MOOG INC
Form 10-K
December 01, 2010

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

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

For the fiscal year ended **October 2, 2010**

OR

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

For the transition period from __________ to__________ Commission file number **1-5129**

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 o

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No þ
The aggregate market value of the common stock outstanding and held by non-affiliates (as defined in Rule 405 under the Securities Act of 1933) of the registrant, based upon the closing sale price of the common stock on the New York Stock Exchange on April 2, 2010, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $1,424 million.
The number of shares of common stock outstanding as of the close of business on November 23, 2010 was:
Class A 41,310,242; Class B 4,098,674.
Portions of the 2010 Proxy Statement to Shareholders (2010 Proxy) are incorporated by reference into Part III of this Form 10-K.

MOOG Inc.
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Disclosure Regarding Forward-Looking Statements

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

fluctuations in general business cycles for commercial aircraft, military aircraft, space and defense products, industrial capital goods and medical devices;

our dependence on government contracts that may not be fully funded or may be terminated;

our dependence on certain major customers, such as The Boeing Company and Lockheed Martin, for a significant percentage of our sales;

delays by our customers in the timing of introducing new products, which may affect our earnings and cash flow;

the possibility that the demand for our products may be reduced if we are unable to adapt to technological change;

intense competition, which may require us to lower prices or offer more favorable terms of sale;

our indebtedness, which could limit our operational and financial flexibility;

the possibility that new product and research and development efforts may not be successful, which could reduce our sales and profits;

increased cash funding requirements for pension plans, which could occur in future years based on assumptions used for our defined benefit pension plans, including returns on plan assets and discount rates;

a write-off of all or part of our goodwill or intangible assets, which could adversely affect our operating results and net worth and cause us to violate covenants in our bank agreements;

the potential for substantial fines and penalties or suspension or debarment from future contracts in the event we do not comply with regulations relating to defense industry contracting;

the potential for cost overruns on development jobs and fixed-price contracts and the risk that actual results may differ from estimates used in contract accounting;

the possibility that our subcontractors may fail to perform their contractual obligations, which may adversely affect our contract performance and our ability to obtain future business;

our ability to successfully identify and consummate acquisitions, and integrate the acquired businesses and the risks associated with acquisitions, including that the acquired businesses do not perform in accordance with our expectations, and that we assume unknown liabilities in connection with acquired businesses for which we are not indemnified;

our dependence on our management team and key personnel;

the possibility of a catastrophic loss of one or more of our manufacturing facilities;

the possibility that future terror attacks, war or other civil disturbances could negatively impact our business;

that our operations in foreign countries could expose us to political risks and adverse changes in local, legal, tax and regulatory schemes;

the possibility that government regulation could limit our ability to sell our products outside the United States;

product quality or patient safety issues with respect to our medical devices business that could lead to product recalls, withdrawal from certain markets, delays in the introduction of new products, sanctions, litigation, declining sales or actions of regulatory bodies and government authorities;

the impact of product liability claims related to our products used in applications where failure can result in significant property damage, injury or death and in damage to our reputation;

changes in medical reimbursement rates of insurers to medical service providers, which could affect sales of our medical products;

the possibility that litigation results may be unfavorable to us;

our ability to adequately enforce our intellectual property rights and the possibility that third parties will assert intellectual property rights that prevent or restrict our ability to manufacture, sell, distribute or use our products or technology;

foreign currency fluctuations in those countries in which we do business and other risks associated with international operations;

the cost of compliance with environmental laws;

the risk of losses resulting from maintaining significant amounts of cash and cash equivalents at financial institutions that are in excess of amounts insured by governments;

the inability to modify, to refinance or to utilize amounts presently available to us under our credit facilities given uncertainties in the credit markets;

our ability to meet the covenants under our credit facilities since a breach of any of these covenants could result in a default under our credit agreements; and

our customers inability to continue operations or to pay us due to adverse economic conditions or their inability to access available credit.

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PART I

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

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

Item 1. Business

Description of the Business. Moog is a worldwide designer, manufacturer and integrator of high performance precision motion and fluid controls and systems for a broad range of applications in aerospace and defense, industrial and medical markets. We have five operating segments: Aircraft Controls, Space and Defense Controls, Industrial Systems, Components and Medical Devices.

Additional information describing the business and comparative segment revenues, operating profits and related financial information for 2010, 2009 and 2008 are provided in Note 17 of Item 8, Financial Statements and Supplementary Data of this report.

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

Industry and Competitive Conditions. We experience considerable competition in our aerospace and defense, industrial and medical markets. We believe that the principal points of competition in our markets are product quality, price, design and engineering capabilities, product development, conformity to customer specifications, timeliness of delivery, effectiveness of the distribution organization and quality of support after the sale. We believe we compete effectively on all of these bases. Principal competitors in our five operating segments include:

Aircraft Controls: Parker Hannifin, Nabtesco, Goodrich, Liebherr, Curtiss-Wright, Woodward Governor and Hamilton Sundstrand.

Space and Defense Controls: Honeywell, Parker Hannifin, Vacco, Valvetech, Marotta, Sabca, Curtiss-Wright, ESW, Aerojet, Valcor, Aeroflex, Hamilton Sundstrand, Limitorque, Sargeant Industries, RVision, Directed Perception, ATA Engineering, Barry Controls, RUAG, Woodward Governor, Sierra-Nevada, Videotec and Lord Corp.

Industrial Systems: Bosch Rexroth, Danaher, Baumueller, Siemens, SSB and Hydraudyne.

Components: Danaher, Allied Motion, Ametek, Woodward MPC, Axsys, Schleifring, Airflyte, Smiths, Kearfott and Stemmann.

Medical Devices: B. Braun, Carefusion, Smiths Medical, Hospira, Alcon, Baxter International, CME, I-Flow, Covidien and Ross (Abbott).

Government Contracts. All U.S. Government contracts are subject to termination by the Government. In 2010, sales under U.S. Government contracts represented 35% of total sales and were primarily within Aircraft Controls, Space and Defense Controls and Components.

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

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

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

Seasonality. Our business is generally not seasonal; however, certain markets, such as wind energy, do experience seasonal variations in sales levels.

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Patents. We maintain a patent portfolio of issued or pending patents and patent applications worldwide that generally includes the U.S., Europe, China, Japan and India. The portfolio includes patents that relate to electrohydraulic, electromechanical, electronics, hydraulics, components and methods of operation and manufacture as related to motion control and actuation systems. The portfolio also includes patents for recently acquired products related to wind turbines, robotics, surveillance/security, vibration control and medical devices. We do not consider any one or more of these patents or patent applications to be material in relation to our business as a whole. The patent portfolio related to certain medical devices is significant to our position in this market as several of these products work exclusively together, and provide us future revenue opportunities.

Research Activities. Research and development activity has been, and continues to be, significant for us. Research and development expense was at least $100 million in each of the last three years.

Employees. On October 2, 2010, we employed 10,117 full-time employees.

Customers. Our principal customers are Original Equipment Manufacturers, or OEMs, and end users for whom we provide aftermarket support. Aerospace and defense OEM customers collectively represented approximately 48% of 2010 sales. The majority of these sales are to a small number of large companies. Due to the long-term nature of many of the programs, many of our relationships with aerospace and defense OEM customers are based on long-term agreements. Our OEM sales of industrial controls and medical devices, which represented approximately 35% of 2010 sales, are to a wide range of global customers and are normally based on lead times of 90 days or less. We also provide aftermarket support, consisting of spare and replacement parts and repair and overhaul services, for all of our product applications. Our major aftermarket customers are the U.S. Government and commercial airlines. In 2010, aftermarket sales accounted for 17% of total sales.

Customers in our five operating segments include:

Aircraft Controls: Boeing, Lockheed Martin, Airbus, BAE, Bombardier, Gulfstream, Honeywell, Northrop Grumman and the U.S. Government.

Space and Defense Controls: Lockheed Martin, Raytheon, Orbital Sciences, BAE, United Technologies-Pratt & Whitney Rocketdyne, Alliant Techsystems and General Dynamics.

Industrial Systems: RePower AG, United Power (GUP), FlightSafety, CAE, Arburg, Metso and Schlumberger.

Components: Respironics, Raytheon, Lockheed Martin, Philips Medical and the U.S. Government.

Medical Devices: B. Braun, Danone and Abbott.

International Operations. Our operations outside the United States are conducted through wholly-owned foreign subsidiaries and are located predominantly in Europe and the Asia-Pacific region. See Note 17 of Item 8, Financial Statements and Supplementary Data, of this report for information regarding sales by geographic area and Exhibit 21 of Item 15, Exhibits and Financial Statement Schedules, of this report for a list of subsidiaries. Our international operations are subject to the usual risks inherent in international trade, including currency fluctuations, local government contracting regulations, local governmental restrictions on foreign investment and repatriation of profits, exchange controls, regulation of the import and distribution of foreign goods, as well as changing economic and social conditions in countries in which our operations are conducted.

Environmental Matters. See the discussion in Note 18 of Item 8, Financial Statements and Supplementary Data of this report.

Website Access to Information. Our internet address is www.moog.com. We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports, available on the investor information portion of our website. The reports are free of charge and are available as soon as reasonably practicable after they are filed with the Securities and Exchange Commission. We have posted our Corporate Governance guidelines, Board committee charters and code of ethics to the investor information portion of our website. This information is available in print to any shareholder upon request. All requests for these documents

should be made to Moog s Manager of Investor Relations by calling 716-687-4225.

Executive Officers of the Registrant. Other than John B. Drenning, the principal occupations of our officers for the past five years have been their employment with us. John B. Drenning s principal occupation is partner in the law firm of Hodgson Russ LLP.

On February 11, 2008, Jennifer Walter was named Controller and Principal Accounting Officer. Previously, she was Director of Financial Planning and Analysis.

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

On November 28, 2007, John R. Scannell was named Vice President and Chief Financial Officer. Previously, he was Vice President and Director of Contracts and Pricing, a position he held since 2006. Prior to that, he was the Program Director for the Boeing 787.

On January 10, 2006, Sasidhar Eranki was named Vice President and continues as Deputy General Manager of the Aircraft Group and Director of Engineering.

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Executive Officers	Age	Year First Elected Officer
Robert T. Brady		
Chairman of the Board; President; Chief Executive Officer;		
Director; Member, Executive Committee	69	1967
Richard A. Aubrecht		
Vice Chairman of the Board; Vice President - Strategy and Technology;		
Director; Member, Executive Committee	66	1980
Joe C. Green		
Executive Vice President; Chief Administrative Officer;		
Director; Member, Executive Committee	69	1973
Stephen A. Huckvale		
Vice President	61	1990
Martin J. Berardi		
Vice President	54	2000
Warren C. Johnson		
Vice President	51	2000
Jay K. Hennig		
Vice President	50	2002
Lawrence J. Ball		
Vice President	56	2004
Harald E. Seiffer		
Vice President	51	2005
Sasidhar Eranki		

Vice President	56	2006
John R. Scannell		
Vice President; Chief Financial Officer	47	2006
Donald R. Fishback		
Vice President - Finance	54	1985
Jennifer Walter		
Controller; Principal Accounting Officer	39	2008
Timothy P. Balkin		
Treasurer; Assistant Secretary	51	2000
John B. Drenning		
Secretary	73	1989

Item 1A. Risk Factors

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

We depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs. Sales to the U.S. Government and its prime contractors and subcontractors represent a significant portion of our business. In 2010, sales under U.S. Government contracts represented 35% of our total sales, primarily within Aircraft Controls, Space and Defense Controls and Components. Sales to foreign governments represented 8% of our total sales. We expect that the percentage of our revenues from government contracts will continue to be substantial in the future. Government programs can be structured into a series of individual contracts. The funding of these programs is generally subject to annual congressional appropriations, and congressional priorities are subject to change. In addition, government expenditures for defense programs may decline or these defense programs may be terminated. A decline in government expenditures may result in a reduction in the volume of contracts awarded to us. We have resources applied to specific government contracts and if any of those contracts were terminated, we may incur substantial costs redeploying those resources.

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

We make estimates in accounting for long-term contracts, and changes in these estimates may have significant impacts on our earnings. We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls. Revenue representing 30% of 2010 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. Under this method, we recognize revenue as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods.

Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. A significant change in an estimate on one or more contracts could have a material effect on our results of operations. For contracts with anticipated losses at completion, we establish a provision for the entire amount of the estimated remaining loss and charge it against income in the period in which the loss becomes known. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating

revenues, costs and profits when they can be reliably estimated and realization is considered probable.

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We enter into fixed-price contracts, which could subject us to losses if we have cost overruns. In 2010, fixed-price contracts represented 82% of our sales that were accounted for using the percentage of completion, cost-to-cost method of accounting. On fixed-price contracts, we agree to perform the scope of work specified in the contract for a predetermined price. Depending on the fixed price negotiated, these contracts may provide us with an opportunity to achieve higher profits based on the relationship between our total contract costs and the contract s fixed price. However, we bear the risk that increased or unexpected costs may reduce our profit or cause us to incur a loss on the contract, which could reduce our net sales and net earnings. Loss reserves are most commonly associated with fixed-price contracts that involve the design and development of new and unique controls or control systems to meet the customer s specifications.

