MOOG INC
Form 10-Q
August 07, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**
**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2007**

**OR**

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

**For the transition period from __________ to __________**

**Commission File Number: 1-5129**

**MOOG INC.**

(Exact name of registrant as specified in its charter)

| **New York State** | **16-0757636** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **East Aurora, New York** | **14052-0018** |
| (Address of Principal Executive Offices) | (Zip Code) |

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

The number of shares outstanding of each class of common stock as of August 3, 2007 was:

Class A common stock, $1.00 par value 38,300,175 shares

Class B common stock, $1.00 par value 4,191,850 shares

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**moog inc.**
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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements.

**moog inc.**
**Consolidated Condensed Balance Sheets**
**(Unaudited)**

| (dollars in thousands) | June 30, 2007 | September 30, 2006 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 58,706 | $ 57,821 |
| Receivables | 398,974 | 333,492 |
| Inventories | 341,488 | 282,720 |
| Other current assets | 58,593 | 54,068 |
| TOTAL CURRENT ASSETS | 857,761 | 728,101 |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $346,958 and $320,036, respectively | 369,202 | 310,011 |
| GOODWILL | 511,105 | 450,971 |
| INTANGIBLE ASSETS, net | 71,871 | 49,922 |
| OTHER ASSETS | 90,958 | 68,649 |
| TOTAL ASSETS | $ 1,900,897 | $ 1,607,654 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| CURRENT LIABILITIES | | |
| Notes payable | $ 6,483 | $ 17,119 |
| Current installments of long-term debt | 4,850 | 1,982 |
| Accounts payable | 107,993 | 99,677 |
| Customer advances | 31,330 | 32,148 |
| Contract loss reserves | 14,282 | 15,089 |
| Other accrued liabilities | 148,796 | 141,591 |
| TOTAL CURRENT LIABILITIES | 313,734 | 307,606 |
| LONG-TERM DEBT, excluding current installments | | |
| Senior debt | 336,362 | 167,350 |
| Senior subordinated notes | 200,094 | 200,107 |
| DEFERRED INCOME TAXES | 97,059 | 83,587 |
| LONG-TERM PENSION AND RETIREMENT OBLIGATIONS | 93,176 | 83,299 |
| OTHER LONG-TERM LIABILITIES | 3,254 | 2,849 |
| TOTAL LIABILITIES | 1,043,679 | 844,798 |

| | | |
|---|---|---|
| SHAREHOLDERS EQUITY | | |
| Common stock | 48,605 | 48,605 |
| Other shareholders equity | 808,613 | 714,251 |
| TOTAL SHAREHOLDERS EQUITY | 857,218 | 762,856 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 1,900,897 | $ 1,607,654 |

See accompanying Notes to Consolidated Condensed Financial Statements.

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**moog inc.**
**Consolidated Condensed Statements of Earnings**
**(Unaudited)**

| (dollars in thousands, except per share data) | Three Months Ended June 30, 2007 | Three Months Ended July 1, 2006 | Nine Months Ended June 30, 2007 | Nine Months Ended July 1, 2006 |
|---|---|---|---|---|
| NET SALES | $ 403,789 | $ 333,463 | $ 1,144,684 | $ 965,743 |
| COST OF SALES | 261,922 | 224,710 | 753,646 | 652,495 |
| GROSS PROFIT | 141,867 | 108,753 | 391,038 | 313,248 |
| Research and development | 28,299 | 18,190 | 76,192 | 47,777 |
| Selling, general and administrative | 68,566 | 53,456 | 186,061 | 158,398 |
| Interest | 8,348 | 5,725 | 20,415 | 16,222 |
| Other | 909 | 121 | 985 | 759 |
| EARNINGS BEFORE INCOME TAXES | 35,745 | 31,261 | 107,385 | 90,092 |
| INCOME TAXES | 10,169 | 10,019 | 33,258 | 30,591 |
| NET EARNINGS | $ 25,576 | $ 21,242 | $ 74,127 | $ 59,501 |
| NET EARNINGS PER SHARE | | | | |
| Basic | $ .60 | $ .51 | $ 1.75 | $ 1.48 |
| Diluted | .59 | .50 | 1.72 | 1.46 |
| AVERAGE COMMON SHARES OUTSTANDING | | | | |
| Basic | 42,476,094 | 41,730,254 | 42,405,088 | 40,099,743 |
| Diluted | 43,225,110 | 42,444,350 | 43,114,907 | 40,798,377 |

See accompanying Notes to Consolidated Condensed Financial Statements.

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**moog inc.**
**Consolidated Condensed Statements of Cash Flows**
**(Unaudited)**

| (dollars in thousands) | Nine Months Ended June 30, 2007 | July 1, 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | $ 74,127 | $ 59,501 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 29,640 | 26,880 |
| Amortization | 8,264 | 8,009 |
| Provisions for non-cash losses on contracts, inventories and receivables | 15,870 | 21,709 |
| Stock compensation expense | 2,730 | 2,994 |
| Other | (2,918) | 13,387 |
| Changes in assets and liabilities providing (using) cash, excluding the effects of acquisitions: | | |
| Receivables | (50,514) | (32,596) |
| Inventories | (49,304) | (43,827) |
| Accounts payable and accrued liabilities | (2,128) | 7,905 |
| Other assets and liabilities | (18,469) | (33,740) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 7,298 | 30,222 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of businesses, net of acquired cash | (89,656) | (88,838) |
| Purchase of property, plant and equipment | (78,255) | (59,652) |
| Other | 2,128 | 4,249 |
| NET CASH USED BY INVESTING ACTIVITIES | (165,783) | (144,241) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net (payments of) proceeds from notes payable | (12,538) | 3,795 |
| Net proceeds from revolving lines of credit | 193,000 | 44,600 |
| Proceeds from long-term debt | 649 | 2,214 |
| Payments on long-term debt | (28,625) | (13,189) |
| Proceeds from issuance of class A common stock, net of issuance costs | | 84,497 |
| Excess tax benefits from share-based payment arrangements | 1,146 | 993 |
| Other | 3,067 | 2,607 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 156,699 | 125,517 |
| Effect of exchange rate changes on cash | 2,671 | 1,862 |

| | | | | |
|---|---|---|---|---|
| INCREASE IN CASH AND CASH EQUIVALENTS | | 885 | | 13,360 |
| Cash and cash equivalents at beginning of period | | 57,821 | | 33,750 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ | 58,706 | $ | 47,110 |
| CASH PAID FOR: | | | | |
| Interest | $ | 15,427 | $ | 12,148 |
| Income taxes | | 31,817 | | 22,208 |

See accompanying Notes to Consolidated Condensed Financial Statements.

**moog inc.**
**Notes to Consolidated Condensed Financial Statements**
**Nine Months Ended June 30, 2007**
**(Unaudited)**
**(dollars in thousands, except per share data)**

**Note 1 Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for fair presentation of results for the interim period have been included. The results of operations for the three and nine months ended June 30, 2007 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the fiscal year ended September 30, 2006. All references to years in these financial statements are to fiscal years.

Our fiscal year ends on the Saturday in September or October that is closest to September 30. Our financial statements will include 52 weeks in 2007 and included 53 weeks in 2006. Our financial statements include 13 weeks for the three months ended June 30, 2007 and July 1, 2006, and 39 weeks for the nine months ended June 30, 2007 compared to 40 weeks for the nine months ended July 1, 2006. While this may have an impact on the comparability of the reported financial results, the impact cannot be determined.

**Note 2 Acquisitions**

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition.

On May 3, 2007, we acquired Thermal Control Products Inc. The adjusted purchase price, net of cash acquired, was $6,892. We paid $4,042 in cash, which was financed with credit facility borrowings and issued unsecured notes to the sellers payable over 3 years with a discounted present value of $2,850. Thermal Control Products specializes in the design, prototype and manufacture of electronic cooling and air moving systems for the automotive, telecommunications, server and electronic storage markets. Their blower assembly products are used in industrial equipment. This acquisition gives us the opportunity to offer completely integrated blower assembly units for our medical equipment customers and quiet air movement solutions for our industrial customers within our Components segment.

On March 16, 2007, we acquired ZEVEX International, Inc. The purchase price, net of cash acquired, was $82,443, which was financed with credit facility borrowings, and $1,796 in assumed debt. ZEVEX manufactures and distributes a line of ambulatory pumps, stationary pumps and disposable sets that are used in the delivery of enteral nutrition for hospital, nursing home, neonatal and patient home use. ZEVEX also designs, develops and manufactures surgical tools and sensors and provides engineered solutions for the medical marketplace. This acquisition further expands our participation in medical markets within our Medical Devices segment.

In the first quarter of 2007, we acquired a ball screw manufacturer. The adjusted purchase price was $2,565 paid in cash and $2,935 in assumed debt. We also paid a $63 purchase price adjustment related to the 2005 acquisition of FCS Control Systems, increasing goodwill by $63.

On August 24, 2006, we acquired McKinley Medical by issuing 445,725 shares of Moog Class A common stock valued at $14,993 and $550 in cash, of which $543 was paid in the first quarter of 2007. McKinley Medical designs, assembles and distributes disposable pumps and accessories used principally to administer therapeutic drugs for chemotherapy and antibiotic applications, and post-operative medication for pain management. This acquisition expands our participation in medical markets within our Medical Devices segment.

On April 7, 2006, we acquired Curlin Medical and affiliated companies. The adjusted purchase price was $77,056, which was financed with credit facility borrowings of $65,056 and a $12,000 53-week unsecured note held by the sellers, which was paid on April 9, 2007. Curlin Medical is a manufacturer of infusion pumps that provide controlled

delivery of therapeutic drugs to patients. This acquisition formed our newest segment, Medical Devices.

On November 23, 2005, we acquired Flo-Tork Inc. The adjusted purchase price was $25,739, which was financed with credit facility borrowings. Flo-Tork is a leading designer and manufacturer of hydraulic and pneumatic rotary actuators and specialized cylinders for niche military and industrial applications. This acquisition not only expands our reach within Industrial Controls, but also provides new opportunities for naval applications within Space and Defense Controls.

Our purchase price allocations for the ball screw manufacturer, McKinley Medical, ZEVEX and Thermal Control Products are based on preliminary estimates of fair values of assets acquired and liabilities assumed. These estimates are substantially complete.

**Note 3 Stock-Based Compensation**

We have stock option plans that authorize the issuance of options for shares of Class A common stock to directors, officers and key employees. Stock option grants are designed to reward long-term contributions to Moog and provide incentives for recipients to remain with Moog. The 2003 Stock Option Plan authorizes the issuance of options for 1,350,000 shares of Class A common stock.

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The 1998 Stock Option Plan authorizes the issuance of options for 2,025,000 shares of Class A common stock. Under the terms of the plans, options may be either incentive or non-qualified. The exercise price, determined by a committee of the Board of Directors, may not be less than the fair market value of the Class A common stock on the grant date. Options become exercisable over periods not exceeding ten years.
Stock compensation expense recognized is based on share-based payment awards that are ultimately expected to vest. Vesting requirements vary for directors, officers and key employees. In general, options granted to outside directors vest one year from the date of grant, options granted to officers vest on various schedules and options granted to key employees are graded vested over a five-year period from the date of grant.

**Note 4 Inventories**

| | June 30, 2007 | September 30, 2006 |
|---|---|---|
| Raw materials and purchased parts | $ 118,879 | $ 101,974 |
| Work in progress | 172,329 | 134,492 |
| Finished goods | 50,280 | 46,254 |
| Total | $ 341,488 | $ 282,720 |

**Note 5 Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill for the nine months ended June 30, 2007 are as follows:

| | Balance as of September 30, 2006 | Current Year Acquisitions | Adjustment To Prior Year Acquisitions | Foreign Currency Translation | Balance as of June 30, 2007 |
|---|---|---|---|---|---|
| Aircraft Controls | $ 103,826 | $ | $ | $ 17 | $ 103,843 |
| Space and Defense Controls | 49,806 | | | | 49,806 |
| Industrial Controls | 91,116 | 2,060 | 63 | 3,692 | 96,931 |
| Components | 142,740 | 4,374 | | 1,317 | 148,431 |
| Medical Devices | 63,483 | 47,905 | 706 | | 112,094 |
| Total | $ 450,971 | $ 54,339 | $ 769 | $ 5,026 | $ 511,105 |

All acquired intangible assets other than goodwill are being amortized. The weighted-average amortization period is eight years for customer-related, technology-related and marketing-related intangible assets and ten years for artistic-related intangible assets. In total, these intangible assets have a weighted-average life of eight years. Customer-related intangible assets primarily consist of customer relationships. Technology-related intangible assets primarily consist of technology, patents, intellectual property and engineering drawings. Marketing-related intangible assets primarily consist of trademarks, tradenames and non-compete agreements.
Amortization of acquired intangible assets was $3,037 and $7,339 for the three and nine months ended June 30, 2007 and was $3,032 and $6,359 for the three and nine months ended July 1, 2006, respectively. Based on acquired intangible assets recorded at June 30, 2007, amortization is expected to be $10,567 in 2007, $10,618 in 2008, $9,991 in 2009, $9,928 in 2010 and $9,703 in 2011. The gross carrying amount and accumulated amortization for major

categories of acquired intangible assets are as follows:

| | June 30, 2007 | | September 30, 2006 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer-related | $ 55,489 | $ (12,818) | $ 32,084 | $ (8,468) |
| Technology-related | 26,492 | (5,412) | 23,829 | (2,867) |
| Marketing-related | 13,270 | (6,696) | 9,629 | (5,906) |
| Artistic-related | 25 | (14) | 25 | (12) |
| Acquired intangible assets | $ 95,276 | $ (24,940) | $ 65,567 | $ (17,253) |

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**Note 6 Product Warranties**

In the ordinary course of business, we warrant our products against defects in design, materials and workmanship typically over periods ranging from twelve to thirty-six months. We determine warranty reserves needed by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Warranty accrual at beginning of period | $ 6,720 | $ 5,364 | $ 5,968 | $ 4,733 |
| Additions from acquisitions | | | 159 | |
| Warranties issued during current period | 1,949 | 1,492 | 5,545 | 4,819 |
| Reductions for settling warranties | (1,363) | (1,311) | (4,498) | (4,001) |
| Foreign currency translation | (25) | 163 | 107 | 157 |
| Warranty accrual at end of period | $ 7,281 | $ 5,708 | $ 7,281 | $ 5,708 |

**Note 7 Credit Facility**

On October 25, 2006, we amended our U.S. credit facility. Previously our credit facility consisted of a $75,000 term loan and a $315,000 revolver. Our new revolving credit facility, which matures on October 25, 2011, increased our borrowing capacity to $600,000. The credit facility is secured by substantially all of our U.S. assets. The loan agreement contains various covenants, which, among others, specify minimum consolidated net worth and interest coverage and maximum leverage and capital expenditures. Interest on outstanding credit facility borrowings is based on LIBOR, plus the applicable margin, which was 125 basis points at June 30, 2007.

**Note 8 Derivative Financial Instruments**

We have foreign currency exposure on intercompany loans that are denominated in a foreign currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the statements of earnings. To minimize the foreign currency exposure, we have foreign currency forwards with a notional amount of $21,872. The foreign currency forwards are recorded on the balance sheet at fair value and resulting gains or losses are recorded in the statements of earnings, generally offsetting the gains or losses from the adjustments on the intercompany loans. At June 30, 2007, the fair value of the foreign currency forwards was a $1,621 liability, which was included in other accrued liabilities. At September 30, 2006, the fair value of the foreign currency forwards was a $521 liability, most of which was included in other accrued liabilities.

We use derivative financial instruments to manage the risk associated with changes in interest rates associated with long-term debt that affect the amount of future interest payments under our U.S. credit facility. At September 30, 2006, we had outstanding interest rate swaps with a $35,000 notional amount, effectively converting that amount of variable-rate debt to fixed-rate debt. The $35,000 notional amount matured in the first quarter of 2007. Activity in Accumulated Other Comprehensive Income (AOCI) related to derivatives held by us during the first nine months of 2007 is summarized below:

| | Pre-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| Accumulated gain at September 30, 2006 | $ 139 | $ (53) | $ 86 |
| Net increase in fair value of derivatives | 2 | (1) | 1 |

| | | | |
|---|---|---|---|
| Net reclassification from AOCI into earnings | (141) | 54 | (87) |
| Accumulated gain at June 30, 2007 | $ | $ | $ |

To the extent that the interest rate swaps are not perfectly effective in offsetting the change in the value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first nine months of 2007 or 2006. At September 30, 2006, the fair value of interest rate swaps was $273, which is included in other current assets.

**Note 9 Employee Benefit Plans**

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Service cost | $ 3,778 | $ 4,050 | $ 11,292 | $ 12,050 |
| Interest cost | 5,207 | 4,687 | 15,619 | 14,062 |
| Expected return on plan assets | (6,374) | (5,525) | (19,120) | (16,375) |
| Amortization of prior service cost | 262 | 273 | 820 | 818 |
| Amortization of actuarial loss | 1,133 | 2,143 | 3,399 | 6,428 |
| Pension expense for defined benefit plans | 4,006 | 5,628 | 12,010 | 16,983 |
| Pension expense for defined contribution plans | 470 | 285 | 1,099 | 824 |
| Total pension expense for U.S. plans | $ 4,476 | $ 5,913 | $ 13,109 | $ 17,807 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Service cost | $ 949 | $ 934 | $ 2,792 | $ 2,701 |
| Interest cost | 1,255 | 1,044 | 3,688 | 3,047 |
| Expected return on plan assets | (732) | (584) | (2,156) | (1,701) |
| Amortization of prior service credit | (9) | (10) | (27) | (29) |
| Amortization of actuarial loss | 211 | 288 | 622 | 841 |
| Pension expense for defined benefit plans | 1,674 | 1,672 | 4,919 | 4,859 |
| Pension expense for defined contribution plans | 472 | 292 | 1,253 | 848 |
| Total pension expense for non-U.S. plans | $ 2,146 | $ 1,964 | $ 6,172 | $ 5,707 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Service cost | $ 100 | $ 87 | $ 301 | $ 262 |
| Interest cost | 301 | 240 | 903 | 720 |

| | | | | |
|---|---|---|---|---|
| Amortization of transition obligation | 98 | 98 | 295 | 293 |
| Amortization of prior service cost | 72 | 73 | 215 | 218 |
| Amortization of actuarial loss | 131 | 95 | 391 | 285 |
| Net periodic post-retirement benefit cost | $ 702 | $ 593 | $ 2,105 | $ 1,778 |

During the nine months ended June 30, 2007, we made contributions to our defined benefit pension plans of $28,068 to the U.S. plans and $3,061 to the non-U.S. plans. We presently anticipate contributing no additional amounts to the U.S. plans and $1,175 to the non-U.S. plans in 2007 for a total of approximately $32,300.

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**Note 10  Shareholders  Equity**

The changes in shareholders  equity for the nine months ended June 30, 2007 are summarized as follows:

| | Amount | Number of Shares Class A Common Stock | Class B Common Stock |
|---|---|---|---|
| COMMON STOCK | | | |
| Beginning of period | $ 48,605 | 40,670,529 | 7,934,184 |
| Conversion of Class B to Class A | | 54,027 | (54,027) |
| End of period | 48,605 | 40,724,556 | 7,880,157 |
| ADDITIONAL PAID-IN CAPITAL | | | |
| Beginning of period | 292,565 | | |
| Stock compensation expense | 2,730 | | |
| Issuance of Treasury shares at more than cost | 1,007 | | |
| Adjustment to market  SECT and other | 4,965 | | |
| End of period | 301,267 | | |
| RETAINED EARNINGS | | | |
| Beginning of period | 469,127 | | |
| Net earnings | 74,127 | | |
| End of period | 543,254 | | |
| TREASURY STOCK | | | |
| Beginning of period | (40,354) | (2,584,243) | (3,305,971) |
| Treasury stock issued | 898 | 168,557 | |
| Treasury stock purchased | (338) | (8,695) | |
| End of period | (39,794) | (2,424,381) | (3,305,971) |
| STOCK EMPLOYEE COMPENSATION TRUST (SECT) | | | |
| Beginning of period | (14,652) | | (418,628) |
| Sale of stock to SSOP Plan | 2,077 | | 50,400 |
| Purchases of stock | (559) | | (14,108) |
| Adjustment to market  SECT | (3,784) | | |
| End of period | (16,918) | | (382,336) |

| | | | |
|---|---|---|---|
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | | |
| Beginning of period | 7,565 | | |
| Foreign currency translation adjustment | 13,325 | | |
| Decrease in accumulated gain on derivatives | (86) | | |
| End of period | 20,804 | | |
| TOTAL SHAREHOLDERS EQUITY | $ 857,218 | 38,300,175 | 4,191,850 |

**Note 11 Stock Employee Compensation Trust**

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for employee stock plans and benefit programs, including the Moog Inc. Savings and Stock Ownership Plan (SSOP). The shares in the SECT are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreement governing the SECT, the SECT trustee votes all shares held by the SECT on all matters submitted to shareholders.

**Note 12 Earnings per Share**

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

| | | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|---|
| | | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Weighted-average shares outstanding | Basic | 42,476,094 | 41,730,254 | 42,405,088 | 40,099,743 |
| Dilutive effect of stock options | | 749,016 | 714,096 | 709,819 | 698,634 |
| Weighted-average shares outstanding | Diluted | 43,225,110 | 42,444,350 | 43,114,907 | 40,798,377 |

On February 21, 2006, we completed the offering and sale of 2,875,000 shares of Class A common Stock at a price of $31 per share.

**Note 13 Comprehensive Income**

The components of comprehensive income are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net earnings | $ 25,576 | $ 21,242 | $ 74,127 | $ 59,501 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 3,552 | 10,106 | 13,325 | 9,288 |
| Decrease in accumulated gain on derivatives, net of tax | | (121) | (86) | (437) |
| Comprehensive income | $ 29,128 | $ 31,227 | $ 87,366 | $ 68,352 |

The components of accumulated other comprehensive income are as follows:

| | June 30, 2007 | September 30, 2006 |
|---|---|---|
| Cumulative foreign currency translation adjustment | $ 31,927 | $ 18,602 |
| Minimum pension liability adjustment | (11,123) | (11,123) |
| Accumulated gain on derivatives | | 86 |
| Accumulated other comprehensive income | $ 20,804 | $ 7,565 |

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**Note 14 Segment Information**

Below are sales and operating profit by segment for the three and nine months ended June 30, 2007 and July 1, 2006 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is net sales less cost of sales and other operating expenses, excluding stock compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net sales: | | | | |
| Aircraft Controls | $ 149,801 | $ 129,899 | $ 426,294 | $ 384,614 |
| Space and Defense Controls | 47,835 | 36,134 | 138,700 | 112,154 |
| Industrial Controls | 111,694 | 99,541 | 324,757 | 286,361 |
| Components | 72,764 | 61,251 | 210,514 | 175,976 |
| Medical Devices | 21,695 | 6,638 | 44,419 | 6,638 |
| Net sales | $ 403,789 | $ 333,463 | $ 1,144,684 | $ 965,743 |
| Operating profit and margins: | | | | |
| Aircraft Controls | $ 15,825 | $ 15,631 | $ 43,705 | $ 47,905 |
| | 10.6% | 12.0% | 10.3% | 12.5% |
| Space and Defense Controls | 6,163 | 3,609 | 18,663 | 10,072 |
| | 12.9% | 10.0% | 13.5% | 9.0% |
| Industrial Controls | 15,395 | 12,006 | 43,673 | 35,241 |
| | 13.8% | 12.1% | 13.4% | 12.3% |
| Components | 10,877 | 10,065 | 33,831 | 28,535 |
| | 14.9% | 16.4% | 16.1% | 16.2% |
| Medical Devices | 829 | (239) | 4,112 | (239) |
| | 3.8% | (3.6%) | 9.3% | (3.6%) |
| Total operating profit | 49,089 | 41,072 | 143,984 | 121,514 |
| | 12.2% | 12.3% | 12.6% | 12.6% |
| Deductions from operating profit: | | | | |
| Interest expense | 8,348 | 5,725 | 20,415 | 16,222 |
| Stock compensation expense | 530 | 507 | 2,730 | 2,994 |
| Corporate expenses and other | 4,466 | 3,579 | 13,454 | 12,206 |
| Earnings before income taxes | $ 35,745 | $ 31,261 | $ 107,385 | $ 90,092 |

As a result of the acquisition of ZEVEX in the second quarter of 2007, the Medical Devices segment assets increased to $204,038 as of June 30, 2007 from $100,856 as of September 30, 2006.

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**Note 15 Recent Accounting Pronouncements**

In June 2006, the FASB issued FASB Interpretation No.48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No.109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements.

In September 2006, the FASB issued SFAS No.157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No.157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact of adopting SFAS No.157 on our consolidated financial statements.

In September 2006, the FASB issued SFAS No.158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires entities to recognize an asset for a defined benefit postretirement plan s overfunded status or a liability for a plan s underfunded status in its balance sheet, with changes in funded status being recognized in comprehensive income in the year in which the changes occur. This requirement is effective for fiscal years ending after December 15, 2006. This statement also requires an entity to measure a defined benefit postretirement plan s assets and obligations that determine its funded status as of the end of the employers fiscal year. This requirement is effective for fiscal years ending after December 15, 2008. The implementation of SFAS No. 158 will not affect the Company s results of operations or cash flows. We are unable to determine the effect on the Company s financial position as the actual impact is dependent on a number of factors and assumptions, including the discount rates in effect and the fair value of plan assets at the measurement date.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedging accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of adopting SFAS No. 159 on our consolidated financial statements.

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

The following should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company s Form 10-K for the fiscal year ended September 30, 2006. All references to years in this Management s Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years.

**OVERVIEW**

We are a leading worldwide designer and manufacturer of high performance, precision motion and fluid controls and control systems for a broad range of applications in aerospace, defense, industrial and medical device markets. Our products and systems include military and commercial aircraft flight controls, satellite positioning controls, controls for steering tactical and strategic missiles, thrust vector controls for space launch vehicles and controls for positioning gun barrels and automatic ammunition loading for military combat vehicles. Our products are also used in a wide variety of industrial applications, including injection molding machines for the plastics market, simulators used to train pilots, test equipment, metal forming, power generating turbines and certain medical applