees under the indenture covering the 2020 Notes. The 2020 Notes are subject to redemption at the option of the company at any time prior to August 1, 2015, at a price equal to 100% of the principal amount, plus any accrued interest to the date of redemption and a make-whole provision. The 2020 Notes are also subject to redemption at the option of the company, in whole or in part, on or after August 1, 2015, at redemption prices starting at 103.500% of the principal amount plus accrued interest during the period beginning August 1, 2015, and declining annually to 100% of principal and accrued interest on or after August 1, 2018.

In April 2013, we redeemed the $175.0 million 6.625% Senior Notes due March 2017 (2017 Notes). In connection with the redemption, we wrote off $1.3 million in unamortized debt issuance costs as a charge against interest expense. In addition, we incurred a $3.9 million redemption premium and received proceeds of $2.9 million from the termination of its $175.0 million interest rate swap agreements. As a result, the redemption of the 2017 Notes resulted in a net loss of $0.9 million on extinguishment of debt.

We believe cash on hand, funds generated from operations and other available debt facilities are sufficient to fund operating cash requirements and capital expenditures through fiscal 2014. We believe we will have adequate access to capital markets to fund future acquisitions.

Permanent Investment of Undistributed Earnings of Foreign Subsidiaries

Our non-U.S. subsidiaries have $167.2 million in cash and cash equivalents at October 25, 2013. Cash and cash equivalents at our U.S. parent and subsidiaries aggregated $12.0 million at October 25, 2013, and cash flow from these operations is sufficient to fund working capital, capital expenditures, acquisitions and debt repayments of our domestic operations. We have available credit to our U.S. parent and subsidiaries of $330.0 million on our U.S. secured credit facility. The earnings of our non-U.S. subsidiaries are considered to be indefinitely invested, and accordingly, no provision for federal income taxes has been made on accumulated earnings of foreign subsidiaries. The amount of the unrecognized deferred income tax liability for temporary differences related to investments in foreign subsidiaries is not practical to determine because of the complexities regarding the calculation of unremitted earnings and the potential for tax credits.

Government Refundable Advances

Government refundable advances consist of payments received from the Canadian government to assist in the research and development related to commercial aviation. These advances totaled $56.9 million and $51.8 million at October 25, 2013, and October 26, 2012, respectively. The repayment of the advances is based on year-over-year commercial aviation revenue growth at CMC beginning in 2014. Imputed interest on the advances was 4.61% at October 25, 2013.

Pension and Other Post-Retirement Benefit Obligations

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

We account for pension expense using the end of the fiscal year as our measurement date, and we make actuarially computed contributions to our pension plans as necessary to adequately fund benefits. Our funding policy is consistent with the minimum funding requirements of ERISA. In fiscal 2013 and 2012, operating cash flow included $27.0 million and $27.3 million, respectively, of cash funding to these pension plans. We expect pension funding requirements for the plans maintained by Esterline and CMC to be approximately $12.0 million and $10.6 million, respectively, in fiscal 2014. The rate of increase in future compensation levels is consistent with our historical experience and salary administration policies. The expected long-term rate of return on plan assets is based on long-term target asset allocations of 70% equity and 30% fixed income. We periodically review allocations of plan assets by investment type and evaluate external sources of information regarding long-term historical returns and expected future returns for each investment type, and accordingly, believe a 6.34% to 7.0% assumed long-term rate of return on plan assets is appropriate for both the Esterline and CMC plans. Current allocations are consistent with the long-term targets.

We made the following assumptions with respect to our Esterline pension obligation in fiscal 2013 and 2012:

	2013	2012
Principal assumptions as of fiscal year end:		
Discount rate	4.7%	3.85%
Rate of increase in future compensation levels	4.5%	4.5%
Assumed long-term rate of return on plan assets	7.0%	7.0%

We made the following assumptions with respect to our CMC pension obligation in fiscal 2013 and 2012:

	2013	2012
Principal assumptions as of fiscal year end:		
Discount rate	4.5%	4.35%
Rate of increase in future compensation levels	3.0%	3.1%
Assumed long-term rate of return on plan assets	6.34%	6.5 6.75%

33

We use a discount rate for expected returns that is a spot rate developed from a yield curve established from high-quality corporate bonds and matched to plan-specific projected benefit payments. Although future changes to the discount rate are unknown, had the discount rate increased or decreased by 25 basis points in fiscal 2013, pension liabilities in total would have decreased $11.8 million or increased $12.3 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2013 pension expense from a hypothetical 25 basis points increase or decrease in both the discount rate and expected long-term rate of return on plan assets would not have a material effect on our pension expense.

We made the following assumptions with respect to our Esterline post-retirement obligation in fiscal 2013 and 2012:

	2013	**2012**
Principal assumptions as of fiscal year end:		
Discount rate	4.7%	3.85%
Initial weighted average health care trend rate	6.0%	6.0%
Ultimate weighted average health care trend rate	6.0%	6.0%

We made the following assumptions with respect to our CMC post-retirement obligation in fiscal 2013 and 2012:

	2013	**2012**
Principal assumptions as of fiscal year end:		
Discount rate	4.5%	4.35%
Initial weighted average health care trend rate	6.3%	3.7%
Ultimate weighted average health care trend rate	4.2%	3.2%

The assumed health care trend rate has a significant impact on our post-retirement benefit obligations. Our health care trend rate was based on the experience of our plan and expectations for the future. A 100 basis points increase in the health care trend rate would increase our post-retirement benefit obligation by $1.9 million at October 25, 2013. A 100 basis points decrease in the health care trend rate would decrease our post-retirement benefit obligation by $0.5 million at October 25, 2013. Assuming all other assumptions are held constant, the estimated effect on fiscal 2013 post-retirement benefit expense from a hypothetical 100 basis points increase or decrease in the health care trend rate would not have a material effect on our post-retirement benefit expense.

Research and Development Expense

For the three years ended October 25, 2013, research and development expense has averaged 5.2% of sales. We estimate that research and development expense in fiscal 2014 will be about 5% of sales for the full year.

Contractual Obligations

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

In Thousands

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt [1]	$ 761,871	$ 25,143	$ 319,428	$ 10,364	$ 406,936
Interest obligations	118,125	17,500	35,000	35,000	30,625
Operating lease obligations	64,838	14,973	17,974	13,542	18,349
Purchase obligations	688,546	630,524	52,131	5,412	479
Total contractual obligations	$ 1,633,380	$ 688,140	$ 424,533	$ 64,318	$ 456,389

[1] Includes $72.7 million representing interest on capital lease obligations.

Seasonality

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

Disclosures About Market Risk

Interest Rate Risks

Our debt includes fixed rate and variable rate obligations at October 25, 2013. We are not subject to interest rate risk on the fixed rate obligations. We are subject to interest rate risk on the Euro Term Loan, U.S. Term Loan, and U.S. credit facility. For long-term debt, the table presents principal cash flows and the related weighted-average interest rates by contractual maturities.