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

If we are unable to adapt to technological change, demand for our products may be reduced. The technologies related to our products have undergone, and in the future may undergo, significant changes. To succeed in the future, we will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. Historically, our technology has been developed through customer-funded and internally funded research and development and through business acquisitions. In addition, our competitors may develop technologies and products that are more effective than those we develop or that render our technology and products obsolete or uncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We may have to modify our products significantly in the future to remain competitive.

Our new product and research and development efforts may not be successful, which would result in a reduction in our sales and earnings. In the past, we have incurred, and we expect to continue to incur, expenses associated with research and development activities and the introduction of new products. For instance, we are currently incurring substantial development costs in connection with our work on the Airbus A350 XWB and Boeing 787. We may experience difficulties that could delay or prevent the successful development of new products or product enhancements, and new products or product enhancements may not be accepted by our customers. In addition, the research and development expenses we incur may exceed our cost estimates, and new products we develop may not generate sales sufficient to offset our costs. If any of these events occur, our sales and profits could be adversely affected.

The loss of Boeing or Lockheed Martin as a customer or a significant reduction in sales to either company could adversely impact our operating results. We provide Boeing with controls for both military and commercial applications, which, in total, were 10% of our 2010 sales. Sales to Boeing s commercial airplane group are generally made under a long-term supply agreement through 2021 for the Boeing 787 and 2012 for other commercial airplanes. The loss of Boeing or Lockheed Martin as a customer or a significant reduction in sales to either company could significantly reduce our sales and earnings.

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

- develop products that are superior to our products,

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

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

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

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

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

We are subject to financing and interest rate exposure risks that could adversely affect our business and operating results. Adverse changes in the availability, terms and cost of capital, increases in interest rates or a reduction in credit rating or outlook could cause our cost of doing business to increase, limit our ability to pursue acquisition opportunities and place us at a competitive disadvantage. At October 2, 2010, 57% of our debt was at fixed interest rates with the remaining 43% subject to variable interest rates.

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

Our international operations pose currency and other risks that may adversely impact our sales and earnings. We have significant manufacturing and sales operations in foreign countries. In addition, our domestic operations have sales to foreign customers. Our financial results may be adversely affected by fluctuations in foreign currencies and by the translation of the financial statements of our foreign subsidiaries from local currencies into U.S. dollars. The translation of our sales in foreign currencies to the U.S. dollar had a $11 million positive impact on sales for 2010 using average exchange rates for 2010 compared to average exchange rates for 2009 and a $49 million negative impact on sales for 2009 using average exchange rates for 2009 compared to average exchange rates for 2008.

A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth and cause us to violate covenants in our bank credit facility. Goodwill and other intangible assets are a substantial portion of our assets. At October 2, 2010, goodwill was $705 million and other intangible assets were $206 million of our total assets of $2.7 billion. Our goodwill and other intangible assets may increase in the future since our strategy includes growing through acquisitions. We may have to write off all or part of our goodwill or other intangible assets if their value becomes impaired. Although this write-off would be a non-cash charge, it could reduce our earnings and net worth significantly. A write-off of goodwill or other intangible assets could also cause us to violate covenants in our bank credit facility that require a minimum level of net worth. This could result in our inability to borrow under our bank credit facility or obligation to refinance or renegotiate the terms of our bank indebtedness.

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

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

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

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

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

Future terror attacks, war, or other civil disturbances could negatively impact our business. Terror attacks, war or other disturbances could lead to economic instability and decreases in demand for commercial products, which could negatively impact our business, financial condition and results of operations. Terrorist attacks worldwide have caused instability from time to time in global financial markets and the aviation industry. In 2010, 14% of our net sales was related to commercial aircraft. The long-term effects of terrorist attacks on us are unknown. These attacks and the U.S. Government s continued efforts against terrorist organizations may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability.

Our operations in foreign countries expose us to political risks and adverse changes in local legal, tax and regulatory schemes. In 2010, 44% of our net sales was from customers outside of the United States. We expect international operations and export sales to continue to contribute to our earnings for the foreseeable future. Both the sales from international operations and export sales are subject in varying degrees to risks inherent in doing business outside of the United States. Such risks include, without limitation, the following:

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

Government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business. In 2010, 10% of our sales was subject to compliance with the United States Export Administration regulations. Our failure to obtain the requisite licenses, meet registration standards or comply with other government export regulations would hinder our ability to generate revenues from the sale of our products outside the United States. Compliance with these government regulations may also subject us to additional fees and operating costs. The absence of comparable restrictions on competitors in other countries may adversely affect our

competitive position. In order to sell our products in European Union countries, we must satisfy certain technical requirements. If we are unable to comply with those requirements with respect to a significant quantity of our products, our sales in Europe would be restricted. Doing business internationally also subjects us to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, foreign corrupt practices and anti-boycott provisions. Failure by us or our sales representatives or consultants to comply with these laws and regulations could result in administrative, civil or criminal liabilities and could, in the extreme case, result in suspension or debarment from government contracts or suspension of our export privileges, which would have a material adverse effect on us.

Our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers. We conduct our operations in facilities located throughout the world. Any of these facilities could be damaged by fire, floods, earthquakes, power loss, telecommunication and information systems failure or similar events. Our facilities in California, Japan and the Philippines are particularly susceptible to earthquakes. These facilities accounted for 14% of our manufacturing, assembly and test capacity in 2010. Although we carry property insurance, including earthquake insurance and business interruption insurance, our inability to meet customers schedules as a result of a catastrophe may result in a loss of customers or significant additional costs such as penalty claims under customer contracts.

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

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

Item 1B. Unresolved Staff Comments.

None

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Item 2. Properties.

On October 2, 2010, we occupied 4,730,000 square feet of space in the United States and countries throughout the world, distributed as follows:

	Square Feet		
	Owned	Leased	Total
Aircraft Controls	1,214,000	621,000	1,835,000
Space and Defense Controls	451,000	179,000	630,000
Industrial Systems	599,000	592,000	1,191,000
Components	613,000	70,000	683,000
Medical Devices	284,000	87,000	371,000
Corporate Headquarters	-	20,000	20,000
Total	3,161,000	1,569,000	4,730,000

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

We believe that our properties have been adequately maintained and are generally in good condition. Operating leases for properties expire at various times from 2011 through 2034. Upon the expiration of our current leases, we believe that we will be able to either secure renewal terms or enter into leases for alternative locations at market terms.

Item 3. Legal Proceedings.

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

Item 4. (Removed and Reserved).

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PART II

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

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

Quarterly Stock Prices

	Class A		Class B	
Fiscal Year Ended	High	Low	High	Low
October 2, 2010				
1st Quarter	**$ 30.09**	**$ 22.49**	**$ 30.00**	**$ 24.69**
2nd Quarter	**40.21**	**29.34**	**38.00**	**29.39**
3rd Quarter	**39.77**	**30.18**	**39.70**	**30.51**
4th Quarter	**37.71**	**29.95**	**37.50**	**30.16**
October 3, 2009				
1st Quarter	$ 43.36	$ 24.00	$ 44.86	$ 23.91
2nd Quarter	39.58	17.90	38.58	18.39
3rd Quarter	28.57	21.50	28.39	22.98
4th Quarter	33.17	22.93	32.59	22.98

The number of shareholders of record of Class A common stock and Class B common stock was 1,023 and 452, respectively, as of November 19, 2010.
We did not pay cash dividends on our Class A common stock or Class B common stock in 2009 or 2010 and have no plans to do so in the foreseeable future.
The following table summarizes our purchases of our common stock for the quarter ended October 2, 2010.

Issuer Purchases of Equity Securities

(d) Maximum

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid Per Share	(c) Total number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Number (or Approx. Dollar Value) of Shares that May Yet Be Purchased Under Plans or Programs (2)
July 4 - July 31, 2010	-	$ -	-	766,400
August 1 - August 31, 2010	-	-	-	766,400
September 1 - October 2, 2010	14,768	35.85	-	766,400
Total	14,768	$ 35.85	-	766,400

(1) Purchases are from the Moog Inc. Retirement Savings Plan.

(2) In October 2008, the Board of Directors authorized a share repurchase program. The program permits the purchase of up to 1,000,000 Class A or Class B common shares in open market or privately negotiated transactions at the discretion of management.

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Performance Graph

The following graph and table show the performance of the Company s Class A common stock compared to the NYSE Composite-Total Return Index and the S&P Aerospace and Defense Index for a $100 investment made on September 30, 2005, including the reinvestment of any dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Moog Inc., the NYSE Composite Index
and the S&P Aerospace & Defense Index

	9/05	9/06	9/07	9/08	9/09	9/10
Moog Inc. Class A Common Stock	$ 100.00	$ 117.41	$ 148.85	$ 145.26	$ 99.93	$ 120.29
NYSE Composite - Total Return Index	100.00	113.44	137.34	105.60	99.83	107.63
S&P Aerospace & Defense Index	100.00	121.20	161.07	120.12	114.21	129.89

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Item 6. Selected Financial Data.

For a more detailed discussion of 2008 through 2010, refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this report and Item 8, Financial Statements and Supplementary Data, of this report.

(dollars in thousands, except per share data)	**2010 (1)**	2009(1)(2)	2008(3)(4)	2007(4)	2006(4)(5)
RESULTS FROM OPERATIONS					
Net sales	**$ 2,114,252**	$ 1,848,918	$ 1,902,666	$ 1,558,099	$ 1,306,494
Net earnings	**108,094**	85,045	119,068	100,936	81,346
Net earnings per share					
Basic	**$ 2.38**	$ 2.00	$ 2.79	$ 2.38	$ 2.01
Diluted	**$ 2.36**	$ 1.98	$ 2.75	$ 2.34	$ 1.97
Weighted-average shares outstanding					
Basic	**45,363,738**	42,598,321	42,604,268	42,429,711	40,558,717
Diluted	**45,709,020**	42,906,495	43,256,888	43,149,481	41,247,689
FINANCIAL POSITION					
Total assets	**$ 2,712,134**	$ 2,634,317	$ 2,227,247	$ 2,006,179	$ 1,607,654
Working capital	**812,805**	764,137	713,292	616,623	420,495
Indebtedness - senior	**386,103**	454,456	270,988	417,434	186,451
Indebtedness - senior subordinated	**378,613**	378,630	400,072	200,089	200,107
Shareholders equity	**1,120,956**	1,065,033	994,410	877,212	762,856
Shareholders equity per common share outstanding	**24.70**	23.53	23.30	20.63	18.04
SUPPLEMENTAL FINANCIAL DATA					
Capital expenditures	**$ 65,949**	$ 81,826	$ 91,833	$ 96,988	$ 83,555
Depreciation and amortization	**91,216**	76,384	63,376	52,093	47,077
Research and development	**102,600**	100,022	109,599	102,603	68,886

Twelve-month backlog	**1,181,303**	1,097,760	861,694	774,548	645,032
RATIOS					
Net return on sales	**5.1%**	4.6%	6.3%	6.5%	6.2%
Return on shareholders equity	**9.8%**	8.3%	12.7%	12.3%	12.9%
Current ratio	**2.70**	2.71	2.89	2.93	2.37
Net debt to capitalization (6)	**36.8%**	41.4%	37.0%	37.8%	30.1%

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

(2) Includes the sale of Class A common stock on October 2, 2009. See Note 13 of the Consolidated Financial Statements at Item 8 of this report.

(3) Includes the effects of the issuance of senior subordinated notes.

(4) Includes the effects of applicable acquisitions. In 2008, we acquired two businesses, one each in our Space and Defense Controls and Components Segments . In 2007, we acquired four businesses, two in our Components segment and one each in our Medical Devices and Industrial Systems segments. In 2006, we acquired three businesses, two in our Medical Devices segment and one that had applications for both our Space and Defense Controls and Industrial Systems segments.

(5) Includes sale of Class A common stock on February 21, 2006.

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

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

OVERVIEW

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

We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls and represent 30% of our sales. We recognize revenue on these contracts using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion. The remainder of our sales are recognized when the risks and rewards of ownership and title to the product are transferred to the customer, principally as units are delivered or as service obligations are satisfied. This method of revenue recognition is predominantly used within the Industrial Systems, Components and Medical Devices segments, as well as with aftermarket activity.

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

- superior technical competence and customer intimacy that breed market leadership,
- customer diversity and broad product portfolio,
- well-established international presence serving customers worldwide, and
- proven ability to successfully integrate acquisitions.

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

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

striving for continuing cost improvements.

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

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Acquisitions

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value and such amounts are reflected in the respective captions on the balance sheet. The purchase price described for each acquisition below is net of any cash acquired and includes debt issued or assumed.

In 2010, we completed four business combinations within three of our segments. We completed one acquisition in our Aircraft Controls segment for $11 million. This acquisition complements our military aftermarket business. We completed two acquisitions in our Space and Defense Controls segment for a total of $23 million. One business specializes in turret design, fire control systems and vehicle electronics and the other expands our capabilities in the security and surveillance market. We completed one acquisition in our Industrial Systems segment for $1 million.

In 2009, we completed eight business combinations within four of our segments. We completed two acquisitions in our Aircraft Controls segment, both of which are located in the U.K. for a total of $137 million. These acquisitions complement our flight control actuation business and expand our business in ground-based air navigation systems. We acquired one business in our Space and Defense Controls segment for $45 million that expands our capabilities in the security and surveillance markets. We completed three acquisitions in our Industrial Systems segment, two of which specialize in systems and blade controls of turbines for the wind energy market, for a total of $110 million which includes $28 million for a 40% ownership paid in 2008 for one of the acquired companies. We also completed two acquisitions in our Medical Devices segment for a total purchase price of $37 million. Those acquisitions expand our portfolio to now include syringe style pumps, proprietary medical devices and contract manufacturing of disposables as well as microbiology, toxicology and sterilization services.

See the discussion in Note 2 of Item 8, Financial Statements and Supplementary Data of this report for further information on our acquisitions.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition on Long-Term Contracts

Revenue representing 30% of 2010 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. This method of revenue recognition is predominately used within the Aircraft Controls and Space and Defense Controls segments due to the contractual nature of the business activities, with the exception of their respective aftermarket activities. The contractual arrangements are either firm fixed-price or cost-plus contracts and are with the U.S. Government or its prime subcontractors, foreign governments or commercial aircraft manufacturers, including Boeing and Airbus. The nature of the contractual arrangements includes customers requirements for delivery of hardware as well as funded nonrecurring development work in anticipation of follow-on production orders. We recognize revenue on contracts in the current period using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods. Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. Estimates are reviewed and updated quarterly for substantially all contracts. A significant change in an estimate on one or more contracts could have a material effect on our results of operations.

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

Contract costs include only allocable, allowable and reasonable costs, as determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards for applicable U.S. Government contracts, and are included in cost of sales when incurred. The nature of these costs includes development engineering costs and product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material in 2010, 2009 or 2008.

Contract Loss Reserves

At October 2, 2010, we had contract loss reserves of $41 million. For contracts with anticipated losses at completion, a provision for the entire amount of the estimated remaining loss is charged against income in the period in which the loss becomes known. Contract losses are determined considering all direct and indirect contract costs, exclusive of any selling, general or administrative cost allocations that are treated as period expenses. Loss reserves are more common on firm fixed-price contracts that involve, to varying degrees, the design and development of new and unique controls or control systems to meet the customers specifications.

In connection with the acquisition of the Wolverhampton flight control business, we established contract loss reserves of $29 million on the opening balance sheet. A portion of these loss reserves relates to early stage development programs such as the Boeing 787, the F-35 Joint Strike Fighter and the Airbus A380. The contract loss reserves related to these programs will be used as the programs progress. Also, upcoming work for these programs is expected to shift to our low cost manufacturing facility in the Philippines. We anticipate that this shift in work will reduce the need for additional contract loss reserves related to future contracts under these programs. The balance of the contract loss reserves established at acquisition was $12 million at October 2, 2010.

Reserves for Inventory Valuation

At October 2, 2010, we had net inventories of $461 million, or 36% of current assets. Reserves for inventory were $86 million, or 16% of gross inventories. Inventories are stated at the lower-of-cost-or-market with cost determined primarily on the first-in, first-out method of valuation.

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

Reviews for Impairment of Goodwill

At October 2, 2010, we had $705 million of goodwill, or 26% of total assets. We test goodwill for impairment at least annually, during our fourth quarter, and whenever events occur or circumstances change that indicate a potential impairment. These events or circumstances could include a significant adverse change in the business climate, poor indicators of operating performance or the sale or disposition of a significant portion of a reporting unit.

We test goodwill for impairment at the reporting unit level. Certain of our reporting units are our operating segments while others are one level below our operating segments. We identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components.
Testing goodwill for impairment requires us to determine the amount of goodwill associated with reporting units, estimate fair values of those reporting units and determine their carrying values.
We use the discounted cash flow method to estimate the fair value of each of our reporting units. We believe this method is the most appropriate as it is based on the investment returns of our reporting units and is a generally accepted and common method of business valuation. This method incorporates various assumptions, the most significant being projected revenue growth rates, operating profit margins and cash flows, the terminal growth rate and the discount rate. Management projects revenue growth rates, operating margins and cash flows based on each reporting unit s current business, expected developments and operational strategies over a five-year period. In estimating the terminal growth rate, we consider our historical and projected results, as well as the economic environment in which our reporting units operate.
We performed our annual test during the fourth quarter of 2010. We used a 4% terminal growth rate, which is below the historical growth rate of our reporting units. We then discounted our projected cash flows using discount rates that ranged from 11% to 12.5% for our various reporting units. These discount rates reflect management s assumptions of marketplace participants cost of capital and risk assumptions, both specific to the reporting unit and overall in the economy. We evaluate the reasonableness of the resulting fair values of our reporting units by comparing the aggregate fair value to our market capitalization and assessing the reasonableness of any resulting premium. The determination of these amounts is subjective and requires significant estimates. Changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill.
Based on our tests, the fair value of each reporting unit exceeded its carrying amount in 2010, 2009 and 2008. Therefore, goodwill was not impaired as of any of our testing dates. In our annual review of goodwill for impairment in the fourth quarter of 2010, the fair value of each reporting unit exceeded its carrying value by over 10%.
The most significant change in assumptions from our prior year annual impairment test was the discount rates, which declined for all of our reporting units except for Medical Devices. The decreases in our discount rates reflected improved economic conditions and a credit environment that has improved since 2009. Our Industrial Systems Europe and Industrial Systems Pacific reporting units had the largest decreases in their discount rates, also reflecting the risk associated with estimating cash flows for the wind energy businesses acquired in 2009.
While any individual assumption could reasonably differ from those that we used, we believe the overall fair values of our reporting units are reasonable as the values are derived from a mix of reasonable assumptions. However, had we used discount rates that were 100 basis points higher than those we assumed or terminal growth rates that were 100 basis points lower than those we assumed, the fair value of each reporting unit would have exceeded its carrying value by over 10% except for our largest Aircraft Controls reporting unit and the Medical Devices reporting unit. The fair value for all reporting units would have exceeded carrying value for either a 100 basis point increase in discount rates or a 100 basis point reduction in terminal growth rates and there would be no goodwill impairment.

Purchase Price Allocations for Business Combinations

During 2010, we completed four business combinations for a total purchase price of $35 million. Under purchase accounting, we recorded assets and liabilities at fair value as of the acquisition dates. We identified and ascribed value to programs, customer relationships, patents and technology, trade names, backlog and contracts and estimated the useful lives over which these intangible assets would be amortized. Valuations of these assets were performed largely using discounted cash flow models. These valuations support the conclusion that identifiable intangible assets had a value of $10 million. The resulting goodwill was $20 million.
During 2010, we made adjustments to purchase price allocations for several of our 2009 acquisitions. This resulted in a $12 million decrease in goodwill, a $7 million decrease in accounts payable, contract loss reserves and other liabilities, a $4 million increase in inventory and a $3 million increase in intangible assets.

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

Pension Assumptions

We maintain various defined benefit pension plans covering employees at certain locations. Pension expense for all defined benefit plans for 2010 was $22 million. Pension obligations and the related costs are determined using actuarial valuations that involve several assumptions. The most critical assumptions are the discount rate, mortality rate and the long-term expected return on assets. Other assumptions include salary increases and retirement age.

The discount rate is used to state expected future cash flows at present value. Using a higher discount rate decreases the present value of pension obligations and reduces pension expense. We used the Mercer Pension Discount Yield Curve to determine the discount rate for our U.S. plans. The discount rate is determined by discounting the plan s expected future benefit payments using a yield curve developed from high quality bonds that are rated Aa or better by Moody s as of the measurement date. The yield curve calculation matches the notional cash inflows of the hypothetical bond portfolio with the expected benefit payments to arrive at the discount rate. In determining expense for 2010 for our largest U.S. plan, we used a 6.0% discount rate, compared to 7.3% for 2009. We will use a 5.3% discount rate to determine our expense in 2011 for this plan. This 70 basis point decrease in the discount rate will increase our pension expense by $6 million in 2011.

The mortality assumption utilizes standard mortality tables that are adjusted to provide for improvements in future mortality. In determining expense for 2010 for our largest plan, we used the RP2000 No Collar Mortality Table for males and females with projections to 2007, which was the same assumption used for 2009. We will use the RP 2000 No Collar Mortality Table for males and females with projections to 2017 to determine our expense for 2011. The change in this assumption will increase our pension expense by $2 million in 2011.

The long-term expected return on assets assumption reflects the average rate of earnings expected on funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In determining the long-term expected return on assets assumption, we consider our current and target asset allocations. We consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and to provide adequate liquidity to meet immediate and future benefit payment requirements. In determining expense for 2010 for our largest plan, we used an 8.9% return on assets assumption, the same as we used in 2009. A 50 basis point decrease in the long-term expected return on assets assumption would increase our annual pension expense by $2 million.

Deferred Tax Asset Valuation Allowances

At October 2, 2010, we had gross deferred tax assets of $213 million and a deferred tax asset valuation allowance of $7 million. The deferred tax assets principally relate to benefit accruals, inventory obsolescence and contract loss reserves. The deferred tax assets include $14 million related to tax benefit carryforwards for which $7 million deferred tax asset valuation allowances are recorded.

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

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(dollars in millions)	**2010**	2009	2008
Net sales	**$ 2,114**	$ 1,849	$ 1,903
Gross margin	***29.0%***	*29.1%*	*32.0%*
Research and development expenses	**$ 103**	$ 100	$ 110
Selling, general and administrative expenses as a percentage of sales	***14.8%***	*15.2%*	*15.5%*
Restructuring expense	**$ 5**	$ 15	$ -
Interest expense	**$ 39**	$ 39	$ 38
Effective tax rate	***27.7%***	*23.1%*	*29.1%*
Net earnings	**$ 108**	$ 85	$ 119

Our fiscal year ends on the Saturday that is closest to September 30. The consolidated financial statements include 52 weeks for the year ended October 2, 2010, 53 weeks for the year ended October 3, 2009 and 52 weeks for the year ended September 27, 2008. While management believes this affects the comparability of financial results presented, the impact has not been determined.

Net sales increased $265 million, or 14%, in 2010, which was predominantly a result of $200 million of incremental sales from recent acquisitions, particularly in Aircraft Controls and Industrial Systems.

Net sales decreased $54 million, or 3%, in 2009. During 2009, our sales were negatively impacted by the global recession, most significantly in Industrial Systems. Sales that were denominated in foreign currencies that generally weakened against the U.S. dollar also contributed to the decrease. Partially offsetting those decreases were $122 million of incremental sales from 2009 acquisitions.

Our gross margin in 2010 was comparable to 2009, reflecting the positive impact of the sales mix in our legacy product lines being offset by the impact of increased sales of lower gross margin products attributable to the recent acquisitions of wind energy and high lift actuation businesses. Our gross margin declined in 2009 compared to 2008 primarily as a result of lower sales and an adverse product mix. A lower proportion of our sales came from industrial controls, which generally carry a higher gross margin than many of our other products.

Research and development expenses increased modestly in 2010 compared to 2009. Increased expenditures for the Airbus A350 program and the impact from acquisitions were partially offset as development activity continued to decline on the Boeing 787. Research and development expenses were lower in 2009 compared to 2008. The lower levels were primarily within Industrial Systems in response to slowing sales demand and in Aircraft Controls. The reduced expenses in Aircraft Controls were due to the Boeing 787 program, partially offset by increases for the A350 program.

Selling, general and administrative expenses as a percentage of sales have decreased over the past two years. The decrease is primarily a result of the impact of recent acquisitions that have lower selling, general and administrative cost structures than most of our other product lines.

In 2009, we initiated the restructuring plans to better align our cost base with the lower level of sales and operating margins associated with the global economic recession. The restructuring actions taken resulted in workforce

reductions, primarily in the U.S., the Philippines and Europe. During 2009, we incurred $15 million of severance costs, of which $10 million was in Industrial Systems and $5 million was in Aircraft Controls. We incurred an additional $5 million of restructuring charges for severance in 2010. We expect that payment of these restructuring costs will be complete by the end of 2011.

The effective tax rate for 2010 and 2008 was higher than 2009, which had an unusually low tax rate. During 2009, we benefited from a $5 million foreign tax credit from the repatriation of $31 million of cash to the U.S. from our Japanese subsidiary, a benefit related to our 2008 tax year as a result of the reinstatement of the U.S. research and development tax credit under the TARP legislation and the benefit of the effect of our equity earnings in LTi REEnergy which were recognized in operating profit on an after-tax basis.

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Net earnings increased 27% in 2010 while diluted earnings per share increased 19%, reflecting additional shares outstanding from a stock offering completed at the end of 2009. In 2009, net earnings decreased 29% and diluted earnings per share decreased 28% compared to 2008 as a result of the decline in sales and the $15 million charge for restructuring activities.

2011 Outlook - We expect sales in 2011 to increase $127 million, or 6%, to $2.2 billion reflecting increases in all of our segments except for Components. We expect operating margins to improve to 10.7% in 2011 compared to 10.2% in 2010. We expect operating margins to increase in Medical Devices, Industrial Systems and Aircraft Controls and decrease in Space and Defense Controls and Components. We expect net earnings to increase to $124 million and diluted earnings per share to increase by 14% to $2.70.

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SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit is reconciled to earnings before income taxes in Note17 of Item 8, Financial Statements and Supplementary Data of this report.

Aircraft Controls

(dollars in millions)	**2010**	2009	2008
Net sales - military aircraft	**$ 458**	$ 419	$ 395
Net sales - commercial aircraft	**262**	214	271
Net sales - navigation aids	**37**	30	7
	$ 757	$ 663	$ 673
Operating profit	**$ 76**	$ 52	$ 55
Operating margin	***10.1%***	*7.9%*	*8.2%*
Backlog	**$ 567**	$ 508	$ 372

Net sales in Aircraft Controls increased $93 million, or 14%, in 2010. The acquisition of the high lift actuation business located in Wolverhampton, U.K. at the end of 2009 contributed $94 million. Military aircraft sales increased $38 million as the Wolverhampton operation contributed $42 million of incremental sales. Sales increased $21 million on the V-22 Osprey as production levels continued to increase on that program. Sales increased $18 million in military aftermarket, due in part to the Wolverhampton acquisition. These increases were offset by a $23 million decrease on the F-35 program as it shifts from the development phase into the production phase. Commercial aircraft sales increased $48 million as $51 million of incremental sales from Wolverhampton more than offset the decrease of $12 million in business jets. Navigation aids increased $7 million as a result of the incremental sales from the 2009 Fernau acquisition offset by decreases due to delays in the award of certain military programs.

Net sales in Aircraft Controls decreased slightly in 2009. There was a shift from commercial aircraft to military aircraft sales. Military aircraft sales increased $22 million. Military aftermarket sales increased $16 million, while sales increased $7 million on the Indian Light Combat Aircraft and $4 million on the V-22 Osprey production program. Commercial aircraft sales decreased $57 million from 2008, mainly due to $25 million in lower sales to Boeing, a $24 million decrease in sales on business jets and a $7 million decline in aftermarket sales. Navigation aids sales increased $23 million in 2009 primarily as a result of $15 million of incremental sales from the Fernau acquisition.

Our operating margin was higher in 2010 as a result of lower research and development spending as a percentage of sales in 2010. In addition, during 2009, we incurred $5 million of restructuring charges and recorded $4 million of inventory and other charges on certain business jet programs. Our operating margin for Aircraft Controls decreased slightly in 2009. The decrease was primarily the result of $7 million of higher additions to contract loss reserves, the

restructuring charges and charges on certain business jet programs. Partially offsetting those higher costs were better margins as sales shifted from commercial to military aircraft and lower research and development spending.
The higher level of twelve-month backlog for Aircraft Controls at October 2, 2010 reflects strong military aircraft orders. Backlog increased at October 3, 2009 as a result of the 2009 acquisitions of the Wolverhampton operation and Fernau and strong military orders. Partially offsetting those increases was a decline in commercial orders.
2011 Outlook for Aircraft Controls - We expect sales in Aircraft Controls to increase 5% to $797 million in 2011. Military aircraft sales are expected to increase 1% to $461 million. We expect a sales increase in military aftermarket, which offsets small decreases on various programs. Commercial aircraft sales are expected to increase 13% to $297 million with increases in all product lines, including Boeing 787, aftermarket and business jets. Navigation aids are expected to increase $2 million. We expect our operating margin to be 10.4% in 2011, a slight improvement from 10.1% in 2010.
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Space and Defense Controls

(dollars in millions)	**2010**	2009	2008
Net sales	**$ 325**	$ 275	$ 253
Operating profit	**$ 36**	$ 40	$ 29
Operating margin	***11.0%***	*14.6%*	*11.6%*
Backlog	**$ 213**	$ 202	$ 153

Net sales in Space and Defense Controls increased $51 million, or 19%, in 2010 compared to 2009. Sales of tactical missiles increased $16 million, primarily related to replenishment requirements for both the Hellfire and TOW. Sales of launch vehicles increased $14 million, principally from the Taurus program, which the Administration considers commercial. Activity on the Driver s Vision Enhancer (DVE) program increased sales by $14 million, offsetting declines of other defense controls programs. Our acquisitions of Pieper in 2010 and Videolarm midway through 2009 contributed $11 million of incremental sales in security and surveillance. Sales of satellite controls were also strong, increasing by $9 million. Sales in our NASA programs increased by $2 million, but were impacted by the uncertainty and delays by the Administration s re-definition of the Constellation program.

Net sales in Space and Defense Controls increased $22 million, or 8%, in 2009 compared to 2008 due to the CSA Engineering and Videolarm acquisitions, which contributed $21 million in incremental sales. Sales of controls for military and commercial satellites increased $6 million and sales of launch vehicles also increased $6 million. Sales of tactical missiles, primarily Hellfire and TOW, increased $5 million. Offsetting those increases was a decrease in sales of defense controls of $10 million as a result of a lower activity on the DVE program. Sales for our NASA programs also decreased $6 million as there were delays in contract awards for the Constellation program.

Our operating margin for Space and Defense Controls decreased in 2010. The decrease primarily relates to a larger proportion of sales coming from lower margin cost-plus development work and $1 million of restructuring charges incurred in 2010. Our operating margin increased in 2009 as a result of the impact of higher sales volume in 2009 and a $4 million loss reserve recorded in 2008 for thruster valves used on satellites.

Twelve-month backlog for Space and Defense Controls increased to $213 million at October 2, 2010 primarily as a result of increased orders for the DVE program. Backlog increased to $202 million at October 3, 2009 as a result of increased orders for satellite programs, launch vehicles and tactical missiles.

2011 Outlook for Space and Defense Controls - We expect sales in Space and Defense Controls to increase $22 million, or 7%, to $348 million in 2011. We expect sales increases in tactical missiles and in security and surveillance partly from the recent Pieper acquisition, which will offset a decline in satellites. We expect our operating margin in 2011 to decrease to 10.7% from 11.0% in 2010, primarily as a result of product mix.

Industrial Systems

(dollars in millions)	**2010**	2009	2008
Net sales	**$ 546**	$ 455	$ 532
Operating profit	**$ 48**	$ 31	$ 73
Operating margin	***8.8%***	*6.8%*	*13.8%*
Backlog	**$ 233**	$ 196	$ 161

Net sales in Industrial Systems increased $91 million, or 20%, in 2010. The increase was primarily a result of incremental sales from acquisitions, but we also began to see a recovery from the recession in our legacy markets in the latter half of the year. Acquisitions accounted for $82 million of increased sales, primarily in the wind energy market. Sales also increased $19 million in plastics making machinery. Those increases were offset by lower sales in other major markets such as motion simulation, which was down $12 million, and power generation, which was down $9 million.

Net sales in Industrial Systems decreased $77 million, or 15%, in 2009. The global recession significantly impacted our industrial business in most of the major markets we serve. In addition, weaker foreign currencies, in particular the euro, compared to the U.S. dollar had a negative impact on sales, representing over one-quarter of the sales decrease. Sales were lower in all of our major markets except for wind energy and power generation. Sales for plastic making machinery decreased $40 million. Sales of controls for metal forming and presses decreased $25 million. Sales for motion simulators decreased $15 million. Sales of controls for steel mills decreased $13 million. Offsetting those sales declines were increases of $69 million in the wind energy business from the LTi REEnergy and Insensys acquisitions and $4 million in power generation.

Our operating margin for Industrial Systems increased in 2010 compared to 2009. This increase was the result of higher sales volume in 2010 and lower restructuring charges recorded in 2010 compared to 2009. Offsetting those increases was the impact of $7 million of equity earnings recorded in 2009 for LTi REEnergy before we acquired full ownership. Our operating margin for Industrial Systems declined in 2009 due to lower sales volume and $10 million of restructuring charges.

The higher level of twelve-month backlog for Industrial Systems at October 2, 2010 reflects the recovery in a variety of markets from the lower level as of October 3, 2009 that resulted from the global economic recession. The higher level of backlog at October 3, 2009 compared to September 27, 2008 relates to the LTi REEnergy and Insensys acquisitions, partially offset by lower demand due to the recession.

2011 Outlook for Industrial Systems - We expect sales in Industrial Systems to increase 11% to $606 million in 2011. We expect sales increases in our core markets, with increases in the test equipment, motion simulators, power generation and metal forming presses markets more than offsetting a decline in plastics making machinery. We also expect sales to increase for wind energy. We expect that our operating margin will increase to 10.4% in 2011 from 8.8% in 2010 as a result of the higher sales volume in core markets.

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Components

(dollars in millions)	**2010**	2009	2008
Net sales	**$ 360**	$ 346	$ 341
Operating profit	**$ 60**	$ 56	$ 61
Operating margin	***16.7%***	*16.1%*	*17.8%*
Backlog	**$ 153**	$ 183	$ 167

Net sales in Components increased $14 million, or 4%, in 2010. Aircraft sales increased $19 million, all on military programs. The largest increase within military aircraft was for de-icing systems on both the Black Hawk helicopter and V-22 tilt rotor aircraft. Industrial sales increased $9 million, primarily for slip rings for wind turbines. These increases were partially offset as marine sales decreased $12 million, mostly for equipment used on undersea robots.
Net sales in Components increased slightly in 2009 despite a $10 million negative impact on sales related to weaker foreign currencies in 2009 compared to 2008. Aircraft sales increased $18 million, primarily on the Guardian and Multi-Spectral Targeting System programs. Sales of space and defense controls increased $14 million for components supplied on the Abrams Tank, the Stryker Mobile Gun System, space vehicles and ground-based radar systems. Marine sales decreased $4 million as this market is closely impacted by activity in offshore drilling and oil prices. Medical sales decreased $7 million, largely in sales to Respironics for sleep apnea equipment. Industrial sales decreased $16 million, largely a result of reduced demand for industrial automation equipment and slip rings for closed circuit TV surveillance due to the recession.
Our operating margin increased in 2010 compared to 2009 as a result of the higher sales volume and the sales mix. Our operating margin declined in 2009 as a result of a sales mix shift away from high margin industrial automation equipment and marine products.
The lower level of twelve-month backlog at October 2, 2010 primarily relates to slowing orders for space and defense controls and military aircraft programs. The higher level of backlog at October 3, 2009 primarily relates to increased orders for defense controls and military aircraft programs.
2011 Outlook for Components - We expect sales in Components to decrease by $10 million in 2011. We expect sales will decrease $22 million in aircraft and $4 million in space and defense controls as several major military aircraft and military vehicle programs are winding down. Partially offsetting those declines are expected sales increases of $7 million from industrial markets, primarily from slip rings for wind turbines, $5 million in the marine market and $5 million in the medical market. We expect our operating margin in 2011 to be 15.2%, lower than the16.7% we achieved in 2010 due to the lower sales volume and product mix.

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Medical Devices

(dollars in millions)	**2010**	2009	2008
Net sales	**$ 127**	$ 111	$ 103
Operating (loss) profit	**$ (4)**	$ (7)	$ 9
Operating margin	***(3.2%)***	*(6.7%)*	*8.8%*
Backlog	**$ 15**	$ 11	$ 8

Net sales in Medical Devices increased $16 million, or 14%, in 2010 compared to 2009. Sales of administration sets increased $7 million, or 17%, and acquisitions contributed $4 million of incremental sales.

Net sales in Medical Devices increased $8 million, or 7%, in 2009. The acquisitions of Aitecs and Ethox contributed $21 million of incremental sales. Sales of administration sets also increased $4 million, or 11%. Offsetting those sales increases was a decrease of $10 million in sales of pumps and a $9 million decrease in sales of sensors and handpieces, largely a result of reduced spending associated with the recession.

Our operating margin for Medical Devices was below break-even in 2010. We were negatively impacted by greater than expected start up costs for a new production facility in Costa Rica, a high level of product development costs that should provide future sales growth and the build up of a direct sales force. Our operating margin was even lower in 2009 compared to 2010 as a result of lower sales volume excluding the impact of acquisitions, a shift in product mix and one-time costs incurred in 2009, which included $2 million of costs for a voluntary software modification for certain of our enteral feeding pumps and $1 million of first year purchase accounting adjustments for the Aitecs and Ethox acquisitions.

