

MOOG INC  
Form 10-Q  
August 03, 2012

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 June 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-5129

---

MOOG INC.  
(Exact name of registrant as specified in its charter)

---

|  |  |
|--|--|
| New York State<br>(State or other jurisdiction of incorporation or organization) | 16-0757636<br>(I.R.S. Employer Identification No.) |
| East Aurora, New York<br>(Address of principal executive offices)                | 14052-0018<br>(Zip Code)                           |

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

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

---

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

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

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

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

Edgar Filing: MOOG INC - Form 10-Q

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

The number of shares outstanding of each class of common stock as of July 30, 2012 was:

Class A common stock, \$1.00 par value 41,281,177 shares

Class B common stock, \$1.00 par value 4,015,361 shares

---

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

| PART 1  | FINANCIAL INFORMATION   | PAGE  |
|---------|---|-------|
| Item 1  | <u>Financial Statements:</u>  |       |
|         | <u>Consolidated Condensed Balance Sheets as of June 30, 2012 and October 1, 2011</u>  | 3     |
|         | <u>Consolidated Condensed Statements of Earnings for the Three and Nine Months Ended June 30, 2012 and July 2, 2011</u>             | 4     |
|         | <u>Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2012 and July 2, 2011</u> | 5     |
|         | <u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended June 30, 2012 and July 2, 2011</u>                     | 6     |
|         | <u>Notes to Consolidated Condensed Financial Statements</u>   | 7-20  |
| Item 2  | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>  | 21-35 |
| Item 3  | <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | 35    |
| Item 4  | <u>Controls and Procedures</u>  | 35    |
| PART II | OTHER INFORMATION   |       |
| Item 2  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 35    |
| Item 6  | <u>Exhibits</u>   | 36    |
|         | <u>SIGNATURES</u>   | 37    |

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

MOOG Inc.

Consolidated Condensed Balance Sheets

(Unaudited)

| (dollars in thousands)  | June 30,<br>2012   | October 1,<br>2011 |
|---|--------------------|--------------------|
| <b>ASSETS</b>   |                    |                    |
| <b>CURRENT ASSETS</b>   |                    |                    |
| Cash and cash equivalents   | \$ 139,450         | \$ 113,679         |
| Receivables   | 710,100            | 655,805            |
| Inventories   | 522,572            | 502,373            |
| Other current assets  | 118,852            | 108,589            |
| <b>TOTAL CURRENT ASSETS</b>   | <b>1,490,974</b>   | <b>1,380,446</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$543,178 and \$513,151 respectively</b> | <b>528,357</b>     | <b>503,872</b>     |
| <b>GOODWILL</b>   | <b>740,829</b>     | <b>735,021</b>     |
| <b>INTANGIBLE ASSETS, net</b>   | <b>185,083</b>     | <b>197,545</b>     |
| <b>OTHER ASSETS</b>   | <b>29,413</b>      | <b>26,083</b>      |
| <b>TOTAL ASSETS</b>   | <b>\$2,974,656</b> | <b>\$2,842,967</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                    |                    |
| <b>CURRENT LIABILITIES</b>  |                    |                    |
| Short-term borrowings   | \$ 103,699         | \$ 9,283           |
| Current installments of long-term debt  | 279                | 1,407              |
| Accounts payable  | 161,847            | 165,893            |
| Customer advances   | 112,236            | 97,331             |
| Contract loss reserves  | 45,610             | 45,173             |
| Other accrued liabilities   | 238,944            | 227,303            |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>662,615</b>     | <b>546,390</b>     |
| <b>LONG-TERM DEBT, excluding current installments</b>   |                    |                    |
| Senior debt   | 238,811            | 336,161            |
| Senior subordinated notes   | 378,584            | 378,596            |
| <b>LONG-TERM PENSION AND RETIREMENT OBLIGATIONS</b>   | <b>333,730</b>     | <b>331,050</b>     |
| <b>DEFERRED INCOME TAXES</b>  | <b>56,228</b>      | <b>56,729</b>      |
| <b>OTHER LONG-TERM LIABILITIES</b>  | <b>2,000</b>       | <b>2,150</b>       |
| <b>TOTAL LIABILITIES</b>  | <b>1,671,968</b>   | <b>1,651,076</b>   |
| <b>SHAREHOLDERS' EQUITY</b>   |                    |                    |
| Common stock  | 51,280             | 51,280             |
| Other shareholders' equity  | 1,251,408          | 1,140,611          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>   | <b>1,302,688</b>   | <b>1,191,891</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$2,974,656</b> | <b>\$2,842,967</b> |

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 |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| NET SALES                                     | \$611,221          | \$582,959       | \$1,836,809       | \$1,711,619     |
| COST OF SALES                                 | 427,803            | 414,075         | 1,283,826         | 1,210,922       |
| GROSS PROFIT                                  | 183,418            | 168,884         | 552,983           | 500,697         |
| Research and development                      | 28,198             | 25,723          | 84,285            | 77,352          |
| Selling, general and administrative           | 93,668             | 89,663          | 287,163           | 263,008         |
| Interest                                      | 8,566              | 8,831           | 25,748            | 27,012          |
| Other   | (373)              | (980)           | (310)             | (1,407)         |
| EARNINGS BEFORE INCOME TAXES                  | 53,359             | 45,647          | 156,097           | 134,732         |
| INCOME TAXES                                  | 14,488             | 11,809          | 45,432            | 36,872          |
| NET EARNINGS                                  | \$38,871           | \$33,838        | \$110,665         | \$97,860        |
|   |                    |                 |                   |                 |
| NET EARNINGS PER SHARE                        |                    |                 |                   |                 |
| Basic   | \$0.86             | \$0.74          | \$2.45            | \$2.15          |
| Diluted                                       | \$0.85             | \$0.73          | \$2.42            | \$2.13          |

AVERAGE COMMON SHARES  
 OUTSTANDING

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 45,258,844 | 45,625,499 | 45,232,833 | 45,477,837 |
| Diluted | 45,707,738 | 46,187,026 | 45,723,097 | 46,050,856 |

See accompanying Notes to Consolidated Condensed Financial Statements.

MOOG Inc.  
 Consolidated Condensed Statements of Comprehensive Income  
 (Unaudited)

| (dollars in thousands)                                | Three Months Ended |                 | Nine Months Ended |                 |   |
|---|--------------------|-----------------|-------------------|-----------------|---|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |   |
| NET EARNINGS  | \$38,871           | \$33,838        | \$110,665         | \$97,860        |   |
| OTHER COMPREHENSIVE INCOME<br>(LOSS), NET OF TAX:     |                    |                 |                   |                 |   |
| Foreign currency translation adjustment               | (21,759            | ) 8,308         | (14,497           | ) 24,033        |   |
| Retirement liability adjustment                       | 3,262              | 1,880           | 8,784             | 5,845           |   |
| Change in accumulated income (loss) on<br>derivatives | 208                | 13              | 295               | (121            | ) |
|   | (18,289            | ) 10,201        | (5,418            | ) 29,757        |   |
| COMPREHENSIVE INCOME                                  | \$20,582           | \$44,039        | \$105,247         | \$127,617       |   |

See accompanying Notes to Consolidated Condensed Financial Statements.

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

| (dollars in thousands)  | Nine Months Ended |                   |
|---|-------------------|-------------------|
|   | June 30,<br>2012  | July 2,<br>2011   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                   |
| Net earnings  | \$ 110,665        | \$ 97,860         |
| Adjustments to reconcile net earnings to net cash provided<br>by operating activities:      |                   |                   |
| Depreciation  | 48,574            | 47,953            |
| Amortization  | 25,091            | 22,991            |
| Provisions for non-cash losses on contracts, inventories and receivables                    | 53,598            | 57,785            |
| Equity-based compensation expense   | 5,540             | 5,919             |
| Other   | (5,671)           | ) 2,240           |
| Changes in assets and liabilities providing cash, excluding the<br>effects of acquisitions: |                   |                   |
| Receivables   | (56,801)          | ) (51,566)        |
| Inventories   | (33,427)          | ) (54,183)        |
| Accounts payable  | (5,131)           | ) (5,090)         |
| Customer advances   | 14,377            | 27,196            |
| Accrued expenses  | (33,724)          | ) (32,193)        |
| Accrued income taxes  | 5,828             | 15,018            |
| Pension assets and liabilities  | 19,795            | (4,666)           |
| Other assets and liabilities  | (5,207)           | ) (6,089)         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <b>143,507</b>    | <b>123,175</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                   |
| Acquisitions of businesses, net of acquired cash  | (25,673)          | ) (38,541)        |
| Purchase of property, plant and equipment   | (79,011)          | ) (52,235)        |
| Other investing transactions  | (5,377)           | ) 195             |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>  | <b>(110,061)</b>  | <b>) (90,581)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |                   |
| Net short term borrowings   | 94,956            | 6,092             |
| Net repayments of revolving lines of credit   | (97,506)          | ) (15,140)        |
| Net payments on long-term debt  | (1,118)           | ) (7,806)         |
| Excess tax benefits from equity-based payment arrangements                                  | 368               | 135               |
| Other financing transactions  | (809)             | ) (5,081)         |
| <b>NET CASH USED BY FINANCING ACTIVITIES</b>  | <b>(4,109)</b>    | <b>) (21,800)</b> |
| Effect of exchange rate changes on cash   | (3,566)           | ) 4,036           |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>25,771</b>     | <b>14,830</b>     |
| Cash and cash equivalents at beginning of period  | 113,679           | 112,421           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>   | <b>\$ 139,450</b> | <b>\$ 127,251</b> |
| <b>CASH PAID FOR:</b>   |                   |                   |
| Interest  | \$ 25,001         | \$ 26,625         |

|  |        |        |
|--|--------|--------|
| Income taxes, net of refunds   | 45,017 | 21,735 |
| See accompanying Notes to Consolidated Condensed Financial Statements. |        |        |



Table of Contents

MOOG Inc.

Notes to Consolidated Condensed Financial Statements

Nine Months Ended June 30, 2012

(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 nine months ended June 30, 2012 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 October 1, 2011. All references to years in these financial statements are to fiscal years.

Note 2 - Acquisitions

During the nine months ended June 30, 2012, we completed two business combinations. We completed one business combination in our Components segment by acquiring Protokraft, LLC, based in Tennessee, for \$12,500 in cash and contingent consideration with an initial fair value of \$4,809. Protokraft designs and manufactures opto-electronic transceivers, ethernet switches and media converters packaged into rugged, environmentally-sealed connectors. We also completed one business combination in our Space and Defense Controls segment by acquiring Bradford Engineering, based in the Netherlands, for \$13,173 in cash. Bradford is a developer and manufacturer of satellite equipment including attitude control, propulsion and thermal control subsystems. The purchase price allocations for both Bradford and Protokraft are based on preliminary estimates of fair value of assets acquired and liabilities assumed and are subject to subsequent adjustment as we obtain additional information for our estimates during the measurement period.

In 2011, we completed three business combinations within two of our segments. We completed two business combinations within our Aircraft Controls segment, both of which are located in the U.S. We acquired Crossbow Technology Inc., based in California, for \$31,999, net of cash acquired. Crossbow designs and manufactures acceleration sensors that are integrated into inertial navigation and guidance systems used in a variety of aerospace, defense and transportation applications. We also acquired a business that complements our military aftermarket business for \$2,373 in cash. We completed one business combination within our Components segment by acquiring Animatics Corporation, based in California. The purchase price, net of cash acquired, was \$24,091, which included 467,749 shares of Moog Class A common stock valued at \$18,785 on the day of closing and \$1,837 of debt assumed. Animatics supplies integrated servos, linear actuators and control electronics that are used in a variety of industrial, medical and defense applications. The purchase price allocations were completed in the second quarter of 2012.

Note 3 - Receivables

On March 5, 2012, the Company entered into a trade receivables securitization facility (the Securitization Program). Under the Securitization Program, the Company securitizes certain trade receivables in transactions that are accounted for as secured borrowings. The Company maintains 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

|                                   | June 30,<br>2012 | October 1,<br>2011 |
|-----------------------------------|------------------|--------------------|
| Raw materials and purchased parts | \$175,666        | \$197,347          |
| Work in progress                  | 276,217          | 235,428            |
| Finished goods                    | 70,689           | 69,598             |
| Total                             | \$522,572        | \$502,373          |

## Note 5 - Goodwill and Intangible Assets

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

|                                  | Balance as of<br>October 1,<br>2011 | Acquisitions | Adjustment<br>To Prior Year<br>Acquisitions | Foreign<br>Currency<br>Translation | Balance as of<br>June 30, 2012 |
|----------------------------------|-------------------------------------|--------------|---|------------------------------------|--------------------------------|
| Aircraft Controls                | \$194,052                           | \$—          | \$(3,865)                                   | \$431                              | \$190,618                      |
| Space and Defense Controls       | 121,416                             | 5,374        | —   | (593)                              | 126,197                        |
| Industrial Systems<br>Components | 120,834                             | —            | —   | (2,673)                            | 118,161                        |
| Medical Devices                  | 172,531                             | 7,055        | (147)                                       | 862                                | 180,301                        |
| Total                            | 126,188                             | —            | —   | (636)                              | 125,552                        |
|                                  | \$735,021                           | \$12,429     | \$(4,012)                                   | \$(2,609)                          | \$740,829                      |

The components of acquired intangible assets are as follows:

|                            |                                       | June 30, 2012            |                             | October 1, 2011          |                             |
|----------------------------|---------------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|                            | Weighted -<br>Average Life<br>(years) | Gross Carrying<br>Amount | Accumulated<br>Amortization | Gross Carrying<br>Amount | Accumulated<br>Amortization |
| Customer-related           | 9                                     | \$165,585                | \$(76,105)                  | \$159,861                | \$(64,420)                  |
| Program-related            | 18                                    | 65,375                   | (12,443)                    | 64,887                   | (9,163)                     |
| Technology-related         | 9                                     | 64,862                   | (33,743)                    | 61,276                   | (28,876)                    |
| Marketing-related          | 9                                     | 24,113                   | (15,511)                    | 23,669                   | (13,828)                    |
| Contract-related           | 3                                     | 3,263                    | (2,989)                     | 3,238                    | (2,156)                     |
| Artistic-related           | 10                                    | 25                       | (25)                        | 25                       | (25)                        |
| Acquired intangible assets | 11                                    | \$323,223                | \$(140,816)                 | \$312,956                | \$(118,468)                 |

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.

Technology-related intangible assets primarily consist of technology, patents, intellectual property and engineering drawings. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements. Contract-related intangible assets consist of favorable operating lease terms.

Amortization of acquired intangible assets was \$7,925 and \$23,218 for the three and nine months ended June 30, 2012 and \$7,252 and \$21,207 for the three and nine months ended July 2, 2011. Based on acquired intangible assets recorded at June 30, 2012, amortization is expected to be approximately \$30,901 in 2012, \$27,348 in 2013, \$24,486 in 2014, \$21,473 in 2015 and \$19,764 in 2016.



## Note 6 - Indebtedness

Short-term borrowings consist of:

|                        | June 30,<br>2012 | October 1,<br>2011 |
|------------------------|------------------|--------------------|
| Securitization program | \$ 94,200        | \$—                |
| Lines of credit        | 8,771            | 8,426              |
| Other short-term debt  | 728              | 857                |
| Short-term borrowings  | \$ 103,699       | \$ 9,283           |

On March 5, 2012, the Company entered into the Securitization Program which matures on March 4, 2013, effectively increases the Company's borrowing capacity by up to \$100,000. Under the Securitization Program, the Company sells 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. The Securitization Program can be extended by agreement of the parties thereto for successive 364-day terms.

The Company utilizes proceeds from the Securitization Program as an alternative to other forms of debt, effectively reducing borrowing costs. Interest rates for the Securitization Program are based on prevailing market rates for short-term commercial paper 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.

## 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 thirty-six months. We determine warranty reserves needed by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

|   | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| Warranty accrual at beginning of period | \$17,720           | \$18,570        | \$19,247          | \$14,856        |
| Additions from acquisitions             | —                  | 120             | 40                | 120             |
| Warranties issued during current period | 2,623              | 2,214           | 6,884             | 8,960           |
| Adjustments to pre-existing warranties  | 160                | 6               | (145              | ) 396           |
| Reductions for settling warranties      | (2,653             | ) (1,508        | ) (8,198          | ) (5,151        |
| Foreign currency translation            | (237               | ) 145           | (215              | ) 366           |
| Warranty accrual at end of period       | \$17,613           | \$19,547        | \$17,613          | \$19,547        |

## 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. There were no outstanding interest rate swaps at June 30, 2012.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments. To mitigate exposure in movements between various currencies, primarily the Philippine peso, we had outstanding foreign currency forwards with notional amounts of \$26,270 at June 30, 2012. These contracts mature at various times through the fourth quarter of 2013.

These interest rate swaps and foreign currency forwards are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first nine months of 2012 or 2011.

Activity in AOCI related to these derivatives is summarized below:

|   | Three Months Ended |              | Nine Months Ended |              |
|---|--------------------|--------------|-------------------|--------------|
|   | June 30, 2012      | July 2, 2011 | June 30, 2012     | July 2, 2011 |
| Balance at beginning of period                | \$ (78 )           | \$ 10        | \$ (165 )         | \$ 144       |
| Net deferral in AOCI of derivatives:          |                    |              |                   |              |
| Net increase in fair value of derivatives     | 372                | 72           | 568               | 118          |
| Tax effect                                    | (173 )             | (29 )        | (245 )            | (45 )        |
|   | 199                | 43           | 323               | 73           |
| Net reclassification from AOCI into earnings: |                    |              |                   |              |
| Reclassification from AOCI into earnings      | 6                  | (49 )        | (67 )             | (304 )       |
| Tax effect                                    | 3                  | 19           | 39                | 110          |
|   | 9                  | (30 )        | (28 )             | (194 )       |
| Balance at end of period                      | \$ 130             | \$ 23        | \$ 130            | \$ 23        |

Activity and classification of derivatives are as follows:

|                           | Statement of earnings classification | Net deferral in AOCI of derivatives - effective portion |                    | Net deferral in AOCI of derivatives - effective portion |                   |
|---------------------------|--------------------------------------|---|--------------------|---|-------------------|
|                           |                                      | Three Months Ended                                      | Three Months Ended | Nine Months Ended                                       | Nine Months Ended |
|                           |                                      | June 30, 2012   | July 2, 2011       | June 30, 2012   | July 2, 2011      |
| Interest rate swaps       | Interest expense                     | \$—   | \$ (25 )           | \$—   | \$ (83 )          |
| Foreign currency forwards | Cost of sales                        | 372   | 97                 | 568   | 201               |
| Net gain                  |                                      | \$ 372  | \$ 72              | \$ 568  | \$ 118            |

|                           | Statement of earnings classification | Net reclassification from AOCI into earnings - effective portion |                    | Net reclassification from AOCI into earnings - effective portion |                   |
|---------------------------|--------------------------------------|--|--------------------|--|-------------------|
|                           |                                      | Three Months Ended   | Three Months Ended | Nine Months Ended  | Nine Months Ended |
|                           |                                      | June 30, 2012  | July 2, 2011       | June 30, 2012  | July 2, 2011      |
| Interest rate swaps       | Interest expense                     | \$—  | \$ (106 )          | \$ (67 )   | \$ (316 )         |
| Foreign currency forwards | Cost of sales                        | (6 )   | 155                | 134  | 620               |
| Net gain (loss)           |                                      | \$ (6 )  | \$ 49              | \$ 67  | \$ 304            |

## Derivatives not designated as hedging instruments

We also have foreign currency exposure on intercompany balances that are denominated in a foreign currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the statements of earnings. To minimize foreign currency exposure, we had foreign currency forwards with notional amounts of \$163,803 at June 30, 2012. The foreign currency forwards are recorded in the consolidated balance sheet at fair value and resulting gains or losses are recorded in the statements of earnings. We recorded the following losses on foreign currency forwards which are included in other income or expense and generally offset the gains from the foreign currency adjustments on the intercompany balances:

|          | Three Months Ended |                 | Nine Months Ended |                 |
|----------|--------------------|-----------------|-------------------|-----------------|
|          | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| Net loss | \$ (812            | ) \$ (158       | ) \$ (1,383       | ) \$ (833       |

## Summary of derivatives

The fair value and classification of derivatives on the consolidated balance sheets are summarized as follows:

|  |                             | June 30,<br>2012 | October 1,<br>2011 |
|--|-----------------------------|------------------|--------------------|
| Derivatives designated as hedging instruments:     |                             |                  |                    |
| Foreign currency forwards                          | Other current assets        | \$ 308           | \$ 25              |
| Foreign currency forwards                          | Other assets                | 52               | —                  |
|  |                             | \$ 360           | \$ 25              |
| Foreign currency forwards                          | Other accrued liabilities   | \$ 61            | \$ 143             |
| Foreign currency forwards                          | Other long-term liabilities | 25               | 81                 |
| Interest rate swaps                                | Other accrued liabilities   | —                | 102                |
|  |                             | \$ 86            | \$ 326             |
| Derivatives not designated as hedging instruments: |                             |                  |                    |
| Foreign currency forwards                          | Other current assets        | \$ 1,948         | \$ 1,524           |
|  |                             | \$ 1,948         | \$ 1,524           |
| Foreign currency forwards                          | Other accrued liabilities   | \$ 534           | \$ 2,640           |
|  |                             | \$ 534           | \$ 2,640           |



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, 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 June 30, 2012:

|                                      | Classification              | Level 1 | Level 2 | Level 3 | Total   |
|--------------------------------------|-----------------------------|---------|---------|---------|---------|
| Foreign currency forwards            | Other current assets        | \$—     | \$2,256 | \$—     | \$2,256 |
| Foreign currency forwards            | Other assets                | —       | 52      | —       | 52      |
|                                      |                             | \$—     | \$2,308 | \$—     | \$2,308 |
| Foreign currency forwards            | Other accrued liabilities   | \$—     | \$595   | \$—     | \$595   |
| Foreign currency forwards            | Other long-term liabilities | —       | 25      | —       | 25      |
| Acquisition contingent consideration | Other accrued liabilities   | —       | —       | 5,147   | 5,147   |
| Acquisition contingent consideration | Other long-term liabilities | —       | —       | 1,230   | 1,230   |
|                                      |                             | \$—     | \$620   | \$6,377 | \$6,997 |

The following is a roll forward of financial liabilities classified as Level 3 within the fair value hierarchy related to contingent consideration for acquisitions:

|   | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| Balance at beginning of period  | \$5,943            | \$2,416         | \$1,990           | \$3,112         |
| Additions from acquisitions   | 371                | —               | 4,809             | —               |
| Increase in discounted future cash flows recorded as interest expense | 103                | 95              | 191               | 394             |
| Decrease in earn out provisions recorded as other income              | (40                | ) (95           | ) (613            | ) (1,090        |
| Balance at end of period  | \$6,377            | \$2,416         | \$6,377           | \$2,416         |

Our only financial instrument for which the carrying value differs from its fair value is long-term debt. At June 30, 2012, the fair value of long-term debt was \$632,454 compared to its carrying value of \$617,674. The fair value of long-term debt is classified as Level 2 within the fair value hierarchy and was estimated based on quoted market prices.

## Note 10 - Employee Benefit Plans

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

|  | Three Months Ended |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| Service cost                                   | \$5,837            | \$5,642         | \$17,511          | \$16,925        |
| Interest cost                                  | 7,446              | 7,171           | 22,338            | 21,513          |
| Expected return on plan assets                 | (10,492            | ) (9,772        | ) (31,476         | ) (29,317       |
| Amortization of prior service cost             | 2                  | 2               | 6                 | 7               |
| Amortization of actuarial loss                 | 4,256              | 2,823           | 12,768            | 8,470           |
| Pension expense for defined benefit plans      | 7,049              | 5,866           | 21,147            | 17,598          |
| Pension expense for defined contribution plans | 2,262              | 2,002           | 6,459             | 5,227           |
| Total pension expense for U.S. plans           | \$9,311            | \$7,868         | \$27,606          | \$22,825        |

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

|  | Three Months Ended |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | June 30, 2012      | July 2,<br>2011 | June 30, 2012     | July 2,<br>2011 |
| Service cost                                   | \$945              | \$1,221         | \$2,966           | \$3,582         |
| Interest cost                                  | 1,325              | 1,598           | 4,294             | 4,677           |
| Expected return on plan assets                 | (889               | ) (991          | ) (2,814          | ) (2,915        |
| Amortization of prior service credit           | (16                | ) (15           | ) (45             | ) (44           |
| Amortization of actuarial loss                 | 207                | 393             | 642               | 1,156           |
| Pension expense for defined benefit plans      | 1,572              | 2,206           | 5,043             | 6,456           |
| Pension expense for defined contribution plans | 1,168              | 1,286           | 3,584             | 3,535           |
| Total pension expense for non-U.S. plans       | \$2,740            | \$3,492         | \$8,627           | \$9,991         |

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

|   | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| Service cost                                | \$82               | \$123           | \$246             | \$368           |
| Interest cost                               | 196                | 276             | 588               | 828             |
| Amortization of transition obligation       | 99                 | 99              | 297               | 296             |
| Amortization of actuarial loss              | —                  | 149             | —                 | 446             |
| Total periodic post-retirement benefit cost | \$377              | \$647           | \$1,131           | \$1,938         |

Activity in AOCI related to U.S. pension plans, non-U.S. pension plans and post-retirement health care benefit plans is summarized below:

|   | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| Balance at beginning of period                | \$ (228,606 )      | \$ (178,371 )   | \$ (234,128 )     | \$ (182,336 )   |
| Net reclassification from AOCI into earnings: |                    |                 |                   |                 |
| Reclassification from AOCI into earnings      | 4,960              | 3,146           | 13,878            | 9,638           |
| Tax effect                                    | (1,698 )           | (1,266 )        | (5,094 )          | (3,793 )        |
|   | 3,262              | 1,880           | 8,784             | 5,845           |
| Balance at end of period                      | \$ (225,344 )      | \$ (176,491 )   | \$ (225,344 )     | \$ (176,491 )   |

Actual contributions for the nine months ended June 30, 2012 and anticipated additional 2012 contributions to our defined benefit pension plans are as follows:

|             | U.S. Plans | Non-U.S. Plans | Total   |
|-------------|------------|----------------|---------|
| Actual      | \$805      | \$5,593        | \$6,398 |
| Anticipated | 223        | 1,298          | 1,521   |
|             | \$1,028    | \$6,891        | \$7,919 |

#### Note 11 - Income Taxes

The effective tax rates of 27.2% and 29.1% for the three and nine months ended June 30, 2012 and 25.9% and 27.4% for the three and nine months ended July 2, 2011 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 12 - Shareholders' Equity

The changes in shareholders' equity for the nine months ended June 30, 2012 are summarized as follows:

|   | Amount             | Number of Shares        |                         |
|---|--------------------|-------------------------|-------------------------|
|   |                    | Class A<br>Common Stock | Class B<br>Common Stock |
| <b>COMMON STOCK</b>                             |                    |                         |                         |
| Beginning of period                             | \$51,280           | 43,534,575              | 7,745,138               |
| Conversion of Class B to Class A                | —                  | 31,997                  | (31,997 )               |
| End of Period                                   | 51,280             | 43,566,572              | 7,713,141               |
| <b>ADDITIONAL PAID-IN CAPITAL</b>               |                    |                         |                         |
| Beginning of period                             | 412,370            |                         |                         |
| Equity-based compensation expense               | 5,540              |                         |                         |
| Issuance of treasury shares at more than cost   | 895                |                         |                         |
| Adjustment to market - SECT, and other          | 3,505              |                         |                         |
| End of period                                   | 422,310            |                         |                         |
| <b>RETAINED EARNINGS</b>                        |                    |                         |                         |
| Beginning of period                             | 1,016,754          |                         |                         |
| Net earnings                                    | 110,665            |                         |                         |
| End of period                                   | 1,127,419          |                         |                         |
| <b>TREASURY STOCK</b>                           |                    |                         |                         |
| Beginning of period                             | (74,479            | ) (2,393,039            | ) (3,305,971 )          |
| Issuance of treasury shares                     | 681                | 127,775                 | —                       |
| Purchase of treasury shares                     | (831               | ) (20,131               | ) —                     |
| End of period                                   | (74,629            | ) (2,285,395            | ) (3,305,971 )          |
| <b>STOCK EMPLOYEE COMPENSATION TRUST (SECT)</b> |                    |                         |                         |
| Beginning of period                             | (13,090            | )                       | (395,470 )              |
| Issuance of shares                              | 773                |                         | 20,338                  |
| Purchase of shares                              | (1,876             | )                       | (44,480 )               |
| Adjustment to market - SECT                     | (3,137             | )                       | —                       |
| End of period                                   | (17,330            | ) —                     | (419,612 )              |
| <b>ACCUMULATED OTHER COMPREHENSIVE (LOSS)</b>   |                    |                         |                         |
| <b>INCOME</b>                                   |                    |                         |                         |
| Beginning of period                             | (200,944           | )                       |                         |
| Other comprehensive loss                        | (5,418             | )                       |                         |
| End of period                                   | (206,362           | )                       |                         |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>               | <b>\$1,302,688</b> | <b>41,281,177</b>       | <b>3,987,558</b>        |

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

|  | June 30,<br>2012 | October 1,<br>2011 |   |
|--|------------------|--------------------|---|
| Cumulative foreign currency translation adjustment | \$ 18,852        | \$ 33,349          |   |
| Accumulated retirement liability adjustments       | (225,344         | ) (234,128         | ) |
| Accumulated gain (loss) on derivatives             | 130              | (165               | ) |
| Accumulated other comprehensive loss               | \$ (206,362      | ) \$ (200,944      | ) |

#### Note 13 - 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 14 - Earnings per Share

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

|   | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |
| Weighted-average shares outstanding - Basic   | 45,258,844         | 45,625,499      | 45,232,833        | 45,477,837      |
| Dilutive effect of equity-based awards        | 448,894            | 561,527         | 490,264           | 573,019         |
| Weighted-average shares outstanding - Diluted | 45,707,738         | 46,187,026      | 45,723,097        | 46,050,856      |

## Note 15 - Segment Information

Below are sales and operating profit by segment for the three and nine months ended June 30, 2012 and July 2, 2011 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 |                 | Nine Months Ended |                 |    |
|--------------------------------------|--------------------|-----------------|-------------------|-----------------|----|
|                                      | June 30,<br>2012   | July 2,<br>2011 | June 30,<br>2012  | July 2,<br>2011 |    |
| Net sales:                           |                    |                 |                   |                 |    |
| Aircraft Controls                    | \$ 242,220         | \$ 220,691      | \$ 709,688        | \$ 622,672      |    |
| Space and Defense Controls           | 87,138             | 79,689          | 265,343           | 263,226         |    |
| Industrial Systems                   | 157,871            | 156,404         | 483,971           | 456,000         |    |
| Components                           | 90,335             | 87,940          | 274,125           | 264,639         |    |
| Medical Devices                      | 33,657             | 38,235          | 103,682           | 105,082         |    |
| Net sales                            | \$ 611,221         | \$ 582,959      | \$ 1,836,809      | \$ 1,711,619    |    |
| Operating profit (loss) and margins: |                    |                 |                   |                 |    |
| Aircraft Controls                    | \$ 27,826          | \$ 22,935       | \$ 75,436         | \$ 62,298       |    |
|                                      | 11.5               | % 10.4          | % 10.6            | % 10.0          | %  |
| Space and Defense Controls           | 9,892              | 8,751           | 32,538            | 37,649          |    |
|                                      | 11.4               | % 11.0          | % 12.3            | % 14.3          | %  |
| Industrial Systems                   | 15,880             | 13,864          | 50,978            | 44,129          |    |
|                                      | 10.1               | % 8.9           | % 10.5            | % 9.7           | %  |
| Components                           | 12,657             | 13,365          | 41,165            | 41,423          |    |
|                                      | 14.0               | % 15.2          | % 15.0            | % 15.7          | %  |
| Medical Devices                      | 1,358              | 1,157           | 4,445             | (1,838)         | )  |
|                                      | 4.0                | % 3.0           | % 4.3             | % (1.7)         | )% |
| Total operating profit               | 67,613             | 60,072          | 204,562           | 183,661         |    |
|                                      | 11.1               | % 10.3          | % 11.1            | % 10.7          | %  |
| Deductions from operating profit:    |                    |                 |                   |                 |    |
| Interest expense                     | 8,566              | 8,831           | 25,748            | 27,012          |    |
| Equity-based compensation expense    | 750                | 744             | 5,540             | 5,919           |    |
| Corporate expenses and other         | 4,938              | 4,850           | 17,177            | 15,998          |    |
| Earnings before income taxes         | \$ 53,359          | \$ 45,647       | \$ 156,097        | \$ 134,732      |    |





Note 16 - Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, "Fair Value Measurements and Disclosures (ASC Topic 820) - Improving Disclosures About Fair Value Measurements." This amendment requires separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The new disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We adopted this standard in the first quarter of 2012. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, "Intangibles - Goodwill and Other (ASC Topic 350) - When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." This amendment modifies the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts, and it requires performing Step 2 if qualitative factors indicate that it is more likely than not that an impairment exists. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Any goodwill impairment resulting from the initial adoption of the amendments should be recorded as a cumulative effect adjustment to beginning retained earnings. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings. We adopted this standard in the first quarter of 2012. The adoption of this new guidance did not have a material impact on our financial statements.

In December 2010, the FASB issued ASU No. 2010-29, "Business Combinations (ASC Topic 805) - Disclosure of Supplementary Pro Forma Information for Business Combinations." This amendment expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. We adopted this standard in the first quarter of 2012. Other than requiring additional disclosures, the adoption of this amendment did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." The amendments provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amendments also change certain fair value measurement principles and enhance the disclosure requirements, particularly for Level 3 fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. Early adoption is not permitted. We adopted this standard during the second quarter of 2012. Other than requiring additional disclosures, the adoption of this amendment did not have a material impact on our consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." The amendment eliminates the option to present other comprehensive income and its components in the statement of stockholders' equity. The amendment requires all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment, which must be applied retrospectively, is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. We adopted this standard during the second quarter of 2012. Other than requiring a change in the format of our current financial statement presentation, the adoption of this amendment did not have a material impact on our consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments of 2011-05." The amendment allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the guidance in place prior to the issuance of ASU No.

2011-05. While the Board is considering the operational concerns about presentation requirements for reclassification adjustments, it stated that the deferral did not affect the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendment, which must be applied retrospectively, is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. We adopted this standard during the second quarter of 2012. The adoption of this amendment did not have a material impact on our consolidated 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 October 1, 2011. All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years.

OVERVIEW

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

We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls and represent 29% of our sales. We recognize revenue on these contracts using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion. The remainder of our sales are recognized when the risks and rewards of ownership and title to the product are transferred to the customer, principally as units are delivered or as service obligations are satisfied. This method of revenue recognition is predominantly used within the Industrial Systems, Components and Medical Devices segments, as well as with aftermarket activity.

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

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

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

- maintaining our technological excellence by building upon our systems integration capabilities while solving our customers' most demanding technical problems,
- taking advantage of our global capabilities,

growing our profitable aftermarket business,  
capitalizing on strategic acquisitions and opportunities,  
developing products for new and emerging markets, and  
striving for continuing cost improvements.

21

---

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, foreign currency fluctuations, pricing pressures from customers, strong competition and increases in costs such as health care benefits. We address these challenges by focusing on strategic revenue growth and by continuing to improve operating efficiencies through various process and manufacturing initiatives and using low cost manufacturing facilities without compromising quality.

#### Acquisitions

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

During the nine months ended June 30, 2012, we completed two business combinations. We completed one business combination in our Components segment by acquiring Protokraft, LLC, based in Tennessee, for \$13 million plus contingent consideration with an initial fair value of \$5 million. Protokraft designs and manufactures opto-electronic transceivers, ethernet switches and media converters packaged into rugged, environmentally-sealed connectors. We also completed one business combination in our Space and Defense Controls segment by acquiring Bradford Engineering, based in the Netherlands, for \$13 million. Bradford is a developer and manufacturer of satellite equipment including attitude control, propulsion and thermal control subsystems.

On July 31, 2012, we completed a business combination in our Space and Defense Controls segment by acquiring In-Space Propulsion for \$46 million. In-Space Propulsion has locations in New York, California, Ireland and the United Kingdom and is a developer and manufacturer of liquid propulsion systems and components for satellites and missile defense systems.

In 2011, we completed three business combinations within two of our segments. We completed two business combinations within our Aircraft Controls segment, both of which are located in the U.S. We acquired Crossbow Technology Inc., based in California, for \$32 million. Crossbow designs and manufactures acceleration sensors that are integrated into inertial navigation and guidance systems used in a variety of aerospace, defense and transportation applications. We also acquired a business that complements our military aftermarket business for \$2 million. We completed one business combination within our Components segment by acquiring Animatics Corporation, based in California. The purchase price was \$24 million, which includes 467,749 shares of Moog Class A common stock valued at \$19 million on the day of closing. Animatics supplies integrated servos, linear actuators and control electronics that are used in a variety of industrial, medical and defense applications.

#### 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, reserves for inventory valuation, contract loss reserves, 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 2011 Annual Report filed on Form 10-K.



## CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

| (dollars in millions,<br>except per share data)                             | Three Months Ended |                 |                |               | Nine Months Ended |                 |                |               |
|---|--------------------|-----------------|----------------|---------------|-------------------|-----------------|----------------|---------------|
|   | June 30,<br>2012   | July 2,<br>2011 | \$<br>Variance | %<br>Variance | June 30,<br>2012  | July 2,<br>2011 | \$<br>Variance | %<br>Variance |
| Net sales   | \$611.2            | \$583.0         | \$28.2         | 5 %           | \$1,836.8         | \$1,711.6       | \$125.2        | 7 %           |
| Gross margin  | 30.0               | %29.0           | %              |               | 30.1              | %29.3           | %              |               |
| Research and<br>development expenses  | \$28.2             | \$25.7          | \$2.5          | 10 %          | \$84.3            | \$77.4          | \$6.9          | 9 %           |
| Selling, general and<br>administrative expenses<br>as a percentage of sales | 15.3               | %15.4           | %              |               | 15.6              | %15.4           | %              |               |
| Interest expense  | \$8.6              | \$8.8           | \$(0.2)        | (2) %         | \$25.7            | \$27.0          | \$(1.3)        | (5) %         |
| Effective tax rate  | 27.2               | %25.9           | %              |               | 29.1              | %27.4           | %              |               |
| Net earnings  | \$38.9             | \$33.8          | \$5.1          | 15 %          | \$110.7           | \$97.9          | \$12.8         | 13 %          |
| Diluted earnings per<br>share   | \$0.85             | \$0.73          | \$0.12         | 16 %          | \$2.42            | \$2.13          | \$0.29         | 14 %          |

Net sales increased in the third quarter and first nine months of 2012 compared to the same periods in 2011. Increases came from our Aircraft Controls, Space and Defense Controls, Industrial Systems and Components segments and were offset by declines in Medical Devices.

Gross margin increased in the third quarter and first nine months of 2012 compared to the same periods last year. We had stronger gross margins in Aircraft Controls, Industrial Systems and Medical Devices, while gross margins were fairly flat in Space and Defense Controls and Components.

Research and development expenses increased in the third quarter of 2012 due to increased activity on the Airbus A350 program. The increase for the first nine months of 2012 was mainly attributable to increased activity on the Airbus A350 program, partially offset by reimbursements negotiated on commercial transport programs during the first nine months of 2011.

Interest expense decreased mostly as a result of lower interest rates in both the third quarter and first nine months of 2012 compared to the same periods in 2011.

The effective tax rate for the third quarter increased due to a mix in foreign earnings. The effective tax rate for the first nine months of 2012 is higher than the first nine months of 2011 due to the expiration of a foreign tax credit as a result of a tax law change. In addition, the first quarter of 2011 included a catch up adjustment for research and development tax credits due to delayed passage of the legislation in 2010.

2012 Outlook – We expect sales in 2012 to increase 6% to \$2.46 billion reflecting increases in our Aircraft Controls, Components, Space and Defense Controls and Industrial Systems segments and partially offset by slight decreases in our Medical Devices segment. We expect operating margins to increase to 11.3% in 2012 compared to 10.6% in 2011 with increases in all of our segments except for Space and Defense Controls. We expect net earnings to increase to \$152 million and diluted earnings per share to increase by 12% to \$3.31.

2013 Outlook – We expect sales in 2013 to increase between 6% and 8% to between \$2.61 billion and \$2.66 billion, reflecting both strength in most of our segments as well as concerns in the macro-economic picture within our Industrial Systems segment. We expect operating margins between 11.3% and 11.7%. We expect margin expansion in Aircraft Controls, Components and Medical Devices and a slight margin decrease in our Space and Defense Controls

segment. We expect our Industrial Systems segment operating margin to be between 9.9% and 11.4%. We expect net earnings to increase between \$161 and \$170 million and diluted earnings per share to increase between 6% and 12% to between \$3.50 and \$3.70. Given the uncertainty of sequestration reductions (as noted in Economic Conditions and Market Trends) the preceding outlook excludes the effect for fiscal 2013.



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

## Aircraft Controls

| (dollars in millions)           | Three Months Ended |                 |                |               | Nine Months Ended |                 |                |               |   |
|---------------------------------|--------------------|-----------------|----------------|---------------|-------------------|-----------------|----------------|---------------|---|
|                                 | June 30,<br>2012   | July 2,<br>2011 | \$<br>Variance | %<br>Variance | June 30,<br>2012  | July 2,<br>2011 | \$<br>Variance | %<br>Variance |   |
| Net sales - military aircraft   | \$141.7            | \$134.2         | \$7.5          | 6             | % \$427.3         | \$384.7         | \$42.6         | 11            | % |
| Net sales - commercial aircraft | 100.5              | 86.5            | 14.0           | 16            | % 282.4           | 238.0           | 44.4           | 19            | % |
|                                 | \$242.2            | \$220.7         | \$21.5         | 10            | % \$709.7         | \$622.7         | \$87.0         | 14            | % |
| Operating profit                | \$27.8             | \$22.9          | \$4.9          | 21            | % \$75.4          | \$62.3          | \$13.1         | 21            | % |
| Operating margin                | 11.5               | % 10.4          | %              |               | 10.6              | % 10.0          | %              |               |   |
| Backlog                         |                    |                 |                |               | \$690.3           | \$630.1         | \$60.2         | 10            | % |

In the third quarter of 2012, military aircraft sales increased \$6 million due to increased production on navigation aids programs for the U.S. Navy and U.S. Air Force and \$5 million due to stronger foreign military sales. The increase was partially offset by a \$5 million decrease in military aftermarket due to lower V-22 activity related to timing of shipments. Commercial OEM sales increased \$8 million across most major programs with two exceptions. We had no sales to Hawker compared to \$3 million in Hawker sales in the third quarter of 2011. Additionally, in the third quarter of 2011, we settled scope change negotiations with Boeing on the 787 program resulting in a significant catch up adjustment. In addition to the commercial OEM sales increase, commercial aftermarket increased \$5 million due to higher Boeing 787 initial provisioning sales.

For the first nine months of 2012, military and commercial OEM programs drove the increase in sales as compared the same period of 2011. Foreign military sales on fighter aircraft increased \$18 million, F-35 production increased \$10 million and navigation aids increased \$9 million. Commercial OEM sales experienced growth across most major platforms. Specifically, sales to Boeing increased \$10 million, business jets increased \$9 million despite minimal sales to Hawker, and Airbus increased \$7 million as work on the A380 contract started. Commercial aftermarket sales also increased \$10 million, primarily due to \$7 million of increased initial provisioning sales for the Boeing 787 program.

Operating margin was higher in the third quarter as well as the first nine months of 2012 compared to the same periods in 2011. Margins expanded due to higher sales volumes. Also, additions to contract loss reserves decreased \$4 million in the quarter and \$6 million in the first nine months. Research and development decreased as a percentage of sales in the quarter; however it increased in the first nine months as work ramped up on the A350 program. Also partially offsetting the margin increase were expenses related to the move to our newly constructed manufacturing facility in Wolverhampton, England.

The higher level of twelve-month backlog for Aircraft Controls at June 30, 2012 reflects additional rounds of military aftermarket contracts as well as increased commercial orders.

2012 Outlook for Aircraft Controls – We expect sales in Aircraft Controls to increase 12% to \$952 million in 2012. Military aircraft sales are expected to increase 9% to \$578 million due to increases in F-35 production, foreign military sales and navigation aids program sales. Commercial aircraft sales are expected to increase 17% to \$374 million reflecting increases across many programs. We expect our operating margin to increase to 11.0% from 9.9% in 2011, reflecting incremental contribution on higher sales.

2013 Outlook for Aircraft Controls – We expect sales in Aircraft Controls to increase 8% to \$1.03 billion in 2013. Military aircraft sales are expected to increase 2% to \$590 million primarily due to V-22 aftermarket sales. Commercial aircraft is expected to increase 17% due to stronger sales to Boeing and Airbus. We expect our operating margin to increase to 11.5% in 2013, reflecting incremental margin on higher sales and a decline in research and development expenses.

## Space and Defense Controls

| (dollars in millions) | Three Months Ended |                 |                |               | Nine Months Ended |                 |                |               |
|-----------------------|--------------------|-----------------|----------------|---------------|-------------------|-----------------|----------------|---------------|
|                       | June 30,<br>2012   | July 2,<br>2011 | \$<br>Variance | %<br>Variance | June 30,<br>2012  | July 2,<br>2011 | \$<br>Variance | %<br>Variance |
| Net sales             | \$87.1             | \$79.7          | \$7.4          | 9 %           | \$265.3           | \$263.2         | \$2.1          | 1 %           |
| Operating profit      | \$9.9              | \$8.8           | \$1.1          | 13 %          | \$32.5            | \$37.6          | \$(5.1)        | (14)%         |
| Operating margin      | 11.4               | % 11.0          | %              |               | 12.3              | % 14.3          | %              |               |
| Backlog               |                    |                 |                |               | \$191.5           | \$216.6         | \$(25.1)       | (12)%         |

Space and Defense Controls sales increased in the third quarter of 2012 compared to the third quarter of 2011 due to both the space and defense markets. In the space market, commercial work increased \$3 million for United Launch Alliance on the common thrust vector control system for the Delta IV and Atlas V next generation rockets. Also Bradford Engineering acquisition generated \$2 million of sales and vibration control testing increased \$2 million. Sales within the defense market increased \$5 million as activity on tactical missile and missile defense programs increased. Our security market offset these increases by declining \$3 million due to the wind down of Driver Vision Enhancer (DVE) activity that was closely tied to U.S. overseas conflicts.

Space and Defense Controls sales were relatively flat over the first nine months of 2012 compared to 2011 with large growth in the space market offset by declines in both defense and security markets. Most of our major programs within the space market drove an increase of \$29 million in the first nine months of 2012. Security decreased \$23 million, attributable to the DVE program wind down, and defense decreased \$4 million as last year's order for an aircraft stores management system was only partially offset by higher tactical missile production rates this year.

The operating margin increased in the third quarter of 2012 largely due to increased sales volume in defense controls and tactical missiles. For the first nine months of 2012, operating margin decreased due to strong volume and profit rate contributions on the DVE program and stores management application in the first nine months of 2011.

The level of twelve-month backlog at June 30, 2012 is down when compared to the backlog at July 2, 2011, reflecting the decline in DVE backlog and project completion.

2012 Outlook for Space and Defense Controls – We expect sales in Space and Defense Controls to increase to \$363 million in 2012. We expect sales increases in the space market, primarily attributable to the commercial space programs and the In-Space Propulsion and Bradford Engineering acquisitions. Offsetting this increase are expected decreases in security and missile markets as customers' programs are delayed. We expect our operating margin to return to a more normal level of 11.9% compared to the 13.8% in 2011, which benefited from a favorable product mix.

2013 Outlook for Space and Defense Controls – We expect sales in Space and Defense Controls to increase 17% to \$423 million in 2013. We expect this increase to be primarily attributable to the In-Space Propulsion acquisition and to foreign opportunities in our missile defense programs, while the security market remains flat. We expect our operating margin to decrease to 10.8% largely as a result of first year purchase accounting adjustments resulting from the In-Space Propulsion acquisition.

## Industrial Systems

| (dollars in millions) | Three Months Ended |                 |                |               | Nine Months Ended |                 |                |               |
|-----------------------|--------------------|-----------------|----------------|---------------|-------------------|-----------------|----------------|---------------|
|                       | June 30,<br>2012   | July 2,<br>2011 | \$<br>Variance | %<br>Variance | June 30,<br>2012  | July 2,<br>2011 | \$<br>Variance | %<br>Variance |
| Net sales             | \$157.9            | \$156.4         | \$1.5          | 1 %           | \$484.0           | \$456.0         | \$28.0         | 6 %           |
| Operating profit      | \$15.9             | \$13.9          | \$2.0          | 14 %          | \$51.0            | \$44.1          | \$6.9          | 16 %          |
| Operating margin      | 10.1               | %8.9            | %              |               | 10.5              | %9.7            | %              |               |
| Backlog               |                    |                 |                |               | \$242.7           | \$275.2         | \$(32.5)       | (12)%         |

Net sales in Industrial Systems were essentially flat in the third quarter of 2012 as compared to the third quarter of 2011. Adjusted for foreign currency translation, especially within our European facilities, real growth in the quarter was \$10 million. Within the segment, simulation and test sales increased \$5 million, driven by stronger simulation sales. Sales in our overall energy market increased \$2 million, with sales in the gas and steam market increasing \$4 million due to offshore oil and gas exploration. Offsetting this increase was a \$2 million decrease in wind energy, where growth in the European and American markets were more than offset by a decrease in the Pacific market. Lastly, the industrial automation market decreased \$6 million primarily as a result of foreign translation effects as the Euro weakened.

The net sales increase in the first nine months of 2012 compared to the same period in 2011 was principally driven by an increase of \$24 million in the simulation and test market. Energy increased \$5 million as sales associated with oil and gas exploration more than offset a decrease in sales for wind energy.

The operating margin increase in the third quarter of 2012 is largely attributable to a \$1 million recall reserve for a train sway actuator application in Japan booked in the third quarter of 2011. For the first nine months of 2012, the operating margin increase as compared to 2011 is primarily attributable to increased sales volumes and the \$1 million recall reserve.

The twelve-month backlog for Industrial Systems at June 30, 2012 decreased as compared to July 2, 2011 primarily associated with wind energy.

2012 Outlook for Industrial Systems – We expect sales in Industrial Systems to increase 1% to \$635 million in 2012. We expect strong increases from the simulation market to be partially offset by declines in industrial automation, related to foreign currency translation and weakened wind energy sales in the Pacific region. We expect that our operating margin will increase slightly to 10.3% in 2012.

2013 Outlook for Industrial Systems – Given the slowdown in incoming orders and in the general uncertainty in the macro-economic environment, we forecasted a range of sales and operating margins. On the high end of the range, we forecasted sales in Industrial Systems increasing 6% to \$674 million. Under this scenario, our simulation and test market and our industrial automation market would show the most growth, reflecting information from our customer order base around the world, while sales in the energy market would increase slightly. Operating margins would increase to 11.4%, benefiting from higher sales. On the low end of the range, we expect sales in Industrial Systems to decrease 2% to \$624 million, aligned with 2012's second half run rate. Under this scenario, our simulation and test market sales would grow; however, our energy and industrial automation markets sales would decrease. Operating margins would decrease slightly to 9.9%.



## Components

| (dollars in millions) | Three Months Ended |                 |                |               | Nine Months Ended |                 |                |               |
|-----------------------|--------------------|-----------------|----------------|---------------|-------------------|-----------------|----------------|---------------|
|                       | June 30,<br>2012   | July 2,<br>2011 | \$<br>Variance | %<br>Variance | June 30,<br>2012  | July 2,<br>2011 | \$<br>Variance | %<br>Variance |
| Net sales             | \$90.3             | \$87.9          | \$2.4          | 3%            | \$274.1           | \$264.6         | \$9.5          | 4%            |
| Operating profit      | \$12.7             | \$13.4          | \$(0.7)        | (5)%          | \$41.2            | \$41.4          | \$(0.2)        | —%            |
| Operating margin      | 14.0               | %15.2           | %              |               | 15.0              | %15.7           | %              |               |
| Backlog               |                    |                 |                |               | \$169.4           | \$163.5         | \$5.9          | 4%            |

Net sales in Components increased in our non-aerospace and defense markets in the third quarter as well as the first nine months of 2012 compared to the same periods in 2011. Specifically in the third quarter, sales in the industrial market increased \$3 million driven by the Animatics acquisition. Sales in the marine and medical markets also increased slightly. In the first nine months of 2012, sales in the industrial market increased \$8 million, driven by the Animatics acquisition. Sales in marine increased \$5 million, driven by off-shore oil exploration sales, and sales in the medical market increased \$4 million. Partially offsetting the increases was a \$7 million decrease in military aircraft sales as programs mature.

Operating margin for Components decreased slightly in both the third quarter and first nine months of 2012 as compared to 2011, primarily due to less favorable sales mixes.

The twelve-month backlog at June 30, 2012 compared to July 2, 2011 increased slightly. The growth was, in part, driven by the Animatics acquisition and by increased orders in our marine business. Offsetting the increase was slowing demand for defense controls and military aircraft programs.

2012 Outlook for Components – We expect sales in Components to increase 5% to \$371 million in 2012. We expect this growth in our industrial markets, the majority of which is attributable to our Animatics acquisition. We expect our operating margin in 2012 to be 15.5%, higher than in 2011 due to a technology investment write-off in 2011.

2013 Outlook for Components – We expect sales to increase 6% to \$393 million in 2013. We expect space and defense sales to increase as missile defense programs ramp up. We also expect industrial sales to increase on stronger industrial automation sales in the U.S. Offsetting these increases are forecasted slight sales decreases in aircraft and marine markets. Operating margins will increase slightly to 15.6%.

## Medical Devices

| (dollars in millions)      | Three Months Ended |                 |                |               | Nine Months Ended |                 |                |               |
|----------------------------|--------------------|-----------------|----------------|---------------|-------------------|-----------------|----------------|---------------|
|                            | June 30,<br>2012   | July 2,<br>2011 | \$<br>Variance | %<br>Variance | June 30,<br>2012  | July 2,<br>2011 | \$<br>Variance | %<br>Variance |
| Net sales                  | \$33.7             | \$38.2          | \$(4.5)        | (12)%         | \$103.7           | \$105.1         | \$(1.4)        | (1)%          |
| Operating profit<br>(loss) | \$1.4              | \$1.2           | \$0.2          | 17%           | \$4.4             | \$(1.8)         | \$6.3          | (342)%        |
| Operating margin           | 4.0                | %3.0            | %              |               | 4.3               | %(1.7)          | )%             |               |
| Backlog                    |                    |                 |                |               | \$18.6            | \$9.8           | \$8.8          | 90%           |

Net sales in Medical Devices decreased in the third quarter of 2012 compared to the third quarter of 2011 due to specific factors in 2011. Pump sales decreased \$2 million in the third quarter of 2012; however, in the third quarter of 2011, we resumed shipments of our infusion pumps after completing a voluntary recall for a software correction. Our sensors also benefited in the third quarter of 2011 due to higher demand for alternative pumps after a large recall in the hospital market. These factors also contributed to the slight decrease in net sales for the first nine months of 2012 as compared to the first nine months of 2011.

Operating margins in both periods of 2012 are higher than the comparable periods of 2011 due to our improved internal operational and quality systems. Additionally, the first nine months of 2011 included a \$1 million reserve in connection with a voluntary software upgrade related to an infusion pump to improve its reliability in response to customer feedback.

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

2012 Outlook for Medical Devices – We expect sales in Medical Devices to decrease 2% to \$139 million in 2012. We expect sales of sensors and handpieces to decrease from 2011's high level. We expect our operating margin to improve to 4.4% in 2012 as a result of a more favorable product mix and as we are no longer incurring costs from our 2011 voluntary infusion pump recall.

2013 Outlook for Medical Devices – We expect sales in Medical Devices to increase 4% to \$146 million. Sales of pumps are expected to increase as our IV and enteral pumps gain traction in the marketplace. Our set sales are expected to decrease as we shift our supply agreements with an international customer from sales to a commission structure. Operating margin is expected to increase to 6.0% as a result of higher sales.



## FINANCIAL CONDITION AND LIQUIDITY

| (dollars in millions)        | Nine Months Ended |                 | \$      | %   |    |
|------------------------------|-------------------|-----------------|---------|-----|----|
|                              | June 30,<br>2012  | July 2,<br>2011 |         |     |    |
| Net cash provided (used) by: |                   |                 |         |     |    |
| Operating activities         | \$ 143.5          | \$ 123.2        | \$ 20.3 | 16  | %  |
| Investing activities         | (110.1            | ) (90.6         | ) (19.5 | )22 | %  |
| Financing activities         | (4.1              | ) (21.8         | ) 17.7  | (81 | )% |

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

## Operating activities

Cash provided by operating activities increased in the first nine months of 2012 compared to the first nine months of 2011. We benefited from higher net earnings adjusted for non-cash charges as well as slower growth in inventory levels. We also had lower pension contributions as we had accelerated the payment of previously planned 2012 contributions into the fourth quarter of 2011.

## Investing activities

Cash used by investing activities increased in the first nine months of 2012 largely due to increased capital expenditures related to a newly constructed facility in our Aircraft Controls segment. Capital expenditures in the first nine months of 2012 were \$79 million compared to \$52 million in the same period in 2011. Offsetting the increase was a \$13 million decrease in acquisitions through the first nine months of 2012 compared to the same time period in 2011.

We expect our 2012 capital expenditures to be approximately \$105 million.

## Financing activities

Net cash used by financing activities in the first nine months of 2012 primarily reflects paydowns on our U.S. credit facility.

## Off Balance Sheet Arrangements

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

## Contractual Obligations and Commercial Commitments

Our contractual obligations and commercial commitments have not changed materially from the disclosures in our 2011 Annual Report on Form 10-K, with the exception of our trade receivables securitization facility. On March 5, 2012, we entered into a trade receivables securitization facility, which increased our amounts due under short-term borrowings and decreased our amounts due under long-term debt by a corresponding amount. Refer to Capital Structure and Resources for additional information.



## CAPITAL STRUCTURE AND RESOURCES

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

Our largest credit facility is our U.S. credit facility, which matures on March 18, 2016. It consists of a \$900 million revolver and had an outstanding balance of \$236 million at June 30, 2012. Interest on the outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 150 basis points at June 30, 2012. The credit facility is secured by substantially all of our U.S. assets.

The U.S. credit facility contains various covenants. The covenant for minimum interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The covenant for the maximum leverage ratio, defined as the ratio of net debt, including letters of credit, to EBITDA for the most recent four quarters, is 3.5. The covenant for maximum capital expenditures is \$145 million for 2012 and increases by \$10 million each year thereafter. We are in compliance with all covenants. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income.

We are required to obtain the consent of lenders of the U.S. credit facility before raising significant additional debt financing. In recent years, we have demonstrated our ability to secure consents to access debt markets. We have also been successful in accessing equity markets, from time to time. We believe that we will be able to obtain additional debt or equity financing as needed.

At June 30, 2012, we had \$665 million of unused borrowing capacity, including \$651 million from the U.S. credit facility after considering standby letters of credit.

On March 5, 2012, we entered into a trade receivables securitization facility (the "Securitization Program"), which terminates on March 4, 2013. 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. The Securitization Program can be extended by agreement of the parties thereto for successive 364-day terms. The Securitization Program effectively increases our borrowing capacity by up to \$100 million and lowers our cost to borrow funds as compared to the U.S. credit facility. We had an outstanding balance of approximately \$94 million at June 30, 2012. The Securitization Program reduced the amount outstanding under our U.S. credit facility and increased the amount of short-term borrowings. Interest on the secured borrowings under the Securitization Program is based on prevailing market rates for short-term commercial paper plus an applicable margin, which was 93 basis points at June 30, 2012.

Net debt to capitalization was 31% at June 30, 2012 and 34% at October 1, 2011. The decrease in net debt to capitalization is primarily due to debt reductions associated with our positive cash flow and net earnings in the first nine months of 2012.

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



## ECONOMIC CONDITIONS AND MARKET TRENDS

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

### Aerospace and Defense

Approximately 60% of our 2011 sales were generated in aerospace and defense markets. The military aircraft market is dependent on military spending for development and production programs. Production programs are typically long-term in nature, offering predictability as to capacity needs and future revenues. We maintain positions on numerous high priority programs, including the F-35 Joint Strike Fighter, F/A-18E/F Super Hornet and V-22 Osprey. The large installed base of our products leads to attractive aftermarket sales and service opportunities. Future defense spending may moderate in the coming years as the U.S. government balances U.S. military commitments and needs with domestic spending.

Starting in fiscal year 2013, additional cuts to the U.S. Department of Defense's top line budget of approximately \$500 billion over the next decade (or sequestration) as a result of the 2011 Budget Control Act could have ramifications for the Aerospace and Defense market. As currently written in the Budget Control Act, sequestration cuts would impact our sales, operating profit and our cash flow. However, it is unknown as to whether sequestration will happen or how it will be implemented if it is enacted. Currently, we have approximately \$800 million in domestic defense sales.

Global demand for air travel generally follows economic growth and, therefore, the commercial OEM market has historically exhibited cyclical swings. The aftermarket is driven by usage of the existing aircraft fleet, the age of the installed fleet and is currently being impacted by fleet re-sizing programs for passenger and cargo aircraft. Changes in aircraft utilization rates affect the need for maintenance and spare parts and impact aftermarket sales. Boeing and Airbus have historically adjusted production to correspond to air traffic volume. Demand for our commercial aerospace products is in large part dependent on new aircraft production, which is increasing as modest global economic growth continues.

The military and government space market is primarily dependent on the authorized levels of funding for satellite communications. Government spending on military satellites has increased along with the military's need for improved intelligence. The commercial space market is comprised of large satellite customers, traditionally telecommunications companies. Trends for this market, as well as for commercial launch vehicles, follow the telecommunications companies' need for increased capacity and the satellite replacement lifecycle of 7-10 years. Our position on NASA programs is impacted by the U.S. government's willingness to fund those programs. We believe that we're well positioned to benefit from the U.S. government's decision to replace the retired Space Shuttle.

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

### Industrial

Approximately 31% of our 2011 sales were generated in industrial markets. The industrial markets we serve are influenced by several factors, including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. As global economic conditions have modestly improved, we have seen a recovery in

these markets. We experience challenges from the need to react to the demands of our customers, which are in large part sensitive to international and domestic economies.

#### Medical

Approximately 9% of our 2011 sales were generated in medical markets. The medical markets we serve are influenced by economic conditions, regulatory environments, hospital and outpatient clinic spending on equipment, population demographics, medical advances, patient demands and the need for precision control components and

systems. Advances in medical technology and medical treatments have had the effect of extending the average life span, in turn resulting in greater need for medical services. These same technology and treatment advances also drive increased demand from the general population as a means to improve quality of life. Greater access to medical insurance, whether through government funded health care plans or private insurance, also increases the demand for medical services.

#### Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in our Industrial Systems segment. About one-third of our 2011 sales were denominated in foreign currencies. The translation of the results of our foreign subsidiaries into U.S. dollars did not have a significant impact on our sales in the first nine months of 2012 compared to the same period one year ago.





Cautionary Statement

Information included or incorporated by reference in this report that does not consist of historical facts, including statements accompanied by or containing words such as “may,” “will,” “should,” “believes,” “expects,” “expected,” “intends,” “projects,” “approximate,” “estimates,” “predicts,” “potential,” “outlook,” “forecast,” “anticipates,” “presume” and “assume,” are forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. These important factors, risks and uncertainties include:

- the markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate;
- we operate in highly competitive markets with competitors who may have greater resources than we possess;
- we depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs;
- we make estimates in accounting for long-term contracts, and changes in these estimates may have significant impacts on our earnings;
- we enter into fixed-price contracts, which could subject us to losses if we have cost overruns;
- if our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted;
- contracting on government programs is subject to significant regulation, including rules related to bidding, billing and accounting kickbacks and false claims, and any non-compliance could subject us to fines and penalties or possible debarment;
- the loss of Boeing or Lockheed Martin as a customer or a significant reduction in sales to either company could adversely impact our operating results;
- if we are unable to adapt to technological change, demand for our products may be reduced;
- our new product and research and development efforts may not be successful, which would result in a reduction in our sales and earnings;
- our inability to adequately enforce our intellectual property rights or defend against assertions of infringement could prevent or restrict our ability to compete;
- our indebtedness and restrictive covenants under our credit facilities could limit our operational and financial flexibility;
- significant changes in discount rates, rates of return on pension assets, mortality tables and other factors could affect our earnings, equity and pension funding requirements;
- a write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth;
- our sales and earnings growth may be reduced if we cannot implement our acquisition strategy;
- we may incur losses and liabilities as a result of our acquisition strategy;
- our operations in foreign countries expose us to political and currency risks and adverse changes in local, legal, tax and regulatory schemes;
- government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business;
- the failure or misuse of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages;
- future terror attacks, war or other civil disturbances could negatively impact our business;
-

our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers;

our operations are subject to environmental laws, and complying with those laws may cause us to incur significant costs; and

we are involved in various legal proceedings, the outcome of which may be unfavorable to us.

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

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Refer to the Company's Annual Report on Form 10-K for the year ended October 1, 2011 for a complete discussion of our market risk. There have been no material changes in the current year regarding this market risk information.

### Item 4. Controls and Procedures.

**Disclosure Controls and Procedures.** We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these (a) disclosure controls and procedures are effective as of the end of the period covered by this report, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**Changes in Internal Control over Financial Reporting.** There have been no changes in our internal control over (b) financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) The following table summarizes our purchases of our common stock for the quarter ended June 30, 2012.

| Period                         | (a) Total<br>Number of<br>Shares<br>Purchased<br>(1)(2) | (b) Average<br>Price Paid Per<br>Share | (c) Total<br>Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs (3) | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares that May<br>yet be<br>Purchased<br>Under the Plans<br>or Programs (3) |
|--------------------------------|---|--|---|--|
| April 1, 2012 - April 30, 2012 | —   | \$—                                    | —   | 1,000,000  |
| May 1, 2012 - May 31, 2012     | 16,513  | \$41.36                                | —   | 1,000,000  |
| June 1, 2012 - June 30, 2012   | 400   | \$40.71                                | —   | 1,000,000  |
| Total                          | 16,913  | \$41.35                                | —   | 1,000,000  |

(1) Purchases by the SECT consisted of shares of Class B common stock from the Moog Inc. Retirement Savings Plan in May of 643 shares at \$38.76 per share.

(2) Purchases by the SECT in May and June also include 15,870 and 400 shares of Class B common stock from members of the Moog family at \$41.47 and \$40.71 per share, respectively.

(3) In December 2011, the Board of Directors authorized a share repurchase program. The program permits the purchase of up to 1,000,000 shares of Class A or Class B common stock in open market or privately negotiated transactions at the discretion of management.

Item 6. Exhibits.

(a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document. \*
- 101.SCH XBRL Taxonomy Extension Schema Document. \*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document. \*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document. \*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document. \*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document. \*

---

\* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL:

- (i) Consolidated Condensed Balance Sheets at June 30, 2012 and October 1, 2011, (ii) Consolidated Condensed Statements of Earnings for the three and nine months ended June 30, 2012 and July 2, 2011, (iii) Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended June 30, 2012 and July 2, 2011 (iv) Consolidated Condensed Statements of Cash Flows for the nine months ended June 30, 2012 and July 2, 2011 and (v) Notes to Consolidated Condensed Financial Statements for the nine months ended June 30, 2012.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

#### SIGNATURES

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

Moog Inc.

(Registrant)

Date: August 3, 2012

By /s/ John R. Scannell  
John R. Scannell  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 3, 2012

By /s/ Donald R. Fishback  
Donald R. Fishback  
Vice President  
Chief Financial Officer  
(Principal Financial Officer)

Date: August 3, 2012

By /s/ Jennifer Walter  
Jennifer Walter  
Controller  
(Principal Accounting Officer)