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

In Thousands	Long-Term Debt	Variable Rate
Maturing in:	Principal Amount	Average Rates [1,2]
2014	$ 17,377	*
2015	17,379	*
2016	290,716	*
2017	0	*
2018	0	*
2019 and thereafter	0	*
Total	$ 325,472	
Fair Value at 10/25/2013	$ 325,472	

[1] Borrowings under the Euro Term Loan bear interest at a rate equal to either: (a) the euro LIBOR rate plus 1.75% or (b) the Base Rate (defined as the higher of Wells Fargo Bank, National Association s prime rate and the Federal funds rate plus 0.75%).

[2] Borrowings under the U.S. Term Loan bear interest at a rate equal to either: (a) the LIBOR rate plus 1.75% or (b) the Base Rate (defined as the higher of Wells Fargo Bank, National Association s prime rate and the Federal funds rate plus 0.75%).

Currency Risks

We own significant operations in Canada, France and the United Kingdom. To the extent that sales are transacted in a foreign currency, we are subject to foreign currency fluctuation risk. Furthermore, we have assets denominated in foreign currencies that are not offset by liabilities in such foreign currencies. At October 25, 2013, we had the following monetary assets subject to foreign currency fluctuation risk: U.S. dollar-denominated backlog with customers whose functional currency is other than the U.S. dollar; U.S. dollar-denominated accounts receivable and payable; and certain forward contracts, which are not accounted for as a cash flow hedge. The foreign exchange rate for the dollar relative to the euro decreased to 0.724 at October 25, 2013, from 0.773 at October 26, 2012; the dollar relative to the U.K. pound decreased to 0.619 from 0.621; and the dollar relative to the Canadian dollar increased to

1.045 from 0.997. Foreign currency transactions affecting monetary assets and forward contracts resulted in a $1.7 million loss in fiscal 2013, a $3.5 million loss in fiscal 2012, and a $13.8 million gain in fiscal 2011. The $13.8 million gain in fiscal 2011 included a $6.3 million gain due to our holding euros to fund the Souriau acquisition.

Our policy is to hedge a portion of our forecasted transactions using forward exchange contracts with maturities up to 45 months. The Company does not enter into any forward contracts for trading purposes. At October 25, 2013, and October 26, 2012, the notional value of foreign currency forward contracts was $373.2 million and $359.3 million, respectively. The net fair value of these contracts was a $1.3 million asset and a $2.5 million asset at October 25, 2013, and October 26, 2012, respectively. If the U.S. dollar increased by a hypothetical 5%, the effect on the fair value of the foreign currency contracts would be an increase of $17.9 million. If the U.S. dollar decreased by a hypothetical 5%, the effect on the fair value of the foreign currency contracts would be a decrease of $19.8 million.

The following tables provide information about our significant derivative financial instruments, including foreign currency forward exchange agreements and certain firmly committed sales transactions denominated in currencies other than the functional currency at October 25, 2013, and October 26, 2012. The information about certain firmly committed sales contracts and derivative financial instruments is in U.S. dollar equivalents. For forward foreign currency exchange agreements, the following tables present the notional amounts at the current exchange rate and weighted-average contractual foreign currency exchange rates by contractual maturity dates.

Firmly Committed Sales Contracts

Operations with Foreign Functional Currency

At October 25, 2013

Principal Amount by Expected Maturity

In Thousands Fiscal Years	Firmly Committed Sales Contracts in United States Dollar Canadian Dollar	Euro	U.K. Pound
2014	$ 138,219	$ 84,796	$ 70,724
2015	65,340	17,961	11,784
2016	21,302	333	12,052
2017	3,976	544	2,448
2018 and thereafter	12,355	0	0
Total	$ 241,192	$ 103,634	$ 97,008

Derivative Contracts

Operations with Foreign Functional Currency

At October 25, 2013

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate Fiscal Years	United States Dollar Notional Amount	 Avg. Contract Rate
2014	$ 62,632	1.319
2015	6,230	1.339
Total	$ 68,862	
Fair Value at 10/25/2013	$ 3,117	

[1] The Company has no derivative contracts maturing after fiscal 2015.

Derivative Contracts

Operations with Foreign Functional Currency

At October 25, 2013

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate	United States Dollar		
Fiscal Years		Notional Amount	Avg. Contract Rate
2014	$	53,182	1.568
2015		22,290	1.543
2016		6,643	1.573
Total	$	82,115	
Fair Value at 10/25/2013	$	2,738	

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

Derivative Contracts

Operations with Foreign Functional Currency

At October 25, 2013

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate	United States Dollar	
Fiscal Years	Notional Amount	Avg. Contract Rate
2014	$ 127,074	.974
2015	90,900	.962
Total	$ 217,974	
Fair Value at 10/25/2013	$ (4,497)	

[1] The Company has no derivative contracts maturing after fiscal 2015.

Firmly Committed Sales Contracts

Operations with Foreign Functional Currency

At October 26, 2012

Principal Amount by Expected Maturity

	Firmly Committed Sales Contracts in United States Dollar		
In Thousands Fiscal Years	Canadian Dollar	Euro	U.K. Pound
2013	$ 157,010	$ 78,043	$ 60,288
2014	43,991	16,225	12,908
2015	20,685	360	2,457
2016	14,720	16	2,457
2017 and thereafter	9,499	10	6,974
Total	$ 245,905	$ 94,654	$ 85,084

Derivative Contracts

Operations with Foreign Functional Currency

At October 26, 2012

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate	United States Dollar		
Fiscal Years		Notional Amount	Avg. Contract Rate
2013	$	75,938	1.291
2014		4,320	1.281
Total	$	80,258	
Fair Value at 10/26/2012	$	258	

[1] The Company has no derivative contracts maturing after fiscal 2014.

Derivative Contracts

Operations with Foreign Functional Currency

At October 26, 2012

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate	United States Dollar	
Fiscal Years	Notional Amount	Avg. Contract Rate
2013	$ 47,098	1.587
2014	16,982	1.588
2015	5,030	1.600
2016	4,633	1.599
Total	$ 73,743	
Fair Value at 10/26/2012	$ 923	

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

Derivative Contracts

Operations with Foreign Functional Currency

At October 26, 2012

Notional Amount by Expected Maturity

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

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

In Thousands, Except for Average Contract Rate	United States Dollar	
Fiscal Years	Notional Amount	Avg. Contract Rate
2013	$ 126,728	.992
2014	77,624	.980

Total	$	204,352
Fair Value at 10/26/2012	$	1,331

[1] The Company has no derivative contracts maturing after fiscal 2014.