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

2011 Outlook for Medical Devices - We expect sales in Medical Devices to increase $13 million, or 11%, to $140 million in 2011. We expect sales increases from new product offerings, including increases of $9 million in pumps and $5 million in administration sets. We expect our operating margin to be 2.1%, a significant improvement from 2010 as a result of the sales volume increases and cost improvements.

FINANCIAL CONDITION AND LIQUIDITY

(dollars in millions)	**2010**	2009	2008
Net cash provided (used) by:			
Operating activities	**$ 195**	$ 118	$ 108
Investing activities	**(98)**	(325)	(149)
Financing activities	**(66)**	201	42

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

Operating activities

Net cash provided by operating activities increased $77 million in 2010. This increase is primarily due to increased earnings and non-cash expenses as well as a smaller increase in working capital requirements. Net cash provided by operating activities increased $10 million in 2009 despite lower earnings. This increase relates primarily to slowing growth in working capital requirements, especially in receivables. Partially offsetting these increases were larger uses of cash for various items such as higher pension contributions.

Investing activities

Net cash used by investing activities in 2010 includes $66 million for capital expenditures and $30 million for four acquisitions, two in Space and Defense Controls and one each in Aircraft Controls and Industrial Systems. Net cash used by investing activities of $325 million in 2009 includes $261 million for the completion of eight acquisitions and $82 million for capital expenditures. Those amounts were partially offset by the redemption of $20 million of supplemental retirement plan investments that were used to purchase $21 million par value of our 6.25% and 7.25% senior subordinated notes. Net cash used by investing activities of $149 million in 2008 consisted principally of $92 million for capital expenditures, a $28 million investment in 40% of LTi REEnergy and $22 million for acquisitions.

While our capital expenditures were lower in 2010 than the previous two years we expect to continue to invest in major program initiatives and facility expansions. We expect our 2011 capital expenditures to approximate $90 million.

Financing activities

Net cash used by financing activities in 2010 primarily reflects pay downs on our U.S. credit facility and the payment of a note issued for the LTi REEnergy acquisition. Net cash provided by financing activities in 2009 is primarily related to borrowings on our U.S. credit facility to fund most of the acquisitions and net proceeds of $75 million received from the sale of 2,675,000 shares of Class A common stock at $29.50 per share. Those amounts were partially offset by the redemption of $21 million par value of our senior subordinated notes, pay downs of $17 million on notes payable and $7 million used for our share repurchase program. Net cash provided by financing activities in 2008 primarily reflects $196 million of net proceeds from the sale of 7.25% senior subordinated notes, which was used to repay indebtedness under our U.S. credit facility.

CAPITAL STRUCTURE AND RESOURCES

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

Our largest credit facility is our U.S. credit facility, which matures on March 14, 2013. It consists of a $750 million revolver and had an outstanding balance of $371 million at October 2, 2010. Interest on the majority of the outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 200 basis points at October 2, 2010. The credit facility is secured by substantially all of our U.S. assets.

The U.S. credit facility contains various covenants. The covenant for minimum net worth, defined as total shareholders equity adjusted to maintain the amounts of accumulated other comprehensive loss at the level in existence as of September 30, 2006, is $600 million. The covenant for minimum interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The covenant for the maximum leverage ratio, defined as the ratio of net debt, including letters of credit, to EBITDA for the most recent four quarters, is 4.0. The covenant for maximum senior leverage ratio, defined as the ratio of net senior debt to consolidated EBITDA for the most recent four quarters is 2.75. The covenant for maximum capital expenditures is $100 million annually. We are in compliance with all covenants. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income. The definition of EBITDA allows for the exclusion of up to $17 million of restructuring charges incurred in calendar year 2009.

We are required to obtain the consent of lenders of the U.S. credit facility before raising significant additional debt financing. In recent years, we have demonstrated our ability to secure consents to access debt markets. We have also been successful in accessing equity markets, as demonstrated most recently by our October 2, 2009 sale of 2,675,000 shares of Class A common stock at $29.50 per share. We believe that we will be able to obtain additional debt or equity financing as needed.

At October 2, 2010, we had $387 million of unused borrowing capacity, including $369 million from the U.S. credit facility after considering standby letters of credit.

Net debt to capitalization was 37% at October 2, 2010 and 41% at October 3, 2009. The decrease in net debt to capitalization is primarily due to debt reductions funded by our positive cash flow and net earnings.

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

Off Balance Sheet Arrangements

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

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Contractual Obligations and Commercial Commitments

Our significant contractual obligations and commercial commitments at October 2, 2010 are as follows:

(dollars in millions)	Payments due by period				
Contractual Obligations	Total	2011	2012-2013	2014-2015	After 2015
Long-term debt	$ 763	$ 5	$ 377	$ 188	$ 193
Interest on long-term debt	159	26	52	43	38
Operating leases	84	19	29	16	20
Purchase obligations	458	352	69	8	29
Total contractual obligations	$ 1,464	$ 402	$ 527	$ 255	$ 280

In addition to the obligations in the table above, we have $11 million recorded for unrecognized tax benefits in current liabilities, which includes $2 million of related accrued interest. We are unable to determine if and when any of those amounts will be settled, nor can we estimate any potential changes to the unrecognized tax benefits.

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

Total contractual obligations exclude pension obligations. In 2011, we anticipate making contributions of $39 million to defined benefit pension plans.

(dollars in millions)	Commitments expiring by period				
Other Commercial Commitments	Total	2011	2012-2013	2014-2015	After 2015
Standby letters of credit	$ 10	$ 9	$ 1	$ -	$ -

ECONOMIC CONDITIONS AND MARKET TRENDS

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

Aerospace and Defense

Approximately 62% of our 2010 sales were generated in aerospace and defense markets. The military aircraft market is dependent on military spending for development and production programs. Production programs are typically long-term in nature, offering predictability as to capacity needs and future revenues. We maintain positions on numerous high priority programs, including the F-35 Joint Strike Fighter, F/A-18E/F Super Hornet and V-22 Osprey. The large installed base of our products leads to attractive aftermarket sales and service opportunities. Aftermarket revenues are expected to continue to grow due to a number of scheduled military retrofit programs and increased flight hours resulting from increased military commitments.

The commercial OEM market has historically exhibited cyclical swings and sensitivity to economic conditions. The aftermarket is driven by usage of the existing aircraft fleet, the age of the installed fleet and is currently being impacted by fleet re-sizing programs for passenger and cargo aircraft. Changes in aircraft utilization rates affect the need for maintenance and spare parts and impact aftermarket sales. Boeing and Airbus have historically adjusted production in line with air traffic volume.

The military and government space market is primarily dependent on the authorized levels of funding for satellite communications. Government spending on military satellites has risen in recent years as the military s need for improved intelligence gathering has increased. The commercial space market is comprised of large satellite customers, traditionally telecommunications companies. Trends for this market, as well as for commercial launch vehicles, follow the telecommunications companies need for increased capacity and the satellite replacement lifecycle of 7-10 years. Our position on NASA programs are impacted by the uncertainty and delays resulting from the Administration s re-definition of those programs; however, they hold the potential to be long-run production programs.

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

Industrial

Approximately 30% of our 2010 sales were generated in industrial markets. The industrial markets we serve are influenced by several factors, including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. We are experiencing challenges from current global economic conditions. This includes reacting to the demands for industrial automation equipment and steel and automotive manufacturing. Those markets were impacted by the global recession in 2009 and have now begun to recover in 2010.

Medical

Approximately 8% of our 2010 sales were generated in medical markets. The medical markets we serve are influenced by economic conditions, hospital and outpatient clinic spending on equipment, population demographics, medical advances, patient demands and the need for precision control components and systems. Advances in medical technology and medical treatments have had the effect of extending the average life span, in turn resulting in greater need for medical services. These same technology and treatment advances also drive increased demand from the general population as a means to improve quality of life. Greater access to medical insurance, whether through government funded health care plans or private insurance, also increases the demand for medical services.

Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in Industrial Systems. About one-third of our 2010 sales were denominated in foreign currencies. During 2010, average foreign currency rates generally strengthened against the U.S. dollar compared to 2009. The translation of the results of our foreign subsidiaries in U.S. dollars increased sales by $11 million compared to the same period one year ago. During 2009, average foreign currency rates generally weakened against the U.S. dollar compared to 2008. The translation of the results of our foreign subsidiaries into U.S. dollars decreased sales by $49 million compared to 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued new standards on consolidation as codified in Accounting Standards Codification (ASC) 810-10. The new standard amends the consolidation guidance applicable to variable interest entities and affects the overall consolidation analysis. The new standard is effective for fiscal years beginning after November 15, 2009. This statement will be effective for us in 2011. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In October 2009, the FASB issued new standards for allocating revenue to multiple deliverables in a contract as codified in ASC 605-25. The new standard is effective for us at the beginning of 2011, with early adoption permitted. The new standard allows entities to allocate consideration in a multiple element arrangement in a manner that better reflects the transaction economics. When vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, entities will be allowed to develop their best estimate of the selling price for each deliverable and allocate arrangement consideration using the relative selling price method. Additionally, use of the residual method has been eliminated. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820) Improving Disclosures About Fair Value Measurements. ASU Topic 820 requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. This standard is effective for us beginning in 2011 for Level 1 and 2 disclosures and in 2012 for Level 3. Other than requiring additional disclosures, the adoption of this new guidance will not have a material impact on our consolidated financial statements.

In April 2010, the FASB issued ASU 2010-17, Milestone Method of Revenue Recognition. This ASU allows entities to make a policy election to use the milestone method of revenue recognition and provides guidance on defining a milestone and the criteria that should be met to applying the milestone method. The scope of this ASU is limited to the transactions involving milestones related to research and development deliverables. This standard will be effective for us in 2011. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In August 2010, the FASB issued new disclosure requirements about the credit quality of financing receivables and allowance for credit losses, as codified in ASC 310. The objective of the new standard is to facilitate a financial statement users evaluation of the nature of the credit risk inherent in an entity s portfolio, how that risk is analyzed and assessed in arriving at the allowance for credit losses and explanations for changes in the allowance for credit losses. In addition, the amendment requires entities to disclose credit quality indicators, past due information and modification to financing receivables. The new standard is effective for interim and annual periods ending on or after December 15, 2010. We will adopt this standard in 2011. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

See also Note 1 of the Consolidated Financial Statements at Item 8 of this report.

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

In the normal course of business, we have exposures to interest rate risk from our long-term debt and foreign exchange rate risk related to our foreign operations and foreign currency transactions. To manage these risks, we may enter into derivative instruments such as interest rate swaps and foreign currency forward contracts. We do not hold or issue financial instruments for trading purposes. In 2010, our derivative instruments consisted of interest rate swaps designated as cash flow hedges and foreign currency forwards.

At October 2, 2010, we had $328 million of borrowings subject to variable interest rates. During 2010, our average borrowings subject to variable interest rates were $326 million and, therefore, if interest rates had been one percentage point higher during 2010, our interest expense would have been $3 million higher. At October 2, 2010, we had a $50 million notional amount of outstanding interest rate swaps, which mature in the first quarter of 2012. Based on the applicable margin, the interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 3.1% through their maturities in 2012, at which time the interest will revert back to a variable rate based on LIBOR.

We also enter into forward contracts to reduce fluctuations in foreign currency cash flows related to third party purchases, intercompany product shipments and to reduce exposure on intercompany balances that are denominated in foreign currencies. We have foreign currency forwards with notional amounts of $194 million outstanding at October 2, 2010 that mature at various times through the first quarter of 2012.

Although the majority of our sales, expenses and cash flows are transacted in U.S. dollars, we have exposure to changes in foreign currency exchange rates such as the euro, British pound and Japanese yen. If average annual foreign exchange rates collectively weakened against the U.S. dollar by 10%, our pre-tax earnings in 2010 would have decreased by $8 million from foreign currency translation offset by a $10 million increase from changes in operating margins as a result of foreign currency transactions for products sourced outside of the U.S.

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Item 8. Financial Statements and Supplementary Data.

MOOG inc.
Consolidated Statements of Earnings

	Fiscal Years Ended		
(dollars in thousands, except per share data)	**October 2, 2010**	October 3, 2009	September 27, 2008
NET SALES	**$ 2,114,252**	$ 1,848,918	$ 1,902,666
COST OF SALES	**1,501,641**	1,311,618	1,293,452
GROSS PROFIT	**612,611**	537,300	609,214
Research and development	**102,600**	100,022	109,599
Selling, general and administrative	**313,408**	281,173	294,936
Restructuring	**5,125**	15,067	-
Interest	**38,742**	39,321	37,739
Other and equity in earnings of LTi	**3,300**	(8,844)	(1,095)
EARNINGS BEFORE INCOME TAXES	**149,436**	110,561	168,035
INCOME TAXES	**41,342**	25,516	48,967
NET EARNINGS	**$ 108,094**	$ 85,045	$ 119,068
NET EARNINGS PER SHARE			
Basic	**$ 2.38**	$ 2.00	$ 2.79
Diluted	**$ 2.36**	$ 1.98	$ 2.75
AVERAGE COMMON SHARES OUTSTANDING			

Basic	**45,363,738**	42,598,321	42,604,268
Diluted	**45,709,020**	42,906,495	43,256,888

See accompanying Notes to Consolidated Financial Statements.

