

MOOG INC.
Form 10-Q
May 04, 2015

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 April 4, 2015

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: 1-05129

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)
(716) 652-2000

14052-0018
(Zip Code)

(Telephone number including area code)

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

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer 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, 2015 was:

Class A common stock, \$1.00 par value, 35,236,262 shares

Class B common stock, \$1.00 par value, 3,485,188 shares

Moog Inc.
 QUARTERLY REPORT ON FORM 10-Q
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Moog Inc.

Consolidated Condensed Balance Sheets

(Unaudited)

(dollars in thousands)	April 4, 2015	September 27, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$261,658	\$231,292
Receivables	737,936	780,874
Inventories	506,299	517,056
Other current assets	129,706	134,842
TOTAL CURRENT ASSETS	1,635,599	1,664,064
PROPERTY, PLANT AND EQUIPMENT , net of accumulated depreciation of \$652,628 and \$639,076, respectively	535,692	555,348
GOODWILL	735,517	757,852
INTANGIBLE ASSETS , net	157,197	178,070
OTHER ASSETS	55,565	53,118
TOTAL ASSETS	\$3,119,570	\$3,208,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$420	\$103,660
Current installments of long-term debt	33	5,262
Accounts payable	177,111	162,667
Customer advances	139,853	145,500
Contract loss reserves	33,166	35,984
Other accrued liabilities	230,867	269,731
TOTAL CURRENT LIABILITIES	581,450	722,804
LONG-TERM DEBT , excluding current installments	1,030,082	765,114
LONG-TERM PENSION AND RETIREMENT OBLIGATIONS	259,301	288,216
DEFERRED INCOME TAXES	92,100	83,931
OTHER LONG-TERM LIABILITIES	1,659	972
TOTAL LIABILITIES	1,964,592	1,861,037
COMMITMENTS AND CONTINGENCIES (Note 17)	—	—
SHAREHOLDERS' EQUITY		
Common stock	51,280	51,280
Other shareholders' equity	1,103,698	1,296,135
TOTAL SHAREHOLDERS' EQUITY	1,154,978	1,347,415
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,119,570	\$3,208,452

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
 Consolidated Condensed Statements of Earnings
 (Unaudited)

(dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
NET SALES	\$637,246	\$649,878	\$1,267,769	\$1,293,263
COST OF SALES	463,696	453,060	910,301	897,136
GROSS PROFIT	173,550	196,818	357,468	396,127
Research and development	31,404	37,225	62,725	72,980
Selling, general and administrative	92,158	104,832	189,985	204,733
Interest	7,669	2,444	13,037	7,573
Other	921	(1,294)	) 885	10,373
EARNINGS BEFORE INCOME TAXES	41,398	53,611	90,836	100,468
INCOME TAXES	9,305	15,886	23,478	30,646
NET EARNINGS	\$32,093	\$37,725	\$67,358	\$69,822
NET EARNINGS PER SHARE				
Basic	\$0.81	\$0.83	\$1.68	\$1.54
Diluted	\$0.80	\$0.82	\$1.66	\$1.52
AVERAGE COMMON SHARES				
OUTSTANDING				
Basic	39,601,795	45,377,465	40,116,731	45,381,058
Diluted	39,984,668	45,945,398	40,550,814	45,977,716
See accompanying Notes to Consolidated Condensed Financial Statements.				

Moog Inc.

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Unaudited)

(dollars in thousands)	Three Months Ended		Six Months Ended	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
NET EARNINGS	\$32,093	\$37,725	\$67,358	\$69,822
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation adjustment	(37,373	) (1,340	) (80,279	) 4,594
Retirement liability adjustment	5,916	2,681	11,490	5,101
Change in accumulated loss on derivatives	(323	) (54	) (73	) (584
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(31,780	) 1,287	(68,862	) 9,111
COMPREHENSIVE INCOME (LOSS)	\$313	\$39,012	\$(1,504	) \$78,933

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
Consolidated Condensed Statements of Cash Flows
(Unaudited)

(dollars in thousands)	Six Months Ended	
	April 4, 2015	March 29, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$67,358	\$69,822
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	40,460	39,187
Amortization	12,946	15,783
Equity-based compensation expense	3,966	4,992
Other	12,419	14,688
Changes in assets and liabilities providing (using) cash:		
Receivables	20,461	21,163
Inventories	(7,847	) (4,668
Accounts payable	18,934	(12,762
Customer advances	(3,358	) (9,186
Accrued expenses	(20,747	) (18,163
Accrued income taxes	(7,729	) 6,489
Pension assets and liabilities	(7,014	) (8,186
Other assets and liabilities	1,699	(3,038
NET CASH PROVIDED BY OPERATING ACTIVITIES	131,548	116,121
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(37,921	) (35,419
Other investing transactions	3,551	(8,491
NET CASH USED BY INVESTING ACTIVITIES	(34,370	) (43,910
CASH FLOWS FROM FINANCING ACTIVITIES		
Net short term (repayments) borrowings	(3,237	) 4,772
Net (repayments) proceeds from revolving lines of credit	(135,000	) 187,135
Net repayments on long-term debt	(5,241	) (3,251
Proceeds from senior notes, net of issuance costs	294,430	—
Payments on senior subordinated notes	—	(191,575
Payment of premium on redemption of senior subordinated notes	—	(6,945
Proceeds from sale of treasury stock	10,542	1,197
Purchase of outstanding shares for treasury	(204,958	) (22,243
Proceeds from sale of stock held by SECT	—	1,144
Purchase of stock held by SECT	(8,440	) (4,634
Excess tax benefits from equity-based payment arrangements	5,888	1,347
Other financing transactions	—	(1,350
NET CASH USED BY FINANCING ACTIVITIES	(46,016	) (34,403
Effect of exchange rate changes on cash	(20,796	) 746
INCREASE IN CASH AND CASH EQUIVALENTS	30,366	38,554
Cash and cash equivalents at beginning of period	231,292	157,090

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$261,658	\$195,644
CASH PAID FOR:		
Interest	\$6,443	\$11,828
Income taxes, net of refunds	17,260	17,907
See accompanying Notes to Consolidated Condensed Financial Statements.		