Critical Accounting Policies

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

Revenue Recognition

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

Revenues and profits on fixed-price contracts with significant engineering as well as production requirements are recorded based on the achievement of contractual milestones and the ratio of total actual incurred costs to date to total estimated costs for each contract (cost-to-cost method). We review cost performance and estimates to complete on our ongoing contracts at least quarterly. The impact of revisions of profit estimates are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period they become evident. When change orders have been approved by both the company and the customer for both scope and price and realization is deemed probable, the original contract price is adjusted and revenues are recognized on contract performance (as determined by the achievement of contractual milestones and the cost-to-cost method). For partially approved change orders, costs attributable to unpriced change orders are treated as costs of the contract performance in the period the costs are incurred. Claims are also recognized as contract revenue when approved by both the company and the customer, based on contract performance.

Allowance for Doubtful Accounts

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

Inventories

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

Impairment of Goodwill and Intangible Assets

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

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

As we have grown through acquisitions, we have accumulated $1.1 billion of goodwill and $47.2 million of indefinite-lived intangible assets out of total assets of $3.3 billion at October 25, 2013. The amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. During the third fiscal quarter of 2013, management performed a Step One impairment test for Racal Acoustics, Inc. (Racal Acoustics) upon identification of an indicator of impairment. The

Company s third quarter forecast in 2013 projected a higher operating loss in fiscal 2013 and lower earnings over the five years compared to the prior-year forecast due to further delays and reductions in global defense programs. As required under U.S. GAAP, a Step Two impairment test was required in fiscal 2013, because the current fair value of the business using a discounted cash flow and market approach was less than its carrying amount of the business. Under Step Two, the fair value of all Racal Acoustics assets and liabilities were estimated, including tangible assets, existing technology, and trade names, for the purpose of deriving an estimate of the implied fair value of goodwill. The implied fair value of the goodwill was then compared to the recorded goodwill to determine the amount of the impairment. Assumptions used in measuring the value of these assets and liabilities included the discount rates, royalty rates, and obsolescence rates used in valuing the intangible assets and pricing of comparable transactions in the market in valuing the tangible assets. The excess of the carrying amount of goodwill over the implied fair value of goodwill resulted in an impairment charge of $3.5 million in fiscal 2013. An impairment charge of $52.2 million was recorded at Racal Acoustics in fiscal 2012.

We performed our annual impairment review for fiscal 2013 as of July 27, 2013, and our Step One analysis indicates that no impairment of goodwill or other indefinite-lived assets exists at any of our other reporting units. Our Souriau reporting unit s margin in passing the Step One analysis was about 12%, mainly reflecting lower market valuation assumptions in 2013. Management expects that continued improvements in operations will result in favorable actual results compared to our original plan. It is possible, however, that as a result of events or circumstances, we could conclude at a later date that goodwill of $347.6 million at Souriau may be considered impaired. We also may be required to record an earnings charge or incur unanticipated expenses if, due to a change in strategy or other reasons, we determined the value of other assets has been impaired. These other assets include trade names of $33.7 million and intangible assets of $181.7 million.

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

We used available market data and a discounted cash flow analysis in completing our 2013 annual impairment test. We believe that our cash flow estimates are reasonable based upon the historical cash flows and future operating and strategic plans of our reporting units. In addition to cash flow estimates, our valuations are sensitive to the rate used to discount cash flows and future growth assumptions. Except for Souriau, the fair value of all our reporting units exceeds its book value by greater than 20%. A 0.5% change in the discount rate used in the cash flow analysis would result in a change in the fair value of our other reporting units of approximately $83.6 million. A 0.5% change in the growth rate assumed in the calculation of the terminal value of cash flows would result in a change in the fair value of our other reporting units by $53.4 million. None of these changes would have resulted in any of our other reporting units to be impaired.

Impairment of Long-lived Assets

Long-lived assets that are to be disposed of are required to be reported at the lower of its carrying amount or fair value less cost to sell. An asset (other than goodwill and indefinite-lived intangible assets) is considered impaired when estimated future cash flows are less than the carrying amount of the asset. The first step (Step One) of an impairment test of long-lived assets is to determine the amount of future undiscounted cash flow of the long-lived asset. In the event the undiscounted future cash flow is less than the carrying amount of the long-lived asset, a second step is required (Step Two), and the long-lived asset is adjusted to its estimated fair value. Fair value is generally determined based upon estimated discounted future cash flows.

As we have grown through acquisitions, we have accumulated $533.8 million of definite-lived intangible assets. The amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

Contingencies

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

Pension and Other Post-Retirement Benefits

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

Income Taxes

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Item 8. Financial Statements and Supplementary Data

Consolidated Statement of Operations

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years in the Period Ended October 25, 2013	**2013**	**2012**	**2011**
Net Sales	$ 1,969,754	$ 1,992,318	$ 1,717,985
Cost of Sales	1,243,758	1,273,365	1,128,265
	725,996	718,953	589,720
Expenses			
Selling, general and administrative	391,147	382,887	304,154
Research, development and engineering	95,736	107,745	94,505
Gain on sale of product line	(2,264)	0	0
Gain on settlement of contingency	0	(11,891)	0
Goodwill impairment	3,454	52,169	0
Other income	0	(1,263)	(6,853)
Total Expenses	488,073	529,647	391,806
Operating Earnings From Continuing Operations	237,923	189,306	197,914
Interest income	(539)	(465)	(1,615)
Interest expense	39,667	46,238	40,216
Loss on extinguishment of debt	946	0	831
Earnings From Continuing Operations Before Income Taxes	197,849	143,533	158,482
Income Tax Expense	30,085	29,958	24,938
Earnings From Continuing Operations Including Noncontrolling Interests	167,764	113,575	133,544
Earnings Attributable to Noncontrolling Interests	(1,730)	(1,040)	(457)
Earnings From Continuing Operations Attributable to Esterline, Net of Tax	166,034	112,535	133,087
Loss From Discontinued Operations Attributable to Esterline, Net of Tax	(1,300)	0	(47)

Net Earnings Attributable to Esterline	$	164,734	$	112,535	$	133,040
Earnings (Loss) Per Share Attributable to Esterline Basic:						
Continuing operations	$	5.32	$	3.66	$	4.36
Discontinued operations		(.04)		.00		.00
Earnings (Loss) Per Share Attributable to Esterline Basic	$	5.28	$	3.66	$	4.36
Earnings (Loss) Per Share Attributable to Esterline Diluted:						
Continuing operations	$	5.23	$	3.60	$	4.27
Discontinued operations		(.04)		.00		.00
Earnings (Loss) Per Share Attributable to Esterline Diluted	$	5.19	$	3.60	$	4.27

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In Thousands, Except Share and Per Share Amounts

As of October 25, 2013 and October 26, 2012	**2013**	**2012**
Assets		
Current Assets		
Cash and cash equivalents	$ 179,178	$ 160,675
Cash in escrow	4,018	5,016
Accounts receivable, net of allowances of $9,215 and $9,029	383,666	383,362
Inventories	447,663	409,837
Income tax refundable	6,526	4,832
Deferred income tax benefits	47,277	46,000
Prepaid expenses	18,183	21,340
Other current assets	5,204	4,631
Total Current Assets	1,091,715	1,035,693
Property, Plant and Equipment		
Land	32,785	32,597
Buildings	247,885	231,210
Machinery and equipment	487,191	437,734
	767,861	701,541
Accumulated depreciation	396,664	345,140
	371,197	356,401
Other Non-Current Assets		
Goodwill	1,128,977	1,098,962
Intangibles, net	580,949	609,045
Debt issuance costs, net of accumulated amortization of $4,359 and $4,577	6,211	8,818
Deferred income tax benefits	71,840	97,952
Other assets	11,223	20,246
Total Assets	$ 3,262,112	$ 3,227,117

See Notes to Consolidated Financial Statements.

