

MOOG INC
Form 10-K
November 30, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 1, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____ Commission file number **1-5129**

(Exact Name of Registrant as Specified in its Charter)

New York
(State or Other Jurisdiction of Incorporation or Organization)

16-0757636
(I.R.S. Employer Identification No.)

East Aurora, New York
(Address of Principal Executive Offices)

14052-0018
(Zip Code)

Registrant's Telephone Number, Including Area Code: **(716) 652-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$1.00 Par Value	New York Stock Exchange
Class B Common Stock, \$1.00 Par Value	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: <input type="checkbox"/> None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or

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for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Yes No

The aggregate market value of the common stock outstanding and held by non-affiliates (as defined in Rule 405 under the Securities Act of 1933) of the registrant, based upon the closing sale price of the common stock on the New York Stock Exchange on April 1, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,830 million.

The number of shares of common stock outstanding as of the close of business on November 22, 2011 was: Class A 41,195,983; Class B 4,036,527.

Portions of the 2011 Proxy Statement to Shareholders (2011 Proxy) are incorporated by reference into Part III of this Form 10-K.

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MOOG Inc.

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Disclosure Regarding Forward-Looking Statements

Information included or incorporated by reference in this report that does not consist of historical facts, including statements accompanied by or containing words such as may, will, should, believes, expects, expected, intends, plans, projects, approximate, estimates, outlook, forecast, anticipates, presume and assume, are forward-looking statements. Such forward-looking statements are made pursuant to

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safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. Certain of these factors, risks and uncertainties are discussed in the sections of this report entitled **Risk Factors** and **Management's Discussion and Analysis of Financial Condition and Results of Operations**. New factors, risks and uncertainties may emerge from time to time that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements made in this report.

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PART I

The Registrant, Moog Inc., a New York corporation formed in 1951, is referred to in this report as "Moog" or in the nominative "we" or the possessive "our."

Unless otherwise noted or the context otherwise requires, all references to years in this report are to fiscal years.

Item 1. Business

Description of the Business. Moog is a worldwide designer, manufacturer and integrator of high performance precision motion and fluid controls and systems for a broad range of applications in aerospace and defense, industrial and medical markets. We have five operating segments: Aircraft Controls, Space and Defense Controls, Industrial Systems, Components and Medical Devices.

Additional information describing the business and comparative segment revenues, operating profits and related financial information for 2011, 2010 and 2009 are provided in Note 17 of Item 8, Financial Statements and Supplementary Data of this report.

Distribution. Our sales and marketing organization consists of individuals possessing highly specialized technical expertise. This expertise is required in order to effectively evaluate a customer's precision control requirements and to facilitate communication between the customer and our engineering staff. Our sales staff is the primary contact with customers. Manufacturers' representatives are used to cover certain domestic aerospace markets. Distributors are used selectively to cover certain industrial and medical markets.

Industry and Competitive Conditions. We experience considerable competition in our aerospace and defense, industrial and medical markets. We believe that the principal points of competition in our markets are product quality, price, design and engineering capabilities, product development, conformity to customer specifications, timeliness of delivery, effectiveness of the distribution organization and quality of support after the sale. We believe we compete effectively on all of these bases. Principal competitors in our five operating segments include:

Aircraft Controls: Parker Hannifin, Nabtesco, Goodrich, Liebherr, Curtiss-Wright, Woodward Governor and Hamilton Sundstrand.
Space and Defense Controls: Honeywell, Parker Hannifin, Vacco, Valvetech, Marotta, Sabca, Curtiss-Wright, ESW, Aerojet, Valcor, Aeroflex, Hamilton Sundstrand, Limatorque, Sargeant Industries, RVision, Directed Perception, ATA Engineering, CDA InterCorp, RUAG, Woodward Governor, Sierra-Nevada, Videotec and Lord Corp.
Industrial Systems: Bosch Rexroth, Danaher, Baumuller, Siemens, SSB, Parker Hannifin, Suzhou ReEnergy, MTS, Exlar and Hydrauldyne.
Components: Danaher, Allied Motion, Ametek, Woodward MPC, Axsys, Schleifring, Airflyte, Smiths, Kearfott and Stemmann.
Medical Devices: B. Braun, CareFusion, Smiths Medical, Hospira, Alcon, Baxter International, CME, I-Flow, Covidien, Etalon, Introtek and Ross (Abbott).

Government Contracts. All U.S. Government contracts are subject to termination by the Government. In 2011, sales under U.S. Government contracts represented 32% of total sales and were primarily within Aircraft Controls, Space and Defense Controls and Components.

Backlog. Substantially all backlog will be realized as sales in the next twelve months. See the discussion in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this report.

Raw Materials. Materials, supplies and components are purchased from numerous suppliers. We believe the loss of any one supplier, although potentially disruptive in the short-term, would not materially affect our operations in the long-term.

Working Capital. See the discussion on operating cycle in Note 1 of Item 8, Financial Statements and Supplementary Data of this report.

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Seasonality. Our business is generally not seasonal; however, certain markets, such as wind energy, do experience seasonal variations in sales levels.

Patents. We maintain a patent portfolio of issued or pending patents and patent applications worldwide that generally includes the U.S., Europe, China, Japan and India. The portfolio includes patents that relate to electrohydraulic, electromechanical, electronics, hydraulics, components and methods of operation and manufacture as related to motion control and actuation systems. The portfolio also includes patents for recently acquired products related to wind turbines, robotics, surveillance/security, vibration control and medical devices. We do not consider any one or more of these patents or patent applications to be material in relation to our business as a whole. The patent portfolio related to certain medical devices is significant to our position in this market as several of these products work exclusively together, and provide us future revenue opportunities.

Research Activities. Research and development activity has been, and continues to be, significant for us. Research and development expense was at least \$100 million in each of the last three years.

Employees. On October 1, 2011, we employed 10,320 full-time employees.

Customers. Our principal customers are Original Equipment Manufacturers, or OEMs, and end users for whom we provide aftermarket support. Aerospace and defense OEM customers collectively represented approximately 46% of 2011 sales. The majority of these sales are to a small number of large companies. Due to the long-term nature of many of the programs, many of our relationships with aerospace and defense OEM customers are based on long-term agreements. Our OEM sales of industrial controls and medical devices, which represented approximately 36% of 2011 sales, are to a wide range of global customers and are normally based on lead times of 90 days or less. We also provide aftermarket support, consisting of spare and replacement parts and repair and overhaul services, for all of our products. Our major aftermarket customers are the U.S. Government and commercial airlines. In 2011, aftermarket sales accounted for 18% of total sales.

Customers in our five operating segments include:

Aircraft Controls: Boeing, Lockheed Martin, Airbus, BAE, Bombardier, Gulfstream, Honeywell, Northrop Grumman and the U.S. Government.

Space and Defense Controls: Lockheed Martin, Raytheon, Orbital Sciences, BAE, United Technologies-Pratt & Whitney Rocketdyne, Alliant Techsystems and General Dynamics.

