ESTERLINE TECHNOLOGIES CORP
Form DEF 14A
January 22, 2010

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

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**PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under § 240.14a-12

# Esterline Technologies Corporation

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**NOTICE OF ANNUAL MEETING AND PROXY STATEMENT**

**ESTERLINE TECHNOLOGIES CORPORATION**

**500 108th Avenue NE**

**Bellevue, Washington 98004**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held March 3, 2010**

To the Shareholders of Esterline Technologies Corporation:

NOTICE IS HEREBY GIVEN that the 2010 annual meeting of shareholders for ESTERLINE TECHNOLOGIES CORPORATION, a Delaware corporation (the Company ), will be held on Wednesday, March 3, 2010, at 10:00 a.m. (local time), at the Seattle offices of Perkins Coie LLP, 1201 Third Avenue, Suite 4800, Seattle, Washington, for the following purposes:

(1) to elect as directors of the Company the five nominees named in the attached proxy statement;

(2) to consider and approve the Company s Amended and Restated 2004 Equity Incentive Plan;

(3) to consider and approve the Company s Amended and Restated 2002 Employee Stock Purchase Plan;

(4) to ratify the selection of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending October 29, 2010; and

(5) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on January 5, 2010, as the record date for determination of shareholders entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

The Company s Annual Report for fiscal year 2009 is provided for your convenience.

By order of the Board of Directors

ROBERT D. GEORGE

*Vice President,*
*Chief Financial Officer,*
*Secretary and Treasurer*

January 22, 2010

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held March 3, 2010**

This proxy statement, which is first being provided to shareholders on or about January 22, 2010, has been prepared in connection with the solicitation by the Board of Directors of Esterline Technologies Corporation (the Company ) of proxies in the accompanying form to be voted at the 2010 annual meeting of shareholders of the Company to be held on Wednesday, March 3, 2010, at 10:00 a.m. (local time), at the Seattle offices of Perkins Coie LLP, 1201 Third Avenue, Suite 4800, Seattle, Washington 98101, and at any adjournment or postponement thereof. The Company s principal executive office is at 500 108th Avenue NE, Suite 1500, Bellevue, Washington 98004.

The cost of this solicitation will be borne by the Company. In addition to solicitation by mail, officers and employees of the Company may, without additional compensation, solicit the return of proxies by telephone, telegram, messenger, facsimile transmission or personal interview. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy material to their principals and the Company may reimburse such persons for their expenses in so doing. The Company has retained MacKenzie Partners, Inc. to provide proxy solicitation services for a fee of $12,500, plus reimbursement of its out-of-pocket expenses.

Registered shareholders can vote in person, by telephone, by the Internet, by telephone or by mail, as described below. If you are a beneficial shareholder, please refer to the information forwarded by your broker, bank or other holder of record to see what options are available to you. Registered shareholders may cast their vote by:

(1) Attending and voting in person at the annual meeting;

(2) Accessing the Internet website specified in the Notice of Internet Availability and following the instructions provided on the website (or if printed copies of the proxy materials were requested, as specified in the printed proxy card);

(3) Calling the telephone number specified in the Notice of Internet Availability and voting by following the instructions provided on the phone line (or if copies of the proxy materials were requested, as specified in the printed proxy card); or

(4) Requesting a printed proxy card and completing, signing, dating and promptly mailing the proxy card in the envelope provided.

Any proxy given pursuant to the solicitation may be revoked at any time prior to being voted. A proxy may be revoked by the record holder or other person entitled to vote (a) by attending the meeting in person and voting the shares, (b) by executing another proxy dated as of a later date or (c) by notifying the Secretary of the Company in writing, at the Company s address set forth on the notice of the meeting, provided that such notice is received by the Secretary prior to the meeting date. All shares represented by valid proxies will be voted at the meeting. Proxies will be voted in accordance with the specification made therein or, in the absence of specification, in accordance with the provisions of the proxy.

The Board of Directors has fixed the close of business on January 5, 2010, as the record date for determining the holders of common stock of the Company (the Common Stock ) entitled to notice of and to vote at the annual meeting. The Common Stock is listed for trading on the New York Stock Exchange. At the close of business on the record date there were outstanding and entitled to vote 29,793,112 shares of Common Stock, which are entitled to one vote per share on all matters which properly come before the annual meeting.

The presence in person or by proxy of the holders of a majority of the outstanding shares of Common Stock entitled to vote is required to constitute a quorum for the transaction of business at the meeting. The inspector of elections, who determines whether or not a quorum is present at the annual meeting, will count abstentions or withheld votes and broker non-votes, which are discussed further below, as shares of Common Stock that are present and entitled to vote for purposes of determining the presence of a quorum. There must be a quorum for the meeting to be held. The Company has appointed BNY Mellon Shareowner Services as the inspector of elections for the annual meeting.

Votes cast by proxy or in person at the annual meeting will be tabulated by the inspector of elections appointed for the annual meeting. The inspector of election will treat abstentions as shares of Common Stock that are present and entitled to vote for purposes of determining the presence of a quorum. For the election of directors, each nominee must receive an affirmative vote of a majority of votes cast, either in person or represented by proxy at the meeting. Shareholders are not entitled to cumulate votes in electing directors. The proposals to approve the Company s Amended and Restated 2004 Equity Incentive Plan and the Amended and Restated 2002 Employee Stock Purchase Plan will be approved if a majority of the shares of Common Stock present in person or represented by proxy at the meeting vote in favor of each proposal and the shares voted represent a majority of the shares of Common Stock outstanding on the record date. An affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote at the meeting is required for approval of the proposal to ratify the selection of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal year 2010.

Broker non-votes will not be considered votes cast or shares entitled to vote at the meeting and as a result, they will have no effect on the vote relating to the election of directors or the ratification of the selection of the Company s independent registered public accounting firm. Broker non-votes on the proposals approving equity compensation plans will have an effect of a vote against the proposals. Broker non-votes occur when a person holding shares through a bank or brokerage account does not provide instructions as to how his or her shares should be voted and the broker does not exercise discretion to vote those shares on a particular matter. Brokers may not exercise discretion to vote shares as to non-routine matters, such as the election of directors or the approval of equity compensation plans. Brokers may exercise discretion to vote shares as to which instructions are not given with respect to routine matters, such as the ratification of the selection of Ernst & Young LLP as the Company s independent registered public accounting firm.

**ELECTION OF DIRECTORS**

The Company s Bylaws, as amended and restated, provide for a board of directors that consists of not less than seven (7) or more than twelve (12) members, as may be fixed from time to time by the Board of Directors. The authorized size of the board is currently set at eleven. The Company s Restated Certificate of Incorporation provides that the directors will be divided into three classes, with the classes serving for staggered, three-year terms such that approximately one-third of the directors are elected each year.

In March 2009, the Board of Directors increased the authorized number of directors of the Board to nine, elected Mr. LeRoy D. Nosbaum to fill the vacancy created by the expansion and, in accordance with the Company s Restated Certificate of Incorporation, classified Mr. Nosbaum into the class of directors whose term expires at the 2010 annual meeting. Effective November 1, 2009, the Board of Directors increased the authorized number of directors of the Board to ten, elected Mr. R. Bradley Lawrence to fill the vacancy created by the expansion and, in accordance with the Company s Restated Certificate of Incorporation, classified Mr. Lawrence into the class of directors whose term expires at the 2010 annual meeting. In December 2009, the Board of Directors increased the authorized number of directors of the Board to eleven, elected Mr. Gary E. Pruitt to fill the vacancy created by the expansion and, in accordance with the Company s Restated Certificate of Incorporation, classified Mr. Pruitt into the class of directors whose term expires at the 2010 annual meeting.

**Mandatory Retirement**

In accordance with the Company s Corporate Governance Guidelines, which requires directors to tender their resignation prior to the annual meeting of shareholders following their 72nd birthday, Mr. Robert S. Cline has advised the Board that he will retire as a director at the conclusion of the 2010 annual meeting. In light of the retirement of Mr. Cline, by resolution of the Board of Directors effective at the end of the 2010 annual meeting, the number of authorized members of the Board of Directors will be reduced to ten. In September 2009, as part of its succession planning efforts and to ensure Board continuity, the Board waived the mandatory retirement age with respect to its Lead Independent Director, Mr. John F. Clearman, who has been renominated for election as a director at the 2010 annual meeting.

**Majority Voting in Director Elections**

In December 2009, the Board of Directors amended and restated the Company s Bylaws to adopt a majority vote standard in uncontested director elections. To be elected in an uncontested election, a director nominee must receive more For votes than Against votes. Abstentions will have no effect on the election of directors since only votes For or Against a nominee will be counted.

In connection with the amended and restated Bylaws of the Company, the Board of Directors also approved amendments to the Company s Corporate Governance Guidelines to provide that the Board will nominate only those persons who tender, in advance, irrevocable resignations. The irrevocable resignations will be effective upon the failure to receive the required vote at any annual meeting at which they are nominated for re-election and Board acceptance of the resignation. The Board will act on the resignation, taking into account the recommendation of the Nominating & Governance Committee, and publicly disclose its decision within 90 days from the date of the certification of the election results. Any director who tenders such a resignation in accordance with the Corporate Governance Guidelines will not participate in the Nominating & Corporate Governance Committee recommendation or Board decision on the resignation. If the Board does not accept the resignation, the director will continue to serve until the next annual meeting and until his or her successor is duly elected, or until his or her earlier resignation or removal. If the Board accepts the resignation, then the Board, in its sole discretion, may fill any resulting vacancy or may decrease the size of the Board as provided for and in accordance with the Bylaws.

***The Board of Directors recommends a vote FOR its director nominees named below.***

Information as to each nominee and each director whose term will continue after the 2010 annual meeting is provided below. Unless otherwise instructed, it is the intention of the persons named in the accompanying proxy to vote shares represented by properly executed proxies FOR the election of the nominees named below. The Board of Directors knows of no reason why any of its nominees will be unable or unwilling to serve. If any nominee becomes unavailable to serve, the Board of Directors intends for the persons named as proxies to vote for the election of such other persons, if any, as the Board of Directors may recommend.

**Nominees to the class of directors whose term will expire at the 2013 annual meeting:**

**Paul V. Haack**

***Senior Partner (Retired), Deloitte & Touche LLP.*** Age 59.

Prior to 2006, Mr. Haack was a Senior Partner with Deloitte & Touche LLP (a public accounting firm) in their Chicago office on the Boeing and United Airlines accounts, having held such positions since 2001 and 2002, respectively. He is also a director of SonoSite, Inc. He has been a director of the Company since 2006.

**R. Bradley Lawrence**

***President and Chief Executive Officer, Esterline Technologies Corporation.*** Age 62.

Mr. Lawrence has been President and Chief Executive Officer since November 2009. Prior to that time, he was President and Chief Operating Officer since July 2009 and Group Vice President since January 2007. From September 2002 to January 2007, he was President of Advanced Input Systems, a subsidiary of the Company. He has been a director of the Company since November 2009.

**LeRoy D. Nosbaum**

***Executive Chairman of the Board (Retired), Itron, Inc.*** Age 63.

Mr. Nosbaum was the Executive Chairman of the Board of Itron, Inc. (a technology provider in the energy and water industries) from April 2009 to December 2009. Prior to that time, he was the Chairman of the Board and Chief Executive Officer of Itron, Inc., having held such positions since 2002. He has been a director of the Company since March 2009.

**Nominee to the class of directors whose term will expire at the 2012 annual meeting:**

**Gary E. Pruitt**

***Chairman, Univar.*** *Age 59.*

Mr. Pruitt has been Chairman of Univar (a leading chemical distributor) since June 2002. In addition, he also served as Chief Executive Officer from June 2002 to October 2009. He is also a director of Public Storage, Inc., Itron, Inc. and Premera Blue Cross. He has been a director of the Company since December 2009.

**Nominee to the class of directors whose term will expire at the 2011 annual meeting:**

**John F. Clearman**

***Special Advisor to the Board (Retired), Milliman USA.*** Age 72.

Prior to January 2003, Mr. Clearman was a Special Advisor to the Board of Milliman USA (an actuarial consulting firm), having held such position since August 2001. He is also a director for several other companies including Oberto Sausage, Inc., Washington Federal Savings, Inc., and Barclay Dean Interiors. He has been a director of the Company since 1989.

**Continuing directors:**

**Lewis E. Burns**

***Director/Consultant (Retired), Dover Industries, Inc.*** Age 71.

Prior to January 2005, Mr. Burns was a Director/Consultant of Dover Industries, Inc. (a diversified manufacturing company), having held such position since July 2003. He has been a director of the Company since 2003, and his current term expires in 2012.

**Robert W. Cremin**

***Chairman, Esterline Technologies Corporation.*** Age 69.

Mr. Cremin has been Chairman since January 2001. In addition, he also served as Chief Executive Officer from January 1999 to October 2009 and President from September 1997 to June 2009. He is also a director and Chairman of Dover Corporation and serves as the Honorary British Consul in Seattle. He has been a director of the Company since 1998, and his current term expires in 2011.

**Anthony P. Franceschini**

***President and Chief Executive Officer (Retired), Stantec Inc.*** Age 58.

Prior to May 2009, Mr. Franceschini was the President and Chief Executive Officer of Stantec Inc. (an engineering, architecture and related professional services design firm), having held such positions since June 1998. He has served and continues to serve as a director of Stantec, Inc. since March 1994. He is also a director of ZCL Composites Inc. and Aecon Group Inc. He has been a director of the Company since 2002, and his current term expires in 2011.

**Jerry D. Leitman**

***Chairman (Retired), FuelCell Energy, Inc.*** Age 67.

Prior to February 2007, Mr. Leitman was the Chairman of the Board of FuelCell Energy, Inc. (a fuel cell company), having held such position since June 2002. In addition, he also served as Chief Executive Officer from June 2002 to January 2006 and President from June 2002 to September 2005. He has been a director of the Company since 1998, and his current term expires in 2012.

**James J. Morris**

***Vice President, Engineering and Manufacturing (Retired), The Boeing Company.*** Age 61.

Prior to 2007, Mr. Morris was the Vice President, Engineering and Manufacturing, of The Boeing Commercial Airplane Company, having held such position since 2005. Prior to that time, he was Vice President, Supplier Management, of The Boeing Commercial Airplane Company since 2000. He is a Principal at J2 Ventures and is a director of LORD Corporation and 2Source Manufacturing Inc. He has been a consultant to Héroux-Devtek, Inc. since 2008, and is also a consultant and member of the board of advisors of Seattle Aero LLC. He has been a director of the Company since 2007, and his current term expires in 2011.

**OTHER INFORMATION AS TO DIRECTORS**

**Director Compensation**

The following table describes the compensation earned by persons who served as non-employee directors during fiscal 2009. Employees of the Company serving on the Board or committees received no additional compensation for such service.

| Name | Fees Earned or Paid in Cash ($) (1) | Stock Awards ($) (2) | Total ($) |
|---|---|---|---|
| Lewis E. Burns | $ 53,000 | $ 60,000 | $ 113,000 |
| John F. Clearman | 81,250 | 60,000 | 141,250 |
| Robert S. Cline | 62,625 | 60,000 | 122,625 |
| Anthony P. Franceschini | 51,000 | 60,000 | 111,000 |
| Paul V. Haack | 61,625 | 60,000 | 121,625 |
| Charles R. Larson (3) | 46,500 | | 46,500 |
| Jerry D. Leitman | 50,250 | 60,000 | 110,250 |
| James J. Morris | 53,750 | 60,000 | 113,750 |
| LeRoy D. Nosbaum (4) | 19,500 | 60,000 | 79,500 |
| James L. Pierce (3) | 50,250 | | 50,250 |

(1) Amounts in this column represent retainers, meeting fees and chair fees.

(2) Amounts in this column represent the dollar amounts recognized for financial statement reporting purposes for fiscal 2009, in accordance with Accounting Standards Codification Topic 718 (ASC 718), formerly SFAS 123R, which is also equal to the grant date fair value of the awards, because the awards vest immediately upon grant.

(3) Mr. Larson and Mr. Pierce both retired immediately following the March 4, 2009 Annual Meeting of Shareholders.

(4) Mr. Nosbaum joined the Board in March 2009.

During fiscal 2009, the Company paid the following cash fees to non-employee directors:

| | |
|---|---|
| Annual Retainer | $ 30,000 |
| Lead Independent Director Additional Annual Retainer | 25,000 |
| Audit Committee Chair Additional Annual Retainer | 12,500 |

| | |
|---|---|
| Compensation Committee Chair Additional Annual Retainer | 7,500 |
| Nominating & Corporate Governance Committee Chair Additional Annual Retainer | 5,000 |
| Strategy & Technology Committee Chair Additional Annual Retainer | 5,000 |
| In Person Board Meeting | 1,500 |
| In Person Committee Meeting | 1,500 |
| Telephonic Board Meeting | 750 |
| Telephonic Committee Meeting | 750 |

All stipends and meeting attendance fees are paid quarterly in arrears. The Company also reimburses non-employee directors for reasonable expenses incurred in attending Board and committee meetings.

In addition, the Company pays each non-employee director compensation in the form of an annual issuance of $60,000 worth of fully-paid Common Stock immediately following each annual meeting of shareholders. During fiscal 2009, shares to non-employee directors were issued under the Amended and Restated Non-Employee Directors Stock Compensation Plan until all shares under that plan were exhausted and the remaining shares were issued under the Company s 2004 Equity Incentive Plan.

On September 9, 2009, the Board approved, based on the Compensation Committee s recommendation, the following changes to the compensation to be paid to the Company s non-employee directors, effective for fiscal 2010:

- an annual retainer of $150,000 for the non-executive Chairman of the Board (in lieu of the standard $30,000 annual retainer for non-employee directors); and

- an increase in the value of fully-paid stock compensation from $60,000 to $72,000.

**Board and Board Committees**

There were six meetings of the Board of Directors during fiscal 2009. During fiscal 2009, each director attended at least 89% of the total number of meetings of the Board of Directors and Board committees of which he was a member.

Non-management directors meet in executive session on a regular basis, generally at each scheduled Board meeting. The Chairman of the Board, if a non-management director, presides over the executive sessions. Because the Chairman of the Board was an employee of the Company, the Lead Independent Director, John F. Clearman, presided. Non-management directors who are considered independent under the NYSE independence listing standards also meet in executive session at least annually. In addition, the Audit Committee has adopted the practice of reserving time at each meeting to meet without members of Company management present. The Compensation Committee and the Nominating & Corporate Governance Committee also have adopted a similar practice of meeting periodically without members of Company management present.

The Board of Directors currently does not have a policy with regard to director attendance at the Company s annual shareholders meeting; however, it schedules the first quarter meeting of the Board of Directors on the same date as the annual shareholders meeting. All of the Company s directors attended the annual shareholders meeting in 2009.

***Board Independence***. The Board has reviewed the relationships between the Company and each director and has determined that a majority of the directors are independent for purposes of the NYSE corporate governance listing standards. In accordance with these listing standards, the Board adopted its own set of specified criteria, identified in the Company s Corporate Governance Guidelines which are posted on the Company s website at www.esterline.com under the Corporate Governance tab, to assist it in determining whether any relationship between a director and the Company impairs independence. Using the adopted criteria, the Board affirmatively determined that all of the directors, other than Mr. Cremin and Mr. Lawrence, are independent under the NYSE listing standards. Mr. Cremin does not meet NYSE independence listing standards due to his recent position as Chairman, President and Chief Executive Officer of the Company. Mr. Lawrence does not meet NYSE independence listing standards due to his current position as President and Chief Executive Officer of the Company.

***The Audit Committee*** currently consists of Messrs. Haack (Chairman), Cline, Franceschini, and Morris, each of whom is independent in accordance with applicable rules promulgated by the Securities and Exchange Commission ( SEC ) and NYSE listing standards. The Audit Committee selects and retains the independent registered public accounting firm to audit the Company s annual financial statements, approves the terms of the engagement of the independent registered public accounting firm and reviews and approves the fees charged for audits and for any non-audit assignments. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is posted on the Company s website at www.esterline.com under the Corporate Governance tab. The Audit Committee s responsibilities also include, among others, overseeing (1) the integrity of the Company s financial statements, which includes reviewing the scope and results of the annual audit by the independent registered public accounting firm, any recommendations of the independent registered public accounting firm resulting therefrom and management s response thereto and the accounting principles being applied by the Company in financial reporting, (2) the Company s compliance with legal and regulatory requirements, (3) the independent registered public accounting firm s qualifications and independence, (4) the performance of the Company s internal auditors and the independent registered public accounting firm, and (5) such other related matters as may be assigned to it by the Board of Directors. The Audit Committee met eight times during fiscal 2009.

The Board of Directors has determined that Mr. Cline and Mr. Haack each qualify as an audit committee financial expert as defined in Item 407 of Regulation S-K promulgated by the SEC and that each Audit Committee member has accounting and financial management literacy under NYSE listing standards.

***The Compensation Committee*** currently consists of Messrs. Leitman (Chairman), Burns, Clearman, and Franceschini, each of whom is independent in accordance with applicable NYSE listing standards. The Compensation Committee develops, evaluates and recommends to the Board for its approval corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer and other corporate officers in light of corporate goals and objectives, recommends the form and level of compensation for officers of the Company, recommends compensation for Board members and is responsible for performing the other related responsibilities set forth in its written charter, which is posted on the Company s website at www.esterline.com under the Corporate Governance tab. The Compensation Committee also administers the Company s stock option plans and incentive compensation plans for senior corporate management, which includes recommending amendments to such plans. When appropriate, the Compensation Committee may form and delegate authority to subcommittees, or may delegate authority to one or more designated members of the Board or to corporate officers. The Chief Executive Officer and the Vice President of Human Resources are non-voting advisors to the Compensation Committee. The Compensation Committee solicits and considers recommendations from the Chief Executive Officer as to compensation for the other executive officers. The Compensation Committee has engaged Watson Wyatt Worldwide, an independent executive compensation consultant, to help the Committee develop and review compensation programs for Company executives, including providing and analyzing survey data for executive officer and director compensation and providing recommendations related to the design of executive incentive plans. The Compensation Committee met six times during fiscal 2009.

***The Executive Committee*** currently consists of Messrs. Cremin (Chairman), Clearman, Franceschini and Leitman. The Executive Committee reviews situations that might, at some future time, become items for consideration of the entire Board of Directors and acts on behalf of the entire Board of Directors between its meetings. The Executive Committee did not meet during fiscal 2009.

***The Nominating & Corporate Governance Committee*** currently consists of Messrs. Burns (Chairman), Cline and Nosbaum, each of whom is independent in accordance with applicable NYSE listing standards. The Nominating & Corporate Governance Committee recommends director candidates to the entire Board, oversees the evaluation of the Board of Directors and Company management, develops and monitors corporate governance principles, practices and guidelines for the Board of Directors and the Company, and is responsible for performing the other related responsibilities set forth in its written charter, which is posted on the Company s website at www.esterline.com under the Corporate Governance tab. The Nominating & Corporate Governance Committee met four times during fiscal 2009.

***The Strategy & Technology Committee*** currently consists of Messrs. Morris (Chairman), Haack, and Nosbaum. The Strategy & Technology Committee reviews and makes recommendations to the Board of Directors regarding business and technology acquisition opportunities, monitors and evaluates the execution and performance of significant new product and technology launches, and monitors and evaluates the Company s research and development programs. The Strategy & Technology Committee met nine times during fiscal 2009.

**Director Nominations and Qualifications**

In accordance with the Company s Bylaws, as amended and restated, any shareholder entitled to vote for the election of directors at the annual meeting may nominate persons for election as directors at the 2011 annual shareholders meeting only if the Corporate Secretary receives written notice of any such nominations no earlier than October 3, 2010, and no later than November 2, 2010. Such nominations should be sent to: Esterline Technologies Corporation, Attn: Corporate Secretary, 500 108th Avenue NE, Suite 1500, Bellevue, WA 98004. Any shareholder notice of intention to nominate a director shall include:

the name and address of the shareholder;

a representation that the shareholder is entitled to vote at the meeting at which directors will be elected;

the number of shares of the Company that are beneficially owned by the shareholder;

a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

the following information with respect to the person nominated by the shareholder:

name and address;

other information regarding such nominee as would be required in a proxy statement filed pursuant to applicable rules promulgated by the SEC; and

a description of any arrangements or understandings between the shareholder and the nominee and any other persons (including their names), pursuant to which the nomination is made; and

the consent of each such nominee to serve as a director if elected and a statement whether such person, if elected, intends to tender, promptly following such person s election or re-election, an irrevocable resignation effective upon such person s failure to receive the required vote for re-election at any subsequent meeting at which such person would face re-election and upon acceptance of such resignation by the Board of Directors.

The Chairman of the Board, other directors or senior management of the Company may also recommend director nominees. The Nominating & Corporate Governance Committee will evaluate recommended director nominees, including those that are submitted to the Company by a shareholder, taking into consideration certain criteria such as business and community service skills and experience, policy-making experience, record of accomplishments, personal integrity and high moral responsibility, capacity to evaluate strategy and reach sound conclusions and current Board composition. In addition, prospective directors must have time available to devote to Board activities and be able to work well with the Chief Executive Officer and other members of the Board.

The Company did not receive any shareholder nominations for director to be considered by the Nominating & Corporate Governance Committee for the 2010 annual shareholders meeting.

**Communications with the Board**

Shareholders, and other interested parties, may contact Mr. Clearman, as the Lead Independent Director, the non-management directors as a group, the Board of Directors as a group or an individual director by the following means:

*Email:* boardofdirectors@esterline.com

*Mail:* Board of Directors

Attn: Lead Independent Director or Corporate Secretary

Esterline Technologies Corporation

500 108th Avenue NE, Suite 1500

Bellevue, WA 98004

Each communication should clearly specify the name of the individual director or group of directors to whom the communication is addressed. Communications sent by email are delivered directly to the Lead Independent Director and to the Corporate Secretary, who will promptly forward such communications to the specified director addressees. Communications sent by mail will be promptly forwarded by the Corporate Secretary to the specified director addressee or, if such communication is addressed to the full Board of Directors, to the Chairman of the Board and the Lead Independent Director, who will promptly forward such communication to the full Board of Directors. Shareholders wishing to submit proposals for inclusion in the proxy statement relating to the 2011 annual shareholders meeting should follow the procedures specified under Shareholder Proposals for 2011 below. Shareholders wishing to nominate or recommend directors should follow the procedures specified under Other Information as to Directors Director Nominations and Qualifications above.

## CODE OF ETHICS

The Company has adopted a code of ethics that applies to its accounting and financial employees, including the Chief Executive Officer and Chief Financial Officer. This code of ethics, which is included as part of the Company s Code of Business Conduct and Ethics that applies to the Company s employees and directors, is posted on the Company s website at www.esterline.com under the Corporate Governance tab. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to or waiver from application of the code of ethics provisions of the Code of Business Conduct and Ethics that applies to the Chief Executive Officer or the Chief Financial Officer, and any other applicable accounting and financial employee, by posting such information on its website at www.esterline.com under the Corporate Governance tab.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of shares of Common Stock as of January 5, 2010, by (i) each person or entity who is known by the Company to own beneficially more than 5% of the Common Stock, (ii) each of the Company s directors, (iii) each of the Company s Named Executive Officers and (iv) all directors and executive officers of the Company as a group.

| Name and Address of Beneficial Owner (1) | Amount and Nature of Beneficial Ownership (2) | Percent of Class |
|---|---|---|
| Dimensional Fund Advisors LP<br>Palisades West Bldg. One, 6300 Bee Cave Road, Austin, TX 78746 | 2,309,111(3) | 7.8% |
| Barclays Global Investors N.A.<br>400 Howard Street, San Francisco, CA 94105 | 2,040,603(4) | 6.8% |
| Robert W. Cremin | 417,901(5) | 1.4% |
| Robert D. George | 138,825(5) | * |
| Stephen R. Larson | 94,975(5) | * |
| Frank E. Houston | 62,350(5) | * |
| R. Bradley Lawrence | 34,991(5) | * |
| John F. Clearman | 21,976 | * |
| Jerry D. Leitman | 20,642 | * |
| Lewis E. Burns | 17,934 | * |
| Robert S. Cline | 12,344 | * |
| Anthony P. Franceschini | 9,562 | * |
| James J. Morris | 5,788 | * |
| Paul V. Haack | 5,321 | * |
| LeRoy D. Nosbaum | 2,654 | * |
| Gary E. Pruitt | | |
| Directors, nominees and executive officers as a group (17 persons) | 919,579(5) | 3.0% |

* Less than 1%

(1) Unless otherwise indicated, the business address of each of the shareholders named in this table is Esterline Technologies Corporation, 500 108th Avenue NE, Bellevue, Washington 98004.

(2) Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of Common Stock subject to options currently exercisable or exercisable within 60 days after January 5, 2010, are deemed outstanding, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. As of January 5, 2010, there were 29,793,112 shares of Common Stock outstanding. Unless otherwise indicated in the footnotes to this table, the person and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(3) The information on the number of shares held is based upon a Schedule 13G filed on February 9, 2009, on behalf of Dimensional Fund Advisors LP ( Dimensional ). Based upon such filing, Dimensional is an investment advisor registered under Section 203 of the Investment

Advisors Act of 1940. Dimensional furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other

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investment vehicles, including commingled group trusts. These investment companies and investment vehicles are the Funds. In its role as investment advisor or investment manager, Dimensional possessed sole voting and investment power over all of the shares. The Funds own all of the shares, and Dimensional disclaims beneficial ownership of such shares. Dimensional has sole voting power over 2,256,289 shares and sole dispositive power over 2,309,111 shares.

(4) The information on the number of shares held is based on a Schedule 13G filed on February 6, 2009, on behalf of Barclays Global Investors, N.A., Barclays Global Fund Advisors and Barclays Global Investors, Ltd. (collectively, Barclays Investors ). According to such filing, Barclays Investors beneficially owns 2,040,603 shares.

(5) Includes shares subject to options granted under the Company s Amended and Restated 1997 Stock Option Plan and the Company s 2004 Equity Incentive Plan which are exercisable currently or within 60 days of January 5, 2010, as follows: Mr. Cremin, 413,875 shares; Mr. George, 137,825 shares; Mr. Houston, 62,350 shares; Mr. Larson, 92,975 shares; Mr. Lawrence, 34,600 shares; and directors, nominees and executive officers as a group, 814,300 shares.

## EXECUTIVE COMPENSATION

## COMPENSATION DISCUSSION AND ANALYSIS

***Executive Summary***

Compensation for our executives during fiscal 2009 was based on our performance, which was solid for the fiscal year, and strong for fiscal 2007-2009, the three-year period that determined awards under our long-term incentive compensation plan. Underlying the consolidated fiscal 2009 results was a mix of positive and negative factors. For example, operating results were adversely affected by volatile currency exchange rates, reductions in our after-market spares sales due to the general economic downturn and related reductions in air traffic, and to operating losses at our flare countermeasure units. Nevertheless, we benefited from significantly improved results at our avionics systems operations, incremental earnings from the Racal Acoustics acquisition we made early in the fiscal year, and from consistent results at our control systems, power systems, and combustible ordnance operations. These operations benefited from continued demand for defense products, reduced research and development expenditures, increased funding from customers and governments, as well as from effective cost control. We also realized a gain on the sale of our U.K.-based Muirhead and Traxsys subsidiaries in early fiscal 2009. Esterline s stock price performance for fiscal 2009 and for the fiscal 2007-2009 period compares favorably to peer indices as shown on the Comparison of Cumulative Five Year Total Return graph published in Part II, Item 5 of the Company s Annual Report on Form 10-K for the fiscal year ended October 30, 2009.

Our longstanding compensation principles emphasizing pay-for-performance and paying competitively remained the same. As a result:

- Base salary increases were modest, with the exception of individuals who were promoted, assigned significant additional responsibilities and/or whose base salaries were below competitive levels;

- Annual incentive compensation awards matched solid fiscal year earnings with an above-target achievement of $4.00 per share (that did not exclude a long-term gain on the sale of Muirhead), resulting in payouts at 117.5% of target amounts; and

- Long-term incentive plan awards for the 2007-2009 performance cycle were paid at 233% of target amounts, consistent with strong earnings per share growth and return on invested capital results.

We had some significant changes in our executive management team during fiscal 2009. Effective December 31, 2008, Larry A. Kring retired from his position as Group Vice President, with Frank E. Houston and R. Bradley Lawrence assuming responsibility for operations previously assigned to him. In June 2009, Mr. Lawrence was appointed to the new position of President and COO, at which point Robert W. Cremin continued as CEO and Chairman of the Board. Effective November 1, 2009, Mr. Cremin retired as CEO and Mr. Lawrence was elected to the Board and succeeded Mr. Cremin as CEO. Mr. Cremin continues to serve as Chairman of the Board. In November 2009, we announced the appointment of Albert S. Yost as a new Group Vice President succeeding Mr. Lawrence.

***Objectives of Executive Compensation Program***

The Compensation Committee of the Board of Directors works to provide our executives with competitive compensation opportunities that reward good performance and promote shareholder interests. We base our executive compensation practices on principles designed to align executive compensation with Company business strategy, management initiatives, financial objectives and performance. In applying these principles, the Committee has established an executive compensation program to:

- Attract and retain key executives critical to the success of the Company;

- Support a pay-for-performance environment that rewards both the Company s annual financial results and its longer-term achievements as compared to market benchmarks;

- Reward executives for long-term strategic management and the enhancement of shareholder value; and

- Optimize organizational and individual performance while controlling associated risk.

The Committee applies the same philosophy, objectives, and methods for establishing the CEO s compensation as it does for all other executive officers. The Committee and the independent members of the Board approve all officer compensation programs and establish individual pay levels for all executive officers.

***Summary of Compensation Program Components***

We believe the components of our compensation program provide an appropriate mix of fixed and variable pay, balance shorter-term operational performance with long-term increases in shareholder value, reinforce a performance-oriented environment, and encourage recruitment and retention of our key executives. The Committee reviews the executive compensation program annually and makes adjustments as appropriate to meet Company objectives. In fiscal 2009, our executive compensation program remained consistent with our program for fiscal 2008 and had the following principal components:

- **Base salary**, which is fixed annual cash compensation that is competitive with market salary levels for the skills and experience necessary to lead the Company;

- **Annual cash incentive**, which provides cash incentive awards based on Company performance against specific targets, with the purpose of motivating and rewarding achievement of our critical yearly strategic and financial goals, thus fostering a performance-oriented environment;

- **Long-term incentives**, through the combination of stock option grants and a cash-based long-term incentive program, which align officers interests with those of our shareholders, motivate and reward profitable Company growth over the long term, and provide a retention incentive;

- **Retirement earnings opportunities**, through a 401(k) savings plan, a traditional pension plan, and two supplemental executive retirement and deferred compensation programs which provide competitive benefits, encourage retention and allow executives to save for their retirement and to defer taxation;

- **Limited perquisites**, mainly involving automobile allowances and financial planning advisory services that are common in the marketplace and that allow executives to focus more of their time on achieving the Company s goals and objectives; and

**Change in control agreements**, with common terms that encourage officers to remain focused on Company business in the event of rumored or actual change in corporate control.

***Determination of Compensation Levels***

To attract and retain key executives, the Committee annually reviews the executive labor market in which we compete for talent. With the help of Watson Wyatt Worldwide, an outside executive compensation consultant, the Committee compares compensation levels for our executives to the compensation paid to executives of comparable companies in the market in which we compete for employees. Our revenue for fiscal 2009 was $1.43 billion. Accordingly, the Committee focused its review on comparative data for companies with similar revenues, as noted in the discussion of market surveys below.

In determining fiscal 2009 compensation, the Committee did not benchmark against a peer group of specific companies, but rather relied on the following published surveys to gain an understanding of the market for positions of comparable responsibility (company names in these surveys are proprietary and not available to the Company):

2008/2009 Watson Wyatt Top Management Compensation Report Durable Goods Manufacturing Data. This survey covers 492 companies. Regression (trend-line) analysis was used to extrapolate salary and annual incentive values for companies with revenues of $1.5 billion and $1.75 billion.

2008 Mercer Executive Survey Durable Goods Manufacturing Data. This survey covers 308 companies. Regression (trend-line) analysis was used to extrapolate compensation values for companies with revenues of $1.5 billion and $1.75 billion.

2008/2009 Watson Wyatt Long-Term Incentive Report General Industry Long-Term Incentives Annual Multiple Tables. This survey covers 275 companies and reports long-term incentive values for 2,600 executives as a multiple of base salary for various base salary levels.

The Committee reviewed and compared the executives aggregate target direct compensation (base salary, short- and long-term incentives at target) against the aggregate compensation offered to executives in the market surveys. In doing so, the Committee reviews 25th, 50th and 75th percentile values. For further information as to the Committee s use of these market reference points and other factors that were considered in determining compensation levels, see the discussion below concerning each compensation component.

When the Committee evaluates any significant component of an executive officer s total compensation, it considers the aggregate amounts and mix of all components in making its decision. For fiscal 2009, the Committee reviewed all components of compensation for each executive officer to get a complete picture of the total compensation opportunities awarded, including base salary, short-term incentive compensation, long-term incentive compensation, retirement earnings opportunities, the dollar value to the executive and cost to the Company of all perquisites and other personal benefits, and the earnings and the potential payout obligations under change in control scenarios. Based on this review, the Committee determined that the executive officers total compensation opportunities were competitive, reasonable and not excessive.

***Components of Executive Officer Compensation***

The Committee believes the executive compensation program should be structured so that a significant portion of an executive s compensation is at-risk and is subject to the Company s performance. Accordingly, in fiscal 2009, the Committee provided executives with compensation packages (base salary, short- and long-term incentives at target) that included an average of 65% of at-risk compensation based on an aggregate of short-term and long-term cash bonus opportunities and stock options.

*Base Salary*

The Committee targets base salaries to be competitive in light of relative performance of other organizations in the marketplaces in which we compete for key executive officers. Based on the salary surveys listed above, and with the assistance of Watson Wyatt Worldwide, the Committee has developed and maintains a salary structure for the executive positions that defines a range of salary opportunities for each position. The range takes into account competitive norms, scope and complexity of responsibilities, internal equity, and the Company s financial condition.

Actual salaries are based on the qualifications, experience and sustained individual performance of the executive. The Committee also solicits and considers the CEO s recommendations for salary decisions concerning other executive officers. The independent members of the Board set all executive base salaries, including that of the CEO, based on the factors outlined in this section and on the Committee s recommendations. In addition, the Committee and the independent members of the Board conduct an annual performance evaluation of the CEO, the results of which significantly contribute to decisions concerning CEO compensation.

At the outset of fiscal 2009, the independent members of the Board approved base salary increases for executives as follows:

Increases ranging from 3.0% to 5.6% for Mr. Cremin, Robert D. George and Stephen R. Larson, whose responsibilities were relatively unchanged and whose salaries were competitive with market levels. In determining these increases, the Committee also took into account that executives earned substantial incentive awards based upon fiscal 2008 performance.

Increases of 16.1% and 17.9% for Mr. Houston and Mr. Lawrence, respectively, in order to bring their base salaries to more competitive levels, recognizing they were below market medians, and due to significant increases in their job responsibilities as Group Vice Presidents when they assumed responsibility for operations previously assigned to Mr. Kring, who retired as a Group Vice President effective December 31, 2008.

Mr. Lawrence s base salary was further increased in June 2009, from $330,000 to $400,000, in connection with his promotion to President and COO and again from $400,000 to $600,000 when he was promoted to President and CEO effective November 1, 2009. Fiscal 2009 individual base salaries for executives fell between the 45th and 70th percentiles of competitive reference point values, depending on level of experience in their positions, with more experienced executives bases salaries falling in the higher end of the spectrum. Mr. Lawrence s base salary as President and CEO effective for fiscal 2010 is over $275,000 less than what Mr. Cremin s base salary was when he retired as CEO, and is closer to the 25th percentile of competitive reference point values, recognizing that this is a new role for Mr. Lawrence, whereas Mr. Cremin had served as CEO for many years.

*Annual Incentive Compensation Plan*

We provide executives with annual incentive award opportunities contingent upon meeting pre-defined financial goals for the year. The purpose of the annual incentive plan is to encourage our officers to make prudent decisions that will strengthen current year financial results for shareholders. No executive is eligible to receive annual incentive compensation unless the Company achieves a minimum level of performance recommended by the Committee and approved by the independent members of the Board.

The Committee identified a target award amount of annual incentive compensation for each participant expressed as a percentage of the base salary rate in effect as of the last day of the fiscal year. This percentage varied in proportion to the level of the individual executive s responsibility within the Company and took into account the comparative median (50th percentile) incentive compensation percentages from compensation surveys. The target award amount was not guaranteed, but reflected what would be payable if targeted results were achieved. The following table shows the fiscal 2009 target award amount for each Named Executive Officer under our annual incentive plan:

| *Executive* | *Title* | *Target Annual Incentive Compensation as % of Base Salary* |
|---|---|---|
| Robert W. Cremin (1) | Chairman, President and Chief Executive Officer | 60% |
| Robert D. George | Vice President, Chief Financial Officer, Secretary and Treasurer | 40% |
| Frank E. Houston | Group Vice President | 35% |
| Stephen R. Larson | Vice President, Strategy and Technology | 40% |
| R. Bradley Lawrence (1) | Group Vice President | 35% |

(1) Mr. Cremin ceased to be President in June 2009 when Mr. Lawrence was promoted from Group Vice President to President and COO. Effective November 1, 2009, Mr. Cremin retired as CEO and Mr. Lawrence was promoted to President and CEO. Messrs. Cremin s and Lawrence s targets continued at 60% and 35% of base salary, respectively, through fiscal 2009.

For fiscal 2009, earnings per share based on all operating earnings was the sole financial performance goal for the annual incentive plan. This goal was selected because the Committee believes earnings performance is the primary criterion on which short-term Company success is measured by shareholders and stock market analysts. The annual incentive plan s earnings per share target was $3.80. The following table shows the potential payouts for each Named Executive Officer under the annual incentive plan based on various levels of achievement of the earnings per share goal (with interpolation for achievement between threshold and target or between target and maximum):

| | *Threshold* | *Target* | *Maximum* |
|---|---|---|---|
| Earnings Per Share | $ 2.66 | $ 3.80 | $ 4.94 |
| Potential Payout (as a % of target award amount) | 25% | 100% | 200% |

Actual earnings per share achieved was $4.00, which was equal to 105% of the earnings per share target, resulting in a payout of 117.5% of the target award amounts. The Committee recommended and the independent members of the Board approved the decision that fiscal 2009 reported earnings would not exclude the long-term gain on the sale of the Company s Muirhead subsidiary, which occurred early in the fiscal year. Reported earnings from continued operations were $3.58 per share, and the Muirhead gain added $0.42 per share to the performance results on which the annual incentive plan awards were computed. The basis for this decision was to reward executives for skillful management of Muirhead s business value over time, and of the divestiture project itself, which optimized financial results for the Company and its shareholders. This is consistent with the treatment of previous divestitures, where related gains or losses have been included for purposes of computing annual incentive plan performance. Actual award amounts under the annual incentive plan are reflected in the Summary Compensation Table for Fiscal 2009 included in this proxy statement.

After award amounts were computed for fiscal 2009, the Committee had discretion under plan terms to adjust the actual amount paid to each executive upward or downward by as much as 25% of the greater of the executive s computed award and the executive s target award amount to reflect the executive s individual contribution to the achievement of the Company s performance goals. The Committee seldom makes such adjustments and did not make any to the award amounts for fiscal 2009. This discretionary adjustment authority does not apply to CEO awards or those for any other executive if the award is intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code.

*Long-Term Incentives*

We believe that the combination of stock option grants and a cash-based long-term incentive plan (LTIP) provide executives with competitive long-term incentive opportunities. Stock option grants and the LTIP are designed to work in concert with other executive compensation elements to:

- Focus executives on increasing total shareholder returns over the long term by concentrating on key drivers of share price;
- Encourage executives to take reasonable, long-term business investment risks by measuring performance over multiple years; and
- Encourage profitable growth and effective use of assets in achieving growth goals.

Based on compensation survey data and Committee recommendations, the independent members of the Board assigned each participating executive an aggregate target award value to be delivered through options and the LTIP expressed as a percentage of the base salary rate in effect as of the last day of the fiscal year. This value varies in proportion to the level of the individual executive s responsibility within the Company and takes into account the comparative median (50th percentile) long-term incentive compensation percentages from compensation surveys. The long-term incentive target award values to be delivered through options and the LTIP for each of our Named Executive Officers for fiscal 2009 were as follows:

| *Executive* | *Title* | *Target Annual Award Value for Options and Cash LTIP as % of Base Salary* |
|---|---|---|
| Robert W. Cremin | Chairman, President and Chief Executive Officer | 245% |
| Robert D. George | Vice President, Chief Financial Officer, Secretary and Treasurer | 140% |
| Frank E. Houston | Group Vice President | 105% |
| Stephen R. Larson | Vice President, Strategy & Technology | 130% |
| R. Bradley Lawrence (1) | Group Vice President | 105% |

(1) Mr. Cremin ceased to be President in June 2009 when Mr. Lawrence was promoted from Group Vice President to President and COO. Effective November 1, 2009, Mr. Cremin retired as CEO and Mr. Lawrence was promoted to President and CEO. Messrs. Cremin s and Lawrence s target award value for options and LTIP continued at 245% and 105%, respectively, of base salary through fiscal 2009. However, the table does not reflect the special option for 20,000 shares granted to Mr. Lawrence in connection with his promotion to President and COO.

For Mr. Cremin, the allocation of the long-term incentive target award value for fiscal 2009 was 70% to stock options and 30% to LTIP. For other executives, the allocation for fiscal 2009 was 60% to stock options and 40% to LTIP.

*Stock Options*

Based on advice from Watson Wyatt Worldwide, the Committee determined the number of options for each grant by multiplying the dollar value of the award by 0.40 to reflect the traditional industry estimated market value of options. This 0.40 multiple will vary from the actual Black-Scholes value of stock options on any given date of grant. The stock options granted to the Named Executive Officers in fiscal 2009 are disclosed in the Grants of Plan-Based Awards Table for Fiscal 2009 included in this proxy statement.

The independent members of the Board grant options based on Committee recommendations, with an exercise price equal to the closing price of our Common Stock on the date of grant, and the options become vested and exercisable over time. Typically, each grant vests and becomes exercisable on an annual basis ratably over four years, and continues to be exercisable until ten years from the date granted. The options provide incentive for the creation of shareholder value over the long term because the executives cannot realize the full benefit of the options unless our Common Stock price appreciates during the option term.

Generally, stock options to executives are granted once per year in December when other aspects of executive compensation are reviewed. The Committee may also recommend option grants at other appropriate times, such as in connection with promotions. In connection with his promotion to President and COO, effective June 4, 2009, Mr. Lawrence received an option grant for 20,000 shares, consistent with prior practice for promotional grants and to maintain internal equity.

*Cash-Based Long-Term Incentive Plan*

The LTIP first adopted in fiscal 2005 was continued for fiscal 2009. In this plan, a new LTIP performance period begins with each fiscal year and extends for three years. Accordingly, there are three overlapping LTIP performance periods running at any given time. For example, currently, the 2008-2010 cycle is in its last year, the 2009-2011 cycle is in its second year and the 2010-2012 cycle is in its first year. The two relevant cycles for purposes of fiscal 2009 compensation are (1) the 2007-2009 cycle which ended on the last day of fiscal 2009 and for which payments were made in early fiscal 2010 and (2) the 2009-2011 cycle for which awards were granted in early fiscal 2009.

In December 2008, the independent members of the Board assigned each participating executive a target award value for the 2009-2011 performance cycle based on compensation survey data and on Committee recommendations, as discussed above. The target award value is not guaranteed, but reflects what will be payable if the Company achieves established performance goals. Actual awards paid may be larger or smaller than target awards depending on Company performance results measured over the three-year period. Earning opportunities range from 0% to 400% of target award values. Payments are made in cash.

There are two performance goals under the LTIP: (1) growth in earnings per share and (2) return on invested capital. Payout amounts under the LTIP are determined based on the level of achievement of each of these two performance goals relative to each other, pursuant to a matrix where earnings per share growth is one axis and return on invested capital is the other axis. For purposes of the LTIP, (1) growth in earnings per share is based on all operating earnings and is calculated as the compound annual growth rate measured from the beginning of the base year to the end of the last year in a given performance cycle and (2) return on invested capital is calculated as net income (before extraordinary items) divided by the monthly average invested capital during the corresponding fiscal year, averaged over the applicable performance cycle and expressed as a percentage. These two goals were selected for the LTIP based on the results of a 2005 study performed by an independent executive compensation consulting firm that showed a strong correlation between these two measures and sustained shareholder returns for companies in the S&P SmallCap 600 Index, such as ours.

The performance targets established for each of the 2007-2009 performance cycle and the 2009-2011 performance cycle are the same and are consistent with long-term market median performance, inclusive of option expenses: 10% earnings per share growth and 6.0% return on invested capital. For awards under each of these performance cycles to equal 400% of target amounts, earnings per share would need to grow by 32% and return on invested capital would need to equal 10%. For the 2007-2009 performance cycle, actual achievement of the growth in earnings per share goal was 23.0% and actual achievement of the return on invested capital goal was 7.5%. Accordingly, executives were paid 233% of their respective target amounts. For the reasons explained above with respect to the Board s decision not to exclude the long-term gain on the sale of Muirhead in determining earnings per share achievement for the annual incentive plan, the independent members of the Board applied the same decision with respect to the growth in earnings per share calculation under the LTIP. Growth in earnings per share without the Muirhead gain would have been 18.5%. Actual award amounts under the LTIP are reflected in the Summary Compensation Table for Fiscal 2009 in this proxy statement.

*Other Benefits and Programs*

Executive officers are allowed to participate in the Company s standard benefit programs that are generally available to other employees, including medical, dental, life, disability, pension, 401(k), employee assistance, and similar retirement and health and group insurance plans.

In addition, each of our executive officers is eligible to participate in a supplemental executive retirement pension plan that permits benefits to be earned on compensation that is in excess of certain statutory limits that apply to the traditional pension plan, as more fully described in the Pension Benefits section of this proxy statement. These plans provide executives with additional opportunities to save for retirement and the Committee believes that the benefits provided to executive officers through these plans serve as an important retention tool and are necessary for us to provide competitive benefits, according to the market data reviewed at the time the plans were implemented.

Executive officers are also eligible to participate in an executive supplemental retirement and deferred compensation plan that allows participants to defer compensation in excess of certain statutory limits in the tax-qualified 401(k) plan and provides a Company match on deferred compensation amounts that exceed certain limits in the tax-qualified 401(k) plan, allowing executives to earn an equivalent portion in Company matching funds as that available to the general workforce in the tax-qualified plan, as more fully described in the Nonqualified Deferred Compensation Section of this proxy statement. The Company does not pay or guarantee above-market returns. The appreciation, if any, in the account balances of plan participants is due solely to contributions by participants, any Company matching contributions and the underlying performance of the investment funds selected by the participants.

Executive officers also receive automobile allowances based on competitive market benchmarks, as do the Company s subsidiary presidents and certain sales personnel. Similarly, executive officers are eligible for relocation benefits under standard Company policy, which may be enhanced for executive officers and other management employees on a case-by-case basis. Certain executive officers and other senior managers also receive limited financial planning services, airline club memberships and an annual physical. Where applicable, the value of these items is disclosed in the Summary Compensation Table for Fiscal 2009 and accompanying notes. These benefits are a very small percentage of total compensation for Named Executive Officers. The Company does not provide executives with a tax gross-up to cover personal income taxes that may apply to any of these benefits, except in the case of certain company-required, actual relocation costs that an officer must include as regular income.

*Risk Assessment*

In developing and reviewing the Company s executive incentive programs, the Committee analyzed the business risks inherent in program designs to ensure they do not induce executives to take unacceptable levels of business risk for the purpose of increasing their incentive plan awards at the expense of shareholder interests. The Committee is satisfied that the plan designs are conservative in this respect and that, together, the compensation components work as a check and balance to ensure executive incentives are fully consistent with shareholder interests. For example, the annual incentive compensation plan s goal to maximize current year earnings per share is balanced by the Company s long-term incentive plan that measures growth in earnings per share over a three-year period and by stock option grants that vest incrementally over four years with the potential to increase in value over the full ten-year term of the grant. Thus, the Committee believes these longer-term programs deter any appreciable risk that executives would maximize current year earnings in a manner that would impair the Company s future results.

***Change in Control***

In order to ensure key officers will always have their full energy and attention focused on the best interests of the Company s stakeholders, we have entered into double-trigger change in control termination protection agreements with our officers, including the Named Executive Officers, as more fully described in the Termination of Employment and Change in Control Arrangements section of this proxy statement. These are designed to induce officers to remain in the employ of the Company or any successor company in the event of certain changes in ownership or control by assuring compensation benefits if an officer is terminated without cause or resigns for good reason, as those terms are defined in the agreements. The Committee believes the amounts payable under these agreements provide executives with reasonable protection in light of the difficulty in securing comparable executive-level positions and in light of market information concerning typical practices of other companies. See the Termination of Employment and Change in Control Arrangements section that follows for further detail.

The Committee believes it is important to balance the need to provide an incentive for the Named Executive Officers to seek out and complete transactions that are in the best interests of the Company and its shareholders, while limiting option acceleration to events intended to protect the Company from certain types of change in control transactions and to events that defeat the retention purpose of time-vested equity, which results if the acquiring company does not assume or replace options. For these reasons, all options issued under the Company s 2004 Equity Incentive Plan, including those granted to the Named Executive Officers, become immediately vested and exercisable upon the consummation of certain events constituting a change in control of the Company, such as the acquisition by a third party of a significant portion of the Company s outstanding securities or if there is a significant change in the composition of the Board. In addition, in the event of a merger or other similar transaction, only options not assumed or replaced by the acquiring company will become immediately vested and exercisable. See the Termination of Employment and Change in Control Arrangements section that follows for further detail.

The Company does not provide executives with a tax gross-up to cover personal income taxes that may apply to any of these change in control benefits.

***Stock Ownership Guidelines***

The Committee believes its performance-based compensation programs strongly align executive interests with those of Company shareholders and that requiring further investment by the executive officers in the Company is neither necessary nor desirable. Accordingly, we have not implemented formal stock ownership guidelines for our executives. The Committee periodically reconsiders this subject to ensure the executives interests are consistent with the Company s shareholders.

***Tax Considerations***

We considered the tax ramifications of the change in control termination protection agreements with our officers under Section 280G and Section 4999 of the Internal Revenue Code. To preserve our tax deduction in connection with the payments payable under these agreements and to avoid an excise tax for our officers, the agreements generally provide that in the event any payments under the agreements are considered to be excess parachute payments under Section 280G, either alone or together with other payments from us, the payments will be reduced so that the payments will not be treated as excess parachute payments. However, this payment reduction will only take place if the reduction would provide to the officer a greater net, after-tax benefit than he or she would receive if the payments were not subject to the reduction. In no circumstance does the Company gross up such payments or otherwise pay an officer s individual tax liability.

In addition, we considered the impact of Section 409A of the Internal Revenue Code on our compensation programs. Section 409A imposes tax penalties on certain nonqualified deferred compensation arrangements. We operate our covered arrangements in a manner intended to avoid the adverse tax treatment under Section 409A.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed with management the above Compensation Discussion and Analysis. Based on that review and discussion, the Committee has recommended to the Board that this Compensation Discussion and Analysis be included in this proxy statement.

Respectfully submitted,

JERRY D. LEITMAN, CHAIRMAN

LEWIS E. BURNS

JOHN F. CLEARMAN

ANTHONY P. FRANCESCHINI

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

All members of the Compensation Committee during the 2009 fiscal year, each of who was listed in Board and Board Committees Compensation Committee were independent directors and no member was an employee or former employee. No Compensation Committee member had any relationship requiring disclosure under Item 404 of Regulation S-K. No executive officer of the Company has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of the Board of Directors or the Compensation Committee during the 2009 fiscal year.

## ADDITIONAL INFORMATION REGARDING EXECUTIVE COMPENSATION

The following tables and accompanying narrative disclosure should be read in conjunction with the Compensation Discussion and Analysis, which presents the objectives of our executive compensation and benefits programs.

**Summary Compensation Table for Fiscal 2009**

The table below summarizes certain compensation information for fiscal 2009 for our Chief Executive Officer, Chief Financial Officer and the three other most highly-compensated executive officers of the Company who were serving as executive officers at the end of fiscal 2009 (collectively, the Named Executive Officers ).

| Name and Principal Position | Year | Salary ($) | Option Awards ($) (1) | Non-Equity Incentive Plan Compensation ($) (2) | Change in Pension Value & Nonqualified Deferred Compensation Earnings ($) (3) | All Other Compensation ($) (4) | Total ($) |
|---|---|---|---|---|---|---|---|
| Robert W. Cremin | 2009 | $ 868,942 | $ 2,015,211 | $ 1,987,146 | $ 1,785,516 | $ 74,691 | $ 6,731,506 |
| | 2008 | 849,231 | 2,002,820 | 2,044,380 | 176,024 | 74,931 | 5,147,386 |
| *Chairman, President and Chief Executive Officer* [5] | 2007 | 793,077 | 1,741,845 | 2,028,580 | 146,859 | 64,668 | 4,775,029 |
| Robert D. George | 2009 | 415,207 | 447,675 | 699,578 | 319,851 | 33,330 | 1,915,641 |
| | 2008 | 408,692 | 466,215 | 695,145 | | 33,462 | 1,603,514 |
| *Vice President, Chief Financial Officer, Secretary and Treasurer* | 2007 | 381,538 | 397,446 | 691,295 | 40,827 | 28,790 | 1,539,896 |
| Frank E. Houston | 2009 | 351,346 | 283,166 | 427,705 | 285,284 | 33,174 | 1,380,675 |
| | 2008 | 311,635 | 300,702 | 419,770 | | 32,008 | 1,064,115 |
| *Group Vice President* | 2007 | 281,538 | 293,679 | 408,570 | 29,716 | 27,654 | 1,041,157 |
| Stephen R. Larson | 2009 | 386,538 | 381,975 | 614,419 | 917,961 | 38,579 | 2,339,473 |
| | 2008 | 374,519 | 394,831 | 600,155 | 93,714 | 37,052 | 1,500,271 |
| *Vice President, Strategy & Technology* | 2007 | 351,538 | 338,996 | 597,605 | 123,741 | 32,405 | 1,444,285 |
| R. Bradley Lawrence | 2009 | 349,615 | 329,782 | 406,882 | 41,677 | 14,716 | 1,142,672 |
| *Group Vice President* [5] | | | | | | | |

(1) Represents the compensation costs that we recognized in fiscal 2009 for the awards granted in fiscal 2009 and in prior fiscal years, calculated in accordance with ASC 718, formerly SFAS 123R, on the same basis used for financial reporting purposes for fiscal 2009. Assumptions used to calculate these amounts are included in Note 14, Employee Stock Plans, of the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended October 30, 2009.

(2) Represents amounts earned in fiscal 2009 under the annual incentive plan and the 2007-2009 performance cycle under the LTIP. Amounts earned under the annual incentive plan for fiscal 2009 were: Mr. Cremin, $617,106; Mr. George, $196,298; Mr. Houston, $148,105; Mr. Larson, $183,369, Mr. Lawrence, $164,562. Amounts earned under the 2007-2009 performance cycle under the LTIP were: Mr. Cremin, $1,370,040; Mr. George, $503,280; Mr. Houston, $279,600; Mr. Larson, $431,050; Mr. Lawrence, $242,320.

(3) Represents the annual increase in the actuarial present value of accumulated benefits under our Pension Plan and Supplemental Executive Retirement Plans (SERP Pre 2005 and 2005+). In fiscal 2008, the Change in Pension Value for Mr. George was $(31,161) and the Change in Pension Value for Mr. Houston was $(55,359).

(4) Includes match payments under the Company s 401(k) plan ($7,350 for each Named Executive Officer) and the Company s Supplemental Executive Retirement & Deferred Compensation Plan (Mr. Cremin, $48,512; Mr. George, $14,916; Mr. Houston, $8,893; Mr. Larson, $13,070; Mr. Lawrence, $7,366). Also includes the following for each Named Executive Officer: Mr. Cremin (financial planning,

automobile allowance and airline club memberships); Mr. George (automobile allowance, airline club memberships and cost of annual physical); Mr. Houston (financial planning and automobile allowance); Mr. Larson (financial planning, automobile allowance and cost of annual physical).

(5) Mr. Lawrence was promoted from Group Vice President to President and Chief Operating Officer in June of 2009. Mr. Cremin continued as Chairman and Chief Executive Officer.

**Grants of Plan-Based Awards Table for Fiscal 2009**

The following table provides information regarding grants of plan-based awards to the Named Executive Officers under our 2009 Annual Incentive Compensation Plan, LTIP and the 2004 Equity Incentive Plan during fiscal 2009.

| | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Grant Date | Threshold ($) | Target ($) | Maximum ($) | All Option Awards: Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards ($/Share) | Grant Date Fair Value of Option Awards ($) |
| Robert W. Cremin | (1) | $ 131,250 | $ 525,000 | $ 1,050,000 | | $ | $ |
| | (2) | | 721,875 | 2,887,500 | | | |
| | 12/11/08 (3) | | | | 128,100 | 32.00 | 2,123,097 |
| Robert D. George | (1) | 41,750 | 167,000 | 334,000 | | | |
| | (2) | | 233,800 | 935,200 | | | |
| | 12/11/08 (3) | | | | 26,700 | 32.00 | 442,519 |
| Frank E. Houston | (1) | 32,400 | 126,000 | 252,000 | | | |
| | (2) | | 151,200 | 604,800 | | | |
| | 12/11/08 (3) | | | | 17,300 | 32.00 | 286,726 |
| Stephen R. Larson | (1) | 39,000 | 156,000 | 312,000 | | | |
| | (2) | | 202,800 | 811,200 | | | |
| | 12/11/08 (3) | | | | 23,100 | 32.00 | 382,854 |
| R. Bradley Lawrence | (1) | 29,700 | 115,500 | 231,000 | | | |
| | (2) | | 138,600 | 554,400 | | | |
| | 12/11/08 (3) | | | | 15,800 | 32.00 | 261,865 |
| | 06/04/09 (3) | | | | 20,000 | 29.86 | 309,309 |

(1) This shows the potential value of the payout for each Named Executive Officer under the 2009 Annual Incentive Compensation Plan if the threshold, target or maximum goals are satisfied. The potential payouts are performance driven and therefore completely at risk. The business measurements, performance goals and calculation for determining the payout are described in the Compensation Discussion and Analysis section of this proxy statement. Actual amounts earned are disclosed in the Summary Compensation Table for Fiscal 2009 in this proxy statement.

(2) This shows the potential value of the payout for each Named Executive Officer under the LTIP if the target or maximum goals of the 2009-2011 performance cycle are satisfied. There is no threshold for this award. The potential payouts are performance driven and therefore completely at risk. The business measurements, performance goals and calculation determining the payout are described in the Compensation Discussion and Analysis section of this proxy statement. Any payouts under the 2009-2011 performance cycle will be made in fiscal 2012.

(3) The grants were made pursuant to the Company s 2004 Equity Incentive Plan. The exercise price of the options is equal to the closing price of the Common Stock on the date of grant. The options vest at the rate of twenty-five percent per year on each of the first four anniversaries of the date of grant.

**Annual Incentive Compensation Plan and LTIP**

Payments under the 2009 Annual Incentive Compensation Plan and the LTIP are tied to key measures of corporate performance relating to the following financial objectives: earnings per share, growth in earnings per share and return on invested capital. For additional information regarding the 2009 Annual Incentive Compensation Plan and the LTIP, please refer to the Compensation Discussion and Analysis section of this proxy statement.

**2004 Equity Incentive Plan**

Equity awards to our executive officers consist of stock options granted under the Company s 2004 Equity Incentive Plan. Stock options have a term of ten years and typically vest in equal annual installments over the period from the date of grant until the fourth anniversary of the date of grant. For additional information regarding the Company s 2004 Equity Incentive Plan, as proposed to be amended and restated, please refer to the proposal for Approval of Amended and Restated 2004 Equity Incentive Plan in the this proxy statement.

**Fixed Cash Compensation in Proportion to Total Compensation**

The proportion of fixed cash compensation (salary) compared to total compensation (as reported in the Summary Compensation Table for Fiscal 2009 included in this proxy statement) varies somewhat among the Named Executive Officers. Specifically, allocation among the different components of compensation varies based on the position and level of responsibility, and on market data provided by Watson Wyatt Worldwide that reflects the practices of other companies. For example, those Named Executive Officers with the greater ability to influence our performance will have a higher level of at-risk compensation in the form of an increased percentage of total compensation in stock options and cash-based incentive plan target awards. The lower the level of influence of an executive, the higher the percentage of their total compensation is in the form of base salary with a correspondingly lower percentage of stock options and cash-based incentive plan target awards. In general, the proportion of at-risk compensation increases with base salary level, which usually indicates relative scope and level of responsibility, such that those with higher salaries also have more of their total compensation at risk. Accordingly, executive compensation for highe