As of October 25, 2013 and October 26, 2012	2013	2012
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	$ 123,597	$ 108,689
Accrued liabilities	253,561	269,553
Current maturities of long-term debt	21,279	10,610
Deferred income tax liabilities	2,307	5,125
Federal and foreign income taxes	7,348	2,369
Total Current Liabilities	408,092	396,346
Long-Term Liabilities		
Credit facilities	130,000	240,000
Long-term debt, net of current maturities	537,859	598,060
Deferred income tax liabilities	193,119	205,198
Pension and post-retirement obligations	68,102	132,074
Other liabilities	40,188	34,904
Shareholders Equity		
Common stock, par value $.20 per share, authorized 60,000,000 shares, issued and outstanding 31,441,949 and 30,869,390 shares	6,288	6,174
Additional paid-in capital	604,511	569,235
Retained earnings	1,285,090	1,120,356
Accumulated other comprehensive loss	(22,284)	(85,284)
Total Esterline shareholders equity	1,873,605	1,610,481
Noncontrolling interests	11,147	10,054
Total Shareholders Equity	1,884,752	1,620,535
Total Liabilities and Shareholders Equity	$ 3,262,112	$ 3,227,117

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In Thousands

For Each of the Three Fiscal Years in the Period Ended October 25, 2013	2013	2012	2011
Cash Flows Provided (Used) by Operating Activities			
Net earnings including noncontrolling interests	$ 166,464	$ 113,575	$ 133,497
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided (used) by operating activities:			
Depreciation and amortization	112,132	107,792	84,658
Deferred income tax	(24,419)	(25,410)	(12,345)
Share-based compensation	9,575	9,543	7,963
Gain on sale of capital assets	(2,303)	(944)	(9,453)
Gain on settlement of contingency	0	(11,891)	0
Goodwill impairment	3,454	52,169	0
Working capital changes, net of effect of acquisitions:			
Accounts receivable	5,015	(22,381)	23,811
Inventories	(28,317)	(19,303)	15
Prepaid expenses	3,604	(2,506)	667
Other current assets	(1,558)	(1,002)	(2,575)
Accounts payable	9,008	(6,482)	(2,942)
Accrued liabilities	(3,120)	14,879	(10,509)
Federal and foreign income taxes	5,786	(2,858)	(816)
Other liabilities	(7,602)	(14,702)	(22,983)
Other, net	3,053	3,692	3,441
	250,772	194,171	192,429
Cash Flows Provided (Used) by Investing Activities			
Purchases of capital assets	(55,335)	(49,446)	(49,507)
Escrow deposit	0	0	(14,033)
Proceeds from sale of capital assets	2,303	944	9,453
Acquisition of businesses, net of cash acquired	(40,689)	0	(814,934)
	(93,721)	(48,502)	(869,021)

For Each of the Three Fiscal Years in the Period Ended October 25, 2013		**2013**		**2012**		**2011**
Cash Flows Provided (Used) by Financing Activities						
Proceeds provided by stock issuance under employee stock plans		22,854		7,658		13,253
Excess tax benefits from stock option exercises		2,961		382		1,830
Repayment of long-term credit facilities		(110,000)		(150,000)		(35,000)
Repayment of long-term debt		(235,428)		(73,145)		(129,916)
Proceeds from issuance of long-term credit facilities		175,000		30,000		400,014
Proceeds from issuance of long-term debt		0		0		176,875
Proceeds from government assistance		5,092		17,285		15,000
Dividends paid to noncontrolling interests		(1,048)		0		(238)
Debt and other issuance costs		(454)		0		(5,398)
		(141,023)		(167,820)		436,420
Effect of Foreign Exchange Rates on Cash and Cash Equivalents		2,475		(2,209)		3,087
Net Increase (Decrease) in Cash and Cash Equivalents		18,503		(24,360)		(237,085)
Cash and Cash Equivalents Beginning of Year		160,675		185,035		422,120
Cash and Cash Equivalents End of Year	$	179,178	$	160,675	$	185,035
Supplemental Cash Flow Information						
Cash paid for interest	$	38,376	$	43,854	$	38,361
Cash paid for taxes		43,842		54,366		45,074
Supplemental Non-cash Investing and Financing Activities						
Capital asset and lease obligation additions		11,691		0		0

See Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders Equity

Noncontrolling Interest, and Comprehensive Income (Loss)

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years in the Period Ended October 25, 2013	**2013**	**2012**	**2011**
Common Stock, Par Value $.20 Per Share			
Beginning of year	$ 6,174	$ 6,123	$ 6,056
Shares issued under stock option plans	114	51	67
End of year	6,288	6,174	6,123
Additional Paid-in Capital			
Beginning of year	569,235	551,703	528,724
Shares issued under stock option plans	25,701	7,989	15,016
Share-based compensation expense	9,575	9,543	7,963
End of year	604,511	569,235	551,703
Retained Earnings			
Beginning of year	1,120,356	1,007,821	874,781
Net earnings	164,734	112,535	133,040
End of year	1,285,090	1,120,356	1,007,821
Accumulated Other Comprehensive Income (Loss)			
Beginning of year	(85,284)	(2,812)	3,235
Change in fair value of derivative financial instruments, net of tax benefit of $913, $1,158 and $2,282	(3,119)	(2,399)	(5,934)
Change in pension and post-retirement obligations, net of tax benefit (expense) of $(22,897), $11,626 and $5,060	42,994	(23,708)	(9,986)
Foreign currency translation adjustment	23,125	(56,365)	9,873
End of year	(22,284)	(85,284)	(2,812)

Noncontrolling Interests						
Beginning of year		10,054		11,083		2,703
Shares repurchases		0		(2,069)		0
Noncontrolling interest resulting from an acquisition		0		0		8,160
Net changes in equity attributable to noncontrolling interest		1,093		1,040		220
End of year		11,147		10,054		11,083
Total Shareholders Equity	$	1,884,752	$	1,620,535	$	1,573,918

Comprehensive Income						
Net earnings	$	164,734	$	112,535	$	133,040
Change in fair value of derivative financial instruments, net of tax		(3,119)		(2,399)		(5,934)
Change in pension and post-retirement obligations, net of tax		42,994		(23,708)		(9,986)
Foreign currency translation adjustment		23,125		(56,365)		9,873
Comprehensive Income	$	227,734	$	30,063	$	126,993

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE 1: **Accounting Policies**

Nature of Operations

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

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated. Classifications have been changed for certain amounts in prior periods to conform with the current year s presentation. The Company s fiscal year ends on the last Friday of October.