Industrial Systems: RePower AG, United Power (GUP), FlightSafety, CAE, Arburg, Metso and Schlumberger.

Components: Respironics, Raytheon, Lockheed Martin, Philips Medical and the U.S. Government.

Medical Devices: Danone and Abbott.

International Operations. Our operations outside the United States are conducted through wholly-owned foreign subsidiaries and are located predominantly in Europe and the Asia-Pacific region. See Note 17 of Item 8, Financial Statements and Supplementary Data of this report for information regarding sales by geographic area and Exhibit 21 of Item 15, Exhibits and Financial Statement Schedules of this report for a list of subsidiaries. Our international operations are subject to the usual risks inherent in international trade, including currency fluctuations, local government contracting regulations, local governmental restrictions on foreign investment and repatriation of profits, exchange controls, regulation of the import and distribution of foreign goods, as well as changing economic and social conditions in countries in which our operations are conducted.

Environmental Matters. See the discussion in Note 18 of Item 8, Financial Statements and Supplementary Data of this report.

Website Access to Information. Our internet address is www.moog.com. We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports, available on the investor information portion of our website. The reports are free of charge and are available as soon as reasonably practicable after they are filed with the Securities and Exchange Commission. We have posted our Corporate Governance guidelines, Board committee charters and code of ethics to the investor information portion of our website. This information is available in print to any shareholder upon request. All requests for these documents should be made to Moog's Manager of Investor Relations by calling 716-687-4225.

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Executive Officers of the Registrant. Other than John B. Drenning, the principal occupations of our officers for the past five years have been their employment with us. John B. Drenning's principal occupation is partner in the law firm of Hodgson Russ LLP.

On December 2, 2010, John R. Scannell was named President and Chief Operating Officer. Previously, he was Vice President and Chief Financial Officer. Prior to that, he was Vice President and Director of Contracts and Pricing.

On December 2, 2010, Donald R. Fishback was named Chief Financial Officer. Previously, he was Vice President of Finance. Prior to that, he was Controller and Principal Accounting Officer.

On December 2, 2010, Sean Gartland was named Vice President. Previously, he was General Manager of the International Group, Pacific operation.

On February 11, 2008, Jennifer Walter was named Controller and Principal Accounting Officer. Previously, she was Director of Financial Planning and Analysis.

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Executive Officers	0000000000 Age	0000000000 Year First Elected Officer
Robert T. Brady Chairman of the Board; Chief Executive Officer; Director; Member, Executive Committee	70	1967
John R. Scannell President; Chief Operating Officer	48	2006
Richard A. Aubrecht Vice Chairman of the Board; Vice President - Strategy and Technology; Director; Member, Executive Committee	67	1980
Joe C. Green Executive Vice President; Chief Administrative Officer; Director; Member, Executive Committee	70	1973
Martin J. Berardi Vice President	55	2000
Warren C. Johnson Vice President	52	2000
Jay K. Hennig Vice President	51	2002
Lawrence J. Ball Vice President	57	2004
Harald E. Seiffer Vice President	52	2005
Sasidhar Eranki Vice President	57	2006
Sean Gartland Vice President	48	2010
Donald R. Fishback Vice President; Chief Financial Officer	55	1985
Jennifer Walter Controller; Principal Accounting Officer	40	2008
Timothy P. Balkin Treasurer; Assistant Secretary	52	2000
John B. Drenning Secretary	74	1989

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Item 1A. Risk Factors

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate. The markets we serve are sensitive to fluctuations in general business cycles and domestic and foreign economic conditions and events. For example, demand for our industrial systems products is dependent upon several factors, including capital investment, product innovations, economic growth, cost-reduction efforts and technology upgrades. In addition, the commercial airline industry is highly cyclical and sensitive to fuel price increases, labor disputes and economic conditions. These factors could result in a reduction in the amount of air travel. A reduction in air travel could reduce orders for new aircraft for which we supply flight controls and for spare parts and services and reduce our sales. A reduction in air travel may also result in our commercial airline customers being unable to pay our invoices on a timely basis or at all. Changes in medical reimbursement rates of insurers to medical service providers could impact our sale of medical products.

We operate in highly competitive markets with competitors who may have greater resources than we possess. Many of our products are sold in highly competitive markets. Some of our competitors, especially in our industrial and medical markets, are larger and more diversified and have greater financial, marketing, production and research and development resources. As a result, they may be better able to withstand the effects of periodic economic downturns. Our sales and operating margins will be negatively impacted if our competitors:

- develop products that are superior to our products,
- develop products of comparable quality and performance that are more competitively priced than our products,
- develop methods of more efficiently and effectively providing products and services, or
- adapt more quickly than we do to new technologies or evolving customer requirements.

We believe that the principal points of competition in our markets are product quality, price, design and engineering capabilities, product development, conformity to customer specifications, timeliness of delivery, effectiveness of the distribution organization and quality of support after the sale. Maintaining and improving our competitive position will require continued investment in manufacturing, engineering, quality standards, marketing, customer service and support and our distribution networks. If we do not maintain sufficient resources to make these investments or are not successful in maintaining our competitive position, our operations and financial performance will suffer.

We depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs. Sales to the U.S. Government and its prime contractors and subcontractors represent a significant portion of our business. In 2011, sales under U.S. Government contracts represented 32% of our total sales, primarily within Aircraft Controls, Space and Defense Controls and Components. Sales to foreign governments represented 7% of our total sales. We expect that the percentage of our revenues from government contracts will continue to be substantial in the future. Government programs can be structured into a series of individual contracts. The funding of these programs is generally subject to annual congressional appropriations, and congressional priorities are subject to change. In addition, government expenditures for defense programs may decline or these defense programs may be terminated. A decline in government expenditures may result in a reduction in the volume of contracts awarded to us. We have resources applied to specific government contracts and if any of those contracts were terminated, we may incur substantial costs redeploying those resources.

We make estimates in accounting for long-term contracts, and changes in these estimates may have significant impacts on our earnings. We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls. Revenue representing 29% of 2011 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. Under this method, we recognize revenue as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods.

Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. A significant change in an estimate on one or more contracts could have a material effect on our results of operations. For contracts with anticipated losses at completion, we establish a provision for the entire amount of the estimated remaining loss and charge it against income in the period in which the loss becomes known. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable.

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We enter into fixed-price contracts, which could subject us to losses if we have cost overruns. In 2011, fixed-price contracts represented 81% of our sales that were accounted for using the percentage of completion, cost-to-cost method of accounting. On fixed-price contracts, we agree to perform the scope of work specified in the contract for a predetermined price. Depending on the fixed price negotiated, these contracts may provide us with an opportunity to achieve higher profits based on the relationship between our total contract costs and the contract's fixed price. However, we bear the risk that increased or unexpected costs may reduce our profit or cause us to incur a loss on the contract, which could reduce our net sales and net earnings. Loss reserves are most commonly associated with fixed-price contracts that involve the design and development of new and unique controls or control systems to meet the customer's specifications.

