

MOOG INC  
Form 10-Q  
May 05, 2009

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 28, 2009  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 1-5129

**MOOG INC.**

(Exact name of registrant as specified in its charter)

**New York State**

(State or other jurisdiction of incorporation or organization)

**16-0757636**

(I.R.S. Employer Identification No.)

**East Aurora, New York**

(Address of principal executive offices)

**14052-0018**

(Zip Code)

Telephone number including area code: **(716) 652-2000**

Former name, former address and former fiscal year, if changed since last report.

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

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

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

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

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

The number of shares outstanding of each class of common stock as of April 30, 2009 was:

Class A common stock, \$1.00 par value 38,488,549 shares

Class B common stock, \$1.00 par value 4,068,075, shares

**MOOG INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**TABLE OF CONTENTS**

| <b><u>PART 1</u></b> | <b><u>FINANCIAL INFORMATION</u></b>   | <b>PAGE</b> |
|----------------------|---|-------------|
|                      | <b><u>Item 1</u></b> <u>Financial Statements:</u>   |             |
|                      | <u>Consolidated Condensed Balance Sheets</u><br><u>March 28, 2009 and September 27, 2008</u>                                | 3           |
|                      | <u>Consolidated Condensed Statements of Earnings</u><br><u>Three and Six Months Ended March 28, 2009 and March 29, 2008</u> | 4           |
|                      | <u>Consolidated Condensed Statements of Cash Flows</u><br><u>Six Months Ended March 28, 2009 and March 29, 2008</u>         | 5           |
|                      | <u>Notes to Consolidated Condensed Financial Statements</u>   | 6 - 16      |
|                      | <b><u>Item 2</u></b> <u>Management's Discussion and Analysis of Financial Condition</u><br><u>and Results of Operations</u> | 17 - 31     |
|                      | <b><u>Item 3</u></b> <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                      | 32          |
|                      | <b><u>Item 4</u></b> <u>Controls and Procedures</u>   | 32          |
| <b><u>PART</u></b>   | <b><u>OTHER INFORMATION</u></b>   |             |
| <b><u>II</u></b>     |   |             |
|                      | <b><u>Item 2</u></b> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                     | 32          |
|                      | <b><u>Item 4</u></b> <u>Submission of Matters to a Vote of Security Holders</u>   | 33          |
|                      | <b><u>Item 6</u></b> <u>Exhibits</u>  | 33          |
|                      | <b><u>SIGNATURES</u></b>  | 34          |
|                      | <u>EX-31.1</u>  |             |
|                      | <u>EX-31.2</u>  |             |
|                      | <u>EX-32.1</u>  |             |

**Table of Contents****PART FINANCIAL INFORMATION****Item 1. Financial Statements.**

**MOOG INC.**  
**Consolidated Condensed Balance Sheets**  
**(Unaudited)**

| (dollars in thousands)  | March 28,<br>2009   | September 27,<br>2008 |
|---|---------------------|-----------------------|
| <b>ASSETS</b>   |                     |                       |
| <b>CURRENT ASSETS</b>   |                     |                       |
| Cash and cash equivalents   | \$ 68,258           | \$ 86,814             |
| Receivables   | 521,297             | 517,361               |
| Inventories   | 434,299             | 408,295               |
| Other current assets  | 87,493              | 77,915                |
| <b>TOTAL CURRENT ASSETS</b>   | <b>1,111,347</b>    | <b>1,090,385</b>      |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$412,883 and \$399,806, respectively | 440,582             | 428,120               |
| GOODWILL  | 626,027             | 560,735               |
| INTANGIBLE ASSETS, net  | 131,665             | 74,755                |
| OTHER ASSETS  | 70,961              | 73,252                |
| <b>TOTAL ASSETS</b>   | <b>\$ 2,380,582</b> | <b>\$ 2,227,247</b>   |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                     |                       |
| <b>CURRENT LIABILITIES</b>  |                     |                       |
| Notes payable   | \$ 11,170           | \$ 7,579              |
| Current installments of long-term debt  | 1,309               | 1,487                 |
| Accounts payable  | 125,815             | 128,723               |
| Customer advances   | 41,985              | 41,507                |
| Contract loss reserves  | 20,000              | 20,536                |
| Other accrued liabilities   | 177,588             | 177,261               |

Edgar Filing: MOOG INC - Form 10-Q

|  |              |              |
|--|--------------|--------------|
| TOTAL CURRENT LIABILITIES                      | 377,867      | 377,093      |
| LONG-TERM DEBT, excluding current installments |              |              |
| Senior debt                                    | 400,253      | 261,922      |
| Senior subordinated notes                      | 387,064      | 400,072      |
| LONG-TERM PENSION AND RETIREMENT OBLIGATIONS   | 102,498      | 108,072      |
| DEFERRED INCOME TAXES                          | 95,838       | 80,754       |
| OTHER LONG-TERM LIABILITIES                    | 5,769        | 4,924        |
| <br>   |              |              |
| TOTAL LIABILITIES                              | 1,369,289    | 1,232,837    |
| <br>   |              |              |
| SHAREHOLDERS EQUITY                            |              |              |
| Common stock                                   | 48,605       | 48,605       |
| Other shareholders equity                      | 962,688      | 945,805      |
| <br>   |              |              |
| TOTAL SHAREHOLDERS EQUITY                      | 1,011,293    | 994,410      |
| <br>   |              |              |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY      | \$ 2,380,582 | \$ 2,227,247 |

See Accompanying Notes to Consolidated Condensed Financial Statements.

**Table of Contents**

**MOOG INC.**  
**Consolidated Condensed Statements of Earnings**  
**(Unaudited)**

| (dollars in thousands, except per share data) | Three Months Ended |                   | Six Months Ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | March 28,<br>2009  | March 29,<br>2008 | March 28,<br>2009 | March 29,<br>2008 |
| NET SALES                                     | \$ 453,335         | \$ 468,838        | \$ 899,423        | \$ 915,245        |
| COST OF SALES                                 | 317,563            | 319,203           | 625,803           | 617,980           |
| GROSS PROFIT                                  | 135,772            | 149,635           | 273,620           | 297,265           |
| Research and development                      | 24,192             | 26,076            | 49,322            | 50,168            |
| Selling, general and administrative           | 68,806             | 72,939            | 138,005           | 144,221           |
| Interest                                      | 9,422              | 9,223             | 19,023            | 18,935            |
| Equity in earnings of LTi and other           | (3,150)            | (1,131)           | (5,605)           | (1,017)           |
| EARNINGS BEFORE INCOME TAXES                  | 36,502             | 42,528            | 72,875            | 84,958            |
| INCOME TAXES                                  | 12,810             | 13,900            | 18,913            | 28,655            |
| NET EARNINGS                                  | \$ 23,692          | \$ 28,628         | \$ 53,962         | \$ 56,303         |
| NET EARNINGS PER SHARE                        |                    |                   |                   |                   |
| Basic   | \$ .56             | \$ .67            | \$ 1.27           | \$ 1.32           |
| Diluted                                       | \$ .55             | \$ .66            | \$ 1.26           | \$ 1.30           |
| AVERAGE COMMON SHARES<br>OUTSTANDING          |                    |                   |                   |                   |
| Basic   | 42,535,691         | 42,601,255        | 42,571,490        | 42,543,291        |
| Diluted                                       | 42,823,791         | 43,242,298        | 42,904,940        | 43,250,479        |

See accompanying Notes to Consolidated Condensed Financial Statements.



**Table of Contents**

**MOOG INC.**  
**Consolidated Condensed Statements of Cash Flows**  
**(Unaudited)**

|   | Six Months Ended  |                   |
|---|-------------------|-------------------|
|   | March 28,<br>2009 | March 29,<br>2008 |
| (dollars in thousands)  |                   |                   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                   |
| Net earnings  | \$ 53,962         | \$ 56,303         |
| Adjustments to reconcile net earnings to net cash provided<br>by operating activities:              |                   |                   |
| Depreciation  | 26,554            | 22,976            |
| Amortization  | 8,697             | 7,746             |
| Provisions for non-cash losses on contracts, inventories and receivables                            | 21,788            | 14,298            |
| Equity-based compensation expense   | 3,620             | 2,310             |
| Other   | (4,025)           | (262)             |
| Changes in assets and liabilities providing (using) cash, excluding the<br>effects of acquisitions: |                   |                   |
| Receivables   | (4,106)           | (44,105)          |
| Inventories   | (26,363)          | (48,206)          |
| Accrued expenses  | (25,945)          | (11,326)          |
| Other assets and liabilities  | (5,890)           | 17,882            |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <b>48,292</b>     | <b>17,616</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                   |
| Acquisitions of businesses, net of acquired cash  | (149,468)         | (9,101)           |
| Purchase of property, plant and equipment   | (43,247)          | (46,222)          |
| Supplemental retirement plan investment redemption  | 11,930            | -                 |
| Other   | 212               | (1,243)           |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>  | <b>(180,573)</b>  | <b>(56,566)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |                   |
| Net proceeds from (repayments of) notes payable   | 3,799             | (1,878)           |
| Net proceeds from revolving lines of credit   | 132,930           | 47,000            |
| Payments on long-term debt  | (819)             | (948)             |
| Redemption of senior subordinated notes   | (11,930)          | -                 |
| Excess tax benefits from equity-based payment arrangements  | 43                | 811               |
| Other   | (5,508)           | (3,339)           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>  | <b>118,515</b>    | <b>41,646</b>     |



|   |                  |                  |
|---|------------------|------------------|
| Effect of exchange rate changes on cash           | (4,790)          | 6,154            |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  | (18,556)         | 8,850            |
| Cash and cash equivalents at beginning of period  | 86,814           | 83,856           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b> | <b>\$ 68,258</b> | <b>\$ 92,706</b> |
| <b>CASH PAID FOR:</b>                             |                  |                  |
| Interest  | \$ 19,389        | \$ 20,774        |
| Income taxes, net of refunds                      | 9,521            | 19,531           |

See accompanying Notes to Consolidated Condensed Financial Statements.

