

ESTERLINE TECHNOLOGIES CORP

Form 10-Q/A

January 06, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**Amendment No. 1  
FORM 10-Q/A**

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

**For the quarterly period ended January 28, 2005**

**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 1-6357**

**ESTERLINE TECHNOLOGIES CORPORATION**

**(Exact name of registrant as specified in its charter)**

Delaware

13-2595091

(State or other Jurisdiction  
of incorporation or organization)

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

500 108<sup>th</sup> Avenue N.E., Bellevue, Washington 98004

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code 425/453-9400

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of January 4, 2006, 25,355,344 shares of the issuer's common stock were outstanding.

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Explanatory Note

Esterline is filing this Amendment No. 1 to Form 10-Q/A to reflect the restatement of its financial statements for the three month periods ended January 28, 2005. Please see Note 5 to the Consolidated Financial Statements for specific information related to the restatement.

Esterline has historically accounted for stock option grants as fixed awards in accordance with Accounting Principles Board No. 25 (APB No. 25) and disclosed in the footnotes to the financial statements the expense based upon the fair value of stock options under Statement of Financial Accounting Standards No. 123 (Statement No. 123). During our 2005 year-end closing process, we determined that certain stock option grants required variable rather than fixed accounting treatment under APB No. 25, because grantees were permitted to exercise options by surrendering shares subject to the grant to pay for the exercise price and statutory withholding. As a result, we determined on December 8, 2005, the need to restate our financial statements in the annual report on Form 10-K for the fiscal year ended October 29, 2004 and in the quarterly reports on Form 10-Q for the periods ended January 28, 2005, April 29, 2005, and July 29, 2005. All information contained in this Amendment is as of the original filing date of the Form 10-Q for the three month periods ended January 28, 2005 and does not reflect any subsequent information or events other than the restatement of financial information referred to above. Forward looking statements have not been updated for events or operations subsequent to March 4, 2005.

This Amendment includes changes to Items 1 and 2 in Part I and Exhibit 11 and updates to the signature page, the Exhibit Index referenced in Item 6 of Part II and Exhibits 31.1, 31.2, 32.1 and 32.2.

**All information contained in this Amendment is as of the original filing date of the Form 10-Q for the three month periods ended January 28, 2005 and does not reflect any subsequent information or events other than as described above. We are not required to update and have not updated the forward-looking statements previously included in the Form 10-Q filed on March 4, 2005 for events or operations subsequent to March 4, 2005.**

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## ESTERLINE TECHNOLOGIES CORPORATION

## CONSOLIDATED BALANCE SHEET

As of January 28, 2005 and October 29, 2004

(In thousands, except share amounts)

|   | January 28,<br>2005<br>(Restated)<br>(Unaudited) | October 29,<br>2004<br>(Restated) |
|---|--|-----------------------------------|
| <b>ASSETS</b>   |  |                                   |
| Current Assets  |  |                                   |
| Cash and cash equivalents   | \$ 153,312                                       | \$ 29,479                         |
| Cash in escrow  | 13,570   | 8,511                             |
| Short-term investments  | 8,820  |                                   |
| Accounts receivable, net of allowances of \$3,881 and \$2,669             | 119,615  | 132,206                           |
| Inventories   |  |                                   |
| Raw materials and purchased parts   | 64,390   | 58,736                            |
| Work in process   | 43,817   | 43,326                            |
| Finished goods  | 17,988   | 16,992                            |
|   | 126,195  | 119,054                           |
| Deferred income tax benefits  | 23,518   | 23,499                            |
| Prepaid expenses  | 8,416  | 9,441                             |
| Other current assets  | 288  | 435                               |
| Total Current Assets  | 453,734  | 322,625                           |
| Property, Plant and Equipment   | 271,479  | 275,437                           |
| Accumulated depreciation  | 130,584  | 130,302                           |
|   | 140,895  | 145,135                           |
| Other Non-Current Assets  |  |                                   |
| Goodwill  | 245,860  | 247,817                           |
| Intangibles, net  | 169,360  | 169,876                           |
| Debt issuance costs, net of accumulated amortization of \$1,096 and \$928 | 5,650  | 5,818                             |
| Deferred income tax benefits  | 10,601   | 11,216                            |
| Other assets  | 27,857   | 32,861                            |
|   | \$ 1,053,957                                     | \$ 935,348                        |

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CONSOLIDATED BALANCE SHEET

As of January 28, 2005 and October 29, 2004

(In thousands, except share amounts)

|  | January 28,<br>2005<br>(Restated)<br>(Unaudited) | October 29,<br>2004<br>(Restated) |
|--|--|-----------------------------------|
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |  |                                   |
| <b>Current Liabilities</b>   |  |                                   |
| Accounts payable   | \$ 39,970  | \$ 37,867                         |
| Accrued liabilities  | 87,394   | 97,038                            |
| Credit facilities  | 3,871  | 6,977                             |
| Current maturities of long-term debt   | 30,984   | 1,031                             |
| Federal and foreign income taxes   | 7,096  | 6,678                             |
| <b>Total Current Liabilities</b>   | <b>169,315</b>                                   | <b>149,591</b>                    |
| <b>Long-Term Liabilities</b>   |  |                                   |
| Long-term debt, net of current maturities  | 218,709  | 249,056                           |
| Deferred income taxes  | 45,307   | 43,443                            |
| Other liabilities  | 25,607   | 29,852                            |
| <b>Commitments and Contingencies</b>   |  |                                   |
| Minority Interest  | 2,391  | 2,378                             |
| <b>Shareholders Equity</b>   |  |                                   |
| Common stock, par value \$.20 per share, authorized 60,000,000 shares, issued and outstanding 25,073,811 and 21,319,698 shares | 5,015  | 4,264                             |
| Additional paid-in capital   | 253,105  | 144,879                           |
| Retained earnings  | 304,954  | 287,344                           |
| Accumulated other comprehensive income   | 29,554   | 24,541                            |
| <b>Total Shareholders Equity</b>   | <b>592,628</b>                                   | <b>461,028</b>                    |
|  | <b>\$ 1,053,957</b>                              | <b>\$ 935,348</b>                 |

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ESTERLINE TECHNOLOGIES CORPORATION  
CONSOLIDATED STATEMENT OF OPERATIONS  
For the Three Month Periods Ended January 28, 2005 and January 30, 2004  
(Unaudited)  
(In thousands, except per share amounts)

|  | Three Months Ended                   |                                   |
|--|--------------------------------------|-----------------------------------|
|  | January<br>28,<br>2005<br>(Restated) | January 30,<br>2004<br>(Restated) |
| Net Sales  | \$ 190,243                           | \$ 129,454                        |
| Cost of Sales  | 131,692                              | 90,774                            |
|  | 58,551                               | 38,680                            |
| Expenses   |                                      |                                   |
| Selling, general & administrative                            | 30,887                               | 32,301                            |
| Research, development & engineering                          | 9,247                                | 5,423                             |
| Total Expenses   | 40,134                               | 37,724                            |
| Operating Earnings From Continuing Operations                | 18,417                               | 956                               |
| Other (income) expense                                       | 38                                   | (556)                             |
| Interest income  | (535)                                | (313)                             |
| Interest expense   | 4,682                                | 4,292                             |
| Other Expense, Net   | 4,185                                | 3,423                             |
| Income (Loss) From Continuing Operations Before Income Taxes | 14,232                               | (2,467)                           |
| Income Tax Expense (Benefit)                                 | 4,024                                | (2,581)                           |
| Income From Continuing Operations Before Minority Interest   | 10,208                               | 114                               |
| Minority Interest  | (13)                                 |                                   |
| Income From Continuing Operations                            | 10,195                               | 114                               |
| Income From Discontinued Operations, Net of Tax              | 7,415                                | 292                               |
| Net Earnings   | \$ 17,610                            | \$ 406                            |
| Earnings Per Share Basic:                                    |                                      |                                   |
| Continuing operations  | \$ .42                               | \$ .01                            |
| Discontinued operations                                      | .31                                  | .01                               |

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|                         |          |    |     |    |     |
|-------------------------|----------|----|-----|----|-----|
| Earnings per share      | basic    | \$ | .73 | \$ | .02 |
| Earnings Per Share      | Diluted: |    |     |    |     |
| Continuing operations   |          | \$ | .42 | \$ | .01 |
| Discontinued operations |          |    | .30 |    | .01 |
| Earnings per share      | diluted  | \$ | .72 | \$ | .02 |