If our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted. Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract or our hiring of personnel of a subcontractor. Failure by our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could result in a customer terminating our contract for default. A default termination could expose us to liability and substantially impair our ability to compete for future contracts and orders. In addition, a delay in our ability to obtain components and equipment parts from our suppliers may affect our ability to meet our customers' needs and may have an adverse effect upon our profitability.

Contracting on government programs is subject to significant regulation, including rules related to bidding, billing and accounting kickbacks and false claims, and any non-compliance could subject us to fines and penalties or possible debarment. Like all government contractors, we are subject to risks associated with this contracting. These risks include the potential for substantial civil and criminal fines and penalties. These fines and penalties could be imposed for failing to follow procurement integrity and bidding rules, employing improper billing practices or otherwise failing to follow cost accounting standards, receiving or paying kickbacks or filing false claims. We have been, and expect to continue to be, subjected to audits and investigations by U.S. and foreign government agencies and authorities. The failure to comply with the terms of our government contracts could harm our business reputation. It could also result in our progress payments being withheld or our suspension or debarment from future government contracts.

The loss of Boeing or Lockheed Martin as a customer or a significant reduction in sales to either company could adversely impact our operating results. We provide Boeing with controls for both military and commercial applications, which, in total, were 10% of our 2011 sales. Sales to Boeing's commercial airplane group are generally made under a long-term supply agreement through 2021 for the Boeing 787 and 2013 for other commercial airplanes. The loss of Boeing or Lockheed Martin as a customer or a significant reduction in sales to either company could significantly reduce our sales and earnings.

If we are unable to adapt to technological change, demand for our products may be reduced. The technologies related to our products have undergone, and in the future may undergo, significant changes. To succeed in the future, we will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. Historically, our technology has been developed through customer-funded and internally funded research and development and through business acquisitions. In addition, our competitors may develop technologies and products that are more effective than those we develop or that render our technology and products obsolete or uncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We may have to modify our products significantly in the future to remain competitive.

Our new product and research and development efforts may not be successful, which would result in a reduction in our sales and earnings. In the past, we have incurred, and we expect to continue to incur, expenses associated with research and development activities and the introduction of new products. For instance, we are currently incurring substantial development costs in connection with our work on the Airbus A350 XWB. We may experience difficulties that could delay or prevent the successful development of new products or product enhancements. Our new products or product enhancements may also not be accepted by our customers or our customers may delay their introductions. In addition, the research and development expenses we incur may exceed our cost estimates, and new products we develop may not generate sales sufficient to offset our costs. If any of these events occur, our sales and profits could be adversely affected.

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Our inability to adequately enforce our intellectual property rights or defend against assertions of infringement could prevent or restrict our ability to compete. We rely on patents, trademarks and proprietary knowledge and technology, both internally developed and acquired for our products. Our inability to defend against the unauthorized use of these rights and assets could have an adverse effect on our results of operations and financial condition. Litigation may be necessary to protect our intellectual property rights or defend against claims of infringement and could result in significant costs and divert our management's focus away from operations.

Our indebtedness and restrictive covenants under our credit facilities could limit our operational and financial flexibility. We have incurred significant indebtedness, and may in the future incur additional debt for acquisitions, operations, research and development and capital expenditures. Our ability to make interest and scheduled principal payments and meet restrictive covenants could be adversely impacted by changes in the availability, terms and cost of capital, increases in interest rates or a reduction in credit rating or outlook. These changes could cause our cost of doing business to increase and limit our ability to pursue acquisition opportunities, react to market conditions and meet operational and capital needs, which would place us at a competitive disadvantage. At October 1, 2011, 60% of our debt was at fixed interest rates with the remaining 40% subject to variable interest rates.

Significant changes in discount rates, rates of return on pension assets, mortality tables and other factors could affect our earnings, equity and pension funding requirements. Pension obligations and the related costs are determined using actual results and actuarial valuations that involve several assumptions. Our funding requirements are also based on these assumptions. The most critical assumptions are the discount rate, the long-term expected return on assets and mortality. Other assumptions include salary increases and retirement age. Some of these assumptions, such as the discount rate and return on pension assets, are largely outside of our control. Changes in these assumptions could affect our earnings, equity and funding requirements.

A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth. Goodwill and other intangible assets are a substantial portion of our assets. At October 1, 2011, goodwill was \$735 million and other intangible assets were \$198 million of our total assets of \$2.8 billion. Our goodwill and other intangible assets may increase in the future since our strategy includes growing through acquisitions. We may have to write off all or part of our goodwill or other intangible assets if their value becomes impaired. Although this write-off would be a non-cash charge, it could reduce our earnings and net worth significantly. This could result in our inability to refinance or renegotiate the terms of our bank indebtedness.

Our sales and earnings growth may be reduced if we cannot implement our acquisition strategy. Acquisitions are a key part of our growth strategy. Our historical growth has depended, and our future growth is likely to depend, in large part, on our ability to successfully implement our acquisition strategy, and the successful integration of acquired businesses into our existing operations. We intend to continue to seek additional acquisition opportunities in accordance with our acquisition strategy, both to expand into new markets and to enhance our position in existing markets throughout the world. If we are unable to successfully identify suitable candidates, successfully acquire and integrate acquired businesses into our existing operations, our sales and earnings growth would be reduced.

We may incur losses and liabilities as a result of our acquisition strategy. Growth by acquisition involves risks that could adversely affect our financial condition and operating results, including:

diversion of management time and attention from our core business,

the potential exposure to unanticipated liabilities,

the potential that expected benefits or synergies are not realized and that operating costs increase,

the risks associated with incurring additional acquisition indebtedness, including that additional indebtedness could limit our cash flow availability for operations and our flexibility,

difficulties in integrating the operations and personnel of acquired companies, and

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the potential loss of key employees, suppliers or customers of acquired businesses. In addition, any acquisition, once successfully integrated, could negatively impact our financial performance if it does not perform as planned, does not increase earnings, or does not prove otherwise to be beneficial to us.

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Our operations in foreign countries expose us to political and currency risks and adverse changes in local legal, tax and regulatory schemes. We have significant manufacturing and sales operations in foreign countries. In addition, our domestic operations have sales to foreign customers. In 2011, 45% of our net sales was from customers outside of the United States. Our financial results may be adversely affected by fluctuations in foreign currencies and by the translation of the financial statements of our foreign subsidiaries from local currencies into U.S. dollars. We expect international operations and export sales to continue to contribute to our earnings for the foreseeable future. Both the sales from international operations and export sales are subject in varying degrees to risks inherent in doing business outside of the United States. Such risks include, without limitation, the following:

the possibility of unfavorable circumstances arising from host country laws or regulations,

partial or total expropriation,

potential negative consequences from changes to significant taxation policies, laws or regulations,

changes in tariff and trade barriers and import or export licensing requirements, and

political or economic instability, insurrection, civil disturbance or war.