**Table of Contents**

**MOOG inc.**  
**Notes to Consolidated Condensed Financial Statements**  
**Six Months Ended March 28, 2009**  
**(Unaudited)**  
**(dollars in thousands, except per share data)**

**Note 1 - Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for the fair presentation of results for the interim period have been included. The results of operations for the three and six months ended March 28, 2009 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the fiscal year ended September 27, 2008. All references to years in these financial statements are to fiscal years.

**Note 2 Acquisitions and Equity Investment**

On June 4, 2008, we acquired a 40% ownership in LTi REEnergy GmbH for cash of \$28,288. LTi REEnergy specializes in the design and manufacture of servo controllers as well as complete drive systems for electric rotor blade controls for wind turbines. Sales for the twelve months preceding the transaction were approximately \$85,000. We are accounting for this investment using the equity method of accounting with our net investment reflected in other assets on the balance sheet. We expect to acquire the remaining 60% of the company in June 2009 subject to conventional conditions of closing. Our 40% share of the net earnings of LTi REEnergy for the three months and six months ended March 28, 2009 was \$1,895 and \$3,731, respectively, and is included in the operating results of our Industrial Systems segment.

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. On March 2, 2009, we acquired Fernau Avionics Limited, a UK based company. The purchase price, net of cash acquired, was \$45,747, which was financed with credit facility borrowings. Fernau Avionics is a leading supplier of ground-based air navigation systems for military, naval and civil aviation. This acquisition complements our present navigation aids business in the U.S. Sales for the 2008 calendar year were approximately \$22,500. This acquisition is included in our Aircraft Controls segment.

On February 13, 2009, we acquired Videolarm Inc., based in Decatur, Georgia. The purchase price, net of cash acquired, was \$44,794, which was financed with credit facility borrowings. Videolarm produces products for surveillance systems including integrated cameras, vandal resistant protective housings and networked solutions. Sales for the 2008 calendar year were approximately \$19,500. This acquisition is included in our Space and Defense Controls segment.

On January 30, 2009, we acquired 70% of the stock of Insensys Ltd., a UK based company. The purchase price, net of cash acquired, was \$15,212 and was financed with available cash on hand. The purchase contract included the option to purchase the remaining 30% within one year, which we exercised on April 30, 2009 for approximately \$8,400. Insensys is a supplier of pitch control and rotor blade monitoring systems for wind turbines. Sales for the 2008 calendar year were approximately \$8,000. This acquisition is included in our Industrial Systems segment.

On January 23, 2009, we acquired Ethox International, based in Buffalo, New York. The purchase price, net of cash acquired, was \$15,123, which was financed with credit facility borrowings plus \$6,814 of assumed debt. Ethox produces proprietary medical devices and is engaged in contract manufacturing of disposables for medical device companies. Ethox also provides microbiology, toxicology and sterilization services. Sales for the 2008 calendar year were approximately \$27,000. This acquisition is included in our Medical Devices segment.

On December 30, 2008, we acquired Aitecs Medical UAB, a Lithuanian-based manufacturer of syringe-style infusion therapy pumps. The purchase price, net of cash acquired, was \$21,371, which was financed with credit facility

borrowings. Aitecs has a product portfolio that includes pumps for general hospital use, operating rooms and patient controlled analgesia. Sales for the twelve months preceding the acquisition were approximately \$9,000. This acquisition is included in our Medical Devices segment.

On October 8, 2008, we acquired Berkeley Process Control, Inc., based in Richmond, California. The purchase price, net of cash acquired, was \$14,035, which was financed with credit facility borrowings. Berkeley manufactures motion control software and hardware that automates the precise handling of semiconductor wafers and enhances the speed, quality and safety of welding in the oil and gas market and in nuclear fuel canisters. Sales for the twelve months preceding the acquisition were approximately \$6,300. This acquisition is included in our Industrial Systems segment.

**Table of Contents**

On May 2, 2008, we acquired CSA Engineering, Inc. The purchase price, net of cash acquired, was \$15,277, which was financed with credit facility borrowings, and a \$2,000 unsecured note to the sellers due June 30, 2009. CSA designs and supplies systems for vibration suppression, precision motion control and dynamic testing of structures for the aerospace and defense markets. CSA's specialized applications include satellite payload isolation systems, ground based test systems for space and missile hardware, tuned mass dampers for vibration control and a jitter reduction control system for the Airborne Laser optical bench. Sales for the 2007 calendar year were approximately \$14,000. This acquisition is included in our Space and Defense Controls segment.

On November 20, 2007, we acquired PRIZM Advanced Communication Electronics Inc. The purchase price, net of cash acquired, was \$12,000, which was financed with credit facility borrowings and issuance of \$3,000 of unsecured notes to the sellers due on March 31, 2009. PRIZM specializes in the design of fiber optic and wireless video and data multiplexers used in commercial and military subsea markets for oil and gas exploration, terrestrial robots and remote sensing applications. Sales for the twelve months preceding the acquisition were approximately \$5,000. This acquisition is included in our Components segment.

Our purchase price allocations for Fernau, Videolarm, Insensys, Ethox, Aitecs and Berkeley are based on preliminary estimates of fair values of assets acquired and liabilities assumed.

**Note 3 Inventories**

|                                   | March 28,<br>2009 | September<br>27,<br>2008 |
|-----------------------------------|-------------------|--------------------------|
| Raw materials and purchased parts | \$ 167,562        | \$ 150,984               |
| Work in progress                  | 212,266           | 203,331                  |
| Finished goods                    | 54,471            | 53,980                   |
| Total                             | \$ 434,299        | \$ 408,295               |

**Note 4 - Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill for the six months ended March 28, 2009 are as follows:

|                            | Balance as<br>of<br>September<br>27,<br>2008 | Current<br>Year<br>Acquisitions | Foreign<br>Currency<br>Translation | Balance as<br>of<br>March 28,<br>2009 |
|----------------------------|--|---------------------------------|------------------------------------|---------------------------------------|
| Aircraft Controls          | \$ 103,925                                   | \$ 22,639                       | \$ (100)                           | \$ 126,464                            |
| Space and Defense Controls | 81,790                                       | 24,987                          | -                                  | 106,777                               |
| Industrial Systems         | 102,338                                      | 14,695                          | (6,733)                            | 110,300                               |
| Components                 | 160,717                                      | -                               | (4,687)                            | 156,030                               |
| Medical Devices            | 111,965                                      | 15,165                          | (674)                              | 126,456                               |
| Total                      | \$ 560,735                                   | \$ 77,486                       | \$ (12,194)                        | \$ 626,027                            |

The components of acquired intangible assets are as follows:

Edgar Filing: MOOG INC - Form 10-Q

|                            | March 28, 2009              |                             | September 27, 2008          |                             |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                            | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Customer-related           | \$ 88,190                   | \$ (27,109)                 | \$ 67,246                   | \$ (23,506)                 |
| Technology-related         | 42,971                      | (12,877)                    | 33,238                      | (10,650)                    |
| Program-related            | 28,384                      | (189)                       | -                           | -                           |
| Marketing-related          | 20,180                      | (8,892)                     | 16,719                      | (8,543)                     |
| Artistic-related           | 25                          | (19)                        | 25                          | (17)                        |
| Acquired intangible assets | \$ 179,750                  | \$ (49,086)                 | \$ 117,228                  | \$ (42,716)                 |

7

**Table of Contents**

All acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Technology-related intangible assets primarily consist of technology, patents, intellectual property and engineering drawings. Program-related intangible assets consist of long-term programs. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements. The weighted-average amortization period is eight years for marketing-related intangible assets, nine years for customer-related and technology-related intangible assets, ten years for artistic-related intangible assets and twelve years for program-related intangible assets. In total, these intangible assets have a weighted-average life of nine years. Amortization of acquired intangible assets was \$4,410 and \$7,851 for the three and six months ended March 28, 2009 and was \$3,480 and \$7,189 for the three and six months ended March 29, 2008, respectively. Based on acquired intangible assets recorded at March 28, 2009, amortization is expected to be \$17,276 in 2009, \$18,434 in 2010, \$17,961 in 2011, \$17,143 in 2012 and \$14,673 in 2013.