MOOG inc.
Consolidated Balance Sheets

(dollars in thousands, except per share data)	**October 2, 2010**	October 3, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 112,421**	$ 81,493
Receivables	**619,861**	547,571
Inventories	**460,857**	484,261
Deferred income taxes	**75,367**	73,673
Prepaid expenses and other current assets	**23,773**	23,400
TOTAL CURRENT ASSETS	**1,292,279**	1,210,398
PROPERTY, PLANT AND EQUIPMENT, net	**486,944**	481,726
GOODWILL	**704,816**	698,459
INTANGIBLE ASSETS, net of accumulated amortization of $92,326 in 2010 and $64,805 in 2009	**205,874**	220,311
OTHER ASSETS	**22,221**	23,423
TOTAL ASSETS	**$ 2,712,134**	$ 2,634,317
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	**$ 1,991**	$ 16,971
Current installments of long-term debt	**5,405**	1,541
Accounts payable	**154,321**	125,257
Accrued salaries, wages and commissions	**103,628**	91,302
Customer advances	**74,703**	66,811
Contract loss reserves	**40,810**	50,190
Other accrued liabilities	**98,616**	94,189
TOTAL CURRENT LIABILITIES	**479,474**	446,261
LONG-TERM DEBT, excluding current installments		
Senior debt	**378,707**	435,944
Senior subordinated notes	**378,613**	378,630
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	**281,830**	225,747
DEFERRED INCOME TAXES	**69,541**	76,910

OTHER LONG-TERM LIABILITIES	**3,013**	5,792
TOTAL LIABILITIES	**1,591,178**	1,569,284
COMMITMENTS AND CONTINGENCIES (Note 18)	-	-
SHAREHOLDERS EQUITY		
Common stock - par value $1.00		
Class A - Authorized 100,000,000 shares	**43,486**	43,472
Issued 43,485,417 and outstanding 41,263,782 share at October 2, 2010		
Issued 43,471,373 and outstanding 41,167,674 shares at October 3, 2009		
Class B - Authorized 20,000,000 shares. Convertible to Class A on a one-for-one basis	**7,794**	7,808
Issued 7,794,296 and outstanding 4,113,823 share at October 2, 2010		
Issued 7,808,340 and outstanding 4,103,817 shares at October 3, 2009		
Additional paid-in capital	**389,376**	381,099
Retained earnings	**880,733**	772,639
Treasury shares	**(47,724)**	(47,733)
Stock Employee Compensation Trust	**(13,381)**	(11,426)
Accumulated other comprehensive loss	**(139,328)**	(80,826)
TOTAL SHAREHOLDERS EQUITY	**1,120,956**	1,065,033
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 2,712,134**	$ 2,634,317

See accompanying Notes to Consolidated Financial Statements.

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MOOG inc.
Consolidated Statements of Shareholders Equity

(dollars in thousands)	Fiscal Years Ended October 2, 2010	October 3, 2009	September 27, 2008
COMMON STOCK			
Beginning of year	**$ 51,280**	$ 48,605	$ 48,605
Sale of Class A Common Stock	**-**	2,675	-
End of year	**51,280**	51,280	48,605
ADDITIONAL PAID-IN CAPITAL			
Beginning of year	**381,099**	311,159	301,778
Sale of Class A Common Stock, net of issuance costs	**-**	72,042	-
Issuance of treasury shares at more than cost	**433**	163	3,906
Equity-based compensation expense	**5,445**	5,682	4,551
Adjustment to market - SECT, and other	**2,399**	(7,947)	924
End of year	**389,376**	381,099	311,159
RETAINED EARNINGS			
Beginning of year	**772,639**	688,585	570,063
Net earnings	**108,094**	85,045	119,068
Adjustment to adopt defined benefit pension plan standard, net of income taxes of $529	**-**	(991)	-
Adjustment for adoption of income tax standard	**-**	-	(546)
End of year	**880,733**	772,639	688,585
TREASURY SHARES AT COST*			
Beginning of year	**(47,733)**	(40,607)	(39,873)
Class A shares issued related to options (2010 - 101,825; 2009 - 48,938; 2008 - 363,784)	**543**	261	1,940
Class A shares purchased (2010 - 19,761; 2009 - 244,688; 2008 - 59,908)	**(534)**	(7,387)	(2,674)
End of year	**(47,724)**	(47,733)	(40,607)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)**			
Beginning of year	**(11,426)**	(22,179)	(15,928)
Sale of SECT stock to RSP Plan (2010 - 60,366 Class B shares; 2009 - 205,028 Class B shares; 2008 - 21,527 Class B shares)	**1,732**	5,593	942
	(1,296)	(2,832)	(7,530)

	2010	2009	2008
Purchase of SECT stock (2010 - 36,316 Class B shares; 2009 - 96,160 Class B shares; 2008 - 167,111 Class B shares)			
Adjustment to market - SECT	**(2,391)**	7,992	337
End of year	**(13,381)**	(11,426)	(22,179)
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME			
Beginning of year	**(80,826)**	8,847	12,567
Other comprehensive loss	**(58,502)**	(89,815)	(3,720)
Adjustment to adopt defined benefit pension plan standard, net of income taxes of $81 in 2009	**-**	142	-
End of year	**(139,328)**	(80,826)	8,847
TOTAL SHAREHOLDERS EQUITY	**$ 1,120,956**	$ 1,065,033	$ 994,410
COMPREHENSIVE INCOME (LOSS)			
Net earnings	**$ 108,094**	$ 85,045	$ 119,068
Other comprehensive income (loss) :			
Foreign currency translation adjustment	**(858)**	(1,073)	(2,854)
Retirement liability adjustment	**(57,977)**	(89,062)	(357)
Accumulated income (loss) on derivatives adjustment	**333**	320	(509)
COMPREHENSIVE INCOME (LOSS)	**$ 49,592**	$ (4,770)	$ 115,348

* Class A Common Stock in treasury: 2,221,635 shares at October 2, 2010; 2,303,699 shares at October 3, 2009; 2,107,949 shares at September 27, 2008.

Class B Common Stock in treasury: 3,305,971 shares at October 2, 2010; October 3, 2009; September 27, 2008.

** Class B Common Stock in SECT: 374,502 shares at October 2, 2010; 398,552 shares at October 3, 2009; 507,420 shares at September 27, 2008.

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

See accompanying Notes to Consolidated Financial Statements.

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MOOG inc.
Consolidated Statements of Cash Flows

(dollars in thousands)	Fiscal Years Ended **October 2, 2010**	October 3, 2009	September 27, 2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	**$ 108,094**	$ 85,045	$ 119,068
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	**61,112**	54,762	48,065
Amortization	**30,104**	21,622	15,311
Provisions for non-cash losses on contracts, inventories and receivables	**54,204**	43,166	36,563
Deferred income taxes	**11,314**	13,330	(5,698)
Equity-based compensation expense	**5,445**	5,682	4,551
Equity in earnings of LTi	**-**	(6,717)	(874)
Other	**1,633**	(5,210)	2,381
Changes in assets and liabilities providing (using) cash, excluding the effects of acquisitions:			
Receivables	**(70,076)**	25,576	(79,302)
Inventories	**10,220**	984	(62,439)
Other assets	**1,074**	(5,043)	(3,190)
Accounts payable and accrued liabilities	**(7,295)**	(79,236)	16,653
Other liabilities	**(18,136)**	(28,675)	10,122
Customer advances	**7,563**	(7,394)	6,681
NET CASH PROVIDED BY OPERATING ACTIVITIES	**195,256**	117,892	107,892
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of businesses, net of cash acquired	**(29,843)**	(261,193)	(22,383)
Investment in LTi	**-**	-	(28,288)
Purchase of property, plant and equipment	**(65,949)**	(81,688)	(91,761)
Supplemental retirement plan investment redemption	**-**	19,981	-
Other	**(2,285)**	(1,843)	(6,448)
NET CASH USED BY INVESTING ACTIVITIES	**(98,077)**	(324,743)	(148,880)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of notes payable	**(15,830)**	(16,996)	(709)
Proceeds from revolving lines of credit	**543,319**	1,173,249	450,705
Payments on revolving lines of credit	**(591,505)**	(1,003,659)	(599,705)
Payments on long-term debt, other than senior subordinated notes	**(2,795)**	(2,331)	(1,933)
Proceeds from senior subordinated notes, net of issuance costs	**-**	-	196,393

Payments on senior subordinated notes		**-**		(19,981)		-
Proceeds from sale of Class A common stock, net of issuance costs		**-**		74,717		-
Proceeds from sale of treasury stock		**976**		424		5,846
Purchase of outstanding shares for treasury		**(534)**		(7,387)		(2,674)
Proceeds from sale of stock held by Stock Employee Compensation Trust		**1,732**		5,593		942
Purchase of stock held by Stock Employee Compensation Trust		**(1,296)**		(2,832)		(7,530)
Excess tax benefits from equity-based payment arrangements		**6**		43		1,137
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES		**(65,927)**		200,840		42,472
Effect of exchange rate changes on cash		**(324)**		690		1,474
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**30,928**		(5,321)		2,958
Cash and cash equivalents at beginning of year		**81,493**		86,814		83,856
Cash and cash equivalents at end of year	**$**	**112,421**	$	81,493	$	86,814
SUPPLEMENTAL CASH FLOW INFORMATION						
Cash paid for:						
Interest	**$**	**37,492**	$	39,119	$	35,402
Income taxes, net of refunds		**23,744**		24,630		50,555
Non-cash investing and financing activities:						
Unsecured notes issued as partial consideration for acquisitions	**$**	**2,350**	$	13,451	$	5,000
Equipment acquired through financing		**-**		138		72

See accompanying Notes to Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies
Consolidation: The consolidated financial statements include the accounts of Moog Inc. and all of our U.S. and foreign subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.
Fiscal Year: Our fiscal year ends on the Saturday that is closest to September 30. The consolidated financial statements include 52 weeks for the year ended October 2, 2010, 53 weeks for the year ended October 3, 2009 and 52 weeks for the year ended September 27, 2008. While management believes this affects the comparability of financial statements presented, the impact has not been determined.
Operating Cycle: Consistent with industry practice, aerospace and defense related inventories, unbilled recoverable costs and profits on long-term contract receivables, customer advances and contract loss reserves include amounts relating to contracts having long production and procurement cycles, portions of which are not expected to be realized or settled within one year.
Foreign Currency Translation: Assets and liabilities of subsidiaries that prepare financial statements in currencies other than the U.S. dollar are translated using rates of exchange as of the balance sheet date and the statements of earnings are translated at the average rates of exchange for each reporting period.
Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions.
Revenue Recognition: We recognize revenue using either the percentage of completion method for contracts or as units are delivered or services are performed.
Percentage of completion method for contracts: Revenue representing 30% of 2010 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. This method of revenue recognition is predominately used within the Aircraft Controls and Space and Defense Controls segments due to the contractual nature of the business activities, with the exception of their respective aftermarket activities. The contractual arrangements are either firm fixed-price or cost-plus contracts and are primarily with the U.S. Government or its prime subcontractors, foreign governments or commercial aircraft manufacturers, including Boeing and Airbus. The nature of the contractual arrangements includes customers requirements for delivery of hardware as well as funded nonrecurring development work in anticipation of follow-on production orders.
Revenue on contracts using the percentage of completion, cost-to-cost method of accounting is recognized as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods. Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. Estimates are reviewed and updated quarterly for substantially all contracts. A significant change in an estimate on one or more contracts could have a material effect on our results of operations.
Occasionally, it is appropriate to combine or segment contracts. Contracts are combined in those limited circumstances when they are negotiated as a package in the same economic environment with an overall profit margin objective and constitute, in essence, an agreement to do a single project. In such cases, revenue and costs are recognized over the performance period of the combined contracts as if they were one. Contracts are segmented in limited circumstances if the customer had the right to accept separate elements of the contract and the total amount of the proposals on the separate components approximated the amount of the proposal on the entire project. For segmented contracts, revenue and costs are recognized as if they were separate contracts over the performance periods of the individual elements or phases.

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Contract costs include only allocable, allowable and reasonable costs, as determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards for applicable U.S. Government contracts, and are included in cost of sales when incurred. The nature of these costs includes development engineering costs and product manufacturing costs including direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material for 2010, 2009 and 2008.