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ESTERLINE TECHNOLOGIES CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Three Month Periods Ended January 28, 2005 and January 30, 2004  
(Unaudited)  
(In thousands)

|  | Three Months Ended                   |                                   |
|--|--------------------------------------|-----------------------------------|
|  | January<br>28,<br>2005<br>(Restated) | January 30,<br>2004<br>(Restated) |
| Cash Flows Provided (Used) by Operating Activities     |                                      |                                   |
| Net earnings   | \$ 17,610                            | \$ 406                            |
| Minority interest                                      | 13                                   |                                   |
| Depreciation and amortization                          | 9,801                                | 7,682                             |
| Deferred income taxes                                  | 2,110                                | 1,121                             |
| Stock based compensation                               | (702)                                | 2,172                             |
| Gain on sale of land                                   |                                      | (557)                             |
| Gain on sale of discontinued operation                 | (9,771)                              |                                   |
| Working capital changes, net of effect of acquisitions |                                      |                                   |
| Accounts receivable                                    | 12,068                               | 15,828                            |
| Inventories  | (8,430)                              | (1,024)                           |
| Prepaid expense  | 1,168                                | (556)                             |
| Accounts payable                                       | 1,672                                | (3,197)                           |
| Accrued liabilities                                    | (15,500)                             | (8,218)                           |
| Federal and foreign income taxes                       | 343                                  | (5,321)                           |
| Other liabilities                                      | 627                                  |                                   |
| Other, net   | (943)                                | (5,026)                           |
|  | 10,066                               | 3,310                             |
| Cash Flows Provided (Used) by Investing Activities     |                                      |                                   |
| Purchases of capital assets                            | (4,021)                              | (5,170)                           |
| Proceeds from sale of land                             |                                      | 1,159                             |
| Proceeds from sale of discontinued operation           | 23,700                               |                                   |
| Escrow deposit   |                                      |                                   |
| Capital dispositions                                   | 123                                  | 385                               |
| Purchase of short-term investments                     | (8,820)                              |                                   |
| Sale of short-term investments                         |                                      | 5,021                             |
| Acquisitions of businesses, net of cash acquired       | (3,346)                              | (6,593)                           |
|  | 7,636                                | (5,198)                           |

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ESTERLINE TECHNOLOGIES CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Three Month Periods Ended January 28, 2005 and January 30, 2004  
(Unaudited)  
(In thousands)

|  | Three Months Ended                   |                                   |
|--|--------------------------------------|-----------------------------------|
|  | January<br>28,<br>2005<br>(Restated) | January 30,<br>2004<br>(Restated) |
| Cash Flows Provided (Used) by Financing Activities             |                                      |                                   |
| Proceeds provided by stock issuance under employee stock plans | 649                                  | 651                               |
| Proceeds provided by sale of common stock                      | 109,030                              |                                   |
| Debt and other issuance costs                                  |                                      | (125)                             |
| Net change in credit facilities                                | (3,078)                              | 540                               |
| Repayment of long-term obligations                             | (452)                                | (29,044)                          |
|  | 106,149                              | (27,978)                          |
| Effect of Foreign Exchange Rates on Cash                       | (18)                                 | 6,004                             |
| Net Increase (Decrease) in Cash and Cash Equivalents           | 123,833                              | (23,862)                          |
| Cash and Cash Equivalents    Beginning of Period               | 29,479                               | 131,363                           |
| Cash and Cash Equivalents    End of Period                     | \$ 153,312                           | \$ 107,501                        |
| Supplemental Cash Flow Information                             |                                      |                                   |
| Cash Paid for Interest   | \$ 8,394                             | \$ 9,185                          |
| Cash Paid for Taxes  | 4,716                                | 1,376                             |

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ESTERLINE TECHNOLOGIES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Periods Ended January 28, 2005 and January 30, 2004

1. The consolidated balance sheet as of January 28, 2005, the consolidated statement of operations for the three month periods ended January 28, 2005 and January 30, 2004, and the consolidated statement of cash flows for the three month periods ended January 28, 2005 and January 30, 2004 are unaudited, but in the opinion of management, all of the necessary adjustments, consisting of normal recurring accruals, have been made to present fairly the financial statements referred to above in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the above statements do not include all of the footnotes required for complete financial statements. The results of operations and cash flows for the interim periods presented are not necessarily indicative of results that can be expected for the full year.
2. The notes to the consolidated financial statements in the Company's Annual Report on Form 10-K/A for the fiscal year ended October 29, 2004 provide a summary of significant accounting policies and additional financial information that should be read in conjunction with this Form 10-Q/A.
3. The timing of the Company's revenues is impacted by the purchasing patterns of customers and, as a result, revenues are not generated evenly throughout the year. Moreover, the Company's first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America.
4. Basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the year. Diluted earnings per share includes the dilutive effect of stock options. The weighted average number of shares outstanding used to compute basic earnings per share was 24,034,000 and 21,099,000 for the first fiscal quarter in 2005 and 2004, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 24,421,000 and 21,436,000 for the first fiscal quarter in 2005 and 2004, respectively.
5. Restatement of Stock Option Accounting

The Company has restated its financial statements to account for the Company's non-qualified stock option plan using variable accounting because grantees were permitted to exercise stock options by surrendering stock under the grant to pay for the exercise price and statutory taxes. The Company previously accounted for these stock option grants as fixed awards under APB No. 25. As a result, the Company recorded additional stock-based compensation expense under the variable method of accounting and the related income tax adjustments. These adjustments are reflected in the financial statements with the cumulative adjustment at October 31, 2003 resulting in an increase in additional paid in capital of

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\$21.0 million, a decrease of retained earnings of \$18.8 million and increase in deferred income taxes of \$2.2 million.

A summary of the significant effects of the restatement for the three months ended in the period ended January 28, 2005 and January 30, 2004 follows:

(In thousands, except per share amounts)

|  | Three Months Ended<br>January 28, 2005 |                | Three Months Ended<br>January 30, 2004 |                |
|--|--|----------------|--|----------------|
|  | As<br>Reported                         | As<br>Restated | As<br>Reported                         | As<br>Restated |
| Selling, General and Administrative Expenses | \$ 31,589                              | \$ 30,887      | \$ 30,129                              | \$ 32,301      |
| Income From Continuing Operations            | 9,753                                  | 10,195         | 1,586                                  | 114            |
| Net Income                                   | 17,168                                 | 17,610         | 1,878                                  | 406            |
| <br>   |  |                |  |                |
| Earnings Per Share Basic                     |  |                |  |                |
| Continuing operations                        | \$ .41                                 | \$ .42         | \$ .08                                 | \$ .01         |
| Earnings per share basic                     | .71                                    | .73            | .09                                    | .02            |
| <br>   |  |                |  |                |
| Earnings Per Share Diluted                   |  |                |  |                |
| Continuing operations                        | \$ .40                                 | \$ .42         | \$ .08                                 | \$ .01         |
| Earnings per share diluted                   | .70                                    | .72            | .09                                    | .02            |
| <br>   |  |                |  |                |
| Deferred Income Tax Benefits                 | \$ 21,364                              | \$ 23,518      | \$ 13,524                              | \$ 15,901      |
| Shareholders Equity                          | 590,474                                | 592,628        | 408,568                                | 410,945        |

6. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Statement No. 123R), which is effective for public companies for interim or annual periods beginning after June 15, 2005. Management intends to comply with the standard at the beginning of the first fiscal quarter of 2006; however, management does not believe that the impact would be materially different from the pro forma disclosures under Note 10.

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7. The Company's comprehensive income is as follows:

| (In thousands)   | Three Months Ended                   |                                   |
|--|--------------------------------------|-----------------------------------|
|  | January<br>28,<br>2005<br>(Restated) | January 30,<br>2004<br>(Restated) |
| Net Earnings   | \$ 17,610                            | \$ 406                            |
| Change in Fair Value of Derivative Financial Instruments, Net of Tax | 823                                  | 660                               |
| Foreign Currency Translation Adjustment                              | 4,190                                | 10,987                            |
| Comprehensive Income   | \$ 22,623                            | \$ 12,053                         |

8. On January 28, 2005, the Company completed the sale of the outstanding stock of its wholly owned subsidiary Fluid Regulators Corporation (Fluid Regulators), which was included in the Company's Sensors & Systems segment, for approximately \$23.7 million. As a result of the sale, the Company recorded a gain of \$7.2 million, net of tax of \$2.5 million in the first fiscal quarter of 2005. Sales and net earnings were \$3.4 million and \$0.2 million, respectively, during the first fiscal quarter of 2005 and \$3.1 million and \$0.3 million, respectively, during the first fiscal quarter of 2004.