Management Estimates

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

Concentration of Risks

The Company s products are principally focused on the aerospace and defense industry, which includes military and commercial aircraft original equipment manufacturers and their suppliers, commercial airlines, and the United States and foreign governments. Sales directly to the U.S. government aggregated 6% and 7% of sales in fiscal 2013 and 2012, respectively. Accordingly, the Company s current and future financial performance is dependent on the economic condition of the aerospace and defense industry. The commercial aerospace and defense markets have historically been subject to cyclical downturns during periods of weak economic conditions or material changes arising from domestic or international events. Management believes that the Company s sales are balanced across its customer base, which includes not only aerospace and defense customers but also medical and industrial commercial customers.

Revenue Recognition

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

Revenues and profits on fixed-price contracts with significant engineering as well as production requirements are recorded based on the achievement of contractual milestones and the ratio of total actual incurred costs to date to total estimated costs for each contract (cost-to-cost method). Types of milestones include design review and prototype completion. The Company reviews cost performance and estimates to complete on its ongoing contracts at least quarterly. The impact of revisions of profit estimates are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period they become evident. When change orders have been approved by both the company and the customer for both scope and price and realization is deemed probable, the original contract price is adjusted and revenues are recognized on contract performance (as determined by the achievement of contractual milestones and the cost-to-cost method). For partially approved change orders, costs attributable to unpriced change orders are treated as costs of the contract performance in the period the costs are incurred. Claims are also recognized as contract revenue when approved by both the company and the customer, based on contract performance.

Research and Development

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

Financial Instruments

Fair Value of Financial Instruments

The Company s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings, long-term debt, foreign currency forward contracts, and interest rate swap agreements. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their respective fair values because of the short-term maturities or expected settlement dates of these instruments. The fair market value of the Company s long-term debt and short-term borrowings was estimated at $711.6 million and $882.5 million at fiscal year end 2013 and 2012, respectively. These estimates were derived using discounted cash flows with interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities.

Foreign Currency Exchange Risk Management

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

The Company s policy is to hedge a portion of its forecasted transactions using forward exchange contracts, with maturities up to 24 months. These forward contracts have been designated as cash flow hedges. The portion of the net gain or loss on a derivative instrument that is effective as a hedge is reported as a component of other comprehensive income in shareholders equity and is reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining net gain or loss on the derivative in excess of the present value of the expected cash flows of the hedged transaction is recorded in earnings immediately. If a derivative does not qualify for hedge accounting, or a portion of the hedge is deemed ineffective, the change in fair value is recorded in earnings. The amount of hedge ineffectiveness has not been material in any of the three fiscal years in the period ended October 25, 2013. At October 25, 2013, and October 26, 2012, the notional value of foreign currency forward contracts accounted for as a cash flow hedge was $271.3 million and $260.7 million, respectively. The fair value of these contracts was a $2.3 million liability and a $1.5 million asset at October 25, 2013, and October 26, 2012, respectively. The Company does not enter into any forward contracts for trading purposes.

In July 2011, the Company entered into a Euro Term Loan for 125.0 million under the secured credit facility. The Company designated the Euro Term Loan a hedge of the investment in a certain French business unit. The foreign currency gain or loss that is effective as a hedge is reported as a component of accumulated other comprehensive income in shareholders equity. To the extent that this hedge is ineffective, the foreign currency gain or loss is recorded in earnings. There was no ineffectiveness in fiscal 2013 or fiscal 2012. The gain or loss included in Accumulated Other Comprehensive Income will remain until the underlying investment in a certain French business unit is liquidated. The amount of foreign currency translation included in Accumulated Other Comprehensive Income was a gain of $17.2 million at October 25, 2013.

Interest Rate Risk Management

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

In fiscal 2010, the Company entered into interest rate swap agreements for $175.0 million on the 2017 Notes. The swap agreements exchanged the fixed interest rate on the 2017 Notes of 6.625% for a variable interest rate. In the second quarter of fiscal 2013, the swap agreements were terminated, and the Company redeemed the 2017 Notes with proceeds from the $175.0 million U.S. Term Loan. The Company recorded a gain on the swap termination of $2.9 million. The gain is included in the Loss on Extinguishment of Debt in the Consolidated Statement of Operations.

Depending on the interest rate environment, the Company may enter into interest rate swap agreements to convert the variable interest rates on notes payable to fixed interest rates. These swap agreements are accounted for as cash flow hedges and the fair market value of the hedge instrument is included in Other Comprehensive Income.

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

Foreign Currency Translation

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on year-end exchange rates. Revenue and expense accounts are translated at average exchange rates. Aggregate exchange gains and losses arising from the translation of foreign assets and liabilities are included in shareholders equity as a component of comprehensive income. Accumulated gain on foreign currency translation adjustment was $35.4 million, $12.3 million and $68.6 million as of the fiscal years ended October 25, 2013, October 26, 2012, and October 28, 2011, respectively.

Foreign Currency Transaction Gains and Losses

Foreign currency transaction gains and losses are included in results of operations and are primarily the result of revaluing assets and liabilities denominated in a currency other than the functional currency, gains and losses on forward exchange contracts and the change in value of foreign currency embedded derivatives in backlog. These foreign currency transactions resulted in a $1.7 million loss in fiscal 2013, a $3.5 million loss in fiscal 2012, and a $13.8 million gain in fiscal 2011.

Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less at the date of purchase. Fair value of cash equivalents approximates carrying value.

Accounts Receivable

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

Inventories

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

Property, Plant and Equipment, and Depreciation

Property, plant and equipment is carried at cost and includes expenditures for major improvements. Depreciation is generally provided on the straight-line method based upon estimated useful lives ranging from 15 to 30 years for buildings and 3 to 10 years for machinery and equipment. Depreciation expense was $55.4 million, $52.4 million, and $42.5 million for fiscal years 2013, 2012, and 2011, respectively. Assets under capital leases were $47.1 million at October 25, 2013, and $38.8 million at October 26, 2012. Amortization expense of assets accounted for as capital leases is included with depreciation expense. The fair value of liabilities related to the retirement of property is recorded when there is a legal or contractual obligation to incur asset retirement costs and the costs can be estimated. The Company records the asset retirement cost by increasing the carrying cost of the underlying property by the amount of the asset retirement obligation. The asset retirement cost is depreciated over the estimated useful life of the underlying property.

Debt Issuance Costs

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

Long-lived Asset Impairments

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

Contingencies

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

Goodwill and Intangibles

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

Intangible assets are amortized over their estimated period of benefit, ranging from 2 to 20 years. Amortization expense is reflected in selling, general and administrative expense on the Consolidated Statement of Operations. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists.