Government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business. In 2011, 11% of our sales was subject to compliance with the United States Export Administration regulations. Our failure to obtain the requisite licenses, meet registration standards or comply with other government export regulations would hinder our ability to generate revenues from the sale of our products outside the United States. Compliance with these government regulations may also subject us to additional fees and operating costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In order to sell our products in European Union countries, we must satisfy certain technical requirements. If we are unable to comply with those requirements with respect to a significant quantity of our products, our sales in Europe would be restricted. Doing business internationally also subjects us to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, foreign corrupt practices and anti-boycott provisions. Failure by us or our sales representatives or consultants to comply with these laws and regulations could result in administrative, civil or criminal liabilities and could, in the extreme case, result in suspension or debarment from government contracts or suspension of our export privileges, which would have a material adverse effect on us.

The failure or misuse of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages. Defects in the design and manufacture of our products may necessitate a product recall. We include complex system design and components in our products that could contain errors or defects, particularly when we incorporate new technology into our products. If any of our products are defective, we could be required to redesign or recall those products or pay substantial damages or warranty claims and face actions by regulatory bodies and government authorities. Such an event could result in significant expenses, disrupt sales and affect our reputation and that of our products and cause us to withdraw from certain markets. We are also exposed to product liability claims. Many of our products are used in applications where their failure or misuse could result in significant property loss and serious personal injury or death. We carry product liability insurance consistent with industry norms. However, these insurance coverages may not be sufficient to fully cover the payment of any potential claim. A product recall or a product liability claim not covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

Future terror attacks, war, or other civil disturbances could negatively impact our business. Terror attacks, war or other disturbances could lead to economic instability and decreases in demand for commercial products, which could negatively impact our business, financial condition and results of operations. Terrorist attacks worldwide have caused instability from time to time in global financial markets and the aviation industry. In 2011, 15% of our net sales was related to commercial aircraft. The long-term effects of terrorist attacks on us are unknown. These attacks and the U.S. Government's continued efforts against terrorist organizations may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability.

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Our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers. We conduct our operations in facilities located throughout the world. Any of these facilities could be damaged by fire, floods, earthquakes, power loss, telecommunication and information systems failure or similar events. Our facilities in California, Japan and the Philippines are particularly susceptible to earthquakes. These facilities accounted for 17% of our manufacturing, assembly and test capacity in 2011. Although we carry property insurance, including earthquake insurance and business interruption insurance, our inability to meet customers' schedules as a result of a catastrophe may result in a loss of customers or significant additional costs such as penalty claims under customer contracts.

Our operations are subject to environmental laws, and complying with those laws may cause us to incur significant costs. Our operations and facilities are subject to numerous stringent environmental laws and regulations. Although we believe that we are in material compliance with these laws and regulations, future changes in these laws, regulations, or interpretations of them, or changes in the nature of our operations may require us to make significant capital expenditures to ensure compliance. We have been and are currently involved in environmental remediation activities, the cost of which may become significant depending on the discovery of additional environmental exposures at sites that we currently own or operate and at sites that we formerly owned or operated, or at sites to which we have sent hazardous substances or wastes for treatment, recycling or disposal.

We are involved in various legal proceedings, the outcome of which may be unfavorable to us. Our business may be adversely impacted by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. We estimate loss contingencies and establish reserves based on our assessment where liability is deemed probable and reasonably estimable given the facts and circumstances known to us at a particular point in time. Subsequent developments may affect our assessment and estimates of the loss contingencies recorded as liabilities.

Item 1B. Unresolved Staff Comments.
None

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On October 1, 2011, we occupied 5,107,000 square feet of space in the United States and countries throughout the world, distributed as follows:

	Square Feet		
	Owned	Leased	Total
Aircraft Controls	1,380,000	687,000	2,067,000
Space and Defense Controls	519,000	183,000	702,000
Industrial Systems	573,000	609,000	1,182,000
Components	623,000	132,000	755,000
Medical Devices	273,000	108,000	381,000
Corporate Headquarters	-	20,000	20,000
Total	3,368,000	1,739,000	5,107,000

Aircraft Controls has principal manufacturing facilities located in the U.S., England and the Philippines. Space and Defense Controls has principal manufacturing facilities located in the U.S. and Germany. Industrial Systems has principal manufacturing facilities located in the U.S., Germany, China, Italy, India, Luxembourg, The Netherlands, England, Ireland and Japan. Components has principal manufacturing facilities located in the U.S., Canada and England. Medical Devices has principal manufacturing facilities in the U.S., Costa Rica and Lithuania. Our corporate headquarters is located in East Aurora, New York.

We believe that our properties have been adequately maintained and are generally in good condition. Operating leases for properties expire at various times from 2012 through 2034. Upon the expiration of our current leases, we believe that we will be able to either secure renewal terms or enter into leases for alternative locations at market terms.

Item 3. Legal Proceedings.

From time to time, we are named as a defendant in legal actions. We are not a party to any pending legal proceedings that management believes will result in a material adverse effect on our financial condition or results of operations.

Item 4. (Removed and Reserved).

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our two classes of common shares, Class A common stock and Class B common stock, are traded on the New York Stock Exchange (NYSE) under the ticker symbols MOG.A and MOG.B. The following chart sets forth, for the periods indicated, the high and low sales prices of the Class A common stock and Class B common stock on the NYSE.

Quarterly Stock Prices

Fiscal Year Ended	Class A		Class B	
	High	Low	High	Low
October 1, 2011				
1st Quarter	\$ 40.67	\$ 33.97	\$ 40.27	\$ 34.26
2nd Quarter	46.38	39.24	46.25	40.42
3rd Quarter	46.46	39.54	46.14	39.29
4th Quarter	45.45	30.45	45.00	31.95

October 2, 2010

1st Quarter	\$ 30.09	\$ 22.49	\$ 30.00	\$ 24.69
2nd Quarter	40.21	29.34	38.00	29.39
3rd Quarter	39.77	30.18	39.70	30.51
4th Quarter	37.71	29.95	37.50	30.16

The number of shareholders of record of Class A common stock and Class B common stock was 998 and 439, respectively, as of November 22, 2011.

We did not pay cash dividends on our Class A common stock or Class B common stock in 2010 or 2011 and have no plans to do so in the foreseeable future.

The following table summarizes our purchases of our common stock for the quarter ended October 1, 2011.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares	(b) Average Price Paid Per Share	(c) Total number of Shares Purchased as	(d) Maximum Number (or Approx. Dollar Value) of Shares that May
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	Purchased		Part of Publicly Announced Plans or Programs (1)	Yet Be Purchased Under Plans or Programs (1)
July 3 - July 31, 2011	-	\$ -	-	766,400
August 1 - August 31, 2011	689,486	37.58	689,486	76,914
September 1 - October 1, 2011	76,914	38.67	76,914	-
Total	766,400	\$ 37.69	766,400	-

- (1) In October 2008, the Board of Directors authorized a share repurchase program. The program permits the purchase of up to 1,000,000 Class A or Class B common shares in open market or privately negotiated transactions at the discretion of management.