**Note 5 - Product Warranties**

In the ordinary course of business, we warrant our products against defects 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:

|   | Three Months Ended   |                   | Six Months Ended     |                   |
|---|----------------------|-------------------|----------------------|-------------------|
|   | March<br>28,<br>2009 | March 29,<br>2008 | March<br>28,<br>2009 | March 29,<br>2008 |
| Warranty accrual at beginning of period | \$ 10,904            | \$ 7,899          | \$ 10,015            | \$ 7,123          |
| Additions from acquisitions             | 599                  | 100               | 682                  | 100               |
| Warranties issued during current period | 1,942                | 1,987             | 4,558                | 3,799             |
| Reductions for settling warranties      | (1,733)              | (1,202)           | (3,304)              | (2,329)           |
| Foreign currency translation            | (240)                | 329               | (479)                | 420               |
| Warranty accrual at end of period       | \$ 11,472            | \$ 9,113          | \$ 11,472            | \$ 9,113          |

**Note 6 - 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. 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 March 28, 2009, we had interest rate swaps with notional amounts totaling \$75,000. Based on the applicable margin at March 28, 2009, the interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 5.4% through their maturities in 2010, at which time the interest will revert back to variable rates based on LIBOR plus the applicable margin. At March 28, 2009 and September 27, 2008, the fair value of interest rate swaps was a net \$1,689 liability and a net \$976 liability, respectively, most of which is included in other accrued liabilities.

We use foreign currency forward contracts to purchase foreign currencies to fix the exchange rates on future payments. Essentially all foreign currency forwards are designated as hedges of the amount of future cash flows related to the payments. At March 28, 2009, we had outstanding foreign currency forwards with notional amounts of \$10,909. These contracts mature at various times through the second quarter of 2010 and mitigate exposure in movements between the U.S. dollar and the Philippine peso. At March 28, 2009, the fair value of these foreign

currency forwards was \$336 included in other current assets and \$13 included in other accrued liabilities. 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 amortized into expense during the periods in which the related payments 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 the first six months of 2009 or 2008.

**Table of Contents**

Activity in Accumulated Other Comprehensive Income (Loss) (AOCI) related to these derivatives during the first six months of 2009 is summarized below:

|  | Pre-tax<br>Amount | Income<br>Tax | After-Tax<br>Amount |
|--|-------------------|---------------|---------------------|
| Balance at September 27, 2008                | \$ (818)          | \$ 309        | \$ (509)            |
| Net decrease in fair value of derivatives    | (622)             | 235           | (387)               |
| Net reclassification from AOCI into earnings | 383               | (145)         | 238                 |
| Accumulated loss at March 28, 2009           | \$ (1,057)        | \$ 399        | \$ (658)            |

Derivatives in SFAS No. 133 cash flow hedging relationships

|  | Three<br>Months<br>Ended<br>March<br>28,<br>2009 | Six Months<br>Ended<br>March 28,<br>2009 |
|--|--|--|
| Net decrease in fair value of derivatives (effective portion)    |  |  |
| Interest rate swaps  | \$ 44  | \$ (1,128)                               |
| Foreign currency forwards  | 68   | 506                                      |
| Net gain (loss)  | \$ 112   | \$ (622)                                 |
| Net reclassification from AOCI into earnings (effective portion) |  |  |
| Interest rate swaps  | Interest expense                                 | \$ (407)                                 |
| Foreign currency forwards  | Cost of sales                                    | 141                                      |
| Net gain (loss)  | \$ (266)   | \$ (427)                                 |

We also have foreign currency exposure on intercompany loans 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 statement of earnings. To minimize foreign currency exposure, we have foreign currency forwards with notional amounts of \$123,755. 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, generally offsetting the gains or losses from the foreign currency adjustments on the intercompany loans. At March 28, 2009, the fair value of the foreign currency forwards was \$1,661 included in other current assets and \$192 included in other accrued liabilities. At September 27, 2008, the fair value of the foreign currency forwards was a \$390 liability, which was included in other accrued liabilities. Activity and classification related to derivatives not designated as hedging instruments under SFAS No. 133 for the first six months of 2009 is summarized below:

Six Months



|                           |  | Three<br>Months<br>Ended<br>March<br>28,<br>2009 | Ended<br>March 28,<br>2009 |
|---------------------------|--|--|----------------------------|
| Recognized in earnings    |  |  |                            |
| Foreign currency forwards | Equity in earnings of LTi and<br>other | \$ 1,164   | \$ 2,492                   |
| Net gain                  |  | \$ 1,164   | \$ 2,492                   |

**Table of Contents**

The classification of derivatives on the consolidated condensed balance sheet as of March 28, 2009 is summarized as follows:

| Asset derivatives   | Classification       | Fair Value |
|---|----------------------|------------|
| Derivatives designated as hedging instruments under SFAS No. 133:     |                      |            |
| Foreign currency forwards   | Other current assets | \$ 291     |
| Derivatives not designated as hedging instruments under SFAS No. 133: |                      |            |
| Foreign currency forwards   | Other current assets | 1,661      |
| Total asset derivatives   |                      | \$ 1,952   |

| Liability derivatives   | Classification            | Fair Value |
|---|---------------------------|------------|
| Derivatives designated as hedging instruments under SFAS No. 133:     |                           |            |
| Interest rate swaps   | Other accrued liabilities | \$ 1,689   |
| Derivatives not designated as hedging instruments under SFAS No. 133: |                           |            |
| Foreign currency forwards   | Other accrued liabilities | 205        |
| Total liability derivatives   |                           | \$ 1,894   |

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133. The objective of SFAS No. 161 is to amend and expand the disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. We adopted SFAS No. 161 at the beginning of our second quarter of 2009.

**Note 7 Fair Value**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework and expands disclosures about the use of fair value measurement. SFAS No. 157 emphasizes that fair value is a market-based measurement, as opposed to a transaction-specific measurement. We adopted SFAS No. 157 at the beginning of 2009. Fair value is defined by SFAS No. 157 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. SFAS No. 157 defines the following fair value hierarchy:

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.

The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis as of March 28, 2009:

|                           | Classification            | Level 1 | Level 2  | Level 3 | Total    |
|---------------------------|---------------------------|---------|----------|---------|----------|
| Foreign currency forwards | Other current assets      | \$ -    | \$ 1,952 | \$ -    | \$ 1,952 |
| Foreign currency forwards | Other accrued liabilities |         | (205)    |         | (205)    |
| Interest rate swaps       | Other accrued liabilities | -       | (1,689)  | -       | (1,689)  |
| Net fair value            |                           | \$ -    | \$ 58    | \$ -    | \$ 58    |

**Table of Contents**

We also adopted the provisions of SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities at the beginning of 2009. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We did not elect the fair value measurement option for any items that are not already required to be measured at fair value.

**Note 8 - Employee Benefit Plans**

At the beginning of 2009, we implemented the measurement date provision of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). The implementation of this statement reduced retained earnings by \$991 net of deferred taxes of \$529, reduced other assets by \$430, increased long-term pension and retirement obligations by \$867 and increased accumulated other comprehensive income by \$142, net of deferred taxes of \$81.

Net periodic benefit costs for U.S. pension plans consist of:

|  | Three Months Ended   |                   | Six Months Ended     |                   |
|--|----------------------|-------------------|----------------------|-------------------|
|  | March<br>28,<br>2009 | March 29,<br>2008 | March<br>28,<br>2009 | March 29,<br>2008 |
| Service cost                                   | \$ 3,494             | \$ 4,114          | \$ 6,988             | \$ 8,229          |
| Interest cost                                  | 6,382                | 5,860             | 12,764               | 11,719            |
| Expected return on plan assets                 | (7,981)              | (7,452)           | (15,962)             | (14,905)          |
| Amortization of prior service cost             | 74                   | 265               | 148                  | 530               |
| Amortization of actuarial loss                 | 211                  | 689               | 422                  | 1,379             |
| Curtailment loss                               | -                    | 70                | -                    | 70                |
| Pension expense for defined benefit plans      | 2,180                | 3,546             | 4,360                | 7,022             |
| Pension expense for defined contribution plans | 1,626                | 369               | 2,980                | 728               |
| Total pension expense for U.S. plans           | \$ 3,806             | \$ 3,915          | \$ 7,340             | \$ 7,750          |

Effective January 1, 2008, our 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.

Net periodic benefit costs for non-U.S. pension plans consist of:

|  | Three Months Ended   |                   | Six Months Ended     |                   |
|--|----------------------|-------------------|----------------------|-------------------|
|  | March<br>28,<br>2009 | March 29,<br>2008 | March<br>28,<br>2009 | March 29,<br>2008 |

Edgar Filing: MOOG INC - Form 10-Q

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Service cost                                   | \$ 870   | \$ 995   | \$ 1,755 | \$ 1,964 |
| Interest cost                                  | 1,380    | 1,456    | 2,805    | 2,890    |
| Expected return on plan assets                 | (829)    | (915)    | (1,700)  | (1,830)  |
| Amortization of prior service credit           | (12)     | (10)     | (24)     | (19)     |
| Amortization of actuarial loss                 | 110      | 82       | 228      | 166      |
| Pension expense for defined benefit plans      | 1,519    | 1,608    | 3,064    | 3,171    |
| Pension expense for defined contribution plans | 429      | 470      | 840      | 911      |
| Total pension expense for non-U.S. plans       | \$ 1,948 | \$ 2,078 | \$ 3,904 | \$ 4,082 |

During the six months ended March 28, 2009, we made contributions to our defined benefit pension plans of \$10,000 to the U.S. plans and \$2,592 to the non-U.S. plans. We anticipate contributing an additional \$14,000 to the U.S. plans and \$2,889 to the non-U.S. plans for a total of \$29,481 in 2009.

**Table of Contents**

Net periodic benefit costs for the post-retirement health care benefit plan consist of:

|   | Three Months Ended   |                      | Six Months Ended     |                   |
|---|----------------------|----------------------|----------------------|-------------------|
|   | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March 29,<br>2008 |
| Service cost                                | \$ 104               | \$ 107               | \$ 209               | \$ 214            |
| Interest cost                               | 341                  | 312                  | 683                  | 624               |
| Amortization of transition obligation       | 99                   | 99                   | 197                  | 197               |
| Amortization of prior service cost          | 67                   | 71                   | 134                  | 143               |
| Amortization of actuarial loss              | 96                   | 112                  | 192                  | 224               |
| Total periodic post-retirement benefit cost | \$ 707               | \$ 701               | \$ 1,415             | \$ 1,402          |

**Note 9 Income Taxes**

The effective tax rate for the first half of 2009 is lower than would be expected by applying statutory tax rates on earnings before income taxes. The lower rate is a result of two factors that occurred in the first quarter of 2009. We decided to repatriate approximately \$31,000 of cash back to the U.S. from our Japanese subsidiary, resulting in a \$4,850 foreign tax credit, which reduces our U.S. tax provision. In addition, we recorded a \$1,500 benefit in 2009 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. Our effective tax rate for 2009 is expected to be 27.2% reflecting these events.

**Table of Contents****Note 10 - Shareholders' Equity**

The changes in shareholders' equity for the six months ended March 28, 2009 are summarized as follows:

|   |           | Number of Shares           |                            |
|---|-----------|----------------------------|----------------------------|
|   | Amount    | Class A<br>Common<br>Stock | Class B<br>Common<br>Stock |
| <b>COMMON STOCK</b>   |           |                            |                            |
| Beginning of period   | \$ 48,605 | 40,793,523                 | 7,811,190                  |
| Conversion of Class B to Class A                                    | -         | 2,100                      | (2,100)                    |
| End of period   | 48,605    | 40,795,623                 | 7,809,090                  |
| <b>ADDITIONAL PAID-IN CAPITAL</b>                                   |           |                            |                            |
| Beginning of period   | 311,159   |                            |                            |
| Equity-based compensation expense                                   | 3,620     |                            |                            |
| Issuance of Treasury shares at more than cost                       | 150       |                            |                            |
| Income tax effect of equity-based compensation                      | 45        |                            |                            |
| Adjustment to market - SECT   | (9,987)   |                            |                            |
| End of period   | 304,987   | -                          | -                          |
| <b>RETAINED EARNINGS</b>  |           |                            |                            |
| Beginning of period   | 688,585   |                            |                            |
| Net earnings  | 53,962    |                            |                            |
| Adjustment for adoption of measurement provision of SFAS<br>No. 158 | (991)     |                            |                            |
| End of period   | 741,556   | -                          | -                          |
| <b>TREASURY STOCK</b>   |           |                            |                            |
| Beginning of period   | (40,607)  | (2,107,949)                | (3,305,971)                |
| Issuance of treasury shares   | 243       | 45,563                     | -                          |
| Purchase of treasury shares   | (7,387)   | (244,688)                  | -                          |
| End of period   | (47,751)  | (2,307,074)                | (3,305,971)                |
| <b>STOCK EMPLOYEE COMPENSATION TRUST (SECT)</b>                     |           |                            |                            |
| Beginning of period   | (22,179)  | -                          | (507,420)                  |
| Issuance of shares  | 2,663     | -                          | 90,042                     |
| Purchases of shares   | (1,178)   | -                          | (38,244)                   |
| Adjustment to market - SECT   | 9,987     | -                          | -                          |

|  |                     |                   |                  |
|--|---------------------|-------------------|------------------|
| End of period  | (10,707)            | -                 | (455,622)        |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>             |                     |                   |                  |
| Beginning of period  | 8,847               |                   |                  |
| Foreign currency translation adjustment                          | (35,858)            |                   |                  |
| Retirement liability adjustment                                  | 1,621               |                   |                  |
| Adjustment for adoption of measurement provision of SFAS No. 158 | 142                 |                   |                  |
| Increase in accumulated loss on derivatives                      | (149)               |                   |                  |
| End of period  | (25,397)            | -                 | -                |
| <b>TOTAL SHAREHOLDERS EQUITY</b>                                 | <b>\$ 1,011,293</b> | <b>38,488,549</b> | <b>4,047,497</b> |



**Table of Contents****Note 11 - Stock Employee Compensation Trust**

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for equity-based compensation plans and benefit programs, including the Moog Inc. Retirement Savings Plan. The shares in the SECT are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreement governing the SECT, the SECT trustee votes all shares held by the SECT on all matters submitted to shareholders.

**Note 12 - Earnings per Share**

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

|   | Three Months Ended |                   | Six Months Ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | March 28,<br>2009  | March 29,<br>2008 | March 28,<br>2009 | March 29,<br>2008 |
| Weighted- average shares outstanding - Basic  | 42,535,691         | 42,601,255        | 42,571,490        | 42,543,291        |
| Dilutive effect of equity-based awards        | 288,100            | 641,043           | 333,450           | 707,188           |
| Weighted-average shares outstanding - Diluted | 42,823,791         | 43,242,298        | 42,904,940        | 43,250,479        |

**Note 13 - Comprehensive Income**

The components of comprehensive income (loss), net of tax, are as follows:

|  | Three Months Ended   |                      | Six Months Ended     |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March<br>29,<br>2008 |
| Net earnings   | \$ 23,692            | \$ 28,628            | \$ 53,962            | \$ 56,303            |
| Other comprehensive income (loss):   |                      |                      |                      |                      |
| Foreign currency translation adjustment  | (15,288)             | 19,624               | (35,858)             | 25,591               |
| Retirement liability adjustment, net of tax of \$235, \$998, \$472 and \$998, respectively | 420                  | 1,548                | 1,621                | 1,548                |
| Pension curtailment and remeasurement, net of tax of \$17,496                              | -                    | (27,936)             | -                    | (27,936)             |
| Decrease (Increase) in accumulated loss on derivatives                                     | 208                  | (872)                | (149)                | (1,291)              |
| Comprehensive income   | \$ 9,032             | \$ 20,992            | \$ 19,576            | \$ 54,215            |

The components of accumulated other comprehensive (loss) income, net of tax, are as follows:

|  | March 28,<br>2009 | September<br>27,<br>2008 |
|--|-------------------|--------------------------|
| Cumulative foreign currency translation adjustment | \$ 8,937          | \$ 44,795                |
| Accumulated retirement liability adjustments       | (33,676)          | (35,439)                 |
| Accumulated loss on derivatives                    | (658)             | (509)                    |
| Accumulated other comprehensive (loss) income      | \$ (25,397)       | \$ 8,847                 |



**Table of Contents****Note 14 - Segment Information**

Below are sales and operating profit by segment for the three and six months ended March 28, 2009 and March 29, 2008 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit 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, number of employees or profit.

|                                      | Three Months Ended   |                   | Six Months Ended     |                   |
|--------------------------------------|----------------------|-------------------|----------------------|-------------------|
|                                      | March<br>28,<br>2009 | March 29,<br>2008 | March<br>28,<br>2009 | March 29,<br>2008 |
| Net sales:                           |                      |                   |                      |                   |
| Aircraft Controls                    | \$ 162,025           | \$ 161,616        | \$ 325,173           | \$ 321,197        |
| Space and Defense Controls           | 68,320               | 70,086            | 139,702              | 127,433           |
| Industrial Systems                   | 104,512              | 130,176           | 214,547              | 252,909           |
| Components                           | 84,504               | 84,241            | 166,008              | 163,828           |
| Medical Devices                      | 33,974               | 22,719            | 53,993               | 49,878            |
| Net sales                            | \$ 453,335           | \$ 468,838        | \$ 899,423           | \$ 915,245        |
| Operating profit (loss) and margins: |                      |                   |                      |                   |
| Aircraft Controls                    | \$ 14,519<br>9.0%    | \$ 14,255<br>8.8% | \$ 28,019<br>8.6%    | \$ 29,343<br>9.1% |
| Space and Defense Controls           | 9,806<br>14.4%       | 9,143<br>13.0%    | 23,386<br>16.7%      | 15,843<br>12.4%   |
| Industrial Systems                   | 10,860<br>10.4%      | 18,284<br>14.0%   | 22,359<br>10.4%      | 36,177<br>14.3%   |
| Components                           | 15,049<br>17.8%      | 14,584<br>17.3%   | 30,050<br>18.1%      | 29,420<br>18.0%   |
| Medical Devices                      | (77)<br>(0.2%)       | 349<br>1.5%       | (2,301)<br>(4.3%)    | 3,936<br>7.9%     |
| Total operating profit               | 50,157<br>11.1%      | 56,615<br>12.1%   | 101,513<br>11.3%     | 114,719<br>12.5%  |
| Deductions from operating profit:    |                      |                   |                      |                   |
| Interest expense                     | 9,422                | 9,223             | 19,023               | 18,935            |
| Equity-based compensation expense    | 1,031                | 682               | 3,620                | 2,310             |
| Corporate expenses and other         | 3,202                | 4,182             | 5,995                | 8,516             |
| Earnings before income taxes         | \$ 36,502            | \$ 42,528         | \$ 72,875            | \$ 84,958         |

**Table of Contents**

**Note 15 - Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This statement replaces SFAS No. 141. The objective of SFAS No. 141(R) is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for the acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, the goodwill acquired or a gain from a bargain purchase. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This statement will be effective for us at the beginning of 2010. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51. The objective of SFAS No. 160 is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing additional accounting and reporting standards. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. This statement will be effective for us at the beginning of 2010. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Form 10-K for the fiscal year ended September 27, 2008. All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years.

**OVERVIEW**

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

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

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

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

We intend to increase our revenue base and improve our profitability and cash flows from operations by building on our market leadership positions 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 and manufacturing initiatives and using low cost manufacturing facilities without compromising quality.

**Table of Contents****Acquisitions and Equity Investment**

On June 4, 2008, we acquired a 40% ownership in LTi REEnergy GmbH for cash of \$28 million. LTi REEnergy specializes in the design and manufacture of servo controllers as well as complete drive systems for electric rotor blade controls for wind turbines. Sales for the twelve months preceding the transaction were approximately \$85 million. We are accounting for this investment using the equity method of accounting with our net investment reflected in other assets on the balance sheet. We expect to acquire the remaining 60% of the company in June 2009 subject to conventional conditions of closing. Our 40% share of the net earnings of LTi REEnergy for the three months and six months ended March 28, 2009 was \$2 million and \$4 million, respectively, and is included in the operating results of our Industrial Systems segment.

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. On March 2, 2009, we acquired Fernau Avionics Limited, a UK based company. The purchase price, net of cash acquired, was \$46 million in cash, which was financed with credit facility borrowings. Fernau Avionics is a leading supplier of ground-based air navigation systems for military, naval and civil aviation. Sales for the 2008 calendar year were approximately \$23 million. This acquisition complements our present navigation aids business in the U.S. This acquisition is included in our Aircraft Controls segment.

On February 13, 2009, we acquired Videolarm Inc., based in Decatur, Georgia. The purchase price, net of cash acquired, was for \$45 million, which was financed with credit facility borrowings. Videolarm produces products for surveillance systems including integrated cameras, vandal resistant protective housings and networked solutions. Sales for the 2008 calendar year were approximately \$20 million. This acquisition is included in our Space and Defense Controls segment.

On January 30, 2009, we acquired 70% of the stock of Insensys Ltd., a UK based company. The purchase price, net of cash acquired, was \$15 million and was financed with available cash on hand. The purchase contract included the option to purchase the remaining 30% within one year, which we exercised on April 30, 2009 for approximately \$8 million. Insensys is a supplier of pitch control and rotor blade monitoring systems for wind turbines. Sales for the 2008 calendar year were approximately \$8 million. This acquisition is included in our Industrial Systems segment.

On January 23, 2009, we acquired Ethox International, based in Buffalo, New York. The purchase price, net of cash acquired was \$15 million in cash, which was financed with credit facility borrowings plus \$7 million of assumed debt. Ethox produces proprietary medical devices and is engaged in contract manufacturing of disposables for medical device companies. Ethox also provides microbiology, toxicology and sterilization services. Sales for the 2008 calendar year were approximately \$27 million. This acquisition is included in our Medical Devices segment.

On December 30, 2008, we acquired Aitecs Medical UAB, a Lithuanian-based manufacturer of syringe-style infusion therapy pumps. The purchase price, net of cash acquired, was \$21 million in cash, which was financed with credit facility borrowings. Aitecs has a product portfolio that includes pumps for general hospital use, operating rooms and patient controlled analgesia. Sales for the twelve months preceding the acquisition were approximately \$9 million. This acquisition is included in our Medical Devices segment.

On October 8, 2008, we acquired Berkeley Process Control, Inc., based in Richmond, California. The purchase price, net of cash acquired, was \$14 million, which was financed with credit facility borrowings. Berkeley manufactures motion control software and hardware that automates the precise handling of semiconductor wafers and enhances the speed, quality and safety of welding in the oil and gas market and in nuclear fuel canisters. Sales for the twelve months preceding the acquisition were approximately \$6 million. This acquisition is included in our Industrial Systems segment.

On May 2, 2008, we acquired CSA Engineering, Inc. The purchase price, net of cash acquired, was \$15 million, which was financed with credit facility borrowings, and a \$2 million unsecured note to the sellers due June 30, 2009. CSA designs and supplies systems for vibration suppression, precision motion control and dynamic testing of structures for the aerospace and defense markets. CSA's specialized applications include satellite payload isolation systems, ground based test systems for space and missile hardware, tuned mass dampers for vibration control and a jitter reduction control system for the Airborne Laser optical bench. Sales for the 2007 calendar year were approximately \$14 million. This acquisition is included in our Space and Defense Controls segment.

On November 20, 2007, we acquired PRIZM Advanced Communication Electronics Inc. The purchase price, net of cash acquired, was \$12 million, which was financed with credit facility borrowings and issuance of \$3 million of unsecured notes to the sellers due on March 31, 2009. PRIZM specializes in the design of fiber optic and wireless video and data multiplexers used in commercial and military subsea markets, for oil and gas exploration, terrestrial robots and remote sensing applications. Annual sales for the twelve months preceding the acquisition were approximately \$5 million. This acquisition is included in our Components segment.

Our purchase price allocations for Fernau, Videolarm, Insensys, Ethox, Aitecs and Berkeley are based on preliminary estimates of fair values of assets acquired and liabilities assumed.

**Reviews for Impairment of Goodwill**

We performed an interim test on goodwill for impairment and have concluded that our goodwill was not impaired as of March 28, 2009.



**Table of Contents**

**CRITICAL ACCOUNTING POLICIES**

There have been no changes in critical accounting policies in the current year from those disclosed in our 2008 Form 10-K.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This statement replaces SFAS No. 141. The objective of SFAS No. 141(R) is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for the acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, the goodwill acquired or a gain from a bargain purchase. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This statement will be effective for us at the beginning of 2010. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51. The objective of SFAS No. 160 is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing additional accounting and reporting standards. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. This statement will be effective for us at the beginning of 2010. Early adoption of this statement is prohibited. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

**Table of Contents****CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK**

|  | Three Months Ended   |                      | Six Months Ended     |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March<br>29,<br>2008 |
| (dollars in millions)  |                      |                      |                      |                      |
| Net sales  | \$ 453.3             | \$ 468.8             | \$ 899.4             | \$ 915.2             |
| Gross margin   | 29.9%                | 31.9%                | 30.4%                | 32.5%                |
| Research and development expenses  | \$ 24.2              | \$ 26.1              | \$ 49.3              | \$ 50.2              |
| Selling, general and administrative expenses as<br>a percentage of sales | 15.2%                | 15.6%                | 15.3%                | 15.8%                |
| Interest expense   | \$ 9.4               | \$ 9.2               | \$ 19.0              | \$ 18.9              |
| Effective tax rate   | 35.1%                | 32.7%                | 26.0%                | 33.7%                |
| Net earnings   | \$ 23.7              | \$ 28.6              | \$ 54.0              | \$ 56.3              |

Net sales decreased \$16 million, or 3%, in the second quarter of 2009 compared to the second quarter of 2008. During the second quarter, our sales were negatively impacted by the global economic recession, most significantly in our Industrial Systems segment. In addition, our sales were positively impacted by the incremental sales of recent acquisitions and negatively impacted by sales that are denominated in foreign currencies that generally weakened against the U.S. dollar in our other segments.

Net sales decreased \$16 million, or 2%, for the first half of the year as sales in our Industrial Systems segment decreased due to the global recession. In addition, our sales were positively impacted by the incremental sales of recent acquisitions and negatively impacted by sales that are denominated in foreign currencies that generally weakened against the U.S. dollar in our other segments.

Our gross margin was lower in the second quarter of 2009 compared to 2008 primarily as a result of the product mix as a lower proportion of our business came from industrial controls which generally carry a higher gross margin than our other products. Our gross margin was also lower in the first half of 2009 compared to 2008 due to additions to contract loss reserves, which were \$5 million higher in the first half of 2009 compared to 2008, primarily related to loss reserves in our Aircraft Controls segment.

Research and development expenses were lower in the second quarter and first half of 2009 compared to the same periods of 2008. The lower levels were primarily within Industrial Systems.

Selling, general and administrative expenses as a percentage of sales were lower in the second quarter of 2009 compared to the same period last year. The decrease is primarily a result of lower discretionary expenses in conjunction with the global economic slowdown. Selling, general and administrative expenses as a percentage of sales were lower in the first half of 2009 compared to 2008 as a result of lower discretionary expenses and a sales volume shift to segments that have lower selling, general and administrative cost structures.

Interest expense was comparable in the second quarter and first half of 2009 to the same periods of 2008 as a result of higher debt levels in 2009 being offset by lower average interest rates.

The effective tax rate for the second quarter of 2009 was higher compared to the same period for 2008 mainly as a result of a decrease in earnings from foreign operations with lower tax rates. The effective tax rate for the first half of 2009 was lower compared to 2008. This was primarily a result of two items. We repatriated approximately \$31 million of cash back to the U.S. from our Japanese subsidiary, resulting in a \$5 million foreign tax credit, which reduces our U.S. tax provision. In addition, we recorded a \$1.5 million benefit in 2009 as it relates to our 2008 tax year as a result of the reinstatement of the U.S. research and development tax credit under the TARP legislation. Our effective tax rate for 2009 is expected to be 27.2%, reflecting these events.

Net earnings and diluted earnings per share decreased 17% in the second quarter of 2009. Net earnings and diluted earnings per share decreased 4% and 3%, respectively, in the first half of 2009.



**Table of Contents**

**2009 Outlook** - We expect sales in 2009 to decrease by 3% to approximately \$1.84 billion. We expect decreases of \$63 million in Industrial Systems, \$20 million in Aircraft Controls and \$11 million in Components compared to 2008. We expect sales increases of \$21 million in Medical Devices and \$17 million in Space and Defense Controls. We expect operating margins before restructuring charges to be approximately 10.2% in 2009 compared to 12.0% in 2008. We expect these operating margins before restructuring charges to decrease in Industrial Systems, Medical Devices and Components and increase in Space and Defense Controls and Aircraft Controls. Restructuring costs are estimated to be \$15 million primarily related to anticipated staff reductions, in our international industrial operations. We expect net earnings to decrease to \$84 million and diluted earnings per share to decrease by 29% to \$1.95. Given the uncertainty in the global economy, these forecasted amounts are centered within a range of plus or minus \$.20 diluted earnings per share.

**Table of Contents****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, number of employees or profit. Operating profit is reconciled to earnings before income taxes in Note 14 of the Notes to Consolidated Condensed Financial Statements included in this report.

**Aircraft Controls**

| (dollars in millions)           | Three Months Ended   |                      | Six Months Ended     |                      |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                 | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March<br>29,<br>2008 |
| Net sales - military aircraft   | \$ 102.2             | \$ 96.2              | \$ 205.1             | \$ 185.9             |
| Net sales - commercial aircraft | 53.3                 | 63.8                 | 110.9                | 132.6                |
| Net sales - navigational aids   | 6.5                  | 1.6                  | 9.2                  | 2.7                  |
|                                 | \$ 162.0             | \$ 161.6             | \$ 325.2             | \$ 321.2             |
| Operating profit                | \$ 14.5              | \$ 14.3              | \$ 28.0              | \$ 29.3              |
| Operating margin                | 9.0%                 | 8.8%                 | 8.6%                 | 9.1%                 |
| Backlog                         |                      |                      | \$ 404.7             | \$ 309.3             |

Net sales in Aircraft Controls were relatively unchanged in the second quarter of 2009 compared to 2008; however, there was a shift from commercial to military sales. Military aftermarket sales increased \$7 million on major programs such as the F-18, C-5 and V-22 Osprey. Commercial aircraft sales decreased \$10 million from the second quarter of 2008, mainly due to \$8 million in lower sales to Boeing and \$4 million less in aftermarket. As a result of our acquisition of Fernau Avionics, we have established a Navigational Aids product line and reclassified sales of our Tactical Air Navigation equipment (TACAN), which we previously reported as part of military aftermarket. Sales of navigational aids increased \$3 million in the second quarter of 2009 compared to 2008 as we have updated our design of TACAN systems and are now selling them on an OEM basis. In addition, the acquisition of Fernau contributed \$2 million of incremental sales for the second quarter of 2009.

Net sales in Aircraft Controls increased \$4 million, or 1%, in the first half of 2009. Military aircraft sales increased \$19 million. Military aftermarket sales increased \$9 million in the first half of 2009. Other military aircraft sales increased \$6 million on the F-35 program as we started work on the low-rate production contract and \$4 million on the V-22 production program. Navigational Aids increased \$5 million from the redesign of the TACAN products and \$2 million of incremental sales from the Fernau acquisition. Commercial aircraft sales decreased \$22 million from the first half of 2008, mainly due to \$16 million in lower sales to Boeing and a \$4 million decline in aftermarket sales. Our operating margin was higher in the second quarter of 2009 compared to 2008 primarily as a result of sales mix changes. Our operating margin was lower in the first half of 2009 compared to 2008 as we increased our loss reserves in the first half of 2009. Excluding the effects of these additions to loss reserves, our operating margins would have increased compared to 2008, primarily as a result of sales mix changes.

The higher level of twelve-month backlog for Aircraft Controls at March 28, 2009 compared to March 29, 2008 reflects strong military orders and the Fernau acquisition, partially offset by a decline in commercial backlog.

**2009 Outlook for Aircraft Controls** - We expect sales in Aircraft Controls to decrease 4% to \$646 million in 2009. Military aircraft sales are expected to remain relatively flat at \$398 million. Commercial aircraft sales are expected to decrease 19% to \$220 million, principally related to Boeing and our commercial aftermarket activity. Navigational Aids are expected to increase to \$28 million due in large part to the acquisition of Fernau Avionics. We expect our operating margin to be 8.8% in 2009, an improvement from 8.2% in 2008, as research and development spending

moderates and becomes a lower percentage of sales.

**Table of Contents****Space and Defense Controls**

| (dollars in millions) | Three Months Ended   |                      | Six Months Ended     |                      |
|-----------------------|----------------------|----------------------|----------------------|----------------------|
|                       | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March<br>29,<br>2008 |
| Net sales             | \$ 68.3              | \$ 70.1              | \$ 139.7             | \$ 127.5             |
| Operating profit      | \$ 9.8               | \$ 9.1               | \$ 23.4              | \$ 15.8              |
| Operating margin      | 14.4%                | 13.0%                | 16.7%                | 12.4%                |
| Backlog               |                      |                      | \$ 164.2             | \$ 168.8             |

Net sales in Space and Defense Controls decreased \$2 million, or 3%, in the second quarter of 2009 compared to 2008. Sales of defense controls decreased \$9 million as a result of a \$16 million decline in sales on the Driver's Vision Enhancer (DVE) program, partially offset by increases in other programs, most notably the Stryker Mobile Gun system. CSA Engineering, which we acquired in the third quarter of 2008, also contributed \$5 million of sales in vibration suppression and shock isolation systems.

Net sales in Space and Defense Controls increased \$12 million, or 10%, in the first half of 2009 compared to 2008. CSA Engineering contributed \$9 million in incremental sales. Sales of launch vehicles increased \$4 million and sales of controls for military and commercial satellites increased \$3 million. Offsetting those increases was a decrease in sales for the Constellation program of \$4 million as NASA has been without a new administrator, which has slowed down commitments for the design of the Orion Crew Vehicle. Sales of defense controls also decreased \$1 million as a result of a decline in sales on the DVE program of \$8 million, offset by increases in other programs.

Our operating margin for Space and Defense Controls increased in the second quarter of 2009 compared to 2008. The increase is primarily a result of last year's \$4 million loss reserve for thruster valves used on satellites, partially offset by strong margins on the DVE program, in the second quarter of 2008. The increase in our operating margin for the first half of 2009 is also a result of the impact of higher sales volume.

The lower level of twelve-month backlog at March 28, 2009 compared to March 29, 2008 relates to the decline in orders of defense controls, primarily the DVE program, offset by the backlog from CSA Engineering.

**2009 Outlook for Space and Defense Controls** We expect sales in Space and Defense Controls to increase \$17 million, or 7%, to \$271 million in 2009. We expect increases to come from CSA, homeland security as a result of our Videolarm acquisition in the second quarter of 2009, launch vehicles and satellites. We expect sales to decrease on the Constellation program and defense controls. We expect our operating margin in 2009 to increase to 13.3% from 11.6% in 2008, primarily as a result of the strong performance in the first half of 2009.

**Table of Contents****Industrial Systems**

| (dollars in millions) | Three Months Ended   |                      | Six Months Ended     |                      |
|-----------------------|----------------------|----------------------|----------------------|----------------------|
|                       | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March<br>29,<br>2008 |
| Net sales             | \$ 104.5             | \$ 130.2             | \$ 214.5             | \$ 252.9             |
| Operating profit      | \$ 10.9              | \$ 18.3              | \$ 22.4              | \$ 36.2              |
| Operating margin      | 10.4%                | 14.0%                | 10.4%                | 14.3%                |
| Backlog               |                      |                      | \$ 134.2             | \$ 192.4             |

Net sales in Industrial Systems decreased \$26 million, or 20%, in the second quarter of 2009 compared to 2008. The global economic recession has significantly impacted our industrial business in most of the major markets that we serve. In addition, weaker foreign currencies, in particular the euro, compared to the U.S. dollar had a negative impact on sales, representing 28% of the sales decrease in the quarter. Sales were down in all of our major markets except for power generation and test equipment. Sales for plastic making machinery decreased \$12 million, or 59%, as demand has been very slow from our customers that supply the automotive and consumer goods industries. Sales for controls for metal forming presses decreased by \$6 million due to the lack of demand in the auto and construction industries. Sales for motion simulators decreased \$3 million and sales for controls in steel mills remained flat. Offsetting those sales declines was an increase of \$4 million in power generation related to continuing strong demand in Europe and Asia and an increase of \$1 million in test equipment.

Net sales in Industrial Systems decreased \$38 million, or 15%, in the first half of 2009 compared to 2008. Weaker foreign currencies, in particular the euro, compared to the U.S. dollar had a negative impact on sales, representing 32% of the sales decrease. Sales were down in all of our major markets except for power generation and motion simulation. Sales for plastic making machinery decreased \$18 million, related to weaker demand in the auto industry and packaging for consumer goods. Sales of controls for metal forming and presses decreased by \$9 million. Sales of controls for steel mills decreased \$5 million in China and Europe due to slowing global demand. Offsetting those sales declines were increases of \$6 million in power generation and \$1 million in the motion simulator business.

Our operating margin for Industrial Systems declined in the second quarter and first half of 2009 over the comparable 2008 periods due to lower sales volume.

The lower level of twelve-month backlog for Industrial Systems at March 28, 2009 compared to March 29, 2008 primarily relates to slowing demand in most of our major markets.

**2009 Outlook for Industrial Systems** We expect sales in Industrial Systems to decrease 12% to \$470 million in 2009. We expect sales declines in most of our major markets as a result of slowing global demand and weaker foreign currencies. The only exception is power generation, which will increase as we expect to complete the acquisition of LTi REEnergy later in the year, in addition to the recent Insensys acquisition. We expect our operating margin to decrease to 7.1% in 2009, before restructuring expense, from 13.8% in 2008. The decrease in our operating margin will reflect both the decrease in sales volume and expected first year purchase accounting adjustments.



**Table of Contents****Components**

| (dollars in millions) | Three Months Ended   |                      | Six Months Ended     |                      |
|-----------------------|----------------------|----------------------|----------------------|----------------------|
|                       | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March<br>29,<br>2008 |
| Net sales             | \$ 84.5              | \$ 84.2              | \$ 166.0             | \$ 163.8             |
| Operating profit      | \$ 15.0              | \$ 14.6              | \$ 30.1              | \$ 29.4              |
| Operating margin      | 17.8%                | 17.3%                | 18.1%                | 18.0%                |
| Backlog               |                      |                      | \$ 193.7             | \$ 177.0             |

Net sales in Components remained flat in the second quarter of 2009 compared to 2008. Sales were mixed in our various markets. Aircraft sales increased \$5 million, primarily on the Guardian program, a system designed to protect aircraft from shoulder-fired missiles, and various other military programs. Sales of space and defense controls increased \$2 million, mostly for components used in space vehicles and ground-based radar systems. Marine sales, which are primarily used in offshore oil exploration and production, were flat. Total medical sales decreased \$2 million as sales to Respironics declined in dollar value although we are selling higher quantities. Industrial sales decreased \$4 million, largely a result of reduced demand for industrial automation equipment.

Net sales in Components increased slightly in the first half of 2009 compared to 2008. Sales increased in every market except medical and industrial. Aircraft sales increased \$8 million, primarily on the Guardian program. Sales of space and defense controls increased \$3 million for components supplied on the Abrams Tank, the Stryker Mobile Gun System, space vehicles and ground-based radar systems. Marine sales increased \$1 million, mostly for equipment used on undersea robots. Total medical sales decreased \$2 million, largely from sales to Respironics. Industrial sales decreased \$8 million, largely a result of reduced demand for industrial automation equipment and slip rings for closed circuit TV surveillance.

Our operating margin was relatively unchanged in the second quarter and first half of 2009 compared to 2008. The higher level of twelve-month backlog at March 28, 2009 compared to March 29, 2008 primarily relates to increased orders for military aircraft and defense controls programs.

**2009 Outlook for Components** - We expect sales in Components to decrease 3% to \$330 million in 2009. We expect sales increases in aircraft, which is primarily driven by the Guardian program, and from the space and defense market. We expect sales decreases within the marine, medical and most notably industrial markets. We expect our operating margin in 2009 to be 17.5% in 2009, similar to the strong performance we achieved in 2008.

**Table of Contents****Medical Devices**

| (dollars in millions)   | Three Months Ended   |                      | Six Months Ended     |                      |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
|                         | March<br>28,<br>2009 | March<br>29,<br>2008 | March<br>28,<br>2009 | March<br>29,<br>2008 |
| Net sales               | \$ 34.0              | \$ 22.7              | \$ 54.0              | \$ 49.9              |
| Operating profit (loss) | \$ (0.1)             | \$ 0.3               | \$ (2.3)             | \$ 3.9               |
| Operating margin        | (0.2%)               | 1.5%                 | (4.3%)               | 7.9%                 |
| Backlog                 |                      |                      | \$ 16.4              | \$ 16.5              |

Net sales in Medical Devices increased \$11 million, or 50%, in the second quarter of 2009 compared to 2008. The acquisitions of Aitecs and Ethox International during the second quarter of 2009 contributed \$7 million towards the sales increase. In addition, sales of pumps and administration sets each increased \$2 million. Partially offsetting those sales increases was a \$2 million decrease in sales of sensors and handpieces.

Net sales in Medical Devices increased \$4 million, or 8%, in the first half of 2009 compared to 2008. The acquisitions of Aitecs and Ethox International contributed \$7 million of incremental sales. Sales of administration sets also increased \$3 million, or 22%. Partially offsetting those sales increases was a decrease of \$4 million in sales of pumps resulting from reduced spending by hospitals and outpatient clinics in the first quarter of 2009 and a large order from the first quarter of 2008. Sales of sensors and handpieces also decreased \$3 million.

Our operating margin in the second quarter of 2009 is negatively impacted by an additional \$1 million reserve for a voluntary software modification for certain of our enteral feeding pumps, \$1 million of first year purchase accounting adjustments for the Aitecs and Ethox acquisitions and a shift in the product mix. Our operating margin for the second quarter of 2008 was low as a result of a decline in sales volume.

Our operating margin for the first half of 2009 is negative as a result of the lower sales volume without acquisitions, a total \$2 million reserve for the software modification on the enteral feeding pumps, the first year purchase accounting adjustments for the Aitecs and Ethox acquisitions and increased research and development spending.

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

**2009 Outlook for Medical Devices** We expect sales in Medical Devices to increase 20% to \$125 million in 2009, solely as a result of two acquisitions we completed in the second quarter. The acquisitions of Aitecs and Ethox International are expected to add approximately \$24 million in sales for 2009. We expect our operating margin to decrease to 2.7% as a result of the operating loss in the first six months and the impact of first year purchase accounting charges on the Aitecs and Ethox acquisitions.

**Table of Contents****FINANCIAL CONDITION AND LIQUIDITY**

| (dollars in millions)        | Six Months Ended     |                   |
|------------------------------|----------------------|-------------------|
|                              | March<br>28,<br>2009 | March 29,<br>2008 |
| Net cash provided (used) by: |                      |                   |
| Operating activities         | \$ 48.3              | \$ 17.6           |
| Investing activities         | (180.6)              | (56.6)            |
| Financing activities         | 118.5                | 41.6              |

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 in the first six months of 2009 compared to 2008. This increase relates primarily to increased collections of receivables in 2009, lower working capital requirements in the first half of 2009 and lower income tax payments in 2009. Partially offsetting this increase were larger uses of cash in the first six months of 2009 compared to 2008 for various items such as higher pension contributions.

**Investing activities**

Net cash used by investing activities in the first six months of 2009 includes \$149 million for various acquisitions, consisting of \$14 million for Berkeley Process Controls, \$21 million for Aitecs Medical UAB, \$8 million for Ethox International, \$15 million for Insensys Ltd., \$45 million for Videolarm and \$46 million for Fernau Avionics. Net cash used by investing activities also included \$43 million for capital expenditures. These amounts were partially offset by the redemption of \$12 million of supplemental retirement plan investments that were used to purchase \$13 million par value of the Company's 6.25% senior subordinated notes. Net cash used by investing activities in the first six months of 2008 consisted principally of \$46 million of capital expenditures and \$9 million towards the acquisition of PRIZM. Our capital expenditures in 2009 will approximate \$95 million.

**Financing activities**

Net cash provided by financing activities in the first six months of 2009 reflects borrowings on our U.S. credit facility to fund most of the acquisitions and \$7 million used for our share repurchase program. These amounts were partially offset by the redemption of \$13 million par value of the Company's senior subordinated notes. Net cash provided by financing activities in the first six months of 2008 reflects the use of our U.S. credit facility for increased working capital requirements to fund our sales growth, capital expenditures and the acquisition of PRIZM.

**Off Balance Sheet Arrangements**

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

**Contractual Obligations and Commercial Commitments**

Our contractual obligations and commercial commitments have not changed materially from the disclosures in our 2008 Form 10-K.

**Table of Contents**

**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 \$385 million at March 28, 2009. Interest on outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 125 basis points at March 28, 2009 and will increase to 150 basis points during the third quarter of 2009 as a result of additional borrowings to fund our recent acquisitions. 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 3.5.

The covenant for maximum capital expenditures is \$100 million annually. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income. We are in compliance with all covenants.

We are required to obtain the consent of lenders of the U.S. 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 and have shown strong, consistent financial performance. We believe that we will be able to obtain additional debt or equity financing as needed.

At March 28, 2009, we had \$384 million of unused borrowing capacity, including \$353 million from the U.S. credit facility after considering standby letters of credit. Our ability to utilize the unused borrowing capacity is limited by the maximum leverage ratio covenant, which would restrict borrowings to an additional \$224 million as of March 28, 2009.

Net debt to capitalization was 42% at March 28, 2009 and 37% at September 27, 2008. The increase in net debt to capitalization is primarily due to amounts borrowed to fund acquisitions.

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.

**Table of Contents**

**ECONOMIC CONDITIONS AND MARKET TRENDS**

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

**Aerospace and Defense**

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

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

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

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

**Industrial**

Approximately 34% of our 2008 sales were generated in industrial markets. The industrial markets we serve are influenced by several factors, including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. We are experiencing challenges from current global economic conditions. These challenges include reacting to slowing demand for industrial automation equipment, steel and automotive manufacturing and delayed orders as customers manage inventory levels. Despite the general slowdown in demand from the global recession, we continue to see strong demand in the growing wind energy market.

**Medical**

Approximately 8% of our 2008 sales were generated in medical markets. The medical markets we serve are influenced by 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.

**Table of Contents**

**Foreign Currencies**

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in Industrial Systems. About one-third of our 2008 sales were denominated in foreign currencies including the euro, British pound and Japanese yen. During the first six months of 2009, these foreign currencies weakened against the U.S. dollar and the translation of the results of our foreign subsidiaries into U.S. dollars decreased sales by \$29 million compared to the same period one year ago. During 2008, these foreign currencies strengthened against the U.S. dollar and the translation of the results of our foreign subsidiaries into U.S. dollars increased sales by \$49 million compared to 2007.

**Pension**

The assumptions for our 2009 net periodic pension costs and funding requirements were determined as of August 31, 2008. Therefore, our 2009 expense and funding requirements will not be impacted by the recent decline in global equity markets. Changes in the fair market value of our pension assets between August 31, 2008 and the end of 2009 will impact our expense over a five-year period beginning in 2010.

**Table of Contents**

**Cautionary Statement**

Information included or incorporated by reference in this report that does not consist of historical facts, including statements accompanied by or containing words such as may, will, should, believes, expects, expected, inter projects, estimates, predicts, potential, outlook, forecast, anticipates, presume and assume, are forward 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 expected results described in the forward-looking statements. These important factors, risks and uncertainties include:

- 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, 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 the 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 may result unfavorably 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 utilize amounts available to us under our credit facilities given uncertainties in the credit markets and

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

The factors identified above are not exhaustive. New factors, risks and uncertainties may emerge from time to time that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements made in this report.



**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Refer to the Company's Annual Report on Form 10-K for the year ended September 27, 2008 for a complete discussion of our market risk. There have been no material changes in the current year regarding this market risk information.

**Item 4. Controls and Procedures.**

- (a) **Disclosure Controls and Procedures.** Moog carried out an evaluation, under the supervision and with the participation of Company management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective as of the end of the period covered by this report, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is made known to them on a timely basis, and that these disclosure controls and procedures are effective to ensure such information is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.
- (b) **Changes in Internal Control over Financial Reporting.** There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

- (c) The following table summarizes our purchases of our common stock for the quarter ended March 28, 2009.

| Period                               | (a) Total Number of Shares Purchased (1)(2)(3) | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (3) | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3) |
|--------------------------------------|--|----------------------------------|--|--|
| December 28, 2008 – January 31, 2009 | 9,164  | \$ 34.11                         | -  | 786,400  |
| February 1 – 28, 2009                | 32,000   | \$ 27.36                         | 20,000   | 766,400  |
| March 1 – 28, 2009                   | 11,280   | \$ 20.30                         | -  | 766,400  |

|       |        |    |       |        |         |
|-------|--------|----|-------|--------|---------|
| Total | 52,444 | \$ | 27.02 | 20,000 | 766,400 |
|-------|--------|----|-------|--------|---------|

- (1) The purchases in January and March consist of shares from the Moog Inc. Retirement Savings Plan.
- (2) Purchases in February include 12,000 shares of Class B common stock from the Moog family at \$31.23 per share.
- (3) In October 2008, the Board of Directors authorized a share repurchase program. The program permits the purchase of up to 1,000,000 Class A or Class B common shares in open market or privately negotiated transactions at the discretion of management. The transactions will be made in accordance with rules and regulations of the U.S. Securities and Exchange Commission and other rules that govern such purchases. During February, we purchased 20,000 Class A shares at an average price of \$25.03 per share. The approximate dollar value of the maximum number of shares that may yet be purchased as determined by the Class A Stock price on the last day of the quarter is \$18 million.

**Table of Contents****Item 4. Submission of Matters to a Vote of Security Holders**

The Company's Annual Meeting of Shareholders was held on January 7, 2009. The following matters were submitted to a vote of security holders at the Annual Meeting.

(a) The nominees to the Board of Directors were elected based on the following votes:

| Nominee             | For        | Authority Withheld |
|---------------------|------------|--------------------|
| Class A             |            |                    |
| Brian J. Lipke      | 35,998,952 | 819,098            |
| Class B             |            |                    |
| Richard A. Aubrecht | 4,050,180  | 26,813             |
| Peter J. Gundermann | 4,045,725  | 31,268             |
| John D. Hendrick    | 4,051,621  | 25,372             |

The terms of the following directors continued after the Annual Meeting: Joe C. Green and Raymond W. Boushie (Class B directors through 2011); and Robert T. Brady (Class A director through 2011). Kraig H. Kayser, Robert H. Maskrey and Albert F. Myers (Class B directors through 2010); Robert R. Banta (Class A director through 2010).

(b) The appointment of Ernst & Young LLP as auditors was approved based on the following votes:

Class A\*: For, 3,661,590; Against, 17,824; Abstain 2,391.

Class B: For, 4,060,069; Against, 8,337; Abstain, 8,587.

\* Each share of Class A common stock is entitled to a one-tenth vote per share on this proposal.

**Item 6. Exhibits**

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Moog Inc.

(Registrant)

Date: May 5, 2009

By /s/Robert T. Brady

Robert T. Brady  
Chairman  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 5, 2009

By /s/John R. Scannell

John R. Scannell  
Vice President  
Chief Financial Officer  
(Principal Financial Officer)

Date: May 5, 2009

By /s/Donald R. Fishback

Donald R. Fishback  
Vice President - Finance

Date: May 5, 2009

By /s/Jennifer Walter

Jennifer Walter  
Controller  
(Principal Accounting Officer)

**Table of Contents**

**Exhibit Index**

Exhibits  
Description

- |      |  |
|------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                |

35