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

Environmental

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

Pension Plan and Post-Retirement Benefit Plan Obligations

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

Discontinued Operations

In fiscal 2013, the Company recorded a $2.0 million liability related to environmental remediation at a previously sold business for which the Company provided indemnification. A loss of $1.3 million, net of tax, is reflected in discontinued operations on the Consolidated Statement of Operations.

Legal Expenses

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

Share-Based Compensation

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

Product Warranties

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

Income Taxes

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

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share also includes the dilutive effect of stock options and restricted stock units. Common shares issuable from stock options that are excluded from the calculation of diluted earnings per share because they were anti-dilutive were 162,100, 627,475, and 331,300 for fiscal 2013, 2012, and 2011, respectively. The weighted average number of shares outstanding used to compute basic earnings per share was 31,173,000, 30,749,000, and 30,509,000 for fiscal years 2013, 2012, and 2011, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 31,738,000, 31,282,000, and 31,154,000 for fiscal years 2013, 2012, and 2011, respectively.

Subsequent Events

On December 5, 2013, the Company announced the acceleration of its plans to consolidate certain facilities and create cost-efficiency through shared services in sales, general and administrative support functions. These integration activities are launching currently in each segment, and are expected to result in charges and expenses of approximately $40 million. The Company expects to incur costs of $25 million to $30 million in fiscal 2014 to support these efforts, with the balance to be incurred in fiscal 2015. The costs are mainly for severance, relocation of facilities and long-lived asset impairment losses.

On December 20, 2013, the Company acquired Sunbank Family of Companies, LLC (Sunbank) for approximately $45 million and up to $5 million in contingent consideration based upon achievement of certain sales levels over a two-year period. Sunbank is a manufacturer of electrical cable accessories, connectors and flexible conduit systems. Sunbank is included in the Sensors & Systems segment. The acquisition was funded under our credit facility and available cash.

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

NOTE 2: **Inventories**

Inventories at the end of fiscal 2013 and 2012 consisted of the following:

In Thousands	**2013**	**2012**
Raw materials and purchased parts	$ 165,231	$ 146,390
Work in process	169,165	155,617
Inventory costs under long-term contracts	13,717	19,207
Finished goods	99,550	88,623
	$ 447,663	$ 409,837

NOTE 3: **Goodwill**

The following table summarizes the changes in goodwill by segment for fiscal 2013 and 2012:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Balance, October 28, 2011	$ 513,508	$ 435,645	$ 214,572	$ 1,163,725
Sale of product line	(523)	0	0	(523)
Goodwill adjustments	(234)	24,280	0	24,046
Goodwill impairment	(52,169)	0	0	(52,169)
Foreign currency translation adjustment	(4,490)	(31,505)	(122)	(36,117)

Balance, October 26, 2012	456,092	428,420	214,450	1,098,962
Goodwill from acquisitions	21,640	0	0	21,640
Goodwill adjustments	0	2,904	0	2,904
Goodwill impairment	(3,454)	0	0	(3,454)
Foreign currency translation adjustment	(9,575)	18,159	341	8,925
Balance, October 25, 2013	$ 464,703	$ 449,483	$ 214,791	$ 1,128,977

During the third fiscal quarter of 2013 and 2012, management performed Step One impairment tests for Racal Acoustics upon identification of an indicator of impairment. The Company s third quarter forecast in 2013 projected a higher operating loss in fiscal 2013 and lower earnings over the five years compared to the prior-year forecast due to further delays and reductions in global defense programs. As required under U.S. GAAP, a Step Two impairment test was required in fiscal 2013, because the current fair value of the business using a discounted cash flow and market approach was less than its carrying amount of the business. Under Step Two, the fair value of all Racal Acoustics assets and liabilities was estimated, including tangible assets, existing technology, and trade names, for the purpose of deriving an estimate of the implied fair value of goodwill. The implied fair value of the goodwill was then compared to the recorded goodwill to determine the amount of the impairment. Assumptions used in measuring the value of these assets and liabilities included the discount rates, royalty rates, and obsolescence rates used in valuing the intangible assets, and pricing of comparable transactions in the market in valuing the tangible assets. The excess of the carrying amount of goodwill over the implied fair value of goodwill resulted in an impairment charge of $3.5 million in fiscal 2013. An impairment charge of $52.2 million was recorded at Racal Acoustics in fiscal 2012.

NOTE 4: **Intangible Assets**

Intangible assets at the end of fiscal 2013 and 2012 were as follows:

In Thousands		**2013**		**2012**	
	Weighted Average Years Useful Life	Gross Carrying Amount	Accum. Amort.	Gross Carrying Amount	Accum. Amort.
Amortized Intangible Assets:					
Programs	15	$ 726,049	$ 251,437	$ 701,396	$ 202,333
Core technology	16	9,589	6,711	9,589	6,112
Patents and other	12	93,291	37,024	96,721	38,140
Total		$ 828,929	$ 295,172	$ 807,706	$ 246,585
Indefinite-lived Intangible Assets:					
Trademark		$ 47,192		$ 47,924	

Programs represent the valuation of systems or components sold under long-term supply agreements with aerospace companies, military contractors, and OEM manufacturers using similar technology. The valuation of the program includes the values of the program-specific technology, the backlog of contracts, and the relationship with customers which lead to potential future contracts. The valuation of the program is based upon its discounted cash flow at a market-based discount rate.

Amortization of intangible assets was $54,998,000, $53,523,000, and $40,539,000 in fiscal years 2013, 2012, and 2011, respectively.

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

In Thousands

Fiscal Year	
2014	$ 57,495
2015	56,286
2016	55,686
2017	54,511
2018	53,847

NOTE 5: **Accrued Liabilities**

Accrued liabilities at the end of fiscal 2013 and 2012 consisted of the following:

In Thousands	2013	2012
Payroll and other compensation	$ 119,677	$ 128,269
Commissions	4,786	5,776
Casualty and medical	13,738	12,971
Interest	6,707	7,091
Warranties	19,372	21,870
State and other tax accruals	6,536	6,136
Customer deposits	21,500	18,193
Deferred revenue	15,888	30,707
Contract reserves	12,737	12,553
Forward foreign exchange contracts	7,645	2,375
Litigation reserves	10,266	1,163
Environmental reserves	810	3,119
Rent and future lease obligations	1,357	2,258
Other	12,542	17,072
	$ 253,561	$ 269,553

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

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

In Thousands	2013	2012
Balance, beginning of year	$ 21,870	$ 19,298
Warranty costs incurred	(4,912)	(2,752)
Product warranty accrual	7,380	8,471
Release of reserves	(4,555)	(2,967)
Foreign currency translation adjustment	(411)	(180)
Balance, end of year	$ 19,372	$ 21,870

NOTE 6: **Retirement Benefits**

Approximately 39% of U.S. employees have a defined benefit earned under the Esterline pension plan.