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Moog Inc.

Notes to Consolidated Condensed Financial Statements

Six Months Ended April 4, 2015

(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 April 4, 2015 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, 2014. All references to years in these financial statements are to fiscal years. In the second quarter of 2015, the Company recorded an out-of-period adjustment to correct an accounting error in our Space and Defense Controls segment. The correction of the error resulted in an \$8,300 reduction of both working capital and earnings before income taxes that related to periods beginning in 2012. The Company assessed the impact of these errors on previously reported financial statements and concluded that these errors were not material to previously reported financial statements. We also determined that the correction of the error is not expected to be material to the full year in 2015, but was material to the second quarter.

Certain prior year amounts have been reclassified to conform to the current year's presentation. The consolidated condensed statements of cash flows has been restated to provide additional detail of financing activities.

Note 2 - Divestitures

On March 27, 2015, we completed one divestiture in our Medical Devices segment. We sold our Rochester, New York and Erie, Pennsylvania life sciences operations for \$3,500 in cash, subject to a working capital adjustment, which is expected to be settled before the end of 2015.

Note 3 - Receivables

Receivables consist of:

	April 4, 2015	September 27, 2014
Accounts receivable	\$309,625	\$332,450
Long-term contract receivables:		
Amounts billed	120,570	125,497
Unbilled recoverable costs and accrued profits	298,669	313,530
Total long-term contract receivables	419,239	439,027
Other	14,069	13,738
Total receivables	742,933	785,215
Less allowance for doubtful accounts	(4,997	) (4,341
Receivables	\$737,936	\$780,874

We securitize certain trade receivables in transactions that are accounted for as secured borrowings (Securitization Program). We maintain a subordinated interest in a portion of the pool of trade receivables that are securitized. The retained interest, which is included in Receivables in the consolidated condensed balance sheets, is recorded at fair value, which approximates the total amount of the designated pool of accounts receivable. Refer to Note 6, Indebtedness, for additional disclosures related to the Securitization Program.

Note 4 - Inventories

Inventories, net of reserves, consist of:

	April 4, 2015	September 27, 2014
Raw materials and purchased parts	\$186,618	\$198,166
Work in progress	258,557	251,701
Finished goods	61,124	67,189
Inventories	\$506,299	\$517,056

There are no material inventoried costs relating to long-term contracts where revenue is accounted for using the percentage of completion, cost-to-cost method of accounting as of April 4, 2015 and September 27, 2014.

Note 5 - Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	Balance as of September 27, 2014	Divestiture	Foreign Currency Translation	Balance as of April 4, 2015
Aircraft Controls	\$192,852	\$—	\$(5,361)	\$187,491
Space and Defense Controls	159,607	—	(1,616)	157,991
Industrial Systems	118,009	—	(8,313)	109,696
Components	202,910	—	(3,855)	199,055
Medical Devices	84,474	(1,715)	(1,475)	81,284
Goodwill	\$757,852	\$(1,715)	\$(20,620)	\$735,517

Goodwill at September 27, 2014, in our Medical Devices reporting unit, is net of a \$38,200 accumulated impairment loss. Certain factors, including industry conditions and the future profitability of our business might have a negative impact on the carrying value of our goodwill and we may incur additional goodwill impairment charges.

The components of acquired intangible assets are as follows:

		April 4, 2015		September 27, 2014	
	Weighted - Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	11	\$173,520	\$(104,965)	\$180,670	\$(102,251)
Program-related	18	74,684	(24,673)	80,054	(24,065)
Technology-related	9	73,963	(47,283)	76,057	(46,296)
Marketing-related	10	25,925	(15,541)	26,707	(14,779)
Acquired intangible assets	12	\$348,092	\$(192,462)	\$363,488	\$(187,391)

All acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Program-related intangible assets consist of long-term programs represented by current contracts and probable follow on work. Technology-related intangible assets primarily consist of technology, patents, intellectual property and software. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements.

Amortization of acquired intangible assets was \$6,134 and \$12,794 for the three and six months ended April 4, 2015 and \$7,548 and \$15,111 for the three and six months ended March 29, 2014. Based on acquired intangible assets recorded at April 4, 2015, amortization is expected to be approximately \$24,300 in 2015, \$22,800 in 2016, \$19,600 in 2017, \$17,900 in 2018 and \$16,000 in 2019.

Note 6 - Indebtedness

Short-term borrowings consist of:

	April 4, 2015	September 27, 2014
Lines of credit	\$420	\$3,660
Securitization program	—	100,000
Short-term borrowings	\$420	\$103,660

We maintain short-term credit facilities with banks throughout the world that are principally demand lines subject to revision by the banks.

Long-term debt consists of:

	April 4, 2015	September 27, 2014
U.S. revolving credit facility	\$630,000	\$765,000
Senior notes	300,000	—
Securitization program	100,000	—
Obligations under capital leases	115	151
Other long-term debt	—	5,225
Senior debt	1,030,115	770,376
Less current installments	(33	) (5,262
Long-term debt	\$1,030,082	\$765,114

On May 22, 2014, we amended our U.S. revolving credit facility. The amendment increased the capacity on our revolving credit facility from \$900,000 to \$1,100,000 and extended the maturity of the credit facility to May 22, 2019. The amendment also provides an expansion option, which permits us to request an increase of up to \$200,000 to the credit facility upon satisfaction of certain conditions. The credit facility is secured by substantially all of our U.S. assets.

On November 21, 2014, we completed the sale of \$300,000 aggregate principal amount of 5.25% senior notes due December 1, 2022 at par with interest paid semiannually on June 1 and December 1 of each year, commencing on June 1, 2015. The aggregate net proceeds of \$294,430 were used to repay indebtedness under our U.S. bank credit facility, thereby increasing the unused portion of our revolving credit facility.

The Securitization Program matures on February 10, 2017 and effectively increases our borrowing capacity by up to \$100,000. Under the Securitization Program, we sell certain trade receivables and related rights to an affiliate, which in turn sells an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. Interest for the Securitization Program is based on 30-day LIBOR plus an applicable margin. A commitment fee is also charged based on a percentage of the unused amounts available and is not material. The agreement governing the Securitization Program contains restrictions and covenants which include limitations on the making of certain restricted payments, creation of certain liens, and certain corporate acts such as mergers, consolidations and sale of substantially all assets. The Securitization Program has a minimum borrowing requirement equal to the lesser of either 80% of our borrowing capacity or 100% of our borrowing base, which is a subset of the trade receivables sold under this agreement. As of April 4, 2015, our minimum borrowing requirement is \$80,000.