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

As units are delivered or services are performed: In 2010, 70% of our sales were recognized as units were delivered or as service obligations were satisfied. Revenue is recognized when the risks and rewards of ownership and title to the product are transferred to the customer. When engineering or similar services are performed, revenue is recognized upon completion of the obligation including any delivery of engineering drawings or technical data. This method of revenue recognition is predominately used within the Industrial Systems, Components and Medical Devices segments, as well as with aftermarket activity. Profits are recorded as costs are relieved from inventory and charged to cost of sales and as revenue is recognized. Inventory costs include all product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead cost allocations.

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

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

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

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

	2010	2009	2008
Basic weighted-average shares outstanding	**45,363,738**	42,598,321	42,604,268
Dilutive effect of equity-based awards	**345,282**	308,174	652,620
Diluted weighted-average shares outstanding	**45,709,020**	42,906,495	43,256,888

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

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

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

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

Goodwill: We test goodwill for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that indicate that the fair value of a reporting unit could be below its carrying amount. The impairment test consists of comparing the fair value of a reporting unit, determined using discounted cash flows, with its carrying amount including goodwill, and, if the carrying amount of the reporting unit exceeds its fair value, comparing the implied fair value of goodwill with its carrying amount. An impairment loss would be recognized for the carrying amount of goodwill in excess of its implied fair value. There were no impairment charges recorded in 2010, 2009 or 2008.

Acquired Intangible Assets: Acquired identifiable intangible assets are recorded at cost and are amortized over their estimated useful lives. There were no identifiable intangible assets with indefinite lives at October 2, 2010.

Impairment of Long-Lived Assets: Long-lived assets, including acquired identifiable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. We use undiscounted cash flows to determine whether impairment exists and measure any impairment loss using discounted cash flows. There were no impairment charges recorded in 2010, 2009 or 2008.

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

	2010	2009	2008
Warranty accrual at beginning of year	**$ 14,675**	$ 10,015	$ 7,123
Additions from acquisitions	**213**	4,436	100
Warranties issued during current year	**6,729**	7,456	7,998
Adjustments to pre-existing warranties	**186**	780	(27)
Reductions for settling warranties	**(6,831)**	(8,048)	(5,533)
Foreign currency translation	**(116)**	36	354
Warranty accrual at end of year	**$ 14,856**	$ 14,675	$ 10,015

Financial Instruments: Our financial instruments consist primarily of cash and cash equivalents, receivables, notes payable, accounts payable, long-term debt, interest rate swaps and foreign currency forwards. The carrying values for

our financial instruments approximate fair value with the exception at times of long-term debt. See Note 7 for fair value of long-term debt. We do not hold or issue financial instruments for trading purposes.

We carry derivative instruments on the balance sheet at fair value, determined by reference to quoted market prices. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it. Our use of derivative instruments is generally limited to cash flow hedges of certain interest rate risks and minimizing foreign currency exposure on foreign currency transactions, which are typically designated in hedging relationships, and intercompany balances, which are not designated as hedging instruments. Cash flows resulting from forward contracts are accounted for as hedges of identifiable transactions or events and classified in the same category as the cash flows from the items being hedged.

Recent Accounting Pronouncements: In December 2007, the FASB issued new standards for business combinations as codified in ASC 805-10. The objective of the new standard is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for the acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, the goodwill acquired or a gain from a bargain purchase. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The new standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted this standard at the beginning of 2010.

In December 2007, the FASB issued new standards for consolidation as codified in ASC 810-10. The objective of the new standard is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing additional accounting and reporting standards. The new standard is effective for fiscal years beginning on or after December 15, 2008. We adopted this standard at the beginning of 2010.

In April 2008, the FASB issued new standards on intangible assets as codified in ASC 350-30. The new standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The objective is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The new standard applies to all intangible assets, whether acquired in a business combination or otherwise. It is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and applied prospectively to intangible assets acquired after the effective date. We adopted this standard at the beginning of 2010.

In December 2008, the FASB issued new standards on defined benefit pension plans as codified in ASC 715-20. The new standard provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. Required disclosures address: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. The new standard is effective for fiscal years ending after December 15, 2009 and is not required for earlier periods presented for comparative purposes. This statement is effective for us in 2010. See Note 11, Employee Benefit Plans, for related disclosures.

In April 2009, the FASB issued new standards on identifiable assets and liabilities assumed in a business combination as codified in ASC 805-20. The new standard amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. The new standard carries forward the requirements in current standards for acquired contingencies, thereby requiring that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with standards codified in ASC 450-10. The new standard is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted this standard at the beginning of 2010.

In February 2010, the FASB issued ASU 2010-09, Amendments to Certain Recognition and Disclosure Requirements, which amends ASC 855, Subsequent Events, to address certain implementation issues related to an entity s requirement to perform and disclose subsequent events procedures. ASU 2010-09 requires SEC filers to evaluate subsequent events through the date the financial statements are issued and exempts SEC filers from disclosing the date through which subsequent events have been evaluated. The ASU was effective immediately upon issuance. The adoption of ASU 2010-09 did not have a material impact on our consolidated financial statements.

Note 2 - Acquisitions

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value and such amounts are reflected in the respective captions on the balance sheet. All of the following acquisitions, with the exception of LTi REEnergy GmbH, resulted in goodwill being recorded as a result of the respective purchase price allocations.

In 2010, we completed four business combinations within three of our segments. We completed one acquisition in our Aircraft Controls segment for $8,100 in cash, issuance of a $1,200 unsecured note and contingent consideration with an initial fair value of $1,400. This acquisition complements our military aftermarket business. We acquired two businesses in our Space and Defense Controls segment for $20,273, net of cash acquired, issuance of a $1,000 unsecured note and contingent consideration with an initial fair value of $1,600. One business specializes in turret design, fire control systems and vehicle electronics and the other expands our capabilities in the security and surveillance market. We completed one acquisition in our Industrial Systems segment for $1,050 in cash and issuance of a $150 unsecured note. Combined sales of these acquisitions for the 2009 calendar year were approximately $34,000. The purchase price allocations for the 2010 acquisitions are substantially complete. Those allocations are subject to subsequent adjustment as we obtain additional information for our estimates during the respective measurement periods.

In 2009, we completed eight business combinations within four of our segments. We completed two acquisitions in our Aircraft Controls segment, both of which are located in the U.K., for a total purchase price of $136,584. We acquired the flight control actuation business of GE Aviation Systems which complements our flight control actuation business and Fernau Avionics Limited that expands our business in ground-based air navigation systems. Combined sales of these acquisitions for the 2008 calendar year were approximately $122,500. We acquired one business, Videolarm Inc., based in Georgia, in our Space and Defense Controls segment for $44,853 that expands our capabilities in the security and surveillance markets. Sales for the 2008 calendar year were approximately $19,500. We completed three acquisitions in our Industrial Systems segment for a total of $109,617, which includes $28,288 for a 40% ownership paid in 2008 for one of the acquired companies. LTi REEnergy GmbH, with operations in Germany and China, and Insensys Ltd., a UK-based company, both specialize in systems and blade controls of turbines for the wind energy market. Berkeley Process Control, Inc., based in California, manufactures motion control software and hardware. Prior to acquiring 100% ownership in LTi REEnergy, we accounted for our investment using the equity method of accounting. Our 40% share of the net earnings for 2009 and 2008 was $6,717 and $874, respectively. Combined sales for the twelve months preceding these acquisitions were approximately $154,300. We also completed two acquisitions in our Medical Devices segment for a total purchase price of $36,510, which includes $6,814 of assumed debt. Aitecs Medical UAB, a Lithuanian-based manufacturer, expands our portfolio to include syringe style pumps and Ethox International, based in New York, produces proprietary medical devices and contract manufacturing of disposables as well as microbiology, toxicology and sterilization services. Combined sales of these acquisitions for the 2008 calendar year were approximately $36,000. Our purchase price allocations for the 2009 acquisitions are complete.

Note 3 - Receivables

Receivables consist of:

	October 2, 2010	October 3, 2009
Accounts receivable	**$ 311,966**	$ 265,271

Long-term contract receivables:		
Amounts billed	**95,465**	53,458
Unbilled recoverable costs and accrued profits	**203,373**	222,133
Total long-term contract receivables	**298,838**	275,591
Other	**13,870**	10,723
Total receivables	**624,674**	551,585
Less allowance for doubtful accounts	**(4,813)**	(4,014)
Receivables	**$ 619,861**	$ 547,571

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Long-term contract receivables are primarily associated with prime contractors and subcontractors in connection with U.S. Government contracts, commercial aircraft and satellite manufacturers. Amounts billed under long-term contracts to the U.S. Government were $18,179 at October 2, 2010 and $18,485 at October 3, 2009. Unbilled recoverable costs and accrued profits under long-term contracts to be billed to the U.S. Government were $7,638 at October 2, 2010 and $11,595 at October 3, 2009. Unbilled recoverable costs and accrued profits principally represent revenues recognized on contracts that were not billable on the balance sheet date. These amounts will be billed in accordance with contract terms, generally as certain milestones are reached or upon shipment. Approximately two-thirds of unbilled amounts are expected to be collected within one year. In situations where billings exceed revenues recognized, the excess is included in customer advances.

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

Concentrations of credit risk on receivables are limited to those from significant customers that are believed to be financially sound. Receivables from Boeing were $122,345 at October 2, 2010 and $93,497 at October 3, 2009. We perform periodic credit evaluations of our customers financial condition and generally do not require collateral.

Note 4 - Inventories

Inventories, net of reserves, consist of:

	October 2, 2010	October 3, 2009
Raw materials and purchased parts	**$ 179,375**	$ 206,414
Work in progress	**221,128**	214,021
Finished goods	**60,354**	63,826
Inventories	**$ 460,857**	$ 484,261

Note 5 - Property, Plant and Equipment

Property, plant and equipment consists of:

	October 2, 2010	October 3, 2009
Land	**$ 26,779**	$ 26,445
Buildings and improvements	**320,165**	303,652

Machinery and equipment	**597,916**	597,055
Property, plant and equipment, at cost	**944,860**	927,152
Less accumulated depreciation and amortization	**(457,916)**	(445,426)
Property, plant and equipment	**$ 486,944**	$ 481,726

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

	October 2, 2010	October 3, 2009
Assets under capital leases, at cost	**$ 3,925**	$ 4,148
Less accumulated amortization	**(1,334)**	(752)
Net assets under capital leases	**$ 2,591**	$ 3,396

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Note 6 - Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for 2010, 2009 and 2008 are as follows:

	Aircraft Controls	Space and Defense Controls	Industrial Systems	Components	Medical Devices	Total
Balance at September 29, 2007	$ 103,898	$ 67,546	$ 101,465	$ 153,442	$ 112,082	$ 538,433
Acquisitions	-	12,082	-	8,333	-	20,415
Adjustments to prior year acquisitions	-	2,162	138	197	(117)	2,380
Foreign currency translation	27	-	735	(1,255)	-	(493)
Balance at September 27, 2008	103,925	81,790	102,338	160,717	111,965	560,735
Acquisitions	74,219	25,012	21,027	-	15,024	135,282
Foreign currency translation	2,550	-	790	(1,358)	460	2,442
Balance at October 3, 2009	180,694	106,802	124,155	159,359	127,449	698,459
Acquisitions	4,917	14,201	577	-	-	19,695
Adjustments to prior year acquisitions	(11,903)	-	-	-	(82)	(11,985)
Foreign currency translation	(201)	620	(2,612)	1,537	(697)	(1,353)
Balance at October 2, 2010	**$ 173,507**	**$ 121,623**	**$ 122,120**	**$ 160,896**	**$ 126,670**	**$ 704,816**

Adjustments to prior year acquisitions in 2010 relate primarily to a business combination completed in the last week of 2009. We revised our estimates of the purchase price allocation based on obtaining additional information related to certain assets and liabilities acquired.

The components of acquired intangible assets are as follows:

		October 2, 2010		October 3, 2009	
	Weighted-Average Life (Years)	**Gross Carrying Amount**	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Customer-related	**10**	**$ 148,722**	**$ (49,781)**	$ 142,555	$ (34,748)
Program-related	**18**	**63,796**	**(5,275)**	61,599	(1,475)
Technology-related	**9**	**54,743**	**(22,117)**	50,698	(15,955)
Marketing-related	**9**	**22,256**	**(11,548)**	22,616	(10,109)
Contract-related	**3**	**3,312**	**(1,104)**	3,000	-
Artistic-related	**10**	**25**	**(22)**	25	(20)
Acquired intangible assets	**11**	**$ 292,854**	**$ (89,847)**	$ 280,493	$ (62,307)

All acquired intangible assets other than goodwill are amortized. Customer-related intangible assets primarily consist of customer relationships. Program-related intangibles assets consist of long-term programs. Technology-related intangible assets primarily consist of technology, patents, intellectual property and software. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements. Contract-related intangible assets consist of favorable operating lease terms.

Amortization of acquired intangible assets was $28,280 in 2010, $19,734 in 2009 and $14,017 in 2008. Based on acquired intangible assets recorded at October 2, 2010, amortization is estimated to be $27,800 in 2011, $26,886 in 2012, $23,177 in 2013, $20,820 in 2014 and $17,999 in 2015.

Note 7 - Indebtedness

Long-term debt consists of:

	October 2, 2010	October 3, 2009
U.S. revolving credit facility	**$ 371,179**	$ 422,090
Other revolving credit facilities and term loans	**11,914**	13,866
Obligations under capital leases	**1,019**	1,529
Senior debt	**384,112**	437,485
6 1/4% senior subordinated notes	**187,038**	187,055
7 1/4% senior subordinated notes	**191,575**	191,575
Total long-term debt	**762,725**	816,115
Less current installments	**(5,405)**	(1,541)
Long-term debt	**$ 757,320**	$ 814,574

Our U.S. revolving credit facility consists of a $750,000 revolver, which matures on March 14, 2013. The credit facility is secured by substantially all of our U.S. assets. The loan agreement contains various covenants which, among others, specify minimum consolidated net worth and interest coverage and maximum leverage and capital expenditures. We are in compliance with all covenants. Interest on the majority of the outstanding credit facility borrowings is 2.4% and is based on LIBOR plus the applicable margin, which was 200 basis points at October 2, 2010. Interest on the remaining outstanding credit facility borrowings is 4.3% and is based on prime plus the applicable margin, which was 125 basis points at October 2, 2010.

In addition to our U.S. revolving credit facility, we maintain short-term credit facilities with banks throughout the world. These credit facilities are principally demand lines subject to revision by the banks. At October 2, 2010, we had $387,114 of unused borrowing capacity, including $369,100 from the U.S. credit facility. Commitment fees are charged on some of these arrangements and on the U.S. credit facility based on a percentage of the unused amounts available and are not material.

Other revolving credit facilities and term loans at October 2, 2010 consist of financing provided by various banks and lenders to certain subsidiaries. These loans are being repaid through 2023 and carry interest rates ranging from 2% to 6%.

We have outstanding $187,000 aggregate principal amount of 6 1/4% senior subordinated notes due January 15, 2015, a portion of which were sold at amounts in excess of par. Interest is paid semiannually on January 15 and July 15 of

each year. We also have outstanding $191,575 aggregate principal amount of 7^{1}/4% senior subordinated notes due June 15, 2018. Interest is paid semiannually on June 15 and December 15 of each year. We purchased $13,000 of the 6^{1}/4% senior subordinated notes and $8,425 of the 7^{1}/4% senior subordinated notes in 2009, which resulted in a recognized gain of $1,444. Both the 6^{1}/4% and 7^{1}/4% senior subordinated notes are unsecured, general obligations, subordinated in right of payment to all existing and future senior indebtedness and contain normal incurrence-based covenants.

Maturities of long-term debt are $5,405 in 2011, $2,448 in 2012, $374,806 in 2013, $243 in 2014 and $187,262 in 2015 and $192,561 thereafter.

At October 2, 2010, we had pledged assets with a net book value of $1,297,897 as security for long-term debt.

Our only financial instrument for which the carrying value at times differs from its fair value is long-term debt. At October 2, 2010, the fair value of long-term debt was $768,423 compared to its carrying value of $762,725. The fair value of long-term debt was estimated based on quoted market prices.

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Note 8 - Derivative Financial Instruments

We principally use derivative financial instruments to manage interest rate risk associated with long-term debt and foreign exchange risk related to foreign operations and foreign currency transactions. We enter into derivative financial instruments with a number of major financial institutions to minimize counterparty credit risk.

Derivatives designated as hedging instruments

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At October 2, 2010, we had interest rate swaps with notional amounts totaling $50,000. The interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 3.1%, including the applicable margin of 200 basis points as of October 2, 2010. The interest will revert back to variable rates based on LIBOR plus the applicable margin upon the maturity of the interest rate swaps in 2012.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments. To mitigate exposure in movements between various currencies, primarily the Philippine peso, we had outstanding foreign currency forwards with notional amounts of $12,372 at October 2, 2010. These contracts mature at various times through the first quarter of 2012.

These interest rate swaps and foreign currency forwards are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in 2010, 2009 or 2008.

Activity in Accumulated Other Comprehensive Income (Loss) (AOCI) related to these derivatives is summarized below:

	Pre-tax Amount	Income Tax	After-tax Amount
Balance at September 27, 2008	$ (818)	$ 309	(509)
Net (decrease) in fair value of derivatives	(826)	279	(547)
Net reclassification from AOCI into earnings	1,382	(515)	867
Balance at October 3, 2009	(262)	73	(189)
Net increase in fair value of derivatives	193	(82)	111
Net reclassification from AOCI into earnings	292	(70)	222
Balance at October 2, 2010	$ 223	$ (79)	$ 144

Activity and classification of derivatives are as follows:

	Classification of net gain (loss) recognized in earnings	Net reclassification from AOCI into earnings (effective portion)		Net deferral in AOCI of derivatives (effective portion)	
		2010	2009	**2010**	2009
Interest rate swaps	Interest expense	**$ (615)**	$ (1,876)	**$ (768)**	$ (1,312)
Foreign currency forwards	Net sales	**-**	(70)	**-**	(39)
Foreign currency forwards	Cost of sales	**323**	519	**961**	525
Net gain (loss)		**$ (292)**	$ (1,427)	**$ 193**	$ (826)

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Derivatives not designated as hedging instruments

We also have foreign currency exposure on intercompany balances that are denominated in a foreign currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the statements of earnings. To minimize foreign currency exposure, we have foreign currency forwards with notional amounts of $178,434 at October 2, 2010. The foreign currency forwards are recorded in the balance sheet at fair value and resulting gains or losses are recorded in the statements of earnings. We recorded a net gain of $310 in 2010 on the foreign currency forwards. The net gain is included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances.

Summary of derivatives

The fair value and classification of derivatives is summarized as follows:

		October 2, 2010	October 3, 2009
Derivatives designated as hedging instruments:			
Foreign currency forwards	Other current assets	**$ 498**	$ 305
Foreign currency forwards	Other assets	**92**	-
		$ 590	$ 305
Foreign currency forwards	Other accrued liabilities	**$ -**	$ 211
Foreign currency forwards	Other long-term liabilities	**-**	102
Interest rate swaps	Other accrued liabilities	**381**	735
Interest rate swaps	Other long-term liabilities	**63**	-
		$ 444	$ 1,048
Derivatives not designated as hedging instruments:			
Foreign currency forwards	Other current assets	**$ 3,101**	$ 1,728

Foreign currency forwards	Other assets		**74**		-
		$	**3,175**	$	1,728
Foreign currency forwards	Other accrued liabilities	**$**	**2,346**	$	1,607
Foreign currency forwards	Other long-term liabilities		**61**		-
		$	**2,407**	$	1,607

Note 9 - Fair Value

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. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.

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The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis as of October 2, 2010:

	Classification	Level 1	Level 2	Level 3	Total
Foreign currency forwards	Other current assets	$ -	$ 3,599	$ -	$ 3,599
Foreign currency forwards	Other assets	-	166	-	166
		$ -	$ 3,765	$ -	$ 3,765
Foreign currency forwards	Other accrued liabilities	$ -	$ 2,346	$ -	$ 2,346
Foreign currency forwards	Other long-term liabilities	-	61	-	61
Interest rate swaps	Other accrued liabilities	-	381	-	381
Interest rate swaps	Other long-term liabilities	-	63	-	63
Acquisition contingent consideration	Other accrued liabilities	-	-	1,224	1,224
Acquisition contingent consideration	Other long-term liabilities	-	-	1,888	1,888
		$ -	$ 2,851	$ 3,112	$ 5,963

During 2010, we recorded liabilities of $3,000 related to contingent purchase price consideration for acquisitions. As of October 2, 2010, the fair value of those liabilities was $3,112 and the resulting increase was recorded in the statements of earnings.

Note 10 - Restructuring

In 2009, we initiated restructuring plans to better align our cost structure with lower sales activity associated with the global recession. The restructuring actions taken are largely complete and have resulted in workforce reductions, primarily in the U.S., the Philippines and Europe.

Restructuring expense by segment is as follows:

	2010	2009
Aircraft Controls	**$ 2,423**	$ 4,940
Space and Defense Controls	**1,106**	59
Industrial Systems	**717**	9,695
Components	**512**	84
Medical Devices	**367**	289
Total	**$ 5,125**	$ 15,067

Restructuring activity is as follows:

	2010	2009
Balance at beginning of period	**$ 14,332**	$ -
Charged to expense	**5,125**	15,067
Cash payments	**(14,855)**	(3,892)
Reserves for acquired businesses	**(791)**	2,750
Foreign currency translation	**(422)**	407
Balance at end of period	**$ 3,389**	$ 14,332

Payments related to these severance benefits are expected to be paid in full by the end of 2011.

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Note 11 - Employee Benefit Plans

We maintain multiple employee benefit plans, covering employees at certain locations.

Effective January 1, 2008, our qualified U.S. defined benefit pension plan was amended to freeze enrollment of new entrants. All new employees hired on or after January 1, 2008 are not eligible to participate in the pension plan and, instead, we make contributions for those employees to an employee-directed investment fund in the Moog Inc. Retirement Savings Plan (RSP). The Company s contributions are based on a percentage of the employee s eligible compensation and age. These contributions are in addition to the employer match on voluntary employee contributions.

We gave all current employees participating in the pension plan as of January 1, 2008 the option to either remain in the pension plan and continue to accrue benefits or to elect to stop accruing future benefits in the pension plan as of April 1, 2008 and instead receive the new Company contribution in the RSP. The employee elections became effective April 1, 2008.

As a result of the employee elections, there was an 18% reduction in expected future service to be considered in calculating future benefits under the pension plan. We recognized a $70 curtailment loss in 2008 and remeasured both our obligation and plan assets.

As a result of workforce reductions, we recognized curtailments in two of our non-U.S. pension plans in 2009. The reductions in expected future service for the two plans were 21% and 28%. We recognized a $53 curtailment loss in 2009 and remeasured both the obligation and plan assets for both plans. In addition, we recognized a settlement loss of $283 in another non-U.S. plan as a result of workforce reductions.

The RSP includes an Employee Stock Ownership Plan. As one of the investment alternatives, participants in the RSP can acquire our stock at market value. We match 25% of the first 2% of eligible compensation contributed to any investment selection. Shares are allocated and compensation expense is recognized as the employer share match is earned. At October 2, 2010, the participants in the RSP owned 848,767 Class A shares and 1,972,877 Class B shares.

The changes in projected benefit obligations and plan assets and the funded status of the U.S. and non-U.S. defined benefit plans for 2010 and 2009 are as follows:

	U.S. Plans		Non-U.S. Plans	
	2010	2009	**2010**	2009
Change in projected benefit obligation:				
Projected benefit obligation at prior year measurement date	**$ 459,853**	$ 359,354	**$ 108,623**	$ 107,204
Service cost	**18,718**	13,976	**3,139**	3,485
Interest cost	**27,067**	25,529	**5,868**	5,747
Contributions by plan participants	**-**	-	**724**	728
Actuarial losses (gains)	**65,897**	74,490	**27,802**	(2,951)
Measurement date changes	**-**	3,292	**-**	736
Foreign currency exchange impact	**-**	-	**(1,674)**	(2,548)
Benefits paid from plan assets	**(14,699)**	(15,957)	**(1,179)**	(842)
Benefits paid by Moog	**(826)**	(831)	**(2,312)**	(1,727)
Plan settlements	**-**	-	**-**	(977)
Curtailments	**-**	-	**-**	(362)
Acquisition	**-**	-	**-**	130
Other	**-**	-	**31**	-
Projected benefit obligation at measurement date	**$ 556,010**	$ 459,853	**$ 141,022**	$ 108,623
Change in plan assets:				
Fair value of assets at prior year measurement date	**$ 314,341**	$ 336,684	**$ 62,143**	$ 56,074
Actual return on plan assets	**29,448**	(39,169)	**6,937**	2,817

Employer contributions	**40,826**	30,123	**3,747**	6,302
Contributions by plan participants	**-**	-	**3,035**	728
Benefits paid	**(15,525)**	(15,957)	**(3,490)**	(842)
Plan settlements	**-**	-	**-**	(977)
Measurement date changes	**-**	2,660	**-**	(104)
Foreign currency exchange impact	**-**	-	**107**	(1,855)
Other	**-**	-	**(60)**	-
Fair value of assets at measurement date	**$ 369,090**	$ 314,341	**$ 72,419**	$ 62,143
Funded status and amount recognized in assets and liabilities	**$ (186,920)**	$ (145,512)	**$ (68,603)**	$ (46,480)
Amount recognized in assets and liabilities:				
Other assets - non-current	**$ -**	$ 94	**$ -**	$ 4,960
Accrued and long-term pension liabilities	**(186,920)**	(145,606)	**(68,603)**	(51,440)