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

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

The Company accounts for pension expense using the end of the fiscal year as its measurement date. In addition, the Company makes actuarially computed contributions to these plans as necessary to adequately fund benefits. The Company s funding policy is consistent with the minimum funding requirements of ERISA. The accumulated benefit obligation and projected benefit obligation for the Esterline plans are $266,745,000 and $275,746,000, respectively, with plan assets of $259,924,000 as of October 25, 2013. The underfunded status for the Esterline plans is $15,822,000 at October 25, 2013. Contributions to the Esterline plans totaled $16,174,000 and $17,097,000 in fiscal years 2013 and 2012, respectively. The expected funding requirement for fiscal 2014 for the U.S. pension plans maintained by Esterline is

$12,000,000. The accumulated benefit obligation and projected benefit obligation for the CMC plans are $137,954,000 and $139,109,000, respectively, with plan assets of $126,117,000 as of October 25, 2013. The underfunded status for these CMC plans is $12,992,000 at October 25, 2013. Contributions to the CMC plans totaled $10,859,000 and $10,241,000 in fiscal 2013 and 2012, respectively. The expected funding requirement for fiscal 2014 for the CMC plans is $10,593,000.

Principal assumptions of the Esterline and CMC plans are as follows:

	Esterline Defined Benefit Pension Plans		CMC Defined Benefit Pension Plans	
	2013	**2012**	**2013**	**2012**
Principal assumptions as of fiscal year end:				
Discount Rate	4.7%	3.85%	4.5%	4.35%
Rate of increase in future compensation levels	4.5%	4.5%	3.0%	3.1%
Assumed long-term rate of return on plan assets	7.0%	7.0%	6.34%	6.5 6.75%

	Esterline Post-Retirement Benefit Plans		CMC Post-Retirement Pension Plans	
	2013	**2012**	**2013**	**2012**
Principal assumptions as of fiscal year end:				
Discount Rate	4.7%	3.85%	4.5%	4.35%
Initial weighted average health care trend rate	6.0%	6.0%	6.3%	3.7%
Ultimate weighted average health care trend rate	6.0%	6.0%	4.2%	3.2%

The Company uses a discount rate for expected returns that is a spot rate developed from a yield curve established from high-quality corporate bonds and matched to plan-specific projected benefit payments. Although future changes to the discount rate are unknown, had the discount rate increased or decreased by 25 basis points, pension liabilities in total would have decreased $11.8 million or increased $12.3 million, respectively. If all other assumptions are held constant, the estimated effect on fiscal 2013 pension expense from a hypothetical 25 basis points increase or decrease in both the discount rate and expected long-term rate of return on plan assets would not have a material effect on our pension expense. Management is not aware of any legislative or other initiatives or circumstances that will significantly impact the Company s pension obligations in fiscal 2014.

The assumed health care trend rate has a significant impact on the Company s post-retirement benefit obligations. The Company s health care trend rate was based on the experience of its plan and expectations for the future. A 100 basis points increase in the health care trend rate would increase the post-retirement benefit obligation by $1.9 million. A 100 basis points decrease in the health care trend rate would decrease the post-retirement benefit obligation by $0.5 million. Assuming all other assumptions are held constant, the estimated effect on fiscal 2013 post-retirement benefit expense from a hypothetical 100 basis points increase or decrease in the health care trend rate would not have a material effect on our post-retirement benefit expense.

Plan assets are invested in a diversified portfolio of equity and debt securities, consisting primarily of common stocks, bonds and government securities. The objective of these investments is to maintain sufficient liquidity to fund current benefit payments and achieve targeted risk-adjusted returns. Management periodically reviews allocations of plan assets by investment type and evaluates external sources of information regarding the long-term historical returns and expected future returns for each investment type, and accordingly, the 6.34% to 7.0% assumed long-term rate of return on plan assets is considered to be appropriate. Allocations by investment type are as follows:

		Actual	
	Target	**2013**	**2012**
Plan assets allocation as of fiscal year end:			
Equity securities	55 75%	63.9%	58.8%
Debt securities	25 45%	33.6%	38.7%
Cash	0%	2.5%	2.5%
Total		100.0%	100.0%

The following table presents the fair value of the Company s Pension Plan assets as of October 25, 2013, by asset category segregated by level within the fair value hierarchy, as described in Note 7.

In Thousands	Fair Value Hierarchy		
	Level 1	Level 2	Total
Asset category:			
Equity Funds			
Registered Investments Company			
Funds U.S. Equity	$ 106,436	$ 0	$ 106,436
Commingled Trust Funds U.S. Equity	0	26,923	26,923
U.S. Equity Securities	37,280	0	37,280
Non-U.S. Equity Securities	25,584	0	25,584
Commingled Trust Fund Non-U.S. Securities	0	53,347	53,347
Fixed Income Securities			
Registered Investments Company			
Funds Fixed Income	33,494	0	33,494
Commingled Trust Fund Fixed Income	0	41,428	41,428
Non-U.S. Foreign Commercial and			
Government Bonds	56,351	0	56,351
Cash and Cash Equivalents	9,966	0	9,966
Total	$ 269,111	$ 121,698	$ 390,809

The following table presents the fair value of the Company s Pension Plan assets as of October 26, 2012, by asset category segregated by level within the fair value hierarchy, as described in Note 7.

In Thousands	Fair Value Hierarchy		
	Level 1	Level 2	Total
Asset category:			
Equity Funds			
Registered Investments Company Funds U.S. Equity	$ 61,634	$ 0	$ 61,634
Commingled Trust Funds U.S. Equity	0	18,751	18,751
U.S. Equity Securities	46,140	0	46,140
Non-U.S. Equity Securities	24,986	0	24,986
Commingled Trust Fund Non-U.S. Securities	0	45,213	45,213
Fixed Income Securities			
Registered Investments Company Funds Fixed Income	35,528	0	35,528
Commingled Trust Fund Fixed Income	0	44,194	44,194
Non-U.S. Foreign Commercial and Government Bonds	49,749	0	49,749
Cash and Cash Equivalents	8,427	0	8,427
Total	$ 226,464	$ 108,158	$ 334,622

Valuation Techniques

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

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

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

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

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

In Thousands	Defined Benefit Pension Plans			Post-Retirement Benefit Plans		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Components of Net Periodic Cost						
Service cost	$ 11,848	$ 9,393	$ 8,583	$ 508	$ 436	$ 447
Interest cost	17,893	19,403	19,044	674	715	754
Expected return on plan assets	(22,476)	(21,508)	(20,354)	0	0	0
Amortization of prior service cost	384	41	21	(150)	(69)	0
Amortization of actuarial (gain) loss	14,255	10,551	8,450	103	41	(17)
Net periodic cost	$ 21,904	$ 17,880	$ 15,744	$ 1,135	$ 1,123	$ 1,184

The funded status of the defined benefit pension and post-retirement plans at the end of fiscal 2013 and 2012 were as follows:

In Thousands	Defined Benefit Pension Plans 2013	Defined Benefit Pension Plans 2012	Post-Retirement Benefit Plans 2013	Post-Retirement Benefit Plans 2012
Benefit Obligations				
Beginning balance	$ 456,861	$ 401,579	$ 17,040	$ 14,392
Currency translation adjustment	(4,948)	(2,623)	(559)	(175)
Service cost	11,848	9,393	508	436
Interest cost	17,893	19,403	674	715
Plan participants contributions	156	44	0	0
Amendment	273	416	0	546
Actuarial (gain) loss	(16,905)	50,116	14	1,918
Other adjustment	287	0	(252)	0
Benefits paid	(22,332)	(21,467)	(712)	(792)
Ending balance	$ 443,133	$ 456,861	$ 16,713	$ 17,040
Plan Assets Fair Value				
Beginning balance	$ 334,622	$ 300,826	$ 0	$ 0
Currency translation adjustment	(5,377)	(838)	0	0
Realized and unrealized gain (loss) on plan assets	55,730	27,918	0	0
Plan participants contributions	156	44	0	0
Company contribution	28,927	29,014	712	792
Other adjustment	92	0	0	0
Expenses paid	(1,009)	(875)	0	0
Benefits paid	(22,332)	(21,467)	(712)	(792)
Ending balance	$ 390,809	$ 334,622	$ 0	$ 0
Funded Status				
Fair value of plan assets	$ 390,809	$ 334,622	$ 0	$ 0
Benefit obligations	(443,133)	(456,861)	(16,713)	(17,040)
Net amount recognized	$ (52,324)	$ (122,239)	$ (16,713)	$ (17,040)
Amount Recognized in the Consolidated Balance Sheet				
Non-current asset	$ 2,201	$ 0	$ 0	$ 0
Current liability	(2,351)	(6,145)	(785)	(1,060)
Non-current liability	(52,174)	(116,094)	(15,928)	(15,980)
Net amount recognized	$ (52,324)	$ (122,239)	$ (16,713)	$ (17,040)

Amounts Recognized in Accumulated Other Comprehensive Income				
Net actuarial loss (gain)	$ 82,796	$ 148,758	$ 768	$ 759
Prior service cost	490	589	161	0
Ending balance	$ 83,286	$ 149,347	$ 929	$ 759

The accumulated benefit obligation for all pension plans was $427,625,000 at October 25, 2013, and $442,165,000 at October 26, 2012.

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

In Thousands		
Fiscal Year		
2014	$	26,856
2015		27,085
2016		28,655
2017		29,975
2018		31,895
2019 2023		169,548

Employees may participate in certain defined contribution plans. The Company s contribution expense under these plans totaled $9,421,000, $8,900,000, and $8,203,000 in fiscal 2013, 2012, and 2011, respectively.

NOTE 7: **Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value. An asset s or liability s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy of fair value measurements is described below:

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

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

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

The following table sets forth the Company s financial assets and liabilities that were measured at fair value on a recurring basis by level within the fair value hierarchy at the end of fiscal 2013 and 2012:

In Thousands	Level 2			
		2013		**2012**
Assets:				
Derivative contracts designated as hedging instruments	$	2,270	$	7,753

Derivative contracts not designated as hedging instruments		3,670		1,387
Embedded derivatives		706		51
Liabilities:				
Derivative contracts designated as hedging instruments	$	4,541	$	2,143
Derivative contracts not designated as hedging instruments		122		361
Embedded derivatives		344		470

In Thousands		Level 3		
		2013		**2012**
Liabilities:				
Contingent purchase obligation	$	4,000	$	9,000

59

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

The Company s derivative contracts consist of foreign currency exchange contracts and interest rate swap agreements. These derivative contracts are over the counter and their fair value is determined using modeling techniques that include market inputs such as interest rates, yield curves, and currency exchange rates. These contracts are categorized as Level 2 in the fair value hierarchy.

The Company s contingent purchase obligation consists of additional consideration in connection with the acquisition of Eclipse. The contingent consideration will be paid to the seller if certain performance objectives are met over the three-year period from the date of acquisition. The value recorded on the balance sheet was derived from the estimated probability that the performance objective will be met by the end of the three-year period. The contingent purchase obligation is categorized as Level 3 in the fair value hierarchy. The Company paid $5.0 million of the contingent purchase obligation in 2013.

NOTE 8: **Derivative Financial Instruments**

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

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

The fair values of derivative instruments are presented on a gross basis, as the Company does not have any derivative contracts which are subject to master netting arrangements. The Company does not have any derivative instruments with credit-risk-related contingent features or that required the posting of collateral as of October 25, 2013. The cash flows from derivative contracts are recorded in operating activities in the Consolidated Statement of Cash Flows.

Foreign Currency Forward Exchange Contracts

The Company transacts business in various foreign currencies which subjects the Company s cash flows and earnings to exposure related to changes in foreign currency exchange rates. These exposures arise primarily from purchases or sales of products and services from third parties. Foreign currency forward exchange contracts provide for the purchase or sale of foreign currencies at specified future dates at specified exchange rates and are used to offset changes in the fair value of certain assets or liabilities or forecasted cash flows resulting from transactions denominated in foreign currencies. As of October 25, 2013, and October 26, 2012, the Company had outstanding foreign currency forward exchange contracts principally to sell U.S. dollars with notional amounts of $369.0 million and $358.4 million, respectively. These notional values consist primarily of contracts for the European euro, British pound sterling and Canadian dollar, and are stated in U.S. dollar equivalents at spot exchange rates at the respective dates.

Interest Rate Swaps

The Company manages its exposure to interest rate risk by maintaining an appropriate mix of fixed and variable rate debt, which over time should moderate the costs of debt financing. When considered necessary, the Company may use financial instruments in the form of interest rate swaps to help meet this objective. In fiscal 2010, the Company entered into interest rate swap agreements for the $175.0 million 2017 Notes. The swap agreements exchanged the fixed interest rate of 6.625% for a variable interest rate. In the second quarter of fiscal 2013, the swap agreements were terminated and the Company redeemed the 2017 Notes with the proceeds from the $175.0 million U.S. Term Loan. The Company recorded a gain on the swap termination of $2.9 million. The gain is included in the Loss on Extinguishment of Debt in the Consolidated Statement of Operations.

Embedded Derivative Instruments

The Company s embedded derivatives are the result of entering into sales or purchase contracts that are denominated in a currency other than the Company s functional currency or the supplier s or customer s functional currency.

Net Investment Hedge

In July 2011, the Company entered into a Euro Term Loan for 125.0 million under the secured credit facility. The Company designated the Euro Term Loan a hedge of the investment in a certain French business unit. The foreign currency gain or loss that is effective as a hedge is reported as a component of other comprehensive income in shareholders equity. To the extent that this hedge is ineffective, the foreign currency gain or loss is recorded in earnings. There has been no ineffectiveness since inception of the hedge.

Fair Value of Derivative Instruments

Fair values of derivative instruments in the Consolidated Balance Sheet at the end of fiscal 2013 and 2012 consisted of: