ESTERLINE TECHNOLOGIES CORP
Form 10-KT
November 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended .

OR

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

For the transition period from November 1, 2014 to October 2, 2015

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 108th Avenue N.E., Bellevue, Washington 98004

(Address of principal executive offices)(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock ($.20 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes þ   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 þ

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 þ   No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes þ   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 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, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of November 23, 2015, 29,571,387 shares of the Registrant’s common stock were outstanding. The aggregate market value of shares of common stock held by non-affiliates as of May 1, 2015, was $3,429,704,787 (based upon the closing sales price of $111.09 per share).

Documents Incorporated by Reference

Part III incorporates information by reference to the registrant’s definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended October 2, 2015.

PART I

This Report includes a number of forward-looking statements that reflect the Company's current views with respect to future events and financial performance. Please refer to the section addressing forward-looking information on page 10 for further discussion. In this report, "we," "our," "us," "Company," and "Esterline" refer to Esterline Technologies Corporation and subsidiaries, unless otherwise noted or context otherwise indicates.

Explanatory Note Regarding the Transition Report

We changed our fiscal year to the twelve months ending the last Friday in September, effective beginning with the year ending on September 30, 2016. As a result, our current fiscal period was shortened from twelve months to an eleven-month transition period ended on October 2, 2015. We reported our first fiscal quarter as the three months ended January 30, 2015, second fiscal quarter as the three months ended May 1, 2015, and third fiscal quarter as the three months ended July 31, 2015, followed by a two-month transition period ended October 2, 2015.

When financial results for the 2015 transition period are compared with financial results for the prior-year period, the results compare the eleven-month periods ended October 2, 2015, and September 26, 2014. When financial results for the fourth quarter of fiscal 2015 are compared with the fourth quarter of fiscal 2014, the results compare the two-month periods ended October 2, 2015, and September 26, 2014. The results for the eleven-month period and two-month period ended September 26, 2014, are unaudited. When financial results for fiscal 2014 are compared with financial results for fiscal 2013, the results compare our previous fiscal years, or the twelve-month periods ended October 31, 2014, and October 25, 2013. The following tables show the months included in the various comparison periods:

Fiscal 2015 (11-month) Results Compared with Fiscal 2014 (11-month recast, unaudited)	
Fiscal 2015 (11-month)	Fiscal 2014 (11-month recast, unaudited)
November 2014 - September 2015	November 2013 - September 2014

Fourth Quarter of Fiscal 2015 (2-month, unaudited) Results

Compared with Fourth Quarter of Fiscal 2014 (2-month recast, unaudited)

Fourth Quarter of Fiscal 2015 (2-month, unaudited)	Fourth Quarter of Fiscal 2014 (2-month recast, unaudited)
August 2015 - September 2015	August 2014 - September 2014

Fiscal 2014 Results Compared with Fiscal 2013

2014	2013
November 2013 - October 2014	November 2012 - October 2013

Item 1. Business

General Development of Business

Esterline, a Delaware corporation formed in 1967, is a leading specialized manufacturing company principally serving aerospace and defense customers. We design, manufacture and market highly engineered products and systems for application within the industries we serve.

Our current business and strategic plan focuses on continued development of our products principally for aerospace and defense markets in three key technology segments: Avionics & Controls, Sensors & Systems, and Advanced Materials. Our products are often mission critical, which have been designed into particular military and commercial platforms, and in certain cases can only be replaced by products of other manufacturers following a formal certification process. We are concentrating our efforts to expand our capabilities in these markets, 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 strategic realignment of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering. Such expansion included the January 2015 acquisition of the defense, aerospace and training display (DAT) business of Belgium-based Barco N.V. (Barco) and the December 2013 acquisition of the Sunbank Family of

Companies, LLC (Sunbank). These acquisitions are described in more detail in the "Overview" section of Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations contained in Item 7 of this report.

In December 2013, we announced the acceleration of our plans to consolidate certain facilities and create cost efficiencies through shared services in sales, general and administrative and support functions. We incurred costs of $11.7 million in fiscal 2015 and $17.4 million in fiscal 2014 associated with these activities. The costs include severance, relocation of facilities, and losses from the write off of certain property, plant and equipment.

In March 2014, we entered into a Consent Agreement with the U.S. Department of State's Directorate of Defense Trade Controls Office of Defense Trade Controls Compliance (DDTC) to resolve alleged International Traffic in Arms Regulations (ITAR) civil violations. Among other things, the Consent Agreement requires us to pay a $20 million penalty, of which $10 million was suspended and eligible for offset credit based upon verified expenditures for past and future actions, and to continue to implement ongoing compliance measures and to implement additional remedial measures related to ITAR compliance activities. Compliance expense associated with these measures was $18.3 million in fiscal 2015 compared with $8.3 million in fiscal 2014. More information about the Consent Agreement is set forth in Note 11 to the Consolidated Financial Statements under Item 8 of this report.

In September 2014, our board of directors approved the plan to sell certain non-core business units including Eclipse Electronic Systems, Inc. (Eclipse), a manufacturer of embedded communication intercept receivers for signal intelligence applications; Wallop Defence Systems, Ltd. (Wallop), a manufacturer of flare countermeasure devices; Pacific Aerospace and Electronics Inc. (PA&E), a manufacturer of hermetically sealed electrical connectors; and a small distribution business. These businesses are reported as discontinued operations. We recorded an estimated after-tax loss of $49.5 million in fiscal 2014 on the assets held for sale in discontinued operations.

On June 5, 2015, we sold Eclipse for $7.9 million. We retained ownership of the land, building and building improvements, which are being held for sale. In addition, on July 20, 2015, we sold PA&E for $22.3 million. During the fourth quarter of fiscal 2015, we approved a plan to sell a small manufacturing business included in our Avionics & Controls segment, which is reported as discontinued operations in all periods presented. We recorded an estimated after-tax loss of $31.2 million in fiscal 2015 on assets held for sale in discontinued operations.

Our products have a long history in the aerospace and defense industry and are found on most military and commercial aircraft, helicopters, and land-based systems. For example, our products are used on the majority of active and in-production U.S. military aircraft and on every Boeing commercial aircraft platform manufactured in the past 75 years. In addition, our products are supplied to Airbus, many of the major regional and business jet manufacturers, and the major aircraft engine manufacturers. We work closely with OEMs on new, highly engineered products with the objective of such products becoming designed into our customers' platforms; this integration often results in sole-source positions for OEM production and aftermarket business. We broadly categorize our commercial and military aerospace aftermarket sales as retrofit, repair services, and spare parts. Spare parts alone made up approximately 7.5% of total sales in fiscal 2015. Retrofit and repair services, which represent 4% of total sales in fiscal 2015, carry higher margins than OEM sales but lower margins than spare parts sales. In many cases, our aftermarket sales span the entire life of an aircraft.

We differentiate ourselves through our engineering and manufacturing capabilities and our reputation for safety, quality, on-time delivery, reliability, and innovation – all embodied in the Esterline Operating System, our way of approaching business that helps ensure all employees are focused on continuous improvement. In fiscal 2015, we formally reintroduced to the leadership across our businesses the Esterline Operating System, which retains continuous improvement, teamwork, culture and safe work environment as the basis of the program. Safety of our operations is a critical factor in our business, and accordingly, we incorporate applicable regulatory guidance in the design of our facilities and train our employees using a behavior-based approach that focuses on safety-designed work habits and on-going safety audits. Our industries are highly regulated, and compliance with applicable regulations, including export control and anti-bribery regulations, is an important focus in our business. For example, we have a global code of business conduct and ethics that covers compliance with laws, and we provide training on this code to our worldwide employees. In addition, we maintain local ethics advisors and export control specialists in our business units to support our compliance efforts. In fiscal 2015, we continued our significant efforts to build and strengthen our trade compliance program, driven in large part by the requirements of the Consent Agreement discussed above.

Our sales are diversified across three broad markets: defense, commercial aerospace, and general industrial. For fiscal 2015, approximately 30% of our sales were from the defense market, 50% from the commercial aerospace market, and 20% from the general industrial market.

Financial Information About Industry Segments

A summary of net sales to unaffiliated customers, operating earnings and identifiable assets attributable to our business segments for fiscal years 2015, 2014, and 2013 is reported in Note 17 to the Company's Consolidated Financial Statements under Item 8 of this report.

Description of Business

Avionics & Controls

Our Avionics & Controls business segment includes avionics systems, control and communication systems, and interface technologies capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control and communication systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Additionally, control and communication systems designs and manufactures military audio and data products for severe battlefield environments and communication control systems to enhance security and aural clarity in military applications. Our recently acquired DAT business, which will be integrated into our avionics systems and control and communication systems capabilities, develops and manufactures visualization solutions for a variety of demanding defense and commercial aerospace applications. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and gaming industries. We are a market leader in global positioning systems (GPS), head-up displays, enhanced vision systems, and electronic flight management systems that are used in a broad variety of control and display applications. In addition, we develop, manufacture and market sophisticated, highly reliable technology interface systems for commercial and military aircraft. These products include lighted push-button and rotary switches, keyboards, lighted indicators, panels and displays. Our products have been integrated into many existing aircraft designs, including every Boeing commercial aircraft platform currently in production. Our large installed base provides us with an ongoing source of spare parts and retrofit business. We are a Tier 1 supplier on the Boeing 787 program to design and manufacture all of the cockpit overhead panels and embedded software for these systems. We manufacture control sticks, grips and wheels, as well as specialized switching systems. In this area, we primarily serve commercial and military aviation and airborne and ground-based military equipment manufacturing customers. For example, we are a leading manufacturer of pilot control grips for most types of military fighter jets and helicopters. Additionally, our software engineering center supports our customers' needs with such applications as primary flight displays, flight management systems, air data computers and engine control systems.

Our proprietary products meet critical operational requirements and provide customers with significant technological advantages in such areas as night vision compatibility and active-matrix liquid-crystal displays (a technology enabling pilots to read display screens in a variety of light conditions as well as from extreme angles). Our products are incorporated in a wide variety of platforms ranging from military helicopters, fighters and transports, to commercial wide- and narrow-body, regional and business jets. In fiscal 2015, some of our largest customers for these products included Airbus, BAE Systems, The Boeing Company, Hawker Beechcraft, Honeywell, Lockheed Martin, Raytheon, Rockwell Collins, Sikorsky, and Thales.

In addition, we design and manufacture ruggedized military personal communication equipment, primarily headsets, handsets and field communications. We are the sole supplier of Active Noise Reduction (ANR) headsets to the British Army's tracked and wheeled vehicle fleets under the Bowman communication system program. We supply ANR headsets to the U.S. Army's tracked and wheeled vehicle fleets, including Mine-Resistant Ambush Protected (MRAPs) and MRAP All-Terrain Vehicle (M-ATVs) through the Vehicle Intercom System (VIS) and VIS-X programs comprising over 200,000 vehicles. We are the sole supplier to the U.S. Marine Corps for their MRAP and M-ATV fleets. We are also the sole ANR headset supplier to the Canadian Army. We have a long-standing relationship with armies around the world, including forces in Australia, India, Saudi Arabia, and Spain. In fiscal 2015, some of our largest customers for these products included Aselsan Elektronik, BAE Systems, The Boeing Company, the British Ministry of Defence (MoD), L-3 Communications, Lockheed Martin, Northrop Grumman, Sierra Nevada, and Simex Defence.

We also manufacture a full line of keyboard, switch and input technologies for specialized medical equipment, high-tech gaming applications, and communication systems for military applications. These products include custom keyboards, keypads, and input devices that integrate cursor control devices, barcode scanners, displays, video, and voice activation. We also produce instruments that are used for point-of-use and point-of-care diagnostics. We have developed a wide variety of technologies, including plastic and vinyl membranes that protect high-use switches and fully depressible buttons, and backlit elastomer switch coverings that are resistant to exposure from harsh chemicals. These technologies now serve as the foundation for a small but growing portion of our product line. In fiscal 2015, some of our largest customers for these products included Ainsworth Game Technology, Alere, Aristocrat Technologies, General Electric, Inspired Gaming, International Gaming, Nuance, Philips, Quidel, Roche, Siemens and Stat Diagnostic.

Sensors & Systems

Our Sensors & Systems business segment includes power systems, connection technologies and advanced sensors capabilities. We develop and manufacture high-precision temperature, pressure and speed sensors principally for aerospace customers, electrical interconnection systems for severe environments for aerospace, defense, geophysics & marine, and nuclear customers, as well as electrical power switching, control and data communication devices, and other related systems principally for aerospace and defense customers. We are the OEM sole-source and aftersales supplier of temperature probes for use on all versions of the General Electric/Snecma CFM-56 jet engine. The CFM-56 jet engine has an installed base of 28,000, is standard equipment on the current generation Boeing 737 aircraft, and was selected as the engine for approximately 60% of all Airbus single-aisle aircraft delivered to date. We manufacture sensors for the environmental control system for Boeing 787 aircraft, and provide the primary power distribution assembly for the Airbus A400M military transport. Additionally, we have a Tier 1 position with Rolls-Royce for a large suite of sensors for the engines that power the A400M and A350. We design and manufacture micro packaging, planet probe interconnectors, launcher umbilicals, and composite connectors for the Boeing 787. Unique electrical interconnection products account for a significant portion of our connection technologies sales. The principal customers for our products in this business segment are jet engine manufacturers, airframe and industrial manufacturers. In fiscal 2015, some of our largest customers for these products included Airbus, The Boeing Company, DCNS, Flame, General Electric, Heilind, Honeywell, Jupitor Corporation, Labinal, Rolls-Royce, Snecma, TTI, Inc., and United Technology Corporation Aerospace Systems (UTAS).

Advanced Materials

Our Advanced Materials business segment includes engineered materials and defense technologies capabilities. We develop and manufacture high-performance elastomer products used in a wide range of commercial aerospace, space and military applications, and highly engineered thermal components for commercial aerospace and industrial applications. We also develop and manufacture combustible ordnance and countermeasures for military applications.

Specialized High-Performance Applications. We specialize in the development of proprietary formulations for silicone rubber and other elastomer products. Our elastomer products are engineered to address specific customer requirements where superior performance in high temperature, high pressure, caustic, abrasive and other difficult environments is critical. These products include clamping devices, thermal fire barrier insulation products, sealing systems, tubing and coverings designed in custom-molded shapes. Some of the products include proprietary elastomers that are specifically designed for use on or near a jet engine. We are a leading U.S. supplier of high-performance elastomer products to the aerospace industry, with our primary customers for these products being jet and rocket engine manufacturers, commercial and military airframe manufacturers, as well as commercial airlines. In fiscal 2015, some of the largest customers for these products included The Boeing Company, General Electric, KAPCO, KLX Aerospace Solutions, Lockheed Martin, Northrop Grumman, Orbital ATK, Pattonair, Spirit AeroSystems, UTAS and Wesco Aircraft.

We also develop and manufacture high temperature, lightweight metallic insulation systems for aerospace and marine applications. Our commercial aerospace programs include the Boeing 737, A320, and A380 series aircraft and the V2500 and BR710 engines. Our insulation material is used on diesel engine manifolds for earthmoving and agricultural applications. In addition, we specialize in the development of thermal protection for fire, nuclear, and petro-chemical industries. We design and manufacture high temperature components for industrial and marine markets. Our manufacturing processes consist of cutting, pressing, and welding stainless steel, inconel, and titanium fabrications. In fiscal 2015, some of the largest customers of these products included Airbus, BAE Systems, Babcock, GKN Aerospace, Rolls-Royce, Short Brothers, and Spirit AeroSystems.

Ordnance and Countermeasure Applications. We develop and manufacture combustible ordnance and warfare countermeasure devices for military customers. We manufacture molded fiber cartridge cases, mortar increments, igniter tubes and other combustible ordnance components primarily for the U.S. Department of Defense. Safety of our operations is a critical factor in manufacturing ordnance and countermeasures, and accordingly, we incorporate applicable regulatory guidance in the design of our facilities and in the training of our employees. As part of our behavior-based approach to training, employees learn safety-designed work habits and perform on-going safety audits. We also monitor safety metrics to ensure compliance. We are currently the sole supplier of combustible casings utilized by the U.S. Armed Forces. Sales are made either directly to the U.S. Department of Defense or through prime contractors, Alliant Techsystems and General Dynamics. These products include the combustible case for the U.S. Army's new generation 155mm Modular Artillery Charge System, the 120mm combustible case used with the main armament system on the U.S. Army and Marine Corps' M1-A1/2 tanks, and the 60mm, 81mm and 120mm combustible mortar increments. We are one of two suppliers to the U.S. Army of infrared decoy flares used by aircraft to help protect against radar and infrared guided missiles. We are currently the only supplier to the U.S. Army of countermeasures against radar based threats.

A summary of product lines contributing sales of 10% or more of total sales for fiscal years 2015, 2014, and 2013 is reported in Note 17 to the Consolidated Financial Statements under Item 8 of this report.

Marketing and Distribution

We believe that a key to continued success is our ability to meet customer requirements both domestically and internationally. We have and will continue to improve our world-wide sales and distribution channels in order to provide wider market coverage and to improve the effectiveness of our customers' supply chain. For example, our medical device assembly operation in Shanghai, China, serves our global medical customers, our service center in Singapore improves our capabilities in Asia for our temperature sensor customers, and our marketing representative office in Bangalore, India, facilitates marketing opportunities in India. Other enhancements include combining sales and marketing forces of our operating units where appropriate, cross-training our sales representatives on multiple product lines, and cross-stocking our spares and components.

In the technical and highly engineered product segments in which we compete, relationship selling is particularly appropriate in targeted marketing segments where customer and supplier design and engineering inputs need to be tightly integrated. Participation in industry trade shows is an effective method of meeting customers, introducing new products, and exchanging technical specifications. In addition to technical and industry conferences, our products are supported through direct internal international sales efforts, as well as through manufacturer representatives and selected distributors. As of October 2, 2015, 384 sales people, 283 representatives, and 306 distributors supported our operations.

Backlog

Backlog was $1.2 billion at October 2, 2015, and $1.1 billion at October 31, 2014. We estimate that approximately $300 million of backlog is scheduled to be shipped after fiscal 2016.

Backlog is subject to cancellation until delivered, and therefore, we cannot assure that our backlog will be converted into revenue in any particular period or at all. Backlog does not include the total contract value of cost-plus reimbursable contracts, which are funded as we incur the costs. Except for the released portion, backlog also does not include fixed-price multi-year contracts.

Competition

Our products and services are affected by varying degrees of competition. We compete with other companies in most markets we serve. Many of these companies have far greater sales volumes and financial resources than we do. Some of our competitors are also our customers on certain programs. The principal competitive factors in the commercial markets in which we participate are product performance, on-time delivery, service and price. Part of product performance requires expenditures in research and development that lead to product improvement. The market for many of our products may be affected by rapid and significant technological changes and new product introductions. Our principal competitors include Astronautics, BAE, Bose, Eaton, Elbit, EMS, GE Aerospace, Honeywell, IAI, L-3, Otto Controls, RAFI, Rockwell Collins, SELEX, Telephonics, Thales, Ultra Electronics, Universal Avionics Systems Corporation, and Zodiac in our Avionics & Controls segment; Ametek, Amphenol, Eaton, Meggitt, STPI-Deutsch, TE Connectivity, and Zodiac in our Sensors & Systems segment; and Chemring, Doncasters, Hi-Temp, J&M, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), Rheinmetall, Trelleborg, ULVA, UTAS, UMPCO, and Woodward Products in our Advanced Materials segment.

Research and Development

Our product development and design programs utilize an extensive base of professional engineers, technicians and support personnel, supplemented by outside engineering and consulting firms when needed. In fiscal 2015, we expended $91.5 million for research, development and engineering, compared with $97.6 million in fiscal 2014 and $89.0 million in fiscal 2013. Research and development expense has averaged 4.9% of sales per year for the three years ended October 2, 2015. We believe continued product development is key to our long-term growth, and consequently, we consistently invest in research and development. Examples include research and development projects relating to avionics control panels, A350 engine sensors, high temperature, low observable material for military applications, and spectral countermeasure flares for military applications. We actively participate in customer-funded research and development programs, including applications on C-130 cockpit upgrades, P-8 aircraft and power systems for the HH-47 Chinook helicopter and A400M.

Foreign Operations

Our foreign operations consist of manufacturing facilities located in Belgium, Canada, China, the Dominican Republic, France, Germany, India, Japan, Mexico, Morocco, and the United Kingdom, and include sales and service operations located in Brazil, China, and Singapore. For further information regarding foreign operations, see Note 17 to the Consolidated Financial Statements under Item 8 of this report.

U.S. Government Contracts and Subcontracts

As a contractor and subcontractor to the U.S. government (primarily the U.S. Department of Defense), we are subject to various laws and regulations that are more restrictive than those applicable to private sector contractors. Approximately 3% of our sales was made directly to the U.S. government in fiscal 2015. In addition, we estimate that our subcontracting activities to contractors for the U.S. government accounted for approximately 16% of sales during fiscal 2015. In total, we estimate that approximately 19% of our sales during the fiscal year were subject to U.S. government contracting regulations. Such contracts may be subject to termination, reduction or modification in the event of changes in government requirements, reductions in federal spending, and other factors.

Historically, our U.S. government contracts and subcontracts have been predominately fixed-price contracts. Generally, fixed-price contracts offer higher margins than cost-plus contracts in return for accepting the risk that increased or unexpected costs may reduce anticipated profits or cause us to sustain losses on the contracts. The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. The contracts and subcontracts to which we are a party are also subject to profit and cost controls and standard provisions for termination at the convenience of the U.S. government. Upon termination, other than for our default, we will normally be entitled to reimbursement for allowable costs and to an allowance for profit. To date, none of our material fixed-price contracts has been terminated.

Trade Compliance Regulations

We are subject to U.S. export laws and regulations, including the ITAR, that generally restrict the export of defense products, technical data, and defense services. On March 5, 2014, the Company entered into a Consent Agreement with the DTCC to resolve alleged ITAR civil violations. The Consent Agreement settled the pending ITAR compliance matter with the DTCC previously reported by the Company that resulted from voluntary reports the Company filed with DTCC that disclosed possible technical and administrative violations of the ITAR. The Consent Agreement has a three-year term and provides for: (i) a payment of $20 million, $10 million of which is suspended and eligible for offset credit based on verified expenditures for past and future remedial compliance measures; (ii) the appointment of an external Special Compliance Official to oversee compliance with the Consent Agreement and the ITAR; (iii) two external audits of the Company’s ITAR compliance program; and (iv) continued implementation of ongoing compliance measures and additional remedial compliance measures related to automated systems and ITAR compliance policies, procedures, and training.

The settlement amount in the Consent Agreement was consistent with the amount proposed by DTCC in August 2013, for which the Company estimated and recorded a $10 million charge in the fiscal quarter ended July 26, 2013. The $10 million portion of the settlement that is not subject to suspension will be paid in installments, with $4 million paid in March 2014, $2 million paid in February 2015, and $2 million to be paid in each of March 2016 and 2017. The Company expects that some part of recent investments made in our ITAR compliance program will be eligible for credit against the suspended portion of the settlement amount, which includes: additional staffing, ongoing implementation of a new software system, employee training, and establishment of a regular compliance audit program and corrective action process. The Company expects recent and future investments in remedial compliance measures will be sufficient to cover the $10 million suspended payment.

Our trade activities are also subject to customs and border control regulations, anti-bribery and anti-corruption regulations, and regulations that apply to supply chain activities, such as those relating to conflict minerals and the registration, evaluation, authorization and restriction of chemicals as well as the defense federal acquisition regulations. Our failure to comply with applicable regulations could result in penalties, loss, or suspension of contracts, breach of contract claims, or other consequences, and the costs to maintain compliance with these regulations may be higher than we anticipate. Any of these consequences could adversely affect our operations or financial condition.

Intellectual Property

Although we hold a number of patents and licenses, we do not believe that our operations are dependent on our patents and licenses. We have trademark registrations on our important business names and/or product names filed in key jurisdictions where our businesses operate and sell products. In general, we rely on technical superiority, continual product improvement, exclusive product features, lean manufacturing and operational excellence, including superior lead-time, on-time delivery performance and quality, and customer relationships to maintain competitive advantage.

Seasonality

The timing of our revenues is impacted by the purchasing patterns of our customers, and as a result we do not generate revenues evenly throughout the year. Moreover, our first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America. This leads to decreased order and shipment activity; consequently, first quarter results are typically weaker than other quarters and not necessarily indicative of our performance in subsequent quarters. We changed our fiscal year to the twelve months ended the last Friday in September to better align with the aerospace industry's business cycle.

Sources and Availability of Raw Materials and Components

The sources and availability of certain raw materials and components are not as critical as they would be for manufacturers of a single product line, due to our vertical integration and diversification. However, certain components, supplies and raw materials for our operations are purchased from single sources. In such instances, we strive to develop alternative sources and design modifications to minimize the effect of business interruptions.

Environmental Matters

We are subject to federal, state, local and foreign laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous waste, and (ii) impose liability for the costs of cleaning up, and certain damages resulting from, sites or past spills, disposals or other releases of hazardous substances.

At various times we have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), and analogous state environmental laws, for the cleanup of contamination resulting from past disposals of hazardous wastes at certain sites to which we, among others, sent wastes in the past. CERCLA requires potentially responsible persons to pay for cleanup of sites from which there has been a release or threatened release of hazardous substances. Courts have interpreted CERCLA to impose strict, joint and several liability on all persons liable for cleanup costs. As a practical matter, however, at sites where there are multiple potentially responsible persons, the costs of cleanup typically are allocated among the parties according to a volumetric or other standard.

We have accrued liabilities for environmental remediation costs expected to be incurred. Environmental exposures are provided for at the time they are known to exist or are considered reasonably probable and estimable.

Employees

We had 13,290 employees at October 2, 2015, of which 5,122 were based in the United States, 4,684 in Europe, 1,072 in Canada, 988 in Mexico, 585 in Morocco, 393 in Asia, 293 in India, and 153 in the Dominican Republic. Approximately 12.5% of the U.S.-based employees were represented by labor unions. Our European operations are subject to national trade union agreements and to local regulations governing employment.

Financial Information About Foreign and Domestic Operations and Export Sales

See risk factor below entitled "Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results" under Item 1A of this report and Note 17 to the Consolidated Financial Statements under Item 8 of this report.

Available Information About the Registrant

You can access financial and other information on our Web site, www.esterline.com. We make available through our Web site, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the Securities and Exchange Commission (SEC). The SEC also maintains a Web site at www.sec.gov, which contains reports, proxy and information statements, and other information regarding public companies, including Esterline. Any reports filed with the SEC may also be obtained from the SEC’s Reference Room at 100 F Street, NE, Washington, DC 20549. Our Corporate Governance Guidelines and required charters for our board committees are available on our Web site, www.esterline.com on the Corporate Governance tab, and our Code of Business Conduct and Ethics, which includes a code of ethics applicable to our accounting and financial employees, including our Chief Executive Officer and Chief Financial Officer, is available on our Web site at www.esterline.com on the Corporate Governance tab. Each of these documents is also available in print (at no charge) to any shareholder upon request. Our Web site and the information contained therein or connected thereto are not incorporated by reference into this Form 10-K.

Executive Officers of the Registrant

The names and ages of all executive officers of the Company and the positions and offices held by such persons as of November 25, 2015, are as follows:

Name	Position with the Company	Age
Curtis C. Reusser	Chairman, President and Chief Executive Officer	55
Robert D. George	Vice President, Chief Financial Officer and Corporate Development	59
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Marcia J. Mason	Vice President and General Counsel	63
Roger A. Ross	President, Sensors & Systems Segment	47
Albert S. Yost	President, Avionics & Controls and Advanced Materials Segments	50

Mr. Reusser has been Chairman, President and Chief Executive Officer since March 2014. Prior to that time, he was President and Chief Executive Officer from October 2013 to March 2014. Previously, he was President, Aircraft Systems of UTC Aerospace Systems for United Technologies Corporation, a provider of a broad range of high-technology products and services to the global aerospace and building systems industries, from July 2012 to October 2013. Prior to that time, he was President of the Electronic Systems segment of Goodrich Corporation, an aerospace and defense company that was acquired by UTC in July 2012, from January 2008 to July 2012. Mr. Reusser has a B.S. degree in Industrial and Mechanical Engineering from the University of Washington and a Certificate in Business Management from the University of San Diego.

Mr. George has been Vice President, Chief Financial Officer and Corporate Development since October 2012. From July 2011 to October 2012, he was Vice President, Chief Financial Officer, Corporate Development and Secretary. Prior to that time, he was Vice President, Chief Financial Officer, Secretary and Treasurer since July 1999. Mr. George has an M.B.A. from the Fuqua School of Business at Duke University and a B.A. degree in Economics from Drew University.

Mr. Benson has been Vice President and Chief Human Resources Officer since April 2015. Prior to that time, he was Vice President, Human Resources from December 2014 to March 2015 and Senior Director, Human Resources from November 2014 to December 2014. Prior to that time, he was Senior Human Resources Director at Hewlett Packard Company, a technology products and services company, from 2006 to November 2014. Mr. Benson has an M.B.A. from Arizona State University and a B.A. degree in Business from St. Martin’s College.

Ms. Mason has been Vice President and General Counsel since September 2013. Prior to that time she was General Counsel and Vice President, Administration from August 2012 to September 2013, and Vice President, Human Resources from March 1993 to July 2012. Ms. Mason has a J.D. degree from Northwestern University School of Law and a B.A. degree in Political Science from Portland State University.

Mr. Ross has been President, Sensors & Systems Segment since August 2015. Prior to that time, he was Senior Vice President, Actuation & Propeller Systems, at UTC Aerospace Systems for United Technologies Corporation, a provider of a broad range of high-technology products and services to the global aerospace and building systems industries, from January 2014 to July 2015. From January 2010 to December 2013, he was Vice President, Aerostructures Aftermarket at UTC Aerospace Systems for United Technologies Corporation. Mr. Ross has an M.B.A. from the University of Colorado, an M.S. degree in Mechanical Engineering from Colorado State University and a B.S. degree in Mechanical Engineering from Colorado State University.

Mr. Yost has been President, Avionics & Controls and Advanced Materials Segments since August 2015. Prior to that time, he was President, Advanced Materials Segment since March 2015 and President, Advanced Materials and Treasurer from March 2014 to February 2015. From July 2011 to February 2014, he was Group Vice President and Treasurer, and from November 2009 to June 2011 he was Group Vice President. Mr. Yost has an M.B.A. from Utah State University and a B.A. degree in Economics from Brigham Young University.

Forward-Looking Statements

This annual report on Form 10-K includes forward-looking statements. These statements may be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “m “plan,” “potential,” “predict,” “should” or “will” or the negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report under the headings “Risks Relating to Our Business and Our Industry,” “Management’s Discussion and Analysis of Financial Condition and Results of Continuing Operations” and “Business” are forward-looking statements.

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We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed in this report under the headings “Risks Relating to Our Business and Our Industry,” “Management’s Discussion and Analysis of Financial Condition and Results of Continuing Operations” and “Business” may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations are:

- A significant reduction in defense spending;
- Loss of a significant customer or defense program;
- Our ability to comply with the complex laws and regulations that affect our business;
- Our inability to execute on our accelerated integration plans or otherwise integrate acquired operations or complete acquisitions;
- A significant downturn in the aerospace industry; and
- A decrease in demand for our products as a result of competition, technological innovation or otherwise.

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 1A. Risk Factors

Risks Relating to Our Business and Our Industry

Reductions in defense spending could adversely affect our business.

Approximately 30% of our business is dependent on defense spending. The defense industry is dependent upon the level of equipment expenditures by the armed forces of countries throughout the world, and especially those of the United States, which represents a significant portion of world-wide defense expenditures. While the 2015 Department of Defense budget provides for increased spending in 2016 and beyond, continued reductions in defense spending are possible which could have significant future consequences to our business and industry, including termination or disruption of programs and personnel reductions that could impact our manufacturing operations and engineering capabilities.

The loss of a significant customer or defense program could have a material adverse effect on our operating results.

Some of our operations are dependent on a relatively small number of customers and aerospace and defense programs, which change from time to time. Significant customers in fiscal 2015 included The Boeing Company, Flame, General Electric, Hawker Beechcraft, Honeywell, Lockheed Martin, Northrop Grumman, Rolls-Royce, UTAS, and the U.S. Department of Defense. There can be no assurance that our current significant customers will continue to buy our products at current levels. The loss of a significant customer or the cancellation of orders related to a sole-source defense program could have a material adverse effect on our operating results if we were unable to replace the related sales.

We are subject to numerous regulatory requirements, which could adversely affect our business.

Among other things, we are subject to the Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act and other anti-bribery and anti-corruption laws that generally prohibit companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, we may be held liable for actions taken by our strategic or local partners even though our partners are not subject these laws. Any determination that we have violated the FCPA, the U.K. Bribery Act or similar laws could result in sanctions that could have a material adverse effect on our business, financial condition and results of operations.

We are also subject to a variety of international laws, as well as U.S. export laws and regulations, such as the ITAR, which generally restrict the export of defense products, technical data and defense services. We have filed voluntary reports that disclosed certain technical and administrative violations of the ITAR with the DDTC Office of Defense Trade Controls Compliance (DDTC Office of Compliance). As further described in this report under “Item 1,” we recorded a $10 million charge as of July 26, 2013, for penalties proposed by the DDTC Office of Compliance associated with our earlier handling of ITAR-controlled transactions, including the substance of our prior voluntary disclosures and other aspects of ITAR compliance errors. Our failure to comply with these regulations could result in penalties, loss, or suspension of contracts or other consequences. In addition, we may need to hold shipments or expend significant resources to re-work, re-design or re-certify our products, to achieve compliance with applicable export control regulations. If we are required to take any of these measures, we may lose revenue opportunities and/or be exposed to late-delivery penalties or other claims from our customers. Any of these could adversely affect our operations and financial condition.

We may be unable to realize expected benefits from our business integration efforts and our profitability may be hurt or our business otherwise might be adversely affected.

In 2014, we began to consolidate certain facilities to create greater cost efficiencies through shared services in sales, general administration and support functions across our segments. We have never before pursued integration initiatives to this extent, and there is no assurance that our efforts will be successful. These integration activities are intended to generate operating expense savings through direct and indirect overhead expense reductions as well as other savings and realizing these savings may be difficult. If we do not successfully manage our current integration activities, or any other similar activities that we may undertake in the future, expected efficiencies and benefits might be delayed or not realized, and our operations and business could be disrupted. Risks associated with these actions include inability to complete or delay in the planned transfer of business activities to other locations due to dependency on third-party agreements or certification of projects affected by the transfer, unanticipated costs in implementing the initiatives, delays in implementation of anticipated workforce reductions, adverse effects on employee morale, creation of customer or supplier uncertainty that may impact our business, and the failure to meet operational targets due to the loss of employees. If any of these risks are realized, our ability to achieve anticipated cost reductions may be impaired or our business may otherwise be harmed, which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

Implementing our acquisition strategy involves risks, and our failure to successfully implement this strategy could have a material adverse effect on our business.

One of our key strategies is to grow our business by selectively pursuing acquisitions. Since 1996 we have completed over 30 acquisitions, and we are continuing to actively pursue additional acquisition opportunities, some of which may be material to our business and financial performance. Although we have been successful with this strategy in the past, we may not be able to grow our business in the future through acquisitions for a number of reasons, including:

- Encountering difficulties identifying and executing acquisitions;
- Increased competition for targets, which may increase acquisition costs;
- Consolidation in our industry reducing the number of acquisition targets;
- Competition laws and regulations preventing us from making certain acquisitions; and
- Acquisition financing not being available on acceptable terms or at all.

In addition, there are potential risks associated with growing our business through acquisitions, including the failure to successfully integrate and realize the expected benefits of an acquisition. For example, with any past or future acquisition, there is the possibility that:

- The business culture of the acquired business may not match well with our culture;
- Technological and product synergies, economies of scale and cost reductions may not occur as expected;
- Management may be distracted from overseeing existing operations by the need to integrate acquired businesses;
- We may acquire or assume unexpected liabilities;
- Unforeseen difficulties may arise in integrating operations and systems;
- We may fail to retain and assimilate employees of the acquired business;
- We may experience problems in retaining customers and integrating customer bases; and
- Problems may arise in entering new markets in which we may have little or no experience.

Failure to continue implementing our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

Future operating results could be impacted by sanctions against Russia.

In 2014, the U.S. and other countries expanded the sanctions against Russia, which increased the restrictions on sales of certain products, including aviation products, to Russia and to specified restricted parties in or affiliated with Russia. Our Avionics & Controls and Sensors & Systems segments have programs with Russian customers. We evaluated the impact of these sanctions and determined the impact from Canadian, European Union and U.S. sanctions against Russia on our sales to Russia was not material; however, increased sanctions could have a material impact on our sales to Russia in future periods.

We may have exposure to greater than anticipated tax liabilities and a higher effective tax rate.

We are subject to income taxes in the United States and foreign jurisdictions. Our effective tax rate is influenced by a number of factors, including, but not limited to, modification on tax policy, interpretation of existing tax laws, and our ability to sustain our reporting positions on examination. Any adverse changes in those factors could have a negative effect on our effective tax rate and financial results.

Our future financial results could be adversely impacted by asset impairment charges.

We are required to test both acquired goodwill and other indefinite-lived intangible assets for impairment on an annual basis based upon a fair value approach, rather than amortizing them over time. We have chosen to perform our annual impairment reviews of goodwill and other indefinite-lived intangible assets during the fourth quarter of each fiscal year. We also are required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value.

As we have grown through acquisitions, we have accumulated $1.0 billion of goodwill, $39.4 million of indefinite-lived intangible assets, and $412.7 million of definite-lived intangible assets, out of total assets of $3.0 billion at October 2, 2015. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

We performed our annual impairment review for fiscal 2015 as of August 1, 2015, and our review indicates that no impairment of goodwill or other indefinite-lived assets exists at any of our reporting units.

The amount of debt we have outstanding, as well as any debt we may incur in the future, could have an adverse effect on our operational and financial flexibility.

As of October 2, 2015, we had approximately $881.4 million of long-term debt outstanding. Under our existing secured credit facility, we have a $500 million revolving line of credit and a $250.0 million term loan (U.S. Term Loan). The credit facility is secured by substantially all of the Company’s assets, and interest is based on standard inter-bank offering rates. In addition, we have unsecured foreign currency credit facilities that have been extended by foreign banks for up to $50.6 million. Available credit under the above credit facilities was $370.2 million at October 2, 2015, reflecting bank borrowings of $160.0 million and letters of credit of $20.4 million.

We also have outstanding €330.0 million 3.625% Senior Notes due in April 2023 (2023 Notes). The indentures governing those notes and other debt agreements limit the amount of additional debt we may incur.

Our level of debt could have significant consequences to our business, including the following:

- Depending on interest rates and debt maturities, a substantial portion of our cash flow from operations could be dedicated to paying principal and interest on our debt, thereby reducing funds available for our acquisition strategy, capital expenditures or other purposes, including our plan to repurchase up to $400 million of outstanding shares of common stock, depending on market conditions, share price and other factors;
- A significant amount of debt could make us more vulnerable to changes in economic conditions or increases in prevailing interest rates;
- Our ability to obtain additional financing for acquisitions, capital expenditures or for other purposes could be impaired;
- The increase in the amount of debt we have outstanding increases the risk of non-compliance with some of the covenants in our debt agreements which require us to maintain specified financial ratios; and
- We may be more leveraged than some of our competitors, which may result in a competitive disadvantage.

Our revenues are subject to fluctuations that may cause our operating results to decline.

Our business is susceptible to seasonality and economic cycles, and as a result, our operating results have fluctuated widely in the past and are likely to continue to do so. Our revenue tends to fluctuate based on a number of factors, including domestic and foreign economic conditions and developments affecting the specific industries and customers we serve. For example, it is possible that a global recession could occur and result in a more severe downturn in commercial aviation and defense.

It is also possible that in the future our operating results in a particular quarter or quarters will not meet the expectations of securities analysts or investors, causing the market price of our common stock or senior notes to decline. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance and should not be relied upon to predict our future performance.

A global recession may adversely affect our business operations and results, capital, and cost of capital.

In the event of a global recession, our customers may choose to delay or postpone purchases from us until the economy and their businesses strengthen. Decisions by current or future customers to forgo or defer purchases and/or our customers' inability to pay for our products may adversely affect our earnings and cash flow. A recession could also adversely affect our future cost of debt and equity. Any inability to obtain adequate financing from debt and equity sources could force us to self-fund strategic initiatives or even forgo some opportunities, potentially harming our financial position, results of operations, and liquidity.

Our operations depend on our production facilities throughout the world. These production facilities are subject to physical and other risks that could disrupt production.

Our production facilities could be damaged or disrupted by a natural disaster, labor strike, war, political unrest, terrorist activity or a pandemic. Several of our production facilities are located in California, and thus are in areas with above average seismic activity and may also be at risk of damage in wildfires. Although we have obtained property damage and business interruption insurance for our production facilities, a major catastrophe such as an earthquake or other natural disaster at any of our sites, or significant labor strikes, work stoppage, political unrest, war or terrorist activities in any of the areas where we conduct operations, could result in a prolonged interruption of our business. Any disruption resulting from these events could cause significant delays in shipments of products and the loss of sales and customers. We cannot assure you that we will have insurance to adequately compensate us for any of these events.

Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results.

Foreign sales originating from non-U.S. locations were approximately 50% of our total sales in fiscal 2015, and we have manufacturing facilities in a number of foreign countries. A substantial portion of our Avionics & Controls operations is based in Belgium, Canada and the U.K., and a substantial portion of our Sensors & Systems operations is based in the U.K. and France. We also have manufacturing operations in China, the Dominican Republic, Germany, India, Japan, Mexico, and Morocco. Doing business in foreign countries is subject to numerous risks, including political and economic instability, restrictive trade policies of foreign governments, changes in the local labor-relations climate, economic conditions in local markets, health concerns, inconsistent product regulations or unexpected changes in regulatory and other legal requirements by foreign agencies or governments, the imposition of product tariffs and the burdens of complying with a wide variety of international and U.S. export laws and differing regulatory requirements. To the extent that foreign sales are transacted in a foreign currency, we are subject to the risk of losses due to foreign currency fluctuations. In addition, we have substantial assets denominated in foreign currencies, primarily the Canadian dollar, U.K. pound and euro, that are not offset by liabilities denominated in those foreign currencies. These net foreign currency investments are subject to material changes in the event of fluctuations in foreign currencies against the U.S. dollar.

A downturn in the aircraft market could adversely affect our business.

The aerospace industry is cyclical in nature and affected by periodic downturns that are beyond our control. The principal customers for manufacturers of commercial aircraft are the commercial and regional airlines, which can be adversely affected by a number of factors, including a recession, increasing fuel and labor costs, intense price competition, outbreak of infectious disease and terrorist attacks, as well as economic cycles, all of which can be unpredictable and are outside our control. Any decrease in demand resulting from a downturn in the market could adversely affect our business, financial condition and results of operations.

We may not be able to compete effectively.

Our products and services are affected by varying degrees of competition. We compete with other companies and divisions and units of larger companies in most markets we serve, many of which have greater sales volumes or financial, technological or marketing resources than we do. Our principal competitors include: Astronautics, BAE, Bose, Eaton, ECE, Elbit, EMS, GE Aerospace, Honeywell, IAI, L-3, Otto Controls, RAFI, Rockwell Collins, SELEX, Telephonics, Thales, Ultra Electronics, and Universal Avionics Systems Corporation in our Avionics & Controls segment; Ametek, Amphenol, Eaton, ECE, MPC Products, Meggitt, STPI-Deutsch, and TE Connectivity in our Sensors & Systems segment; and Chemring, Doncasters, Hi-Temp, J&M, JPR Hutchinson, Kmass, Meggitt (including Dunlop Standard Aerospace Group), Rheinmetall, Trelleborg, ULVA, UTAS, and UMPCO in our Advanced Materials segment. The principal competitive factors in the commercial markets in which we participate are product performance, service and price. Maintaining product performance requires expenditures in research and development that lead to product improvement and new product introduction. Companies with more substantial financial resources may have a better ability to make such expenditures. We cannot assure that we will be able to continue to successfully compete in our markets, which could adversely affect our business, financial condition and results of operations.

Our backlog is subject to modification or termination, which may reduce our sales in future periods.

We currently have a backlog of orders based on our contracts with customers. Under many of our contracts, our customers may unilaterally modify or terminate their orders at any time. In addition, the maximum contract value specified under a government contract awarded to us is not necessarily indicative of the sales that we will realize under that contract. For example, we are a sole-source prime contractor for many different military programs with the U.S. Department of Defense. We depend heavily on the government contracts underlying these programs. Over its lifetime, a program may be implemented by the award of many different individual contracts and subcontracts. The funding of government programs is subject to congressional appropriation.

Changes in defense procurement models may make it more difficult for us to successfully bid on projects as a prime contractor and limit sole-source opportunities available to us.

In recent years, the trend in combat system design and development appears to be evolving toward the technological integration of various battlefield components, including combat vehicles, command and control network communications, advanced technology artillery systems and robotics. If the U.S. military procurement approach continues to require this kind of overall battlefield combat system integration, we expect to be subject to increased competition from aerospace and defense companies which have significantly greater resources than we do.

We may lose money or generate less than expected profits on our fixed-price contracts.

Our customers set demanding specifications for product performance, reliability and cost. Some of our government contracts and subcontracts provide for a predetermined, fixed price for the products we make regardless of the costs we incur. Therefore, we must absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of sales that we may achieve. Our failure to accurately scope the statement of work, anticipate technical problems, estimate costs accurately, integrate technical processes effectively or control costs during performance of a fixed-price contract may reduce the profitability of a fixed-price contract or cause a loss. While we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price contracts as required under GAAP, we cannot assure that our contract loss provisions will be adequate to cover all actual future losses. Therefore, we may incur losses on fixed-price contracts that we had expected to be profitable, or such contracts may be less profitable than expected.

Our business is subject to government contracting regulations, and our failure to comply with such laws and regulations could harm our operating results and prospects.

We estimate that approximately 19% of our sales in fiscal 2015 were attributable to contracts in which we were either the prime contractor to, or a subcontractor to a prime contractor to, the U.S. government. As a contractor and subcontractor to the U.S. government, we must comply with laws and regulations relating to the formation, administration and performance of federal government contracts that affect how we do business with our customers and may impose added costs to our business. For example, these regulations and laws include provisions that contracts we have been awarded are subject to:

- Protest or challenge by unsuccessful bidders; and
- Unilateral termination, reduction or modification in the event of changes in government requirements.

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. Responding to governmental audits, inquiries or investigations may involve significant expense and divert management attention. Our failure to comply with these or other laws and regulations could result in contract termination, suspension or debarment from contracting with the federal government, civil fines and damages, and criminal prosecution and penalties, any of which could have a material adverse effect on our operating results.

A significant portion of our business depends on U.S. government contracts, which are often subject to competitive bidding, and a failure to compete effectively or accurately anticipate the success of future projects could adversely affect our business.

We obtain many of our U.S. government contracts through a competitive bidding process that subjects us to risks associated with:

- The frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and/or cost overruns;
- The substantial time and effort, including design, development and marketing activities, required to prepare bids and proposals for contracts that may not be awarded to us; and
- The design complexity and rapid rate of technological advancement of defense-related products.

In addition, in order to win the award of developmental programs, we must be able to align our research and development and product offerings with the government's changing concepts of national defense and defense systems. The government's termination of, or failure to fully fund, one or more of the contracts for our programs would have a negative impact on our operating results and financial condition. Furthermore, we serve as a subcontractor on several military programs that, in large part, involve the same risks as prime contracts.

Overall, we rely on key contracts with U.S. government entities for a significant portion of our sales and business. A substantial reduction in these contracts would materially adversely affect our operating results and financial position.

The market for our products may be affected by our ability to adapt to technological change.

The rapid change of technology is a key feature of all of the markets in which our businesses operate. To succeed in the future, we will need to design, develop, manufacture, assemble, test, market, and support new products and enhancements to our existing products in a timely and cost-effective manner. Historically, our technology has been developed through internal research and development expenditures, as well as customer-sponsored research and development programs. There is no guarantee that we will continue to maintain, or benefit from, comparable levels of research and development in the future. 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 noncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We cannot assure that our existing products will not require significant modifications in the future to remain competitive or that new products we introduce will be accepted by our customers, nor can we assure that we will successfully identify new opportunities, continue to have the needed financial resources to develop new products in a timely or cost-effective manner or execute on a research and development program effectively to yield expected or any return on investment.

The airline industry is heavily regulated and if we fail to comply with applicable requirements, our results of operations could suffer.

Governmental agencies throughout the world, including the U.S. Federal Aviation Administration (FAA), prescribe standards and qualification requirements for aircraft components, including virtually all commercial airline and general aviation products, as well as regulations regarding the repair and overhaul of aircraft engines. Specific regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. We include, with the replacement parts that we sell to our customers, documentation certifying that each part complies with applicable regulatory requirements and meets applicable standards of airworthiness established by the FAA or the equivalent regulatory agencies in other countries. In order to sell our products, we and the products we manufacture must also be certified by our individual OEM customers. If any of the material authorizations or approvals qualifying us to supply our products is revoked or suspended, then the sale of the subject product would be prohibited by law, which would have an adverse effect on our business, financial condition and results of operations.

From time to time, the FAA or equivalent regulatory agencies in other countries propose new regulations or changes to existing regulations, which are usually more stringent than existing regulations. If these proposed regulations are adopted and enacted, we may incur significant additional costs to achieve compliance, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on the continued contributions of our executive officers and other key management, each of whom would be difficult to replace.

Our future success depends to a significant degree upon the continued contributions of our senior management and our ability to attract and retain other highly qualified management personnel. We face competition for management from other companies and organizations. Therefore, we may not be able to retain our existing management personnel or fill new management positions or vacancies created by expansion or turnover at our existing compensation levels. Although we have entered into change of control agreements with members of senior management, we do not have employment contracts with our key executives, nor have we purchased "key-person" insurance on the lives of any of our key officers or management personnel to reduce the impact to our company that the loss of any of them would cause. Specifically, the loss of any of our executive officers would disrupt our operations and divert the time and attention of our remaining officers. Additionally, failure to attract and retain highly qualified management personnel would damage our business prospects.

If we are unable to protect our intellectual property rights adequately, the value of our products could be diminished.

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret and copyright laws, we cannot assure that the precautionary steps we have taken will completely protect our intellectual property rights. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. In the event a competitor successfully challenges our products, processes, patents or licenses or claims that we have infringed upon their intellectual property, we could incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

In addition to our patent rights, we also rely on unpatented technology, trade secrets and confidential information. Others may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our technology. We may not be able to protect our rights in unpatented technology, trade secrets and confidential information effectively. We require each of our employees and consultants to execute a confidentiality agreement at the commencement of an employment or consulting relationship with us. However, these agreements may not provide effective protection of our information or, in the event of unauthorized use of disclosure, they may not provide adequate remedies.

Future asbestos claims could harm our business.

We are subject to potential liabilities relating to certain products we manufactured containing asbestos. We had insurance coverage for asbestos exposures in products prior to November 1, 2003. Commencing November 1, 2003, insurance coverage for asbestos claims has been unavailable. Our policy coverage for exposures prior to November 1, 2003, declines ratably, by formula, as the number of years increases since coverage expired. Accordingly, we continue to have partial insurance coverage for exposure to asbestos contained in our products prior to November 1, 2003. To date, asbestos claims have not been material to our consolidated results of operations or financial position.

As a result of the termination of the NASA Space Shuttle program, manufacturing of rocket engine insulation material containing asbestos ceased in July 2010. In December 2011, we dismantled our facility used to manufacture the asbestos-based insulation for the Space Shuttle program. We have an agreement for indemnification for certain losses we may incur as a result of asbestos claims relating to a product we previously manufactured, but we cannot assure that this indemnification agreement will fully protect us from losses arising from asbestos claims.

To the extent we are not insured or indemnified for losses from asbestos claims relating to our products, asbestos claims could adversely affect our operating results and our financial condition.

Environmental laws and regulations may subject us to significant liability.

Our business and our facilities are subject to a number of federal, state, local and foreign laws, regulations and ordinances governing, among other things, the use, manufacture, storage, handling and disposal of hazardous materials and certain waste products. Among these environmental laws are rules by which a current or previous owner or operator of land may be liable for the costs of investigation, removal or remediation of hazardous materials at such property. In addition, these laws typically impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of any hazardous materials. Persons who arrange for the disposal or treatment of hazardous materials may be liable for the costs of investigation, removal or remediation of such substances at the disposal or treatment site, regardless of whether the affected site is owned or operated by them.

Because we own and operate, and previously owned and operated, a number of facilities that use, manufacture, store, handle or arrange for the disposal of various hazardous materials, we may incur costs for investigation, removal and remediation, as well as capital costs, associated with compliance with environmental laws. At the time of our asset acquisition of the Electronic

Warfare Passive Expendables Division of BAE Systems North America (BAE), certain environmental remedial activities were required under a Part B Permit issued to the infrared decoy flare facility by the Arkansas Department of Environmental Quality under the Federal Resource Conservation and Recovery Act. The Part B Permit was transferred to our subsidiary, Armtec, along with the remedial obligations. Under the terms of the asset purchase agreement, BAE agreed to perform and pay for these remedial obligations at the infrared decoy flare facility up to a maximum amount of $25.0 million. BAE is currently conducting monitoring activities as required under the asset purchase agreement.

At the end of fiscal 2015, we had a $1.6 million liability related to environmental remediation at a previously sold business for which the Company provided indemnification.

Although environmental costs have not been material in the past, we cannot assure that these matters, or any similar liabilities that arise in the future, will not exceed our resources, nor can we completely eliminate the risk of accidental contamination or injury from these materials.

An accident at our combustible ordnance or flare countermeasure operations could harm our business.

We are subject to potential liabilities in the event of an accident at our combustible ordnance and flare countermeasure operations. Our products are highly flammable during certain phases of the manufacturing process. Accordingly, our facilities are designed to isolate these operations from direct contact with employees. Our overall safety infrastructure is compliant with regulatory guidelines. In addition, we utilize hazard detection and intervention systems. Our employees receive safety training and participate in internal safety demonstrations. We continuously track safety effectiveness in relation to the U.S. Bureau of Labor Statistics, OSHA, and the HSE in the U.K. to help ensure performance is within industry standards. In addition, we perform on-going process safety hazard analyses, which are conducted by trained safety teams to identify risk areas that arise. We monitor progress through review of safety action reports that are produced as part of our operations. Although we believe our safety programs are robust and our compliance with our programs is high, it is possible for an accident to occur. We have had incidents in the past, including an accident at our Arkansas plant in 2014 that caused one serious injury. We are insured in excess of our deductible on losses from property, loss of business, and for personal liability claims from an accident; however, we may not be able to maintain insurance coverage in the future at an acceptable cost. Significant losses not covered by insurance could have a material adverse effect on our business, financial condition, and results of operations.

We may be required to defend lawsuits or pay damages in connection with the alleged or actual harm caused by our products.

We face an inherent business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in harm to others or to property. For example, our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that has been designed, manufactured or serviced by us. We may incur significant liability if product liability lawsuits against us are successful. While we believe our current general liability and product liability insurance is adequate to protect us from future product liability claims, we cannot assure that coverage will be adequate to cover all claims that may arise. Additionally, we may not be able to maintain insurance coverage in the future at an acceptable cost. Significant losses not covered by insurance or for which third-party indemnification is not available could have a material adverse effect on our business, financial condition and results of operations.

Our financial performance may be adversely affected by information technology business disruptions.

Our business may be impacted by information technology attacks or failures. Cybersecurity attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data. We have experienced cybersecurity attacks in the past and may experience them in the future, potentially with more frequency. We have taken measures to mitigate potential risks to our technology and our operations from these information technology-related potential disruptions. For example, we utilize third-party software and tools at many domestic operating locations to scan incoming e-mail for viruses and other harmful content and to scan networks maintained by certain of our domestic operating units that exclusively perform U.S. defense work. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, or other manipulation or improper use of our systems or networks. We may also experience financial losses from remedial actions, loss of business or potential liability under contracts or pursuant to regulations that require us to maintain confidential and other data securely, and/or damage to our reputation. Any of these consequences could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

Item 2. Properties

The following table summarizes our properties that are greater than 100,000 square feet or related to a principal operation, including identification of the business segment, as of October 2, 2015:

Location	Type of Facility	Business Segment	Approximate Square Footage	Owned or Leased
Brea, CA	Office & Plant	Advanced Materials	329,000	Owned
Stillington, U.K.	Office & Plant	Advanced Materials	287,000	Owned
East Camden, AR	Office & Plant	Advanced Materials	276,000	Leased
Montréal, Canada	Office & Plant	Avionics & Controls	272,000	Owned
Everett, WA	Office & Plant	Avionics & Controls	216,000	Leased
Champagné, France	Office & Plant	Sensors & Systems	191,000	Owned
Coeur d'Alene, ID	Office & Plant	Avionics & Controls	140,000	Leased
Coachella, CA	Office & Plant	Advanced Materials	140,000	Owned
Kortrijk, Belgium	Office & Plant	Avionics & Controls	130,000	Leased
Marolles, France	Office & Plant	Sensors & Systems	128,000	Owned
Buena Park, CA	Office & Plant	Sensors & Systems	110,000	Owned*
Bourges, France	Office & Plant	Sensors & Systems	109,000	Owned
Farnborough, U.K.	Office & Plant	Sensors & Systems	103,000	Leased
Kent, WA	Office & Plant	Advanced Materials	103,000	Owned
Hampshire, U.K.	Office & Plant	Advanced Materials	102,000	Owned
Sylmar, CA	Office & Plant	Avionics & Controls	96,000	Leased
Valencia, CA	Office & Plant	Advanced Materials	88,000	Owned
Gloucester, U.K.	Office & Plant	Advanced Materials	77,000	Leased

* The building is located on a parcel of land covering 16.1 acres that is leased by the Company.

In total, we own approximately 2,300,000 square feet and lease approximately 2,400,000 square feet of manufacturing facilities and properties.

Item 3. 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.

See Note 11 to the consolidated financial statements included in Part 1, Item 8 of this report for information regarding legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price of Esterline Common Stock

In Dollars

For Fiscal Years	2015		2014	
	High	Low	High	Low
Quarter				
First	$120.71	$98.70	$109.96	$78.17
Second	120.45	103.31	113.06	97.12
Third	114.22	85.95	122.52	104.56
Fourth	89.15	69.77	120.50	102.65

Principal Market – New York Stock Exchange

At the end of fiscal 2015, there were approximately 257 holders of record of the Company's common stock. On November 23, 2015, there were 256 holders of record of our common stock.

On June 19, 2014, our board of directors approved a $200 million share repurchase program. On March 11, 2015, our board of directors approved an additional $200 million for the share repurchase program. Under the program, we are authorized to repurchase up to $400 million of outstanding shares of common stock from time to time, depending on market conditions, share price and other factors. We made no repurchases of common stock during the fourth quarter of fiscal 2015. There is $110.2 million available for purchase under our share repurchase program.

No cash dividends were paid during fiscal 2015 and 2014. Our current secured credit facility restricts the amount of dividends we can pay. We do not anticipate paying any dividends in the foreseeable future.

The following graph shows the performance of the Company's common stock compared to the S&P 500 Index, the S&P MidCap 400 Index, and the S&P 400 Aerospace & Defense Index for a $100 investment made on October 29, 2010.

Item 6. Selected Financial Data

Selected Financial Data

In Thousands, Except Per Share Amounts

	Eleven Months Ended		Twelve Months Ended			
For Fiscal Years	2015	2014 (Unaudited)	2014	2013	2012	2011
Operating Results [1]						
Net sales	$1,774,449	$1,801,127	$2,029,471	$1,866,659	$1,853,467	$1,603,400
Cost of Sales	1,185,056	1,176,413	1,314,762	1,168,632	1,182,959	1,041,013
Selling, general and administrative	346,781	323,957	361,190	364,149	346,024	277,462
Research, development and engineering	91,491	88,656	97,591	88,982	99,560	89,623
Restructuring charges	6,639	12,103	13,642	-	-	-
Gain on sale of product line	-	-	-	(2,264)	-	-
Gain on settlement of contingency	-	-	-	-	(11,891)	-
Goodwill impairment	-	-	-	3,454	52,169	-
Other income	(12,503)	-	-	-	(1,263)	(6,853)
Operating earnings from continuing operations	156,985	199,998	242,286	243,706	185,909	202,155
Interest income	(578)	(501)	(555)	(535)	(463)	(1,602)
Interest expense	30,090	29,986	33,010	39,637	46,227	40,633
Loss on extinguishment of debt	11,451	533	533	946	-	831
Earnings from continuing operations before income taxes	116,022	169,980	209,298	203,658	140,145	162,293
Income tax expense	18,956	35,759	43,716	32,803	27,073	26,588
Earnings from continuing operations including noncontrolling interests	97,066	134,221	165,582	170,855	113,072	135,705
Earnings (loss) from	(37,053)	(59,240)	(62,611)	(4,391)	503	(2,208)

discontinued operations attributable to Esterline, net of tax						
Net earnings attributable to Esterline	59,612	74,454	102,418	164,734	112,535	133,040
Gross profit as a percent of sales	33.2 %	34.7 %	35.2 %	37.4 %	36.2 %	35.1 %
Selling, general and administrative as a percent of sales	19.5 %	18.0 %	17.8 %	19.5 %	18.7 %	17.3 %
Research, development and engineering as a percent of sales	5.2 %	4.9 %	4.8 %	4.8 %	5.4 %	5.6 %
Earnings (loss) per share attributable to Esterline - diluted:						
Continuing operations	$3.10	$4.12	$5.09	$5.33	$3.58	$4.34
Discontinued operations	(1.19)	(1.83)	(1.93)	(0.14)	0.02	(0.07)
Earnings (loss) per share attributable to Esterline - diluted	1.91	2.29	3.16	5.19	3.60	4.27

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	2015	2014	2013	2012	2011
Financial Structure					
Total assets	$3,007,030	$3,193,467	$3,262,112	$3,227,117	$3,378,586
Credit facilities	160,000	100,000	130,000	240,000	360,000
Long-term debt, net	707,786	509,720	537,859	598,060	660,028
Total Esterline shareholders' equity	1,537,467	1,887,817	1,873,605	1,610,481	1,562,835
Weighted average shares					
outstanding - diluted	31,215	32,448	31,738	31,282	31,154
Other Selected Data					
Cash flows provided (used) by					
operating activities	$144,295	$216,364	$250,772	$194,171	$192,429
Cash flows provided (used) by					
investing activities	(173,568)	(89,851)	(93,721)	(48,502)	(869,021)
Cash flows provided (used) by					
financing activities	967	(55,208)	(141,023)	(167,820)	436,420
Net increase (decrease) in cash	(46,789)	58,966	18,503	(24,360)	(237,085)
EBITDA from continuing					
operations [2]	245,674	342,342	339,616	277,137	274,513
Capital expenditures [3]	49,341	45,678	55,335	49,446	49,507
Interest expense	30,090	33,010	39,637	46,227	40,633
Depreciation and amortization					
from continuing operations	88,689	100,056	95,910	91,228	72,358
Ratio of debt to EBITDA [4]	3.5	1.8	2.0	3.0	3.7

[1] Operating results reflect the segregation of continuing operations from discontinued operations. See Note 1 to the Consolidated Financial Statements. Operating results include the acquisitions of DAT in January 2015, Sunbank in December 2013, Gamesman in February 2013, and Souriau in July 2011. See Note 14 to the Consolidated Financial Statements.

[2] EBITDA from continuing operations is a measurement not calculated in accordance with GAAP. We define EBITDA from continuing operations as operating earnings from continuing operations plus depreciation and amortization (excluding amortization of debt issuance costs). We do not intend EBITDA from continuing operations to represent cash flows from continuing operations or any other items calculated in accordance with GAAP, or as an

indicator of Esterline's operating performance. Our definition of EBITDA from continuing operations may not be comparable with EBITDA from continuing operations as defined by other companies. We believe EBITDA is commonly used by financial analysts and others in the aerospace and defense industries and thus provides useful information to investors. Our management and certain financial creditors use EBITDA as one measure of our leverage capacity and debt servicing ability, and is shown here with respect to Esterline for comparative purposes. EBITDA is not necessarily indicative of amounts that may be available for discretionary uses by us. EBITDA includes goodwill impairment charges of $3,454 and $52,169 in fiscal 2013 and 2012, respectively. The following table reconciles operating earnings from continuing operations to EBITDA from continuing operations:

In Thousands					
For Fiscal Years	2015	2014	2013	2012	2011
Operating earnings from continuing operations	$156,985	$242,286	$243,706	$185,909	$202,155
Depreciation and amortization from continuing operations	88,689	100,056	95,910	91,228	72,358
EBITDA from continuing operations	$245,674	$342,342	$339,616	$277,137	$274,513

[3] Excludes capital expenditures accounted for as a capitalized lease obligation of $2,753 and $11,691 in fiscal 2014 and 2013, respectively.

[4] We define the ratio of debt to EBITDA as total debt divided by EBITDA.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes in Item 8 of this report. This discussion and analysis contains forward-looking statements and estimates that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those discussed in the "Forward-Looking Statements" section in Item 1 of this report and the "Risk Factors" section in Item 1A of this report.

We changed our fiscal year to the twelve months ending the last Friday in September, effective beginning with the year ending on September 30, 2016. As a result, our current fiscal period was shortened from twelve months to an eleven-month transition period ended on October 2, 2015. We reported our first fiscal quarter as the three months ended January 30, 2015, second fiscal quarter as the three months ended May 1, 2015, and third fiscal quarter as the three months ended July 31, 2015, followed by a two-month transition period ended October 2, 2015.

When financial results for the 2015 transition period are compared to financial results for the prior-year period, the results compare the eleven-month periods ended October 2, 2015, and September 26, 2014. When financial results for the fourth quarter of fiscal 2015 are compared to the fourth quarter of fiscal 2014, the results compare the two-month periods ended October 2, 2015, and September 26, 2014. The results for the eleven-month period and two-month period ended September 26, 2014, are unaudited. When financial results for fiscal 2014 are compared with financial results for fiscal 2013, the results compare our previous fiscal years, or the twelve-month periods ended October 31, 2014, and October 25, 2013. The following tables show the months included in the various comparison periods:

Fiscal 2015 (11-month) Results Compared with Fiscal 2014 (11-month recast, unaudited)	
Fiscal 2015 (11-month)	Fiscal 2014 (11-month recast, unaudited)
November 2014 - September 2015	November 2013 - September 2014

Fourth Quarter of Fiscal 2015

(2-month, unaudited) Results Compared with Fourth Quarter of Fiscal 2014 (2-month recast, unaudited)	
Fourth Quarter of Fiscal 2015 (2-month, unaudited)	Fourth Quarter of Fiscal 2014 (2-month recast, unaudited)
August 2015 - September 2015	August 2014 - September 2014

Fiscal 2014 Results Compared with Fiscal 2013	
2014	2013
November 2013 - October 2014	November 2012 - October 2013

OVERVIEW

We operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. Our segments are structured around our technical capabilities. All segments include sales to domestic, international, defense and commercial customers.

The Avionics & Controls segment includes avionics systems, control and communication systems, and interface technologies capabilities. Avionics systems designs and develops cockpit systems integration and avionics solutions for commercial and military applications. Control and communication systems designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles. Additionally, control and communication systems designs and manufactures military audio and data products for severe battlefield environments and communication control systems to enhance security and aural clarity in military applications. Defense, aerospace and training display (DAT), which will be integrated into our avionics systems and control and communication systems capabilities, develops and manufactures visualization solutions for a variety of demanding defense and commercial aerospace applications. Interface technologies manufactures and develops custom control panels and input systems for medical, industrial, military and gaming industries.

The Sensors & Systems segment includes power systems, connection technologies and advanced sensors capabilities. Power systems develops and manufactures electrical power switching and other related systems, principally for aerospace and defense customers. Connection technologies develops and manufactures highly engineered connectors for harsh environments and serves the aerospace, defense & space, power generation, rail and industrial equipment markets. Advanced sensors develops and manufactures high precision temperature and pressure sensors for aerospace and defense customers.

The Advanced Materials segment includes engineered materials and defense technologies capabilities. Engineered materials develops and manufactures thermally engineered components and high-performance elastomer products used in a wide range of commercial aerospace and military applications. Defense technologies develops and manufactures combustible ordnance components and warfare countermeasure devices for military customers.

Our current business and strategic plan focuses on the continued development of products and solutions principally for aerospace and defense markets. We are concentrating our efforts to expand our capabilities in these markets, 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 strategic realignments of operations to expand our capabilities as a more comprehensive supplier to our customers across our entire product offering.

On January 31, 2015, we acquired the DAT business of Belgium-based Barco N.V. (Barco) for €150 million net of acquired cash, or approximately $171 million in cash. A working capital adjustment of approximately $15 million was received from Barco in September 2015. We financed the acquisition primarily using international cash reserves, with the balance funded by borrowings under our existing credit facility. We incurred a $2.9 million foreign currency exchange loss in funding the acquisition at the end of the first quarter of fiscal 2015. DAT develops and manufactures visualization solutions for a variety of demanding defense and commercial aerospace applications. DAT employs roughly 600 people in Belgium, France, Israel, Singapore and the U.S. The display business is included in our Avionics & Controls segment.

In September 2014, our board of directors approved the plan to sell certain non-core business units including Eclipse Electronic Systems, Inc. (Eclipse), a manufacturer of embedded communication intercept receivers for signal intelligence applications; Wallop Defence Systems, Ltd. (Wallop), a manufacturer of flare countermeasure devices; Pacific Aerospace and Electronics Inc. (PA&E), a manufacturer of hermetically sealed electrical connectors; and a small distribution business. These businesses are reported as discontinued operations for all periods presented. Based upon the estimated fair values, we incurred an after-tax loss of $49.5 million in the fourth quarter of fiscal 2014 on the assets held for sale in discontinued operations.

On June 5, 2015, we sold Eclipse for $7.9 million. We retained ownership of the land, building and building improvements, which are being held for sale. In addition, on July 20, 2015, we sold PA&E for $22.3 million. During the fourth quarter of fiscal 2015, we approved a plan to sell a small manufacturing business included in our Avionics & Controls segment, which is reported as discontinued operations in all periods presented. During fiscal 2015 and 2014, we incurred a loss on discontinued operations of $37.1 million and $59.2 million, respectively.

On June 19, 2014, our board of directors approved a share repurchase program and authorized the repurchase of up to $200 million of outstanding shares of common stock. In March 2015, our board of directors authorized an additional $200 million for repurchase of outstanding shares of common stock under the program. Under the program, the Company is authorized to repurchase up to $400 million of the outstanding shares of common stock from time to time, depending on market conditions, share price and other factors. During fiscal 2014 we repurchased 269,228 shares under this program at an average price paid per share of $112.40, for an aggregate purchase price of $30.3 million. During fiscal 2015, we repurchased 2,562,122 shares under this program at an average price paid per share of $101.29, for an aggregate purchase price of $259.5 million.

In March 2014, we entered into a Consent Agreement with the U.S. Department of State's Directorate of Defense Trade Controls Office of Defense Trade Controls Compliance (DDTC) to resolve alleged International Traffic in Arms Regulations (ITAR) civil violations. Among other things, the Consent Agreement requires us to pay a $20 million penalty, of which $10 million was suspended and eligible for offset credit based upon verified expenditures for past and future remedial actions, and to continue to implement ongoing compliance measures and to implement additional remedial measures related to ITAR compliance activities. Compliance expense associated with these measures was $18.3 million in fiscal 2015 compared with $8.3 million in fiscal 2014. We estimate that we will incur approximately $18 million in remedial compliance expense in fiscal 2016. More information about the Consent Agreement is set forth in Note 11 to the Consolidated Financial Statements under Item 8 of this report.

In December 2013, we acquired the Sunbank Family of Companies, LLC (Sunbank) for $51.7 million. The purchase price included $5 million in additional contingent consideration based upon achievement of certain sales levels over a two-year period. We paid the first installment of $1.3 million in the third fiscal quarter of 2015. Sunbank is a manufacturer of electrical cable accessories, connectors, and flexible conduit systems. Sunbank is included in the Sensors & Systems segment.

On December 5, 2013, we announced the acceleration of our plans to consolidate certain facilities and create cost efficiencies through shared services in sales, general and administrative and support functions. Total restructuring expenses were $17.4 million, or 1.0% of sales, in fiscal 2014. Restructuring expenses were mainly comprised of $5.3 million in severance, $9.5 million in exit and relocation of facilities expenses, and a $2.6 million loss on the write off of certain property, plant and equipment. Total restructuring expenses were $11.7 million, or 0.7% of sales, for fiscal 2015. Restructuring expenses were mainly comprised of $2.2 million in severance, $8.8 million in exit and relocation of facilities expenses, and a $0.7 million loss on the write off of certain property, plant and equipment. Expense savings were $14.6 million for fiscal 2015. Restructuring expenses are expected to be approximately $16 million in fiscal 2016, which includes DAT integration expense of $12 million.

For further explanation about changes in sales and gross margin in the fourth quarter of fiscal 2015 over the prior-year period, please see the table at the end of the Overview section for a roll forward presentation of sales and gross margin.

Sales for the fourth quarter of fiscal 2015 increased by $36.4 million, or 11.6%, to $349.6 million, over the prior-year period, reflecting a $39 million effect of a nine-week period in the fourth quarter of fiscal 2015 compared to an eight-week period in the fourth quarter of fiscal 2014 and incremental sales from the DAT acquisition of $20 million. These increases were partially offset by the effects of a weakening Canadian dollar, U.K. pound and euro compared to the prior-year period of $17 million. Sales volume decreased by $2 million compared with the prior-year period, and was mainly due to lower demand for Advanced Materials segment products for defense applications of $19 million partially offset by increased sales volumes of Avionics & Controls and Sensors & Systems products of $17 million.

Consolidated gross margin was 32.7% in the fourth quarter of fiscal 2015 compared with 32.6% in the prior-year period. Gross margin in the fourth quarter of fiscal 2015 benefited from higher sales volumes due to the nine-week period in the fourth quarter of fiscal 2015 compared with the eight-week period in fiscal 2014.

Selling, general and administrative expense increased by $6.1 million, by 10.8%, to $62.4 million over the prior-year period. The increase in selling, general and administrative expense reflected incremental selling, general and administrative expenses from the acquisition of DAT of $7.1 million. These increases were partially offset by the favorable translation effects of foreign currencies.

Research, development and engineering spending decreased by $1.1 million over the prior-year period to 3.7% of sales due to decreased research, development and engineering expenses of Sensors & Systems.

In the fourth quarter of fiscal 2015, we refinanced our debt with the redemption of our 7% Senior Notes due in 2020. Our new credit facility currently bears an interest rate of 1.71% and the €330.0 million Senior Notes due in 2023 bear interest at 3.625%. Our debt level increased over last year, so notwithstanding lower interest rates for our outstanding debt, we expect interest expense to be approximately $30 million in fiscal 2016, which is the same as it was for fiscal 2015. In connection with our redemption of our 7% Senior Notes due 2020, we incurred an $8.75 million redemption premium and wrote off $2.4 million in unamortized debt issuance costs as a loss on extinguishment of debt in the fourth quarter of fiscal 2015.

The income tax rate was 1.3% in the fourth quarter of fiscal 2015 compared with 19.1% in the prior-year period, mainly reflecting certain discrete tax benefits and additional tax benefits resulting from DAT operating losses.

Earnings from continuing operations in the fourth quarter of fiscal 2015 were $20.7 million, or $0.69 per diluted share, compared with $20 million, or $0.63 per diluted share, in the prior-year period. Loss from discontinued operations in the fourth quarter of fiscal 2015 was $17.7 million, or $0.59 per diluted share, compared with

$51.5 million, or $1.61 per diluted share, in the prior-year period. Net income in the fourth quarter of fiscal 2015 was $3 million, or $0.10 per diluted share, compared with a loss of $31.4 million, or $0.98 per diluted share, in the prior-year period.

Sales for fiscal 2015 decreased $27 million, or 1.5%, to $1.8 billion over fiscal 2014. Sales decreased $84 million due to the effects of a weakening Canadian dollar, U.K. pound and euro compared with the prior-year period. Additionally, sales decreased $18 million due to the settlement of forward foreign currency contracts qualifying under hedge accounting. These decreases were partially offset by $88 million in incremental sales from the DAT and Sunbank acquisitions. Sales volume decreased $12 million compared with the prior-year period, and was mainly due to lower demand for Advanced Materials products for defense applications of $20 million and a $3 million decrease on sales of Avionics & Controls. These decreases were partially offset by an $11 million increase on sales of Sensors & Systems power system products.

Consolidated gross margin was 33.2% in fiscal 2015 compared with 34.7% in the prior-year period, reflecting lower gross margin on sales of Avionics & Controls and Advanced Materials products. Gross margin was largely impacted by the effect of weakening foreign currencies and the settlement of foreign currency forward contracts, higher manufacturing costs and a lower recovery of fixed costs due to decreased sales volumes. Gross margin was further impacted by an inventory fair value adjustment due to the shipment of acquired DAT inventory recognized at fair value.

Selling, general and administrative expense increased by $22.8 million and by 1.6 percentage points over fiscal 2014 to 19.5% of sales, reflecting incremental selling, general and administrative expenses from the DAT acquisition of $24.9 million and increased corporate expenses of $13.8 million, partially offset by a decrease in segment selling, general and administrative expense. The increase in corporate expense was mainly due to increased expenses for compliance activities. The decrease in segment selling, general and administrative expense was principally due to the effect of translating selling, general and administrative expenses denominated in non-U.S. functional currencies to the U.S. dollar.

Research, development and engineering spending increased by $2.8 million over fiscal 2014 to 5.2% of sales. The increase in research, development and engineering spending principally reflects incremental research, development and engineering expense from the DAT acquisition of $10.5 million, partially offset by lower spending on Avionics & Controls developments.

During fiscal 2015 we recognized a $15.7 million gain in other income and a $2.4 million reduction in interest expense upon the lapse of a statutory period related to a liability for a non-income tax position of an acquired company. In addition, we incurred a $2.9 million loss in other income on foreign currency exchange resulting from the funding of the acquisition of DAT.

The income tax rate was 16.3% in fiscal 2015 compared with 21.0% in the prior-year period, mainly reflecting additional tax benefits resulting from DAT operating losses.

Earnings from continuing operations in fiscal 2015 were $96.7 million, or $3.10 per diluted share, compared with $133.7 million, or $4.12 per diluted share, in the prior-year period. Loss from discontinued operations in fiscal 2015 was $37.1 million, or $1.19 per diluted share, compared with $59.2 million, or $1.83 per diluted share, in the prior-year period. Net income for fiscal 2015 was $59.6 million, or $1.91 per diluted share, compared with $74.5 million, or $2.29 per diluted share, in the prior-year period.

Cash flows from operating activities were $144.3 million in fiscal 2015 compared with $161.9 million in the prior-year period.

Our sales, gross margin and earnings results for the two-month and eleven-month period ended October 2, 2015, compared with the two-month and eleven-month period ended September 26, 2014, included a number of significant items which are summarized in the tables below.

The following is a roll forward of sales and gross margin from the fourth quarter of fiscal 2014 to the fourth quarter of fiscal 2015:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Sales:				
Two-month period ended September 26, 2014	$112,412	$110,719	$90,069	$313,200
Foreign currency loss	(3,180)	(12,007)	(1,775)	(16,962)
Forward contract loss	(2,699)	(1,117)	-	(3,816)
Nine week vs. eight week	14,107	13,857	11,276	39,240
Acquired business	19,979	-	-	19,979
Sales volume	10,467	6,383	(18,864)	(2,014)

Two-month period ended October 2, 2015	$151,086	$117,835	$80,706	$349,627
Gross Margin:				
Two-month period ended September 26, 2014	34,324	37,880	29,896	102,100
Foreign currency gain (loss)	(306)	(2,997)	(583)	(3,886)
Forward contract loss	(2,616)	(1,117)	-	(3,733)
Nine week vs. eight week	4,990	4,735	3,737	13,462
Acquired business	2,118	-	-	2,118
Volume/mix	7,659	1,760	(4,224)	5,195
DAT inventory fair value adjustment	(1,564)	-	-	(1,564)
Lower (higher) manufacturing costs	(2,432)	-	-	(2,432)
Inventory reserves and EAC adjustment	5,438	-	-	5,438
Other	109	(884)	(1,758)	(2,533)
Two-month period ended October 2, 2015	$47,720	$39,377	$27,068	$114,165

The following is a roll forward of sales and gross margin from fiscal 2014 to fiscal 2015:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Sales:				
Eleven-month period ended September 26, 2014	$668,595	$689,850	$442,682	$1,801,127
Foreign currency loss	(9,593)	(65,479)	(9,268)	(84,340)
Forward contract loss	(10,550)	(7,634)	-	(18,184)
Acquired business	82,525	5,065	-	87,590
Sales volume	(3,176)	11,644	(20,212)	(11,744)
Eleven-month period ended October 2, 2015	$727,801	$633,446	$413,202	$1,774,449
Gross Margin:				
Eleven-month period ended September 26, 2014	241,826	232,446	150,442	624,714
Foreign currency gain (loss)	4,492	(11,036)	(2,645)	(9,189)
Forward contract loss	(10,473)	(7,634)	-	(18,107)
Acquired business	26,350	1,974	-	28,324
Volume/mix	(14,515)	5,939	(6,604)	(15,180)
DAT inventory fair value adjustment	(7,021)	-	-	(7,021)
Lower (higher) manufacturing costs/lower recovery of fixed costs	(5,554)	2,221	(7,917)	(11,250)
Inventory reserves and EAC adjustment	(2,371)	630	-	(1,741)
Other	2,188	(3,322)	(23)	(1,157)
Eleven-month period ended October 2, 2015	$234,922	$221,218	$133,253	$589,393

Results of Operations

For further explanation, please see the roll forward table of sales and gross margin at the end of the Overview section.

Fiscal 2015 Compared with Fiscal 2014

Sales for fiscal 2015 decreased 1.5% from fiscal 2014. Sales by segment were as follows:

In Thousands	Increase (Decrease) From Prior Year	2015	2014 (Unaudited)
Avionics & Controls	8.9%	$727,801	$668,595
Sensors & Systems	(8.2)%	633,446	689,850

Advanced Materials	(6.7)%	413,202	442,682
Total Net Sales		$1,774,449	$1,801,127