On July 25, 2002, the Board of Directors adopted a formal plan for the sale of the assets and operations of its Automation segment. On July 23, 2003, the Company sold the assets of its Excellon Automation subsidiary. On August 31, 2004, the Company sold the stock of W. A. Whitney for \$10.0 million in cash. Upon the final disposition of its discontinued Automation operations in the fourth fiscal quarter of 2004, the Company recorded an \$8.0 million gain, net of \$4.5 million in tax, including the reversal of estimated reserves which were recognizable upon sale of the business. Sales in the Automation segment were \$4.6 million for the three month period ended January 30, 2004.

Fluid Regulators and the Automation segment are reported as discontinued operations and the consolidated financial statements for all prior periods have been adjusted to reflect this presentation.

9. The effective tax rate for the first fiscal quarter of 2005 was 28.3% compared with 31.7% for the prior year period. The first fiscal quarter of 2004 rate was before a \$1.8 million reduction of previously estimated tax liabilities. The effective tax rate differed from the statutory rate in the first fiscal quarter in 2005 and 2004, as both periods benefited from various tax credits. The first fiscal quarter in 2005 also benefited from certain foreign interest expense deductions. On February 4, 2004, the Company received a Notice of Proposed Adjustment (NOPA) from the Internal Revenue Service covering the audit of research and development tax credits for fiscal years 1997 through 1999. As a result of the NOPA and the expectation of a similar result for fiscal years 2000 through 2003, management revised the Company's estimated liability for income taxes during the first fiscal quarter of 2004. As noted above, the revision resulted in the \$1.8 million reduction of previously estimated tax liabilities.

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10. The Company follows Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for stock option and employee stock purchase plans, which does not require income statement recognition of options granted at the market price on the date of issuance. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (Statement No. 123):

| (In thousands, except per share amounts)   | Three Months Ended                   |                                      |
|--|--------------------------------------|--------------------------------------|
|  | January<br>28,<br>2005<br>(Restated) | January<br>30,<br>2004<br>(Restated) |
| Net earnings, as reported  | \$ 17,610                            | \$ 406                               |
| Stock-based compensation costs net of income tax included in net earnings as reported      | (454)                                | 1,446                                |
| Stock-based compensation costs net of income tax under the fair value method of accounting | (441)                                | (418)                                |
| Pro forma net earnings   | \$ 16,715                            | \$ 1,434                             |
| Basic earnings per share, as reported  | \$ .73                               | \$ .02                               |
| Add (Deduct): FAS 123 Adjustment   | (.03)                                | .05                                  |
| Pro forma basic earnings per share   | \$ .70                               | \$ .07                               |
| Diluted earnings per share, as reported  | \$ .72                               | \$ .02                               |
| Add (Deduct): FAS 123 Adjustment   | (.04)                                | .05                                  |
| Pro forma diluted earnings per share   | \$ .68                               | \$ .07                               |

11. The Company's pension plans principally include a U.S. pension plan maintained by Esterline and U.S. and non-U.S. plans maintained by Leach Holding Corporation. Components of periodic pension cost consisted of the following:

| (In thousands)                          | Three Months Ended     |                     |
|---|------------------------|---------------------|
|   | January<br>28,<br>2005 | January 30,<br>2004 |
| Components of Net Periodic Pension Cost |                        |                     |
| Service cost                            | \$ 1,068               | \$ 906              |
| Interest cost                           | 2,356                  | 1,729               |
| Expected return on plan assets          | (2,955)                | (2,236)             |
| Amortization of prior service cost      | 4                      | 4                   |
| Amortization of actuarial loss          | 170                    | 148                 |
| Net Periodic Cost                       | \$ 643                 | \$ 551              |



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## 12. Segment information:

Business segment information for continuing operations includes the segments of Avionics & Controls, Sensors & Systems and Advanced Materials.

| (In thousands)                    | Three Months Ended                   |                                   |
|-----------------------------------|--------------------------------------|-----------------------------------|
|                                   | January<br>28,<br>2005<br>(Restated) | January 30,<br>2004<br>(Restated) |
| Sales                             |                                      |                                   |
| Avionics & Controls               | \$ 60,855                            | \$ 46,316                         |
| Sensors & Systems                 | 74,374                               | 34,652                            |
| Advanced Materials                | 54,564                               | 48,398                            |
| Other                             | 450                                  | 88                                |
| Total Sales                       | \$ 190,243                           | \$ 129,454                        |
| Income from Continuing Operations |                                      |                                   |
| Avionics & Controls               | \$ 9,399                             | \$ 6,334                          |
| Sensors & Systems                 | 6,397                                | (4,402)                           |
| Advanced Materials                | 6,481                                | 3,639                             |
| Other                             | 181                                  | (181)                             |
| Segment Earnings                  | 22,458                               | 5,390                             |
| Corporate expense                 | (4,041)                              | (4,434)                           |
| Other income (expense)            | (38)                                 | 556                               |
| Interest income                   | 535                                  | 313                               |
| Interest expense                  | (4,682)                              | (4,292)                           |
|                                   | \$ 14,232                            | \$ (2,467)                        |



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13. On August 27, 2004, the Company acquired all of the outstanding capital stock of Leach Holding Corporation (Leach), a \$119 million (sales) manufacturer of electrical power switching control and data communication devices for the aerospace industry for approximately \$145.0 million (approximately \$147.0 million including acquisition costs) before an adjustment for the change in working capital from December 31, 2003 to closing, pursuant to an Agreement and Plan of Merger dated as of July 8, 2004. Leach also manufactures medical diagnostic, therapeutic and patient monitoring devices, and analytical, optical and biosensor instruments for medical, laboratory and industrial applications. The acquisition was funded with available cash and a draw on the Company's credit facility. The acquisition expands the Company's capabilities in providing solutions to its customers' power distribution and diagnostic monitoring requirements. The aerospace business is included in the Sensors & Systems segment and the medical business is included in the Avionics & Controls segment.

On December 1, 2003, the Company acquired all of the outstanding capital stock of AVISTA, Incorporated (AVISTA), a \$10 million in sales Wisconsin-based developer of embedded avionics software, for approximately \$6.5 million in cash. A purchase price adjustment was paid to the seller in December 2004 and an additional amount will be paid in December 2005 contingent upon the achievement of financial results as defined in the Stock Purchase Agreement. The December 2004 purchase price adjustment was approximately \$3.3 million. AVISTA provides a software engineering center to support the Company's customers with such applications as primary flight displays, flight management systems, air data computers and engine control systems. AVISTA is included in the Avionics & Controls segment and the results of its operations were included from the effective date of the acquisition. Revenues are largely related to fees charged for software engineering services.

14. On November 24, 2004, the Company completed a public offering of 3.7 million shares of common stock, including shares sold under the underwriters' over-allotment option, priced at \$31.25 per share, generating net proceeds of approximately \$109 million, of which \$5.0 million was used to pay off existing credit facilities. The funds provide additional financial resources for acquisitions and general corporate purposes. During the first fiscal quarters of 2005 and 2004, the Company issued 74,115 and 101,117 shares, respectively, under its employee stock plans.

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15. The following schedules set forth condensed consolidating financial information as required by Rule 3-10 of Securities and Exchange Commission Regulation S-X as of January 28, 2005, and October 29, 2004, and for the applicable periods ended January 28, 2005, and January 30, 2004, for (a) Esterline Technologies Corporation (the Parent); (b) on a combined basis, the subsidiary guarantors (Guarantor Subsidiaries) of the Senior Subordinated Notes which include Advanced Input Devices, Inc., Amtech Automated Manufacturing Technology, Angus Electronics Co., Armtec Countermeasures Co., Armtec Defense Products Co., Auxitrol Co., AVISTA, Incorporated, Boyar-Schultz Corporation, BVR Technologies Co., Equipment Sales Co., EA Technologies Corporation, Esterline Technologies Holdings Limited, H.A. Sales Co., Hauser Inc., Hytek Finishes Co., Janco Corporation, Kirkhill-TA Co., Korry Electronics Co., Leach Holding Corporation, Leach International Corporation, Leach Technology Group, Inc., Mason Electric Co., MC Tech Co., Memtron Technologies Co., Norwich Aero Products, Inc., Pressure Systems, Inc., Pressure Systems International, Inc., Surftech Finishes Co., UMM Electronics Inc., and (c) on a combined basis, the subsidiary non-guarantors (Non-Guarantor Subsidiaries), which include Auxitrol S.A., Auxitrol Technologies S.A., Auxitrol Asia PTE Ltd., Esterline Technologies DK Aps (Denmark), Esterline Technologies Ltd. (England), Esterline Technologies Ltd. (Hong Kong), Excellon Europa GmbH, Excellon France S.A.R.L., Guizhou Leach-Tianyi Aviation Electrical Company Ltd. (China), Leach International Asia-Pacific Ltd. (Hong Kong), Leach International Europe S.A. (France), Leach International Germany GmbH (Germany), Leach International Mexico S. de R.L. de C.V. (Mexico), Leach International U.K. (England), LRE Technologies Partner GmbH (Germany), Muirhead Aerospace Ltd., Norcroft Dynamics Ltd., Pressure Systems International Ltd., Weston Aero Ltd. (England), and Weston Aerospace Ltd. (England). The guarantor subsidiaries are direct and indirect wholly-owned subsidiaries of Esterline Technologies and have fully and unconditionally, jointly and severally, guaranteed the Senior Subordinated Notes.

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Condensed Consolidating Balance Sheet as of January 28, 2005.

(In thousands)

(Restated)

|                                       | Parent            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations        | Total               |
|---------------------------------------|-------------------|---------------------------|-----------------------------------|---------------------|---------------------|
| <b>Assets</b>                         |                   |                           |                                   |                     |                     |
| <b>Current Assets</b>                 |                   |                           |                                   |                     |                     |
| Cash and cash equivalents             | \$ 123,138        | \$ 1,964                  | \$ 28,210                         | \$                  | \$ 153,312          |
| Cash in escrow                        | 13,570            |                           |                                   |                     | 13,570              |
| Short-term investments                | 8,820             |                           |                                   |                     | 8,820               |
| Accounts receivable, net              | 1,198             | 70,906                    | 47,511                            |                     | 119,615             |
| Inventories                           |                   | 80,163                    | 46,032                            |                     | 126,195             |
| Deferred income tax benefits          | 40,864            |                           | (17,346)                          |                     | 23,518              |
| Prepaid expenses                      | 272               | 4,240                     | 3,904                             |                     | 8,416               |
| Other current assets                  |                   | 288                       |                                   |                     | 288                 |
| <b>Total Current Assets</b>           | <b>187,862</b>    | <b>157,561</b>            | <b>108,311</b>                    |                     | <b>453,734</b>      |
| Property, Plant & Equipment, Net      | 2,271             | 95,904                    | 42,720                            |                     | 140,895             |
| Goodwill                              |                   | 171,917                   | 73,943                            |                     | 245,860             |
| Intangibles, Net                      | 141               | 75,708                    | 93,511                            |                     | 169,360             |
| Debt Issuance Costs, Net              | 5,650             |                           |                                   |                     | 5,650               |
| Deferred Income Tax Benefits          | 10,601            |                           |                                   |                     | 10,601              |
| Other Assets                          | 4,762             | 18,335                    | 4,760                             |                     | 27,857              |
| Amounts Due (To) From<br>Subsidiaries | 135,143           | 60,784                    |                                   | (195,927)           |                     |
| Investment in Subsidiaries            | 576,519           |                           |                                   | (576,519)           |                     |
| <b>Total Assets</b>                   | <b>\$ 922,949</b> | <b>\$ 580,209</b>         | <b>\$ 323,245</b>                 | <b>\$ (772,446)</b> | <b>\$ 1,053,957</b> |

**Table of Contents**(In thousands)  
(Restated)

|  | Parent            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations        | Total               |
|--|-------------------|---------------------------|-----------------------------------|---------------------|---------------------|
| <b>Liabilities and Shareholders<br/>Equity</b>       |                   |                           |                                   |                     |                     |
| <b>Current Liabilities</b>                           |                   |                           |                                   |                     |                     |
| Accounts payable                                     | \$ 2,160          | \$ 15,672                 | \$ 22,138                         | \$                  | \$ 39,970           |
| Accrued liabilities                                  | 30,084            | 33,634                    | 23,676                            |                     | 87,394              |
| Credit facilities                                    |                   |                           | 3,871                             |                     | 3,871               |
| Current maturities of long-term<br>debt              | 30,000            | 15                        | 969                               |                     | 30,984              |
| Federal and foreign income taxes                     | 1,803             | 76                        | 5,217                             |                     | 7,096               |
| <b>Total Current Liabilities</b>                     | <b>64,047</b>     | <b>49,397</b>             | <b>55,871</b>                     |                     | <b>169,315</b>      |
| Long-Term Debt, Net                                  | 216,486           |                           | 2,223                             |                     | 218,709             |
| Deferred Income Taxes                                | 45,007            |                           | 300                               |                     | 45,307              |
| Other Liabilities                                    | 4,781             | 13,863                    | 6,963                             |                     | 25,607              |
| Amounts Due To (From)<br>Subsidiaries                |                   |                           | 188,277                           | (188,277)           |                     |
| Minority Interest                                    |                   |                           | 2,391                             |                     | 2,391               |
| Shareholders' Equity                                 | 592,628           | 516,949                   | 67,220                            | (584,169)           | 592,628             |
| <b>Total Liabilities and Shareholders<br/>Equity</b> | <b>\$ 922,949</b> | <b>\$ 580,209</b>         | <b>\$ 323,245</b>                 | <b>\$ (772,446)</b> | <b>\$ 1,053,957</b> |

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Condensed Consolidating Statement of Operations for the three month period ended January 28, 2005.  
(In thousands)  
(Restated)

|  | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|-----------|---------------------------|-----------------------------------|--------------|------------|
| Net Sales  | \$        | \$ 125,780                | \$ 68,318                         | \$ (3,855)   | \$ 190,243 |
| Cost of Sales  |           | 89,784                    | 45,763                            | (3,855)      | 131,692    |
|  |           | 35,996                    | 22,555                            |              | 58,551     |
| Expenses   |           |                           |                                   |              |            |
| Selling, general and administrative                                  |           | 18,558                    | 12,329                            |              | 30,887     |
| Research, development and<br>engineering                             |           | 3,531                     | 5,716                             |              | 9,247      |
| Total Expenses   |           | 22,089                    | 18,045                            |              | 40,134     |
| Operating Earnings from Continuing<br>Operations                     |           | 13,907                    | 4,510                             |              | 18,417     |
| Other expense  |           |                           | 38                                |              | 38         |
| Interest income  | (3,553)   | (1,125)                   | (608)                             | 4,751        | (535)      |
| Interest expense   | 4,489     | 1,532                     | 3,412                             | (4,751)      | 4,682      |
| Other Expense, Net   | 936       | 407                       | 2,842                             |              | 4,185      |
| Income (Loss) from Continuing<br>Operations Before Taxes             | (936)     | 13,500                    | 1,668                             |              | 14,232     |
| Income Tax Expense (Benefit)   | (261)     | 3,868                     | 417                               |              | 4,024      |
| Income (Loss) From Continuing<br>Operations Before Minority Interest | (675)     | 9,632                     | 1,251                             |              | 10,208     |
| Minority Interest  |           |                           | (13)                              |              | (13)       |
| Income (Loss) From Continuing<br>Operations                          | (675)     | 9,632                     | 1,238                             |              | 10,195     |
| Income From Discontinued<br>Operations, Net of Tax                   |           | 7,415                     |                                   |              | 7,415      |
| Equity in Net Income of<br>Consolidated Subsidiaries                 | 18,285    |                           |                                   | (18,285)     |            |
| Net Income (Loss)  | \$ 17,610 | \$ 17,047                 | \$ 1,238                          | \$ (18,285)  | \$ 17,610  |

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Condensed Consolidating Statement of Cash Flows for the three month period ended January 28, 2005.  
(In thousands)  
(Restated)

|   | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|-----------|---------------------------|-----------------------------------|--------------|-----------|
| <b>Cash Flows Provided (Used) by Operating Activities</b> |           |                           |                                   |              |           |
| Net earnings (loss)                                       | \$ 17,610 | \$ 17,047                 | \$ 1,238                          | \$ (18,285)  | \$ 17,610 |
| Minority interest   |           |                           | 13                                |              | 13        |
| Depreciation & amortization                               |           | 5,524                     | 4,277                             |              | 9,801     |
| Deferred income taxes                                     | 2,239     |                           | (129)                             |              | 2,110     |
| Stock-based compensation                                  |           | (533)                     | (169)                             |              | (702)     |
| Gain on sale of discontinued operation                    |           | (9,771)                   |                                   |              | (9,771)   |
| Working capital changes, net of effect of acquisitions    |           |                           |                                   |              |           |
| Accounts receivable                                       | 1,023     | 10,546                    | 499                               |              | 12,068    |
| Inventories   |           | (6,174)                   | (2,256)                           |              | (8,430)   |
| Prepaid expenses  | 81        | (708)                     | 1,795                             |              | 1,168     |
| Accounts payable  | 1,640     | (1,142)                   | 1,174                             |              | 1,672     |
| Accrued liabilities                                       | (4,855)   | (8,029)                   | (2,616)                           |              | (15,500)  |
| Federal & foreign income taxes                            | (1,193)   | 1                         | 1,535                             |              | 343       |
| Other liabilities   | 498       | 23                        | 106                               |              | 627       |
| Other, net  | 27        | (49)                      | (921)                             |              | (943)     |
|   | 17,070    | 6,735                     | 4,546                             | (18,285)     | 10,066    |
| <b>Cash Flows Provided (Used) by Investing Activities</b> |           |                           |                                   |              |           |
| Purchases of capital assets                               | (10)      | (3,061)                   | (950)                             |              | (4,021)   |
| Proceeds from sale of discontinued operation              |           | 23,700                    |                                   |              | 23,700    |
| Capital dispositions                                      | 5         | 28                        | 90                                |              | 123       |
| Purchase of short-term investments                        | (8,820)   |                           |                                   |              | (8,820)   |
| Acquisitions of businesses, net                           |           | (3,346)                   |                                   |              | (3,346)   |
|   | (8,825)   | 17,321                    | (860)                             |              | 7,636     |

**Table of Contents**(In thousands)  
(Restated)

|   | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|---|------------|---------------------------|-----------------------------------|--------------|------------|
| <b>Cash Flows Provided (Used) by<br/>Financing Activities</b>     |            |                           |                                   |              |            |
| Proceeds provided by stock issuance<br>under employee stock plans | 649        |                           |                                   |              | 649        |
| Proceeds provided by sale of<br>common stock                      | 109,030    |                           |                                   |              | 109,030    |
| Net change in credit facilities                                   | (5,000)    |                           | 1,922                             |              | (3,078)    |
| Repayment of long-term debt                                       | (283)      | (42)                      | (127)                             |              | (452)      |
| Investment in subsidiaries  | 3,975      | (24,369)                  | 2,109                             | 18,285       |            |
|   | 108,371    | (24,411)                  | 3,904                             | 18,285       | 106,149    |
| Effect of foreign exchange rates on<br>cash                       | (337)      | (34)                      | 353                               |              | (18)       |
| Net increase (decrease) in cash and<br>cash equivalents           | 116,279    | (389)                     | 7,943                             |              | 123,833    |
| Cash and cash equivalents<br>beginning of year                    | 6,859      | 2,353                     | 20,267                            |              | 29,479     |
| Cash and cash equivalents end of<br>year                          | \$ 123,138 | \$ 1,964                  | \$ 28,210                         | \$           | \$ 153,312 |

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Condensed Consolidating Balance Sheet as of October 29, 2004.

(In thousands)

(Restated)

|                                  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|----------------------------------|------------|---------------------------|-----------------------------------|--------------|------------|
| <b>Assets</b>                    |            |                           |                                   |              |            |
| <b>Current Assets</b>            |            |                           |                                   |              |            |
| Cash and cash equivalents        | \$ 6,859   | \$ 2,353                  | \$ 20,267                         | \$           | \$ 29,479  |
| Cash in escrow                   | 8,511      |                           |                                   |              | 8,511      |
| Accounts receivable, net         | 2,221      | 83,115                    | 46,870                            |              | 132,206    |
| Inventories                      |            | 76,168                    | 42,886                            |              | 119,054    |
| Deferred income tax benefits     | 40,630     |                           | (17,131)                          |              | 23,499     |
| Prepaid expenses                 | 353        | 3,598                     | 5,490                             |              | 9,441      |
| Other current assets             | 147        | 288                       |                                   |              | 435        |
| Total Current Assets             | 58,721     | 165,522                   | 98,382                            |              | 322,625    |
| Property, Plant & Equipment, Net | 2,369      | 99,360                    | 43,406                            |              | 145,135    |
| Goodwill                         |            | 175,607                   | 72,210                            |              | 247,817    |
| Intangibles, Net                 | 141        | 77,160                    | 92,575                            |              | 169,876    |
| Debt Issuance Costs, Net         | 5,818      |                           |                                   |              | 5,818      |
| Deferred Income Tax Benefits     | 11,216     |                           |                                   |              | 11,216     |
| Other Assets                     | 9,780      | 18,309                    | 4,772                             |              | 32,861     |
| Amounts Due To/From Subsidiaries | 152,346    | 36,188                    |                                   | (188,534)    |            |
| Investment in Subsidiaries       | 558,234    |                           | 92                                | (558,326)    |            |
| Total Assets                     | \$ 798,625 | \$ 572,146                | \$ 311,437                        | \$ (746,860) | \$ 935,348 |



**Table of Contents**(In thousands)  
(Restated)

|  | Parent            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations        | Total             |
|--|-------------------|---------------------------|-----------------------------------|---------------------|-------------------|
| <b>Liabilities and Shareholders<br/>Equity</b>       |                   |                           |                                   |                     |                   |
| <b>Current Liabilities</b>                           |                   |                           |                                   |                     |                   |
| Accounts payable                                     | \$ 520            | \$ 16,814                 | \$ 20,533                         | \$                  | \$ 37,867         |
| Accrued liabilities                                  | 29,880            | 41,466                    | 25,692                            |                     | 97,038            |
| Credit facilities                                    | 5,000             |                           | 1,977                             |                     | 6,977             |
| Current maturities of long-term debt                 |                   | 50                        | 981                               |                     | 1,031             |
| Federal and foreign income taxes                     | 2,996             | 75                        | 3,607                             |                     | 6,678             |
| <b>Total Current Liabilities</b>                     | <b>38,396</b>     | <b>58,405</b>             | <b>52,790</b>                     |                     | <b>149,591</b>    |
| Long-Term Debt, Net                                  | 246,769           | 7                         | 2,280                             |                     | 249,056           |
| Deferred Income Taxes                                | 43,149            |                           | 294                               |                     | 43,443            |
| Other Liabilities                                    | 9,283             | 13,840                    | 6,729                             |                     | 29,852            |
| Amounts Due To (From)<br>Subsidiaries                |                   |                           | 186,310                           | (186,310)           |                   |
| Minority Interest                                    |                   |                           | 2,378                             |                     | 2,378             |
| Shareholders Equity                                  | 461,028           | 499,894                   | 60,656                            | (560,550)           | 461,028           |
| <b>Total Liabilities and Shareholders<br/>Equity</b> | <b>\$ 798,625</b> | <b>\$ 572,146</b>         | <b>\$ 311,437</b>                 | <b>\$ (746,860)</b> | <b>\$ 935,348</b> |

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Condensed Consolidating Statement of Operations for the three month period ended January 30, 2004.  
(In thousands)  
(Restated)

|  | Parent  | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|---------|---------------------------|-----------------------------------|--------------|------------|
| Net Sales  | \$      | \$ 100,205                | \$ 29,486                         | \$ (237)     | \$ 129,454 |
| Cost of Sales  |         | 71,449                    | 19,562                            | (237)        | 90,774     |
|  |         | 28,756                    | 9,924                             |              | 38,680     |
| Expenses   |         |                           |                                   |              |            |
| Selling, general and administrative                      |         | 19,680                    | 12,621                            |              | 32,301     |
| Research, development and<br>engineering                 |         | 2,024                     | 3,399                             |              | 5,423      |
| Total Expenses   |         | 21,704                    | 16,020                            |              | 37,724     |
| Operating Earnings from Continuing<br>Operations         |         | 7,052                     | (6,096)                           |              | 956        |
| Other (income) expense                                   |         | (558)                     | 2                                 |              | (556)      |
| Interest income  | (1,477) | (630)                     | (84)                              | 1,878        | (313)      |
| Interest expense   | 4,217   | 625                       | 1,328                             | (1,878)      | 4,292      |
| Other (Income) Expense, Net                              | 2,740   | (563)                     | 1,246                             |              | 3,423      |
| Income (Loss) from Continuing<br>Operations Before Taxes | (2,740) | 7,615                     | (7,342)                           |              | (2,467)    |
| Income Tax Expense (Benefit)                             | (740)   | (3)                       | (1,838)                           |              | (2,581)    |
| Income (Loss) From Continuing<br>Operations              | (2,000) | 7,618                     | (5,504)                           |              | 114        |
| Income From Discontinued<br>Operations, Net of Tax       |         | 292                       |                                   |              | 292        |
| Equity in Net Income of Consolidated<br>Subsidiaries     | 2,406   |                           |                                   | (2,406)      |            |
| Net Income (Loss)  | \$ 406  | \$ 7,910                  | \$ (5,504)                        | \$ (2,406)   | \$ 406     |

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Condensed Consolidating Statement of Cash Flows for the three month period ended January 30, 2004.  
(In thousands)  
(Restated)

|   | Parent  | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total   |
|---|---------|---------------------------|-----------------------------------|--------------|---------|
| <b>Cash Flows Provided (Used) by</b>                      |         |                           |                                   |              |         |
| <b>Operating Activities</b>                               |         |                           |                                   |              |         |
| Net earnings (loss)                                       | \$ 406  | \$ 7,910                  | \$(5,504)                         | \$(2,406)    | \$ 406  |
| Depreciation & amortization                               |         | 5,755                     | 1,927                             |              | 7,682   |
| Deferred income taxes                                     | 1,047   |                           | 74                                |              | 1,121   |
| Stock-based compensation                                  |         | 1,629                     | 543                               |              | 2,172   |
| Gain on sale of land                                      |         | (557)                     |                                   |              | (557)   |
| Working capital changes, net of<br>effect of acquisitions |         |                           |                                   |              |         |
| Accounts receivable                                       | (71)    | 11,449                    | 4,450                             |              | 15,828  |
| Inventories   |         | (803)                     | (221)                             |              | (1,024) |
| Prepaid expenses  | 22      | (575)                     | (3)                               |              | (556)   |
| Accounts payable  | (122)   | (1,493)                   | (1,582)                           |              | (3,197) |
| Accrued liabilities                                       | (2,202) | (9,416)                   | 3,400                             |              | (8,218) |
| Federal & foreign income taxes                            | (2,593) | (17)                      | (2,711)                           |              | (5,321) |
| Other, net  | (780)   | 807                       | (5,053)                           |              | (5,026) |
|   | (4,293) | 14,689                    | (4,680)                           | (2,406)      | 3,310   |
| <b>Cash Flows Provided (Used) by</b>                      |         |                           |                                   |              |         |
| <b>Investing Activities</b>                               |         |                           |                                   |              |         |
| Purchases of capital assets                               | (217)   | (4,360)                   | (593)                             |              | (5,170) |
| Proceeds from sale of land                                |         | 1,159                     |                                   |              | 1,159   |
| Escrow deposit  |         |                           |                                   |              |         |
| Capital dispositions                                      | 40      | 213                       | 132                               |              | 385     |
| Sale of short-term investments                            | 5,021   |                           |                                   |              | 5,021   |
| Acquisitions of businesses, net                           |         | (6,593)                   |                                   |              | (6,593) |
|   | 4,844   | (9,581)                   | (461)                             |              | (5,198) |

**Table of Contents**(In thousands)  
(Restated)

|  | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|-----------|---------------------------|-----------------------------------|--------------|------------|
| <b>Cash Flows Provided (Used) by<br/>Financing Activities</b>        |           |                           |                                   |              |            |
| Proceeds provided by stock<br>issuance under employee stock<br>plans | 651       |                           |                                   |              | 651        |
| Debt issuance costs  | (125)     |                           |                                   |              | (125)      |
| Net change in credit facilities                                      |           |                           | 540                               |              | 540        |
| Repayment of long-term debt  | (28,904)  | (21)                      | (119)                             |              | (29,044)   |
| Investment in subsidiaries   | (1,792)   | (3,255)                   | 2,641                             | 2,406        |            |
|  | (30,170)  | (3,276)                   | 3,062                             | 2,406        | (27,978)   |
| Effect of foreign exchange rates<br>on cash                          | 21        | 16                        | 5,967                             |              | 6,004      |
| Net increase (decrease) in cash<br>and cash equivalents              | (29,598)  | 1,848                     | 3,888                             |              | (23,862)   |
| Cash and cash equivalents<br>beginning of year                       | 109,834   | 3,030                     | 18,499                            |              | 131,363    |
| Cash and cash equivalents end of<br>year                             | \$ 80,236 | \$ 4,878                  | \$ 22,387                         | \$           | \$ 107,501 |

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

**Overview**

We view and operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. The Avionics & Controls segment designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles, secure communications systems, specialized medical equipment, and other industrial applications. The Sensors & Systems segment produces high-precision temperature and pressure sensors, electrical power switching, control and data communication devices, micro-motors, motion control sensors, and other related systems, principally for aerospace and defense customers. The Advanced Materials segment develops and manufactures high-performance elastomer products used in a wide range of commercial aerospace and military applications and combustible ordnance components and electronic warfare countermeasure devices for military customers. Sales in all segments include domestic, international, defense and commercial customers.

Our current business and strategic plan focuses on the continued development of our products in three key technology segments: avionics and controls, sensors and systems and specialized high-performance elastomers and other complex materials, principally for aerospace and defense markets. We are concentrating our efforts to expand our capabilities in these markets and to anticipate the global needs of our customers and respond to such needs with comprehensive solutions. These efforts focus on continuous research and new product development, acquisitions and establishing strategic realignments of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering.

On January 28, 2005, we completed the sale of the outstanding stock of our wholly owned subsidiary Fluid Regulators Corporation (Fluid Regulators), which was included in our Sensors & Systems segment, for approximately \$23.7 million. As a result of the sale, we recorded a gain of \$7.2 million, net of tax of \$2.5 million, in the first fiscal quarter of 2005.

On July 25, 2002, our Board of Directors adopted a formal plan for the sale of the assets and operations of our Automation segment. Upon the final disposition of our discontinued Automation operations in the fourth fiscal quarter of 2004, we recorded an \$8.0 million gain, net of \$4.5 million in tax, including the reversal of estimated reserves, which were recognizable upon the sale of the business.

Fluid Regulators and the Automation segment are reported as discontinued operations and the consolidated financial statements for all prior periods have been adjusted to reflect this presentation.

**Table of Contents****Results of Continuing Operations**

*Three Month Period Ended January 28, 2005 Compared with Three Month Period Ended January 30, 2004*

Sales for the first fiscal quarter increased 47.0% when compared with the prior-year period. Sales by segment were as follows:

| (In thousands)      | Incr./(Decr.)<br>from prior<br>year period | Three Months Ended     |                     |
|---------------------|--|------------------------|---------------------|
|                     |  | January<br>28,<br>2005 | January 30,<br>2004 |
| Avionics & Controls | 31.4%                                      | \$ 60,855              | \$ 46,316           |
| Sensors & Systems   | 114.6%                                     | 74,374                 | 34,652              |
| Advanced Materials  | 12.7%                                      | 54,564                 | 48,398              |
| Other               | 411.4%                                     | 450                    | 88                  |
| Total Net Sales     |  | \$ 190,243             | \$ 129,454          |

The 31.4% increase in sales of Avionics & Controls principally reflected \$10.2 million in incremental sales from the Leach Holding Corporation (Leach) medical unit acquisition in the fourth fiscal quarter of 2004, increased medical equipment sales, and higher sales at our AVISTA unit. These sales increases were partially offset by a decrease in sales of technology interface systems for land-based vehicles.

The 114.6% increase in sales of Sensors & Systems principally reflected \$29.2 million in incremental sales from the Leach acquisition. Sensors & Systems sales were also enhanced by higher sales of pressure and temperature sensors to OEM customers as well as increased sales to aftermarket customers. Additionally, the increase reflected a stronger euro relative to the U.S. dollar, as the average exchange rate from the euro to the U.S. dollar increased from 1.21 in the first fiscal quarter of 2004 to 1.32 in the first fiscal quarter of 2005.

The 12.7% increase in sales of Advanced Materials reflected higher sales of precision clamping components and elastomer material to aerospace customers while sales of combustible ordnance and countermeasure devices were even with the prior-year period. Additionally, sales at our metal finishing unit increased over the prior-year period, reflecting increased demand from aerospace and defense customers.

Overall, for the first fiscal quarter of 2005, gross margin as a percentage of sales was 30.8% compared with 29.9% for the first fiscal quarter of 2004. Avionics & Controls segment gross margin was 31.4% and 32.4% for the first fiscal quarter of 2005 and 2004, respectively, reflecting a higher mix of medical equipment sales due to the Leach medical unit acquisition. Sensors & Systems segment gross margin was 34.7% and 35.0% for the first quarter of fiscal 2005 and 2004, respectively. Sensors & Systems gross margin declined from the prior-year period due to a higher mix of electrical power switching, control and data communication devices due to the Leach acquisition and the effect of a weaker U.S. dollar compared with the euro on U.S. dollar-denominated sales and euro-denominated cost of sales.

Advanced Materials

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segment gross margin was 24.2% and 23.7% for the first quarter of fiscal 2005 and 2004, respectively. Advanced Materials gross margin increased when compared with the prior-year period, reflecting stronger sales of higher margin precision clamping components. Additionally, factory overhead expenses decreased at our elastomer operations, reflecting the expense of integrating acquired businesses in the prior-year period. Combustible ordnance gross margins decreased when compared with the prior-year period due to lower sales volumes, which resulted in reduced recovery of fixed factory overhead. Additionally, gross margins on countermeasure flares decreased, reflecting increased material and development costs on certain new programs.

Selling, general and administrative expenses (which include corporate expenses) totaled \$30.9 million and \$32.3 million for the first fiscal quarter of 2005 and 2004, respectively, or 16.2% of sales for the first fiscal quarter of 2005 compared with 25.0% for the prior-year period. Selling general and administrative expenses include stock option income of \$0.7 million in the first fiscal quarter of 2005 and a \$2.2 million of stock option expense in the first fiscal quarter of 2004, which are non-cash charges or income resulting from mark-to-market adjustments under the variable method of accounting. The decrease in selling, general and administrative expenses as a percentage of sales principally reflected \$4.5 million in severance expense in our Sensors & Systems segment incurred in the prior-year period and higher sales volumes without a proportional increase in the expense during the current fiscal quarter. These selling, general and administrative expenses are typically fixed. The overall increase in the amount of selling, general and administrative expenses primarily reflected incremental selling, general and administrative expenses from the Leach acquisition.

Research, development and engineering spending was \$9.2 million, or 4.9% of sales, for the first fiscal quarter of 2005 compared with \$5.4 million, or 4.2% of sales, for the first fiscal quarter of 2004. The increase in research, development and engineering spending principally reflected the acquisition of Leach in the fourth quarter of fiscal 2004 and the requirement to fund development for new programs for our OEM customers.

Segment earnings (operating earnings excluding corporate expenses) for the first fiscal quarter of 2005 totaled \$22.5 million, compared with \$5.4 million for the first fiscal quarter in 2004. Avionics & Controls segment earnings were \$9.4 million for the first fiscal quarter of 2005 compared with \$6.3 million for the first fiscal quarter of 2004, principally reflecting incremental earnings from the Leach medical unit acquisition and increased earnings at our AVISTA unit. Stock option income was \$0.2 million in the first fiscal quarter of 2005 and stock option expense was \$0.5 million in the first fiscal quarter of 2004.

Sensors & Systems segment earnings were \$6.4 million for the first fiscal quarter of 2005 compared with a \$4.4 million loss for the first fiscal quarter of 2004. The increase in Sensors & Systems earnings from the prior-year period reflected incremental earnings from the Leach acquisition, higher sales volumes and lower operating expenses. The decrease in operating expenses compared with the prior-year period principally reflected \$4.5 million in severance and legal costs covering 35 employees in engineering, production, quality, research and development and administration functions. In addition, nearly 20 employees elected early retirement or

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voluntarily resigned in the 2004 period. Stock option income was \$0.1 million in the first fiscal quarter of 2005 and stock option expense was \$0.4 million in the first fiscal quarter of 2004.

Advanced Materials segment earnings were \$6.5 million for the first fiscal quarter of 2005 compared with \$3.6 million for the first fiscal quarter of 2004. While combustible ordnance earnings were impacted by product development expense on a new flare program, earnings at our elastomer operations were enhanced by strong sales and improving gross margins. Elastomer earnings in the prior-year period were impacted by integration expenses and certain production inefficiencies, lower margin product sales and severance expense. Stock option income was \$0.2 million in the first fiscal quarter of 2005 and stock option expense was \$0.8 million in the first fiscal quarter of 2004. Interest expense for the first fiscal quarter of 2005 was \$4.7 million compared with \$4.3 million for the first fiscal quarter of 2004.

During the first fiscal quarter of 2004, we sold land in Coachella, California, for cash and recorded a gain on sale of \$557,000, which was included in other income.

The effective income tax rate for the first fiscal quarter of 2005 was 28.3% compared with 31.7% for the prior year period. The first fiscal quarter of 2004 rate was before a \$1.8 million reduction of previously estimated tax liabilities. The effective tax rate differed from the statutory rate in the first fiscal quarter in 2005 and 2004, as both periods benefited from various tax credits. The first fiscal quarter in 2005 also benefited from certain foreign interest expense deductions. On February 4, 2004, we received a Notice of Proposed Adjustment (NOPA) from the Internal Revenue Service covering the audit of research and development tax credits for fiscal years 1997 through 1999. As a result of the NOPA and the expectation of a similar result for fiscal years 2000 through 2003, we revised our estimated liability during the first fiscal quarter of 2004. As noted above, the revision resulted in the \$1.8 million reduction of previously estimated tax liabilities.

New orders for the first fiscal quarter of 2005 were \$203.9 million compared with \$150.6 million for the same period in 2004, an increase of 35.4%. Backlog at January 28, 2005 was \$438.2 million compared with \$315.8 million at the end of the prior-year period and \$424.5 million at October 29, 2004. The increase in orders and backlog principally reflects the Leach acquisition.



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**Liquidity and Capital Resources**

Cash and cash equivalents and short-term investments at January 28, 2005 totaled \$162.1 million, an increase of \$132.7 million from October 29, 2004. Net working capital increased to \$284.4 million at January 28, 2005 from \$173.0 million at October 29, 2004. Sources of cash flows from operating activities principally consist of cash received from the sale of products and cash payments for material, labor and operating expenses. Cash flows from operating activities were \$10.1 million and \$3.3 million in the first quarter of fiscal 2005 and 2004, respectively. The increase in cash flows from operating activities principally reflected higher earnings. The increase in cash flows provided by investing activities principally reflected net proceeds from the sale of Fluid Regulators of \$23.7 million, partially offset by a \$3.3 million purchase price adjustment payable to the seller of AVISTA and the \$6.5 million acquisition of AVISTA in the first fiscal quarter of 2004. The increase in cash provided by financing activities principally reflected the net proceeds of \$109.0 million from our public offering of 3.7 million shares of common stock completed on November 24, 2004, partially offset by the repayment of \$30 million of the 1999 Senior Notes in accordance with terms in the prior-year period.

Capital expenditures, consisting of machinery, equipment and computers, are anticipated to be approximately \$22.0 million during fiscal 2005, compared with \$22.1 million expended in fiscal 2004. Capital expenditures for the first fiscal quarter of 2005 totaled \$4.0 million, primarily for machinery and equipment and enhancements to information systems.

Total debt at January 28, 2005 was \$253.6 million and consisted of \$175.0 million of Senior Subordinated Notes, \$70.0 million of 1999 Senior Notes, and \$8.6 million of various foreign currency debt agreements, including capital lease obligations. The Senior Subordinated Notes are due June 15, 2013 at an interest rate of 7.75%. In September 2003 we entered into an interest rate swap agreement on \$75 million of our Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed rate for a variable interest rate on \$75 million of the \$175 million principal amount outstanding. The 1999 Senior Notes have maturities ranging from November 2005 to 2008 and interest rates from 6.4% to 6.77%. We believe cash on hand and funds generated from operations are adequate to service operating cash requirements and capital expenditures through fiscal 2005. In addition, we believe that we have adequate access to capital markets to fund future acquisitions.

**Recent Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Statement No. 123R), which is effective for public companies for interim or annual periods beginning after June 15, 2005. This statement will have a significant impact on our consolidated statements of operations, as we will be required to expense the fair value of our stock option grants and stock purchases under our employee stock purchase plan rather than disclose the impact on our consolidated net income within our footnotes as is our current practice. We intend to comply with the standard upon its effectiveness. The impact of adoption cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted Statement

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No. 123R in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 9 to the Consolidated Financial Statements of Esterline Technologies in this Form 10-Q/A.

**Forward-Looking Statements**

This quarterly report on Form 10-Q/A contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases you can identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risk factors set forth in Forward Looking Statements and Risk Factors in our Annual Report on Form 10-K/A for the fiscal year ended October 29, 2004, that may cause our or the industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. You should not place undue reliance on these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included or incorporated by reference into this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

**Item 4. Controls and Procedures**

Our principal executive and financial officers evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of January 28, 2005. Based upon that evaluation, they concluded as of January 28, 2005 that our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within time periods specified in Securities and Exchange Commission rules and forms. During the time period covered by this report, there were no significant changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time we are involved in legal proceedings arising in the ordinary course of business. We believe that adequate reserves for these liabilities have been made and that there is no litigation pending that could have a material adverse effect on our results of operations and financial condition.

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

At our annual meeting of shareholders held on March 2, 2005, the shareholders acted on the following proposal:  
The election of the following directors for three-year terms expiring at the 2008 annual meeting:

| Name                    | Votes Cast |          |
|-------------------------|------------|----------|
|                         | For        | Withheld |
| Lewis E. Burns          | 23,389,961 | 146,135  |
| Robert W. Cremin        | 23,193,313 | 342,783  |
| Anthony P. Franceschini | 23,244,969 | 291,127  |

The election of the following director for a two-year term expiring at the 2007 annual meeting:

| Name              | Votes Cast |          |
|-------------------|------------|----------|
|                   | For        | Withheld |
| Charles R. Larson | 23,390,185 | 145,911  |

Current directors whose terms are continuing after the 2005 annual meeting are Ross J. Centanni, John F. Clearman, Robert S. Cline, Jerry D. Leitman, and James L. Pierce.

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**Item 5. Other Information**

**(a) Annual Shareholders Meeting**

We held our 2005 annual shareholders meeting on March 2, 2005 at 10:00 a.m. at the Harbor Club Bellevue, located in Bellevue, Washington. The matters approved by the shareholders and the summary of the votes cast at the annual meeting are described herein under Item 4 of Part II. Effective at the conclusion of the 2005 annual meeting, Richard R. Albrecht retired as a director in accordance with the Board of Directors' retirement policy.

Our Board of Directors appointed members to serve on the Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee of the Board pursuant to recommendations made by the Nominating & Corporate Governance Committee. Effective March 2, 2005, John F. Clearman was elected as our Lead Independent Director and the members of the committees of our Board of Directors listed below are as follows:

**Audit Committee**

Robert S. Cline, Chairman

Anthony P. Franceschini

Charles R. Larson

James L. Pierce

**Compensation Committee**

Jerry D. Leitman, Chairman

Lewis E. Burns

Ross J. Centanni

John F. Clearman

**Nominating & Corporate Governance Committee**

Ross J. Centanni, Chairman

Lewis E. Burns

Robert S. Cline

Anthony P. Franceschini

**Table of Contents****(b) Entry into Material Contracts**

The following disclosures would otherwise have been filed on a Form 8-K under the heading Item 1.01. Entry into a Material Definitive Agreement :

None of our executive officers, other than Richard Wood, have an employment agreement with us. Each of the executive officers are employed at will and are entitled to receive a salary and to participate in retirement plans and other incentive plans as described below, all on terms approved by the Compensation Committee of our Board of Directors.

**Bonus Awards for Fiscal 2004**

In December 2004, the Compensation Committee reviewed our performance for fiscal year 2004 under our Annual Incentive Plan for Fiscal Year 2004 and our Long-Term Incentive Compensation Plan for Fiscal Years 2000-2004 and approved the payment of bonus awards to each of our executive officers under both plans. Additional information regarding the amount of bonus payments made to each named executive officer pursuant to each of these plans as well as other information relating to compensation paid to our named executive officers in fiscal 2004 is disclosed under Executive Compensation in our proxy statement relating to the annual shareholders meeting held on March 2, 2005, filed with the Securities and Exchange Commission on February 7, 2005.

**Stock Option Grants to Executive Officers**

On December 9, 2004, our named executive officers were granted stock options pursuant to the terms and conditions of our 2004 Equity Incentive Plan (Incorporated by reference to Annex B in the definitive form of the Company's Proxy Statement, relating to its 2004 Annual Meeting of Shareholders held on March 3, 2004, filed with the Securities and Exchange Commission and the New York Stock Exchange on February 3, 2004 [Commission File Number 1-6357].) and the form of stock option agreement filed as an exhibit to this report as follows:

| <b>Name</b>       | <b>Number of Shares<br/>Subject to Stock<br/>Option</b> |
|-------------------|---|
| Robert W. Cremin  | 45,000  |
| Robert D. George  | 12,000  |
| Larry A. Kring    | 15,000  |
| Stephen R. Larson | 12,000  |

The stock options have an exercise price of \$34.30. One-fourth of the stock options vest annually on the anniversary of the grant date and become immediately exercisable upon vesting and will expire on December 9, 2014 unless terminated earlier pursuant to the terms of our 2004 Equity Incentive Plan and the stock option agreement, the form of which is filed as an exhibit to this report and incorporated herein by reference.

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***Adoption of 2005 Annual Incentive Plan and New Long-Term Incentive Compensation Plan***

In December 2004, the Compensation Committee approved the Annual Incentive Plan for Fiscal Year 2005 (the 2005 Annual Plan ), in which each of our executive officers participates, and established budgeted earnings per share as the performance goal for awards granted under this plan. The 2005 Annual Plan is administered under our 2004 Equity Incentive Plan. The 2005 Annual Plan is filed as an exhibit to this report and is incorporated herein by reference.

On March 1, 2005, the Compensation Committee approved the structure, including the performance objectives, for a new Long-Term Incentive Compensation Plan (the Long-Term Plan ), in which each of our executive officers will participate. The two performance objectives upon which awards will be granted under the plan are cumulative earnings per share growth and return on invested capital. The Long-Term Plan will be administered under our 2004 Equity Incentive Plan. Awards under the Long-Term Plan will be based on a three-year performance period, except for fiscal 2005 and fiscal 2006, which will be based on one-year and two-year performance periods, respectively, in order to phase in the plan. For fiscal 2005, target award amounts to be paid if we achieve plan objectives for both performance objectives will equal 66% of base salary for our Chief Executive Officer, and from 36% to 48% of base salary for our other executive officers. No executive will receive any award if performance is below minimum plan objectives and no additional award will be paid if performance exceeds maximum plan objectives. In addition, no award paid to any executive will exceed 400% of such executive's target award.

**(c) Stock Grant to Non-Employee Directors**

On March 2, 2005, we issued 279 shares of common stock pursuant to the terms of our Amended and Restated Non-Employee Directors Stock Compensation Plan (the Non-Employee Directors Plan ) to each of our non-employee directors. The Non-Employee Directors Plan is filed as an exhibit to this report and is incorporated herein by reference.

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**Item 6. Exhibits**

- 10.19b Offer Letter from Esterline Technologies Corporation to Richard Wood dated February 9, 2005.
- 10.19c Severance Protection Agreement between Richard Wood and Esterline Technologies Corporation, dated February 23, 2005.
- 10.19d Executive Officer Compensation (incorporated by reference to the information disclosed under (b) Entry into Material Contracts in Item 5 of Part II of the Company's Quarterly Report on Form 10-Q for quarter ended January 28, 2005 (Commission File No. 1-6357)).
- 10.20k Esterline Technologies Corporation Fiscal Year 2005 Annual Incentive Plan.
- 10.36a Form of Stock Option Agreement.
- 10.40 Esterline Technologies Corporation Amended and Restated Non-Employee Directors' Stock Compensation Plan.
- 11 Schedule setting forth computation of basic and diluted earnings per common share for the three month periods ended January 28, 2005 and January 30, 2004.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer.
- 32.1 Certification (of Robert W. Cremin) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification (of Robert D. George) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Previously filed.

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**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 hereunto duly authorized.

ESTERLINE TECHNOLOGIES CORPORATION  
(Registrant)

Dated: January 6, 2006

By: /s/ Robert D. George

Robert D. George  
*Vice President, Chief Financial  
Officer,  
Secretary and Treasurer  
(Principal Financial Officer)*

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