Table of Contents**Performance Graph**

The following graph and table show the performance of the Company's Class A common stock compared to the NYSE Composite-Total Return Index and the S&P Aerospace and Defense Index for a \$100 investment made on September 30, 2006, including the reinvestment of any dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Moog Inc., the NYSE Composite Index

and the S&P Aerospace & Defense Index

	9/06	9/07	9/08	9/09	9/10	9/11
Moog Inc. - Class A Common Stock	\$ 100.00	\$ 126.77	\$ 123.72	\$ 85.11	\$ 102.45	\$ 94.11
NYSE Composite - Total Return Index	100.00	121.07	93.09	88.00	94.87	90.54
S&P Aerospace & Defense Index	100.00	132.90	99.11	94.24	107.18	108.08

Table of Contents**Item 6. Selected Financial Data.**

For a more detailed discussion of 2009 through 2011, refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and Item 8, Financial Statements and Supplementary Data of this report.

(dollars in thousands, except per share data)	2011(1)	2010(1)	2009(2)(3)	2008(3)(4)	2007(3)
RESULTS FROM OPERATIONS					
Net sales	\$ 2,330,680	\$ 2,114,252	\$ 1,848,918	\$ 1,902,666	\$ 1,558,099
Net earnings	136,021	108,094	85,045	119,068	100,936
Net earnings per share					
Basic	\$ 2.99	\$ 2.38	\$ 2.00	\$ 2.79	\$ 2.38
Diluted	\$ 2.95	\$ 2.36	\$ 1.98	\$ 2.75	\$ 2.34
Weighted-average shares outstanding					
Basic	45,501,806	45,363,738	42,598,321	42,604,268	42,429,711
Diluted	46,047,422	45,709,020	42,906,495	43,256,888	43,149,481
FINANCIAL POSITION					
Total assets	\$ 2,842,967	\$ 2,712,134	\$ 2,634,317	\$ 2,227,247	\$ 2,006,179
Working capital	834,056	812,805	764,137	713,292	616,623
Indebtedness - senior	346,851	386,103	454,456	270,988	417,434
Indebtedness - senior subordinated	378,596	378,613	378,630	400,072	200,089
Shareholders' equity	1,191,891	1,120,956	1,065,033	994,410	877,212
Shareholders' equity per common share outstanding	\$ 26.38	\$ 24.70	\$ 23.53	\$ 23.30	\$ 20.63
SUPPLEMENTAL FINANCIAL DATA					
Capital expenditures	\$ 83,695	\$ 65,949	\$ 81,826	\$ 91,833	\$ 96,988
Depreciation and amortization	96,327	91,216	76,384	63,376	52,093
Research and development	106,385	102,600	100,022	109,599	102,603
Twelve-month backlog	1,324,809	1,181,303	1,097,760	861,694	774,548
RATIOS					
Net return on sales	5.8%	5.1%	4.6%	6.3%	6.5%
Return on shareholders' equity	11.4%	9.8%	8.3%	12.7%	12.3%
Current ratio	2.53	2.70	2.71	2.89	2.93
Net debt to capitalization (5)	33.9%	36.8%	41.4%	37.0%	37.8%

- (1) Includes the effects of acquisitions. See Note 2 of the Consolidated Financial Statements at Item 8, Financial Statements and Supplementary Data of this report.
- (2) Includes the sale of Class A common stock on October 2, 2009. See Note 13 of the Consolidated Financial Statements at Item 8 of this report.
- (3) Includes the effects of acquisitions. In 2009, we acquired eight businesses, two each in our Aircraft Controls and Medical Devices segments, one in our Space and Defense Controls segment and three in our Industrial Systems segment. In 2008, we acquired two businesses, one each in our Space and Defense Controls and Components segments. In 2007, we acquired four businesses, two in our Components segment and one each in our Medical Devices and Industrial Systems segments.
- (4) Includes the effects of the issuance of senior subordinated notes.
- (5) Net debt is total debt less cash and cash equivalents. Capitalization is the sum of net debt and shareholders' equity.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

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

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

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

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

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

- maintaining our technological excellence by building upon our systems integration capabilities while solving our customers' most demanding technical problems,
- taking advantage of our global capabilities,
- growing our profitable aftermarket business,
- capitalizing on strategic acquisitions and opportunities,
- developing products for new and emerging markets, and
- striving for continuing cost improvements.

We face numerous challenges to improve shareholder value. These include but are not limited to: adjusting to dynamic global economic conditions that are influenced by governmental, industrial and commercial factors, foreign currency fluctuations, pricing pressures from customers, strong competition and increases in costs such as health care benefits. We address these challenges by focusing on strategic revenue growth and by continuing to improve operating efficiencies through various process, manufacturing and restructuring initiatives and using low cost manufacturing facilities without compromising quality.

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Acquisitions

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

In 2011, we completed three business combinations within two of our segments. We completed two business combinations within our Aircraft Controls segment, both of which are located in the U.S. We acquired Crossbow Technology Inc., based in California, for \$32 million. Crossbow designs and manufactures acceleration sensors that are integrated into inertial navigation and guidance systems used in a variety of aerospace, defense and transportation applications. We also acquired a business that complements our military aftermarket business for \$2 million in cash. Combined sales of these acquisitions for the 2010 calendar year were approximately \$19 million. We completed one business combination within our Components segment by acquiring Animatics Corporation, based in California. The purchase price was \$24 million, which includes 467,749 shares of Moog Class A common stock valued at \$19 million on the day of closing. Animatics supplies integrated servos, linear actuators and control electronics that are used in a variety of industrial, medical and defense applications and had approximately \$15 million of sales for the twelve months preceding the acquisition.

In 2010, we completed four business combinations within three of our segments. We completed one acquisition in our Aircraft Controls segment for \$11 million. This acquisition complements our military aftermarket business. We completed two acquisitions in our Space and Defense Controls segment for a total of \$23 million. One business specializes in turret design, fire control systems and vehicle electronics and the other expands our capabilities in the security and surveillance market. We completed one acquisition in our Industrial Systems segment for \$1 million.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates, assumptions and judgments that affect the amounts reported. These estimates, assumptions and judgments are affected by our application of accounting policies, which are discussed in Note 1 of Item 8, Financial Statements and Supplementary Data of this report. We believe the accounting policies discussed below are the most critical in understanding and evaluating our financial results. These critical accounting policies have been reviewed with the Audit Committee of our Board of Directors.

Revenue Recognition on Long-Term Contracts

Revenue representing 29% of 2011 sales was accounted for using the percentage of completion, cost-to-cost method of accounting. This method of revenue recognition is predominately used within the Aircraft Controls and Space and Defense Controls segments due to the contractual nature of the business activities, with the exception of their respective aftermarket activities. The contractual arrangements are either firm fixed-price or cost-plus contracts and are with the U.S. Government or its prime subcontractors, foreign governments or commercial aircraft manufacturers, including Boeing and Airbus. The nature of the contractual arrangements includes customers' requirements for delivery of hardware as well as funded nonrecurring development work in anticipation of follow-on production orders.

We recognize revenue on contracts in the current period using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods. Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. Estimates are reviewed and updated quarterly for substantially all contracts. A significant change in an estimate on one or more contracts could have a material effect on our results of operations.

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Occasionally, it is appropriate to combine or segment contracts. Contracts are combined in those limited circumstances when they are negotiated as a package in the same economic environment with an overall profit margin objective and constitute, in essence, an agreement to do a single project. In such cases, we recognize revenue and costs over the performance period of the combined contracts as if they were one. Contracts are segmented in limited circumstances if the customer had the right to accept separate elements of the contract and the total amount of the proposals on the separate components approximated the amount of the proposal on the entire project. For segmented contracts, we recognize revenue and costs as if they were separate contracts over the performance periods of the individual elements or phases.

Contract costs include only allocable, allowable and reasonable costs, as determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards for applicable U.S. Government contracts, and are included in cost of sales when incurred. The nature of these costs includes development engineering costs and product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Amounts representing performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material in 2011, 2010 or 2009.

Contract Loss Reserves

At October 1, 2011, we had contract loss reserves of \$45 million. For contracts with anticipated losses at completion, a provision for the entire amount of the estimated remaining loss is charged against income in the period in which the loss becomes known. Contract losses are determined considering all direct and indirect contract costs, exclusive of any selling, general or administrative cost allocations that are treated as period expenses. Loss reserves are more common on firm fixed-price contracts that involve, to varying degrees, the design and development of new and unique controls or control systems to meet the customers' specifications.

Reserves for Inventory Valuation

At October 1, 2011, we had net inventories of \$502 million, or 36% of current assets. Reserves for inventory were \$94 million, or 16% of gross inventories. Inventories are stated at the lower-of-cost-or-market with cost determined primarily on the first-in, first-out method of valuation.

We record valuation reserves to provide for slow-moving or obsolete inventory by using both a formula-based method that increases the valuation reserve as the inventory ages and, additionally, a specific identification method. We consider overall inventory levels in relation to firm customer backlog in addition to forecasted demand including aftermarket sales. Changes in these and other factors such as low demand and technological obsolescence could cause us to increase our reserves for inventory valuation, which would negatively impact our gross margin. As we record provisions within cost of sales to increase inventory valuation reserves, we establish a new, lower cost basis for the inventory.

Reviews for Impairment of Goodwill

At October 1, 2011, we had \$735 million of goodwill, or 26% of total assets. We test goodwill for impairment for each of our reporting units at least annually, during our fourth quarter, and whenever events occur or circumstances change in the business climate, poor indicators of operating performance or the sale or disposition of a significant portion of a reporting unit.

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

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

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In order to perform the two-step impairment test, we use the discounted cash flow method to estimate the fair value of each of our reporting units. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating profit margins and cash flows, the terminal growth rate and the discount rate. Management projects revenue growth rates, operating margins and cash flows based on each reporting unit's current business, expected developments and operational strategies over a five-year period. In estimating the terminal growth rate, we consider our historical and projected results, as well as the economic environment in which our reporting units operate. The discount rates utilized for each reporting unit reflect management's assumptions of marketplace participants' cost of capital and risk assumptions, both specific to the reporting unit and overall in the economy.

We performed our qualitative assessment during the fourth quarter and determined that it was not more likely than not that the fair value of each of our reporting units was less than that its applicable carrying value. Accordingly, we did not perform the two-step goodwill impairment test for any of our reporting units.

Purchase Price Allocations for Business Combinations

During 2011, we completed three business combinations for a total purchase price of \$58 million. Under purchase accounting, we recorded assets and liabilities at fair value as of the acquisition dates. We identified and ascribed value to programs, customer relationships, patents and technology, trade names, backlog and contracts and estimated the useful lives over which these intangible assets would be amortized. Valuations of these assets were performed largely using discounted cash flow models. These valuations support the conclusion that identifiable intangible assets had a value of \$20 million. The resulting goodwill was \$35 million.

Ascribing value to intangible assets requires estimates used in projecting relevant future cash flows, in addition to estimating useful lives of such assets. Using different assumptions could have a material effect on our current and future amortization expense.

Pension Assumptions

We maintain various defined benefit pension plans covering employees at certain locations. Pension expense for all defined benefit plans for 2011 was \$32 million. Pension obligations and the related costs are determined using actuarial valuations that involve several assumptions. The most critical assumptions are the discount rate and the long-term expected return on assets. Other assumptions include mortality rates, salary increases and retirement age.

The discount rate is used to state expected future cash flows at present value. Using a higher discount rate decreases the present value of pension obligations and reduces pension expense. We used the Mercer Pension Discount Yield Curve to determine the discount rate for our U.S. plans. The discount rate is determined by discounting the plan's expected future benefit payments using a yield curve developed from high quality bonds that are rated Aa or better by Moody's as of the measurement date. The yield curve calculation matches the notional cash inflows of the hypothetical bond portfolio with the expected benefit payments to arrive at the discount rate. In determining expense for 2011 for our largest U.S. plan, we used a 5.3% discount rate, compared to 6.0% for 2010. We will use a 4.8% discount rate to determine our expense in 2012 for this plan. This 50 basis point decrease in the discount rate will increase our pension expense by \$4 million in 2012.

The long-term expected return on assets assumption reflects the average rate of earnings expected on funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In determining the long-term expected return on assets assumption, we consider our current and target asset allocations. We consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and to provide adequate liquidity to meet immediate and future benefit payment requirements. In determining expense for 2011 for our largest plan, we used an 8.9% return on assets assumption, the same as we used in 2010. A 50 basis point decrease in the long-term expected return on assets assumption would increase our annual pension expense by \$2 million.

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Deferred Tax Asset Valuation Allowances

At October 1, 2011, we had gross deferred tax assets of \$257 million and a deferred tax asset valuation allowance of \$4 million. The deferred tax assets principally relate to benefit accruals, inventory obsolescence and contract loss reserves. The deferred tax assets include \$12 million related to tax benefit carry forwards for which \$4 million of deferred tax asset valuation allowances are recorded.

We record a valuation allowance to reduce deferred tax assets to the amount of future tax benefit that we believe is more likely than not to be realized. We consider recent earnings projections, allowable tax carryforward periods, tax planning strategies and historical earnings performance to determine the amount of the valuation allowance. Changes in these factors could cause us to adjust our valuation allowance, which would impact our income tax expense when we determine that these factors have changed.

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

(dollars in millions except per share data)	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
				\$ Variance	% Variance	\$ Variance	% Variance
Net sales	\$ 2,331	\$ 2,114	\$ 1,849	\$ 217	10%	\$ 265	14%
Gross margin	29.2%	29.0%	29.1%				
Research and development expenses	\$ 106	\$ 103	\$ 100	\$ 3	3%	\$ 3	3%
Selling, general and administrative expenses as a percentage of sales	15.2%	14.8%	15.2%				
Restructuring expense	\$ 1	\$ 5	\$ 15	\$ (4)	(80%)	\$ (10)	(67%)
Interest expense	\$ 36	\$ 39	\$ 39	\$ (3)	(8%)	\$ -	0%
Effective tax rate	26.0%	27.7%	23.1%				
Net earnings	\$ 136	\$ 108	\$ 85	\$ 28	26%	\$ 23	27%
Diluted earnings per share	\$ 2.95	2.36	1.98	\$ 0.59	25%	\$ 0.38	19%

Our fiscal year ends on the Saturday that is closest to September 30. The consolidated financial statements include 52 weeks for the year ended October 1, 2011, 52 weeks for the year ended October 2, 2010 and 53 weeks for the year ended October 3, 2009. While management believes this affects the comparability of financial results presented, the impact has not been determined.

Net sales increased in 2011 compared to 2010 with strong increases coming from all of our segments with the exception of Components.

The net sales increase in 2010 was predominantly a result of \$200 million of incremental sales from acquisitions, primarily in Aircraft Controls and Industrial Systems.

Our gross margin was relatively unchanged in 2011 compared to 2010, reflecting volume increases and a more favorable product mix, offset by more additions to contract loss reserves. The loss reserves are primarily related to our Aircraft Controls segment. Our gross margin in 2010 was comparable to 2009, reflecting the positive impact of the sales mix in our legacy product lines being offset by the impact of increased sales of lower gross margin products attributable to the recent acquisitions of wind energy and high lift actuation businesses.

Research and development increased modestly in 2011 compared to 2010 as increases on multiple programs, including the Airbus A350 program, were offset by \$13 million of reimbursements for a commercial transport program. Research and development expenses increased modestly in 2010 compared to 2009. Increased expenditures for the Airbus A350 program and the impact from acquisitions were partially offset as development activity continued to decline on the Boeing 787.

Selling, general and administrative expenses as a percentage of sales increased in 2011 compared to 2010 as a result of increased marketing efforts and bid and proposal activity for aerospace programs, partially offset by the efficiencies gained from our higher sales volume. The decrease as a percentage of sales in 2010 compared to 2009 is primarily a result of the impact of acquisitions that had lower selling, general and administrative cost structures than most of our other product lines.

In 2009, we initiated the restructuring plans to better align our cost base with the lower level of sales and operating margins associated with the global economic recession. The restructuring actions taken resulted in workforce reductions, primarily in the U.S., the Philippines and Europe. During 2009, we incurred \$15 million of severance costs, of which \$10 million was in Industrial Systems and \$5 million was in Aircraft Controls. We incurred an additional \$5 million of restructuring charges for severance in 2010.

Interest expense decreased in 2011 compared to 2010 as a result of lower average borrowings and lower interest rates.

The effective tax rate for 2011 is lower than 2010 primarily from the recognition of current and future tax benefits associated with the net operating loss carryforward from one of our foreign operations. The effective tax rate for 2010 was higher than 2009, which had an unusually low tax rate. During 2009, we benefited from a \$5 million foreign tax credit from the repatriation of \$31 million of cash to the U.S. from our Japanese subsidiary, a benefit related to our 2008 tax year as a result of the reinstatement of the U.S. research and development tax credit under the TARP legislation and the benefit of the effect of our equity earnings in LTi REEnergy which were recognized in operating profit on an

after-tax basis.

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In 2010, the diluted earnings per share increase reflected the net earnings growth and the impact of the issuance of additional shares from a stock offering completed at the end of 2009.

2012 Outlook - We expect sales in 2012 to increase \$184 million, or 8%, to \$2.52 billion reflecting increases in all of our segments. We expect operating margins to improve to 11.1% in 2012 compared to 10.6% in 2011. We expect operating margins to increase in all of our segments except for Space and Defense Controls. We expect net earnings to increase to \$152 million and diluted earnings per share to increase by 12% to \$3.31.

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

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit is reconciled to earnings before income taxes in Note 17 of Item 8, Financial Statements and Supplementary Data of this report.

Aircraft Controls

	000000	000000	000000	000000	000000	000000	000000
(dollars in millions)	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
				\$ Variance	% Variance	\$ Variance	% Variance
Net sales - military aircraft	\$ 498	\$ 458	\$ 419	\$ 40	9%	\$ 39	9%
Net sales - commercial aircraft	314	262	214	52	20%	48	22%
Net sales - navigation aids	38	37	30	1	3%	7	23%
Net sales	\$ 850	\$ 757	\$ 663	\$ 93	12%	\$ 94	14%
Operating profit	\$ 84	\$ 76	\$ 52	\$ 8	11%	\$ 24	46%
Operating margin	9.9%	10.1%	7.9%				
Backlog	\$ 641	\$ 567	\$ 508	\$ 74	13%	\$ 59	12%

Military aircraft sales increased \$49 million in aftermarket for 2011 compared to 2010, partially offset by a \$15 million decrease in military fighter programs. The increase in military aftermarket reflects the benefit of some significant upgrade programs on several platforms. Commercial aircraft sales were strong as commercial aftermarket sales increased \$17 million, returning to pre-recession levels. The Boeing 787 production ramp up increased sales \$15 million, which includes the settlement of open scope changes. In addition, sales increased \$7 million on Airbus programs and \$6 million in business jets as that market recovers.

Net sales in Aircraft Controls increased in 2010 resulting from the acquisition of the high lift actuation business located in Wolverhampton, U.K. at the end of 2009 that contributed \$94 million. Military aircraft sales increased with the Wolverhampton operation contributing \$42 million of incremental sales. Sales increased \$21 million on the V-22 Osprey as production levels continued to increase on that program. Sales increased \$18 million in military aftermarket, due in part to the Wolverhampton acquisition. These increases were offset by a \$23 million decrease on the F-35 program as it shifted from the development phase into the production phase. Commercial aircraft sales increased as \$51 million of incremental sales from Wolverhampton more than offset the decrease of \$12 million in business jets. Navigation aids increased \$7 million as a result of the incremental sales from the 2009 Fernau acquisition offset by decreases due to delays in the award of certain military programs.

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Our operating margin was comparable in 2011 and 2010. In 2011, we had lower research and development as a percentage of sales, primarily the result of reimbursements totaling \$13 million on a commercial transport program in 2011, along with the benefits associated with higher volume and sales mix changes toward higher margin business such as military aftermarket. Partially offsetting those positive contributions were increased contract loss reserves of \$20 million. The higher loss reserves are on various commercial programs, including the 787 related to higher cost estimates of early production units and the G280 as a result of changes coming out of flight certification efforts. Our operating margin was higher in 2010 compared to 2009 as a result of lower research and development spending as a percentage of sales in 2010. In addition, during 2009, we incurred \$5 million of restructuring charges and recorded \$4 million of inventory and other charges on certain business jet programs.

The higher level of twelve-month backlog for Aircraft Controls at October 1, 2011 compared to October 2, 2010 reflects strong commercial aircraft orders. The higher level of twelve-month backlog at October 2, 2010 compared to October 3, 2009 reflects strong military aircraft orders.

2012 Outlook for Aircraft Controls - We expect sales in Aircraft Controls to increase 11% to \$944 million in 2012. Military aircraft sales are expected to increase 6% to \$528 million, primarily from the ramp up of production on the F-35. Commercial aircraft sales are expected to increase 19% to \$373 million with increases in all product lines, including Boeing 787, Airbus, business jets and aftermarket. Navigation aids are expected to increase to \$44 million. We expect our operating margin to be 11.0% in 2012, an improvement from 2011 in which we recorded significant loss reserves.

Table of Contents**Space and Defense Controls**

(dollars in millions)	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
				\$ Variance	% Variance	\$ Variance	% Variance
Net sales	\$ 356	\$ 325	\$ 275	\$ 31	10%	\$ 50	18%
Operating profit	\$ 49	\$ 36	\$ 40	\$ 13	36%	\$ (4)	(10%)
Operating margin	13.8%	11.0%	14.6%				
Backlog	\$ 223	\$ 213	\$ 202	\$ 10	5%	\$ 11	5%

Net sales in Space and Defense Controls increased in 2011, primarily in two areas, security and surveillance and tactical missiles. Sales increased \$21 million in security and surveillance, a result of our Pieper acquisition and stronger demand in government and industrial markets. Tactical missiles increased \$19 million as a result of a large order for an aircraft stores management system and the replenishment of TOW and Hellfire missile inventory. Partially offsetting those increases was a \$11 million decline in the satellite market, which experienced a record year in 2010 due to an unusually high number of GEO satellite orders last year.

Net sales in Space and Defense Controls increased in 2010 compared to 2009 as sales of tactical missiles increased \$16 million, primarily related to replenishment requirements for both the Hellfire and TOW. Sales of launch vehicles increased \$14 million, principally from the Taurus program, which the Administration considers commercial. Activity on the Driver's Vision Enhancer (DVE) program increased sales by \$14 million, offsetting declines in other defense controls programs. Our acquisitions of Pieper in 2010 and Videolarm midway through 2009 contributed \$11 million of incremental sales in security and surveillance. Sales of satellite controls were also strong, increasing by \$9 million. Sales in our NASA programs increased by \$2 million, but were impacted by the uncertainty and delays by the Administration's re-definition of the Constellation program.

Our operating margin increased significantly in 2011 as a result of the higher sales volume, in particular from a profit rate adjustment on the aircraft stores management system. Export approval for the aircraft stores management system was granted in 2011 which eliminated a significant program risk, thereby allowing us to adjust the profit rate. Our operating margin decreased in 2010 primarily related to a larger proportion of sales coming from lower margin cost-plus development work and \$1 million of restructuring charges.

The higher level of twelve-month backlog for Space and Defense Controls at October 1, 2011 compared to October 2, 2010 reflects increased orders for satellites, launch vehicles and tactical missiles. The higher level of twelve-month backlog at October 2, 2010 compared to October 3, 2009 is primarily as a result of increased orders for the DVE program.

2012 Outlook for Space and Defense Controls - We expect sales in Space and Defense Controls to increase \$18 million, or 5%, to \$374 million in 2012. We expect sales increases in tactical missiles and development work for NASA, which will offset a decline on the DVE program. We expect our operating margin in 2012 to decrease to a more normal 11.7% compared to 2011, which was influenced by certain favorable program adjustments.

Table of Contents**Industrial Systems**

(dollars in millions)	00000000	00000000	00000000	00000000	00000000	00000000	00000000	00000000
	2011	2010	2009	2011 vs. 2010		2010 vs. 2009		
				\$ Variance	% Variance	\$ Variance	% Variance	
Net sales	\$ 629	\$ 546	\$ 455	\$ 83	15%	\$ 91	20%	
Operating profit	\$ 63	\$ 48	\$ 31	\$ 15	31%	\$ 17	55%	
Operating margin	10.0%	8.8%	6.8%					
Backlog	\$ 284	\$ 233	\$ 196	\$ 51	22%	\$ 37	19%	

Net sales in Industrial Systems for 2011 reflect increases in all of our major markets except for wind energy. The broad-based sales recovery reflects the strengthening of business in all of our geographic markets. Sales increased \$21 million in motion simulation, \$15 million in metal forming and presses and \$9 million each in plastics making machinery and power generation and \$7 million each in distribution and heavy industry. Offsetting those increases was a decrease in wind energy of \$22 million, primarily due to the Chinese market, where large customers had built up inventory, allowing them to slow their orders.

Net sales in Industrial Systems increased in 2010, primarily a result of incremental sales from acquisitions, but we also began to see a recovery from the recession in our legacy markets in the latter half of the year. Acquisitions accounted for \$82 million of increased sales, primarily in the wind energy market. Sales also increased \$19 million in plastics making machinery. Those increases were offset by lower sales in other major markets such as motion simulation, which was down \$12 million, and power generation, which was down \$9 million.

Our operating margin for 2011 increased as a result of the higher sales volume in our legacy markets but was tempered by the decline in the wind energy market. Our operating margin for Industrial Systems increased in 2010 compared to 2009. This increase was the result of higher sales volume in 2010 and lower restructuring charges recorded in 2010 compared to 2009. Offsetting those increases was the impact of \$7 million of equity earnings recorded in 2009 for LTi REEnergy before we acquired full ownership.

The higher level of twelve-month backlog for Industrial Systems at October 1, 2011 compared to October 2, 2010 is due primarily to increased demand in most of our major markets due to improving global economic conditions, especially in test equipment and power generation. The higher level of twelve-month backlog for Industrial Systems at October 2, 2010 compared to October 3, 2009 reflects the economic recovery in a variety of markets from the lower level as of October 3, 2009.

2012 Outlook for Industrial Systems - We expect sales in Industrial Systems to increase 8% to \$680 million in 2012. We expect sales increases in our major markets, with the largest increases expected in the test equipment, motion simulators and power generation markets. We also expect sales to increase modestly in wind energy. We expect that our operating margin will increase to 10.5% in 2012 as a result of the higher sales volume.

Table of Contents**Components**

	00000000	00000000	00000000	00000000	00000000	00000000	00000000
(dollars in millions)	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
				\$ Variance	% Variance	\$ Variance	% Variance
Net sales	\$ 353	\$ 360	\$ 346	\$ (7)	(2%)	\$ 14	4%
Operating profit	\$ 50	\$ 60	\$ 56	\$ (10)	(17%)	\$ 4	7%
Operating margin	14.3%	16.7%	16.1%				
Backlog	\$ 163	\$ 153	\$ 183	\$ 10	7%	\$ (30)	(16%)