On December 19, 2013, we repurchased our 7.25% senior subordinated notes due on January 15, 2018 at 103.625%, pursuant to an early redemption right. We redeemed the aggregate principal amount of \$200,000 using proceeds drawn from our U.S. revolving credit facility. The associated loss on the redemption includes \$6,945 of call premium paid to external bondholders and a \$1,057 write off of deferred debt issuance costs.

Note 7 - 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 sixty 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	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Warranty accrual at beginning of period	\$18,326	\$17,369	\$19,953	\$17,429
Warranties issued during current period	2,234	2,116	3,699	3,903
Adjustments to pre-existing warranties	(452	) 75	(1,584	) (524
Reductions for settling warranties	(1,918	) (2,601	) (3,156	) (3,981
Foreign currency translation	(572	) 78	(1,294	) 210
Warranty accrual at end of period	\$17,618	\$17,037	\$17,618	\$17,037

Note 8 - Derivative Financial Instruments

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

Derivatives designated as hedging instruments

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At April 4, 2015, we had interest rate swaps with notional amounts totaling \$245,000. The interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 2.3%, including the applicable margin of 163 basis points as of April 4, 2015. The interest will revert back to variable rates based on LIBOR plus the applicable margin upon the maturity of the interest rate swaps. These interest rate swaps mature at various times between January 15, 2016 and June 5, 2017.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments and revenue. To mitigate exposure in movements between various currencies, primarily the Philippine peso, we had outstanding foreign currency forwards with notional amounts of \$60,714 at April 4, 2015. These contracts mature at various times through December 29, 2016.

These interest rate swaps and foreign currency forwards are recorded in the consolidated condensed balance sheets at fair value and the related gains or losses are deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments and revenue being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first six months of 2015 or 2014.

Derivatives not designated as hedging instruments

We also have foreign currency exposure on balances, primarily intercompany, that are denominated in foreign currencies and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the consolidated condensed statements of earnings. To minimize foreign currency exposure, we had foreign currency forwards with notional amounts of \$131,051 at April 4, 2015. The foreign currency forwards are recorded in the consolidated condensed balance sheets at fair value and resulting gains or losses are recorded in the consolidated condensed statements of earnings. We recorded the following gains or losses on foreign currency forwards which are included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other income or expense:

	Three Months Ended		Six Months Ended	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Net gain (loss)	\$(2,348	) \$1,585	\$(1,415	) \$2,525

Summary of derivatives

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

		April 4, 2015	September 27, 2014
Derivatives designated as hedging instruments:			
Foreign currency forwards	Other current assets	\$59	\$—
Foreign currency forwards	Other assets	49	—
Interest rate swaps	Other current assets	—	70
Interest rate swaps	Other assets	—	107
	Total assets	\$108	\$177
Foreign currency forwards	Other accrued liabilities	\$873	\$1,521
Foreign currency forwards	Other long-term liabilities	101	494
Interest rate swaps	Other accrued liabilities	608	110
Interest rate swaps	Other long-term liabilities	396	28
	Total liabilities	\$1,978	\$2,153
Derivatives not designated as hedging instruments:			
Foreign currency forwards	Other current assets	\$2,875	\$821
	Total assets	\$2,875	\$821
Foreign currency forwards	Other accrued liabilities	\$1,021	\$2,991
	Total liabilities	\$1,021	\$2,991

Note 9 - Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

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

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

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

Our derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market data, such as interest rate yield curves and currency rates, and are classified as Level 2 within the valuation hierarchy. Our Level 3 fair value liabilities represent contingent consideration recorded for acquisitions to be paid if various financial targets are met. The amounts recorded were calculated for each payment scenario in each period using an estimate of the probability of the future cash outflows. The varying contingent payments were then discounted to the present value at the weighted average cost of capital. Fair value is assessed on a quarterly basis, or whenever events or circumstances change that indicates an adjustment is required. The assessment includes an evaluation of the performance of the acquired business compared to previous expectations, changes to future projections and the probability of achieving the earn out targets.

The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis as of April 4, 2015:

	Classification	Level 1	Level 2	Level 3	Total
Foreign currency forwards	Other current assets	\$—	\$2,934	\$—	\$2,934
Foreign currency forwards	Other assets	—	49	—	49
	Total assets	\$—	\$2,983	\$—	\$2,983
Foreign currency forwards	Other accrued liabilities	\$—	\$1,894	\$—	\$1,894
Foreign currency forwards	Other long-term liabilities	—	101	—	101
Interest rate swaps	Other accrued liabilities	—	608	—	608
Interest rate swaps	Other long-term liabilities	—	396	—	396
	Total liabilities	\$—	\$2,999	\$—	\$2,999

There were no financial assets or liabilities classified as Level 3 within the fair value hierarchy for the three and six months ended April 4, 2015. The changes in financial liabilities classified as Level 3 within the fair value hierarchy are as follows:

	Three Months Ended March 29, 2014	Six Months Ended March 29, 2014
Balance at beginning of period	\$4,680	\$4,007
Increase in discounted future cash flows recorded as interest expense	59	156
Increase (decrease) in earn out provisions recorded as other expense (income)	(67	) 509
Settlements paid in cash	(2,250	) (2,250
Balance at end of period	\$2,422	\$2,422

Note 10 - Employee Benefit Plans

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

	Three Months Ended		Six Months Ended	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Service cost	\$5,908	\$5,393	\$11,817	\$10,786
Interest cost	8,508	8,338	17,015	16,677
Expected return on plan assets	(11,784	) (10,843	) (23,568	) (21,687
Amortization of prior service cost	38	37	75	74
Amortization of actuarial loss	5,589	4,087	11,178	8,173
Pension expense for defined benefit plans	8,259	7,012	16,517	14,023
Pension expense for defined contribution plans	3,409	3,292	6,943	6,331
Total pension expense for U.S. plans	\$11,668	\$10,304	\$23,460	\$20,354

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

	Three Months Ended		Six Months Ended	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Service cost	\$1,385	\$1,391	\$2,976	\$2,753
Interest cost	1,104	1,543	2,369	3,052
Expected return on plan assets	(1,205	) (1,167	) (2,544	) (2,310
Amortization of prior service credit	(12	) (8	) (25	) (23
Amortization of actuarial loss	484	359	1,071	709
Pension expense for defined benefit plans	1,756	2,118	3,847	4,181
Pension expense for defined contribution plans	1,613	1,579	3,299	3,003
Total pension expense for non-U.S. plans	\$3,369	\$3,697	\$7,146	\$7,184

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

	Three Months Ended		Six Months Ended	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Service cost	\$57	\$57	\$113	\$113
Interest cost	144	156	288	312
Amortization of actuarial gain	(27	) (66	) (53	) (131
Total periodic post-retirement benefit cost	\$174	\$147	\$348	\$294

Actual contributions for the six months ended April 4, 2015 and anticipated additional 2015 contributions to our defined benefit pension plans are as follows:

	U.S. Plans	Non-U.S. Plans	Total
Actual	\$21,294	\$6,083	\$27,377
Anticipated	31,253	2,088	33,341
	\$52,547	\$8,171	\$60,718

Note 11 - Restructuring

In 2013, we initiated restructuring plans to better align our cost structure with projected sales levels. The restructuring actions taken have resulted in workforce reductions, primarily in the U.S., Europe and Asia.

In 2014, we initiated restructuring plans in response to the business outlook, which includes a change in the mix of sales and delays and cancellations of orders for certain product lines. The restructuring actions taken have resulted in workforce reductions, primarily in the U.S. and Europe.

Restructuring activity for severance by segment is as follows:

	Aircraft Controls	Space and Defense Controls	Industrial Systems	Total
Balance at September 27, 2014	\$5,439	\$5,764	\$186	\$11,389
Adjustments to provision	(405	)(378	)—	(783)
Payments - 2013 plan	—	(490	)—	(490)
Payments - 2014 plan	(4,100	)(2,633	)(172	)(6,905)
Foreign currency translation	(26	)(83	)(14	)(123)
Balance at April 4, 2015	\$908	\$2,180	\$—	\$3,088

Payments related to these severance benefits were paid in full as of April 4, 2015 for the 2013 plan and will be primarily paid by October 3, 2015 for the 2014 plan, with the exception of amounts classified as long-term liabilities based on payment arrangements. As of April 4, 2015, restructuring consists of \$3,088 for the 2014 plan.

Note 12 - Income Taxes

The effective tax rates of 22.5% and 25.8% for the three and six months ended April 4, 2015 and 29.6% and 30.5% for the three and six months ended March 29, 2014 are lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes primarily as a result of a significant portion of our earnings that come from foreign operations with lower tax rates.

Note 13 - Shareholders' Equity

The changes in shareholders' equity for the six months ended April 4, 2015 are summarized as follows:

	Amount	Number of Shares	
		Class A Common Stock	Class B Common Stock
COMMON STOCK			
Beginning of period	\$51,280	43,627,531	7,652,182
Conversion of Class B to Class A	—	7,169	(7,169)
End of Period	51,280	43,634,700	7,645,013
ADDITIONAL PAID-IN CAPITAL			
Beginning of period	463,965		
Equity-based compensation expense	3,966		
Issuance of treasury shares	(4,668)		
Adjustment to market - SECT, and other	10,355		
End of period	473,618		
RETAINED EARNINGS			
Beginning of period	1,447,911		
Net earnings	67,358		
End of period	1,515,269		
TREASURY STOCK			
Beginning of period	(360,445)	(5,806,702)	(3,319,038)
Issuance of treasury shares	15,210	518,785	—
Purchase of treasury shares	(202,888)	(2,810,228)	(4,483)
End of period	(548,123)	(8,098,145)	(3,323,521)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)			
Beginning of period	(48,458)		(710,841)
Purchase of shares	(8,440)		(116,531)
Adjustment to market - SECT	(4,468)		—
End of period	(61,366)	—	(827,372)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Beginning of period	(206,838)		
Other comprehensive income (loss)	(68,862)		
End of period	(275,700)		
TOTAL SHAREHOLDERS' EQUITY	\$1,154,978	35,536,555	3,494,120

The changes in AOCI, net of tax, by component for the six months ended April 4, 2015 are as follows:

	Accumulated foreign currency translation	Accumulated retirement liability	Accumulated (loss) on derivatives	Total
AOCI at beginning of period	\$9,254	\$(214,984)	\$(1,108)	\$(206,838)
Other comprehensive income (loss) before reclassifications	(80,279)	—	(1,140)	(81,419)
Amounts reclassified from AOCI	—	11,490	1,067	12,557

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Other comprehensive income (loss)	(80,279)	11,490	(73)	(68,862)	
AOCI at end of period	\$(71,025)	\$(203,494)	\$(1,181)	\$(275,700)

The amounts reclassified from AOCI into earnings are as follows:

	Statement of earnings classification	Three Months Ended		Six Months Ended	
		April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Retirement liability:					
Prior service cost (credit)		\$124	\$80	\$417	\$(247)
Actuarial losses		8,062	4,223	15,614	8,521
Reclassification from AOCI into earnings		8,186	4,303	16,031	8,274
Tax effect		(2,270)	(1,622)	(4,541)	(3,173)
Net reclassification from AOCI into earnings - expense (income)		\$5,916	\$2,681	\$11,490	\$5,101
Derivatives:					
Foreign currency forwards	Sales	\$36	\$—	\$36	\$(192)
Foreign currency forwards	Cost of sales	413	591	918	962
Interest rate swaps	Interest	335	73	740	142
Reclassification from AOCI into earnings		784	664	1,694	912
Tax effect		(283)	(251)	(627)	(417)
Net reclassification from AOCI into earnings - expense (income)		\$501	\$413	\$1,067	\$495

The amounts deferred in AOCI related to derivatives are as follows:

	Statement of earnings classification	Net deferral in AOCI of derivatives - effective portion			
		Three Months Ended		Six Months Ended	
		April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Foreign currency forwards	Sales	\$(401)	\$—	\$(401)	\$3
Foreign currency forwards	Cost of sales	452	(658)	573	(1,549)
Interest rate swaps	Interest	(1,132)	(93)	(1,761)	(191)
Net gain (loss)		(1,081)	(751)	(1,589)	(1,737)
Tax effect		257	284	449	658
Net deferral in AOCI of derivatives		\$(824)	\$(467)	\$(1,140)	\$(1,079)

Note 14 - 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 15 - Earnings per Share

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

	Three Months Ended		Six Months Ended	
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014
Weighted-average shares outstanding - Basic	39,601,795	45,377,465	40,116,731	45,381,058
Dilutive effect of equity-based awards	382,873	567,933	434,083	596,658
Weighted-average shares outstanding - Diluted	39,984,668	45,945,398	40,550,814	45,977,716

Note 16 - Segment Information

Below are sales and operating profit by segment for the three and six months ended April 4, 2015 and March 29, 2014 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		
	April 4, 2015	March 29, 2014	April 4, 2015	March 29, 2014	
Net sales:					
Aircraft Controls	\$274,396	\$274,810	\$540,764	\$540,226	
Space and Defense Controls	93,256	95,305	193,211	194,755	
Industrial Systems	129,145	151,198	262,511	295,277	
Components	108,701	101,160	208,606	203,845	
Medical Devices	31,748	27,405	62,677	59,160	
Net sales	\$637,246	\$649,878	\$1,267,769	\$1,293,263	
Operating profit and margins:					
Aircraft Controls	\$22,336	\$25,867	\$46,794	\$57,638	
	8.1	% 9.4	% 8.7	% 10.7	%
Space and Defense Controls	4,909	9,006	13,635	16,859	
	5.3	% 9.4	% 7.1	% 8.7	%
Industrial Systems	12,685	14,899	25,904	27,185	
	9.8	% 9.9	% 9.9	% 9.2	%
Components	13,956	13,546	28,656	29,735	
	12.8	% 13.4	% 13.7	% 14.6	%
Medical Devices	2,660	1,377	7,258	5,005	
	8.4	% 5.0	% 11.6	% 8.5	%
Total operating profit	56,546	64,695	122,247	136,422	
	8.9	% 10.0	% 9.6	% 10.5	%
Deductions from operating profit:					
Interest expense	7,669	2,444	13,037	7,573	
Equity-based compensation expense	568	1,218	3,966	4,992	
Corporate expenses and other	6,911	7,422	14,408	23,389	
Earnings before income taxes	\$41,398	\$53,611	\$90,836	\$100,468	

Note 17 - Commitments and Contingencies

From time to time, we are involved in legal proceedings. We are not a party to any pending legal proceedings which management believes will result in a material adverse effect on our financial condition, results of operations or cash flows.

We are engaged in administrative proceedings with governmental agencies and legal proceedings with governmental agencies and other third parties in the normal course of our business, including litigation under Superfund laws, regarding environmental matters. We believe that adequate reserves have been established for our share of the estimated cost for all currently pending environmental administrative or legal proceedings and do not expect that these environmental matters will have a material adverse effect on our financial condition, results of operations or cash flows.

In the ordinary course of business we could be subject to ongoing claims or disputes from our customers, the ultimate settlement of which could have a material adverse impact on our consolidated results of operations. While the receivables and any loss provisions recorded to date reflect management's best estimate of the projected costs to complete a given project, there is still significant effort required to complete the ultimate deliverable. Future variability in internal cost and as well as future profitability is dependent upon a number of factors including deliveries, performance and government budgetary pressures. The inability to achieve a satisfactory contractual solution, further unplanned delays, additional developmental cost growth or variations in any of the estimates used in the existing contract analysis could lead to further loss provisions. Additional losses could have a material adverse impact on our financial condition, results of operations or cash flows in the period in which the loss may be recognized.

We are contingently liable for \$13,806 of standby letters of credit issued by a bank to third parties on our behalf at April 4, 2015.

Note 18 - Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Group of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU is intended to eliminate diversity in practice on the release of cumulative translation adjustments into net income when a parent either sells part or all of its investment in a foreign entity, or when it no longer holds a controlling financial interest. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The provisions of this ASU are effective for fiscal years beginning after December 15, 2013 and interim periods within those fiscal years. We adopted this amendment in the first quarter of 2015. The adoption of this standard did not have a material impact on our financial statements.

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 Annual Report filed on Form 10-K for the fiscal year ended September 27, 2014. All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years and amounts may differ from reported values due to rounding.

OVERVIEW

We are a worldwide designer, manufacturer and systems integrator of high performance precision motion and fluid controls and control systems for a broad range of applications in aerospace and defense and industrial markets.

Within the aerospace and defense market, our products and systems include:

Defense market - primary and secondary flight controls for military aircraft, tactical and strategic missile steering controls and gun aiming controls, stabilization and automatic ammunition loading controls for armored combat vehicles.

Commercial aircraft market - primary and secondary flight controls for commercial aircraft.

Commercial space market - space satellite positioning controls and thrust vector controls for space launch vehicles.

In the industrial market, our products are used in a wide range of applications including:

Industrial automation market - injection molding, metal forming, heavy industry, material and automotive testing, pilot training simulators and surveillance systems.

Energy market - oil and gas exploration, wind energy and power generation.

Medical market - motors used in sleep apnea devices, enteral clinical nutrition and infusion therapy pumps and CT scanners.

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, United Kingdom, Philippines, Germany, Italy, Netherlands, China, Costa Rica, Japan, Luxembourg, India, Canada and Ireland.

We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls and represent 34%, 33% and 32% of our sales in 2014, 2013 and 2012, respectively.

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. Our products are applied in demanding applications "When Performance Really Matters®." We believe we have achieved a leadership position in the high performance, precision controls market, by capitalizing on our strengths, which include:

• superior technical competence in delivering mission-critical solutions,

• an innovative customer-intimacy approach,

• a diverse base of customers and end markets served by a broad product portfolio,

• well-established international presence serving customers worldwide, and

• a proven ability to successfully undertake investments designed to enhance our control systems product franchise and drive continued growth.

These strengths afford us the ability to innovate our current solutions into new, complimentary technologies, providing us the opportunity to expand our product scope supply from one market to another. In addition, we will continue to strive for achieving substantial content positions on the platforms on which we currently participate, as well as on future platforms, while strengthening our position in the current niche markets we serve. We also look for innovation in all aspects of our business, employing new technologies to improve productivity and to develop

innovative business models.

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These activities will help us achieve our financial objectives of increasing our revenue base and improving our long term profitability and cash flow from operations while continuously focusing on internal cost improvement initiatives. In doing so, we expect to maintain a balanced, diversified portfolio in terms of markets served, product applications, customer base and geographic presence. Our fundamental strategies to achieve our objectives include:

- maintaining our technological excellence by building upon our systems integration capabilities while solving our customers' most demanding technical problems in applications "When Performance Really Matters®;"
- utilizing our global capabilities and strong engineering heritage;
- growing our profitable aftermarket business;
- capitalizing on strategic acquisitions and opportunities;
- maximizing customer value through continuous cost improvements; and
- investing in talent development to accelerate our leadership capability and employee performance.

We face numerous challenges to improve shareholder value. These include, but are not limited to, adjusting to dynamic global economic conditions that are influenced by governmental, industrial and commercial factors, pricing pressures from customers, strong competition, foreign currency fluctuations and increases in employee benefit costs. We address these challenges by focusing on strategic revenue growth, by continuing to improve operating efficiencies through various process and manufacturing initiatives and using low cost manufacturing facilities without compromising quality. Based on periodic strategy reviews, including the financial outlook of our business, we may also engage in restructuring activities, including reducing overhead, consolidating facilities and exiting some product lines.

CRITICAL ACCOUNTING POLICIES

On an ongoing basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including, but not limited to, revenue recognition on long-term contracts, contract loss reserves, reserves for inventory valuation, reviews for impairment of goodwill, purchase price allocations for business combinations, pension assumptions and deferred tax asset valuation allowances.

There have been no material changes in critical accounting policies in the current year from those disclosed in our 2014 Annual Report on Form 10-K. However, we have expanded our disclosure for reviews for impairment of goodwill. The disclosure below includes key assumptions and circumstances that, if changed, could negatively impact our assessment of goodwill in reporting units for which the fair value is not significantly in excess of carrying value.

Reviews for Impairment of Goodwill

At September 27, 2014, we had \$758 million of goodwill, or 24% of total assets. We test goodwill for impairment for each of our reporting units at least annually, during our fourth quarter, and whenever events occur or circumstances change, such as changes in the business climate, poor indicators of operating performance or the sale or disposition of a significant portion of a reporting unit.

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

Companies may perform a qualitative assessment as the initial step in the annual goodwill impairment testing process for all or selected reporting units. Companies are also allowed to bypass the qualitative analysis and perform a quantitative analysis if desired. Economic uncertainties and the length of time from the calculation of a baseline fair value are factors that we consider in determining whether to perform a quantitative test.

When we evaluate the potential for goodwill impairment using a qualitative assessment, we consider factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel and overall financial performance. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a quantitative two-step impairment test.

Quantitative testing first requires a comparison of the fair value of each reporting unit to its carrying value. We use the discounted cash flow method to estimate the fair value of our reporting units. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating margins and cash flows, the terminal growth rate and the discount rate. Management projects revenue growth rates, operating margins and cash flows based on each reporting unit's current business, expected developments and operational strategies over a five-year period. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and any loss must be measured.

In measuring the impairment loss, the implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit's assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination at fair value. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

Interim Test

We performed an interim test on goodwill for impairment for our Medical Devices reporting unit in the first quarter of 2014. We performed a quantitative assessment for this reporting unit, which had \$85 million of goodwill as of the date of our test. Based on this test, the fair value of our Medical Devices reporting unit exceeded its carrying value by 1%. Therefore, goodwill was not impaired. The determination of each of our assumptions is subjective and requires significant estimates. Changes in these estimates and assumptions could materially affect the results of our impairment review.

Annual Test - Qualitative Assessments

For our annual test of goodwill for impairment in 2014, we performed qualitative assessments for each of our three regional reporting units within Industrial Systems. We considered our most recent quantitative tests performed last year, and concluded that it is more likely than not that the fair values exceeded their carrying values.

Annual Test - Quantitative Assessments

For our annual test of goodwill for impairment in 2014, we performed quantitative assessments for the other five of our reporting units. In performing these assessments, we used a 3% terminal growth rate, which is supported by our historical growth rate, near-term projections and long-term expected market growth. We then discounted our projected cash flows using weighted-average costs of capital that ranged from 10.5% to 11.0% for our various reporting units. These discount rates reflect management's assumptions of marketplace participants' cost of capital. Based on our tests, the fair value of each reporting unit exceeded its carrying amount. Therefore, we concluded that goodwill was not impaired.

The fair value of each reporting unit exceeded its carrying amount by at least 10%. While any individual assumption could differ from those that we used, we believe the overall fair values of our reporting units are reasonable as the values are derived from a mix of reasonable assumptions. Had we used discount rates that were 100 basis points higher than those we assumed, the fair values of the smaller of our Aircraft Controls reporting units and our Medical Devices reporting unit would not have exceeded their carrying amounts and we would have measured impairment of goodwill. However, each of our other reporting units would have still had fair values in excess of their carrying amounts by a substantial amount. If we had used a discount rate that was 50 basis points higher or a terminal growth rate that was 100 basis points lower than those we assumed, the fair values of each of our reporting units would have continued to exceed their carrying amounts.

The fair value of our Medical Devices reporting unit exceeded its carrying value by 10%, and had \$85 million of associated goodwill. The primary factor causing the fair value of this reporting unit to not be substantially greater than the carrying value is that the Medical Devices segment was created through a series of acquisitions between 2006 and 2009. The creation of this reporting unit resulted in recording substantial goodwill, which increased the carrying value. The key assumptions that drive the estimated fair value are the projected revenue and operating margins, which are used to project future cash flows. Our expectation for this reporting unit is for revenue growth over the five year projection period to be driven by the overall market growth of the home healthcare segment of the infusion therapy market and by capturing market share due to new product offerings. Additionally, our expectation is that operating margins improve throughout the end of the five year projection period, which is driven by improved sales, as well as continued cost containment activities. If cash flows generated by our Medical Devices reporting unit were to decline in the future, or if there were adverse revisions to key assumptions, we may be required to record additional impairment charges. There are specific circumstances that would pose risk to the fair value of this reporting unit. Lower than projected growth rates of the home healthcare segment of the infusion therapy market, changes in provider capital purchase cycles, changes in healthcare legislation, changes in private insurance plans, as well as changes in treatment therapies may negatively affect the fair value of this reporting unit. Also, our projected market share capture rates may be lower due to delayed or unsuccessful new product offerings, which would negatively affect the fair value of this reporting unit. In addition, the fair value of this reporting unit may be negatively impacted based on the results of our strategic review and the courses of action that we may decide to pursue.

The fair value of the smaller of our Aircraft Controls reporting units exceeded its carrying value by 11%, and had \$36 million of associated goodwill. The key assumptions that drive the estimated fair value are projected revenue and operating margins from long-term contract arrangements for the delivery of customer specified hardware requirements. These assumptions are used to project future cash flows. Our expectation for this reporting unit is for revenue growth over the five year projection period to be driven by broadening our product offerings, as well as continued levels of government and private sector funding. Ongoing uncertainty with respect to domestic and foreign government funding at federal and local levels, as well as private sector demand, have impacted recent operating results of this reporting unit. However, we have been able to mitigate the impacts with cost reduction initiatives. The circumstances that would pose risk to the fair value of this reporting unit include projected revenue not materializing due to the loss of key contracts, delayed or cancelled new product offerings and delayed funding, as well as potential increases in our cost infrastructure. If cash flows generated by this reporting unit were to decline in the future, or if there were negative revisions to key assumptions, we may be required to record an impairment charge.

With the exception of these two reporting units, each of our other reporting units exceeded their carrying values by at least 69%.

We evaluate the reasonableness of the resulting fair values of our reporting units by comparing the aggregate fair value to our market capitalization and assessing the reasonableness of any resulting premium.

The determination of our assumptions is subjective and requires significant estimates. Changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU is intended to change the criteria for reporting discontinued operations and enhance convergence of the FASB's and the International Accounting Standard Board's (IASB) reporting requirements for discontinued operations. The provisions of this ASU are effective for fiscal years beginning after December 15, 2014 and interim periods within those fiscal years. This amendment is applicable to us beginning in the first quarter of

2016. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this standard is not expected to have a material impact on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU can be applied using one of two prescribed retrospective methods, and no early adoption is permitted. The provisions of this ASU are effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. This amendment is applicable to us beginning in the first quarter of 2018. We are currently evaluating the adoption of this standard on our financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase to Maturity Transactions, Repurchase Financings and Disclosures." This ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting, requires certain disclosures for transactions accounted for as sales and requires certain disclosures for other transactions accounted for as secured borrowings. The provisions of this ASU are effective for fiscal years beginning after December 15, 2014 and for interim periods beginning after March 15, 2015. This amendment is applicable to us beginning in the third quarter of 2015. Other than requiring additional disclosures, the adoption of this standard is not expected to have a material impact on our financial statements.

In August 2014, the FASB issued ASU No. 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity." This ASU allows a reporting entity to elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity using either the measurement alternative included in the Update or Topic 820. The provisions of this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. This amendment is applicable to us beginning in the first quarter of 2017. The adoption of this standard is not expected to have a material impact on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. This ASU also requires management to disclose certain information depending on the results of the going concern evaluation. The provisions of this ASU are effective for annual periods ending after December 15, 2016, and for interim and annual periods thereafter. Early adoption is permitted. This amendment is applicable to us beginning in the first quarter of 2017. The adoption of this standard is not expected to have a material impact on our financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." This ASU eliminates from GAAP the concept of extraordinary items. The ASU retains and expands the existing presentation and disclosure guidance for items that are unusual in nature or occur infrequently to also include items that are both unusual in nature and infrequently occurring. The provisions of this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted, provided that presentation applied to the beginning of the fiscal year of adoption. This amendment is applicable to us beginning in the first quarter of 2017. The adoption of this standard is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU requires that debt issuance costs related to a recognized debt

liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The provisions of this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and retrospective application is required. This amendment is applicable for us beginning in the first quarter of 2017. Other than requiring a different presentation within the balance sheet, the adoption of this standard is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-04, "Compensation - Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets." This ASU permits an entity to measure defined benefit plan assets and obligations using the month end that is closest to the entity's fiscal year end and apply that consistently from year to year. This practical expedient would then be applied to all plans if an entity has more than one plan. Further, if a contribution or other significant event occurs between the month end date used to measure defined benefit plan assets and obligations and an entity's fiscal year end, the entity should adjust the measurement of the defined benefit plan assets and obligations to reflect the effects of those contributions and other significant events. The provisions of this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and prospective application is required. This amendment is applicable for us beginning in the first quarter of 2017. The adoption of this standard is not expected to have a material impact on our financial statements.

CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

(dollars and shares in millions, except per share data)	Three Months Ended				Six Months Ended			
	April 4, 2015	March 29, 2014	\$ Variance	% Variance	April 4, 2015	March 29, 2014	\$ Variance	% Variance
Net sales	\$637.2	\$649.9	\$(12.6)	(2)%	\$1,267.8	\$1,293.3	\$(25.5)	(2)%
Gross margin	27.2	%30.3	%		28.2	%30.6	%	
Research and development expenses	\$31.4	\$37.2	\$(5.8)	(16)%	\$62.7	\$73.0	\$(10.3)	(14)%
Selling, general and administrative expenses as a percentage of sales	14.5	%16.1	%		15.0	%15.8	%	
Interest expense	\$7.7	\$2.4	\$5.2	214%	\$13.0	\$7.6	\$5.5	72%
Other	0.9	(1.3)	) 2.2	(171)%	0.9	10.4	(9.5)	(91)%
Effective tax rate	22.5	%29.6	%		25.8	%30.5	%	
Net earnings	\$32.1	\$37.7	\$(5.6)	(15)%	\$67.4	\$69.8	\$(2.5)	(4)%
Average common shares outstanding	40.0	45.9	(6.0)	(13)%	40.6	46.0	(5.4)	(12)%
Diluted earnings per share	\$0.80	\$0.82	\$(0.02)	(2)%	\$1.66	\$1.52	\$0.14	9%

Net sales decreased in the second quarter and in the first half of 2015 compared to the same periods of 2014. In both comparisons, sales increased in Components and Medical Devices, sales were flat in Aircraft Controls and sales decreased in Industrial Systems and Space and Defense Controls. Weaker foreign currencies, in particular the Euro relative to the U.S. dollar, contributed \$28 million to the sales decline in the second quarter and \$41 million in the first half of 2015.

Gross margin declined in the second quarter of 2015 compared to the second quarter of 2014. Approximately two thirds of the decline relates to our Aircraft Controls segment. We were negatively impacted by an adverse sales mix due to lower amounts of military and commercial aftermarket sales, as well as higher than expected costs on our new commercial programs. Aircraft Controls was also impacted by a quality issue with a vendor supplied part. Additionally in the quarter, our gross margin was negatively impacted by approximately 100 basis points due to the correction of an out-of-period accounting error in our Space and Defense Controls segment.

Gross margin declined in the first half of 2015 compared to the first half of 2014 due to a decline in our Aircraft Controls segment, as we were negatively impacted by adverse sales mix and higher than expected costs on our new commercial programs. Partly offsetting the gross margin decline were lower amounts of additions to contract loss reserves.

Research and development expenses decreased in the second quarter and in the first half of 2015 compared to the same periods in 2014. Within Aircraft Controls, research and development expenses decreased \$5 million in the second quarter and decreased \$11 million in the first half of 2015. The decreases were both driven by reduced development activity on the Airbus A350.

Selling, general and administrative expenses as a percentage of sales decreased in the second quarter and in the first half of 2015 compared to the same periods of 2014. Most of the decline in both periods is due to an on-going focus on expense reduction. Additionally, we had the benefit of our completed 2014 restructuring activities in Aircraft Controls and Space and Defense Controls, contributing \$1 million of savings in total in both the second quarter and the first half of 2015.

In the fourth quarter of 2014, we incurred restructuring expenses, primarily in our Aircraft Controls and Space and Defense Controls segments. The restructuring actions were in response to the business outlook for each segment, including a change in the mix of product sales and delays and cancellations of orders for certain product lines. Each segment's restructuring expense totaled \$5 million. We expect these activities to result in \$16 million of cost savings

during 2015. Through the first half of 2015, the total restructuring savings were \$5 million and are approximately 32% of our total projected annual benefits. This amount is in line with our expectations.

Interest expense in the second quarter and in the first half of 2015 increased compared to the same periods of 2014. For both periods, interest expense increased \$3 million due to higher cost debt following the issuance of our \$300 million senior notes. Interest expense also increased \$2 million due to higher levels of debt due to funding our share repurchase program.

Other expense in the second quarter and the first half of 2015 includes a \$1 million loss in our Medical Devices segment on the sale of two small operations. Other income in the second quarter of 2014 includes our receipt of a \$2 million settlement related to an acquisition in our Space and Defense segment. Other expense in the first half of 2014 includes a 3.625% call premium related to our repurchase of our 7.25% senior subordinated notes due on January 15th, 2018, as well as a \$4 million write-down of a technology investment in Industrial Systems.

The effective tax rate decreased in the second quarter and in the first half of 2015 compared to the second quarter and the first half of 2014. The effective tax rate in 2015 benefited from a more favorable mix of taxable earnings, higher estimated 2014 research and development tax credits in the U.S., and an expiration of a tax exposure accrual in a foreign subsidy.

Average common shares outstanding decreased in the second quarter of 2015 and the first half of 2015 compared to the same periods in 2014 due to our share buyback program. Since the Board of Directors amended the program in January 2014, we have repurchased 6.6 million shares.

Other comprehensive loss increased in the second quarter and in the first half of 2015 compared to the same periods of 2014. Foreign currency translation adjustments, driven primarily by the Euro and the British Pound relative to the U.S. dollar, were unfavorable. The Euro had a negative impact of \$37 million and \$47 million in the second quarter and the first half of 2015, respectively. Also the British Pound had a negative impact of \$15 million and \$30 million in the second quarter and the first half of 2015, respectively.

2015 Outlook – We expect sales in 2015 to decrease 4% to \$2.54 billion. We expect sales declines in our Industrial Systems segment due in part to unfavorable foreign currency translation as well as unfavorable macro-economic conditions. Additionally, we expect sales to decline in Aircraft Controls as growth in Commercial OEM is more than offset by declines in our military business and in our commercial aftermarket programs. We also expect sales to decline in Components as demand for our marine energy products weakens due to the lower price of oil and as growth slows in our industrial market. We expect Space and Defense Controls sales to decline due to a reduced outlook in our security business and we expect sales in Medical Devices to remain flat.

We expect our operating margin to increase to 10.6%. We expect that the absence of prior year charges, the benefits of our prior year restructuring actions and the continued focus on reducing costs will improve operating margins in our Space and Defense Controls, Industrial Systems and Medical Devices segments. However, partly offsetting the growth are expected operating margin declines in both the Aircraft Controls and Components segments due to unfavorable sales mixes. We expect net earnings will decrease 10% to \$142 million; however, diluted earnings per share will increase 1% to \$3.55. The difference between projected diluted earnings per share growth and projected net earnings growth is anticipated to come from shares repurchased through the end of the second quarter of 2015.

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 16 of the Notes to Consolidated Condensed Financial Statements included in this report.

Aircraft Controls

(dollars in millions)	Three Months Ended				Six Months Ended			
	April 4, 2015	March 29, 2014	\$ Variance	% Variance	April 4, 2015	March 29, 2014	\$ Variance	% Variance
Net sales - military aircraft	\$134.2	\$140.9	\$(6.6)	(5%)	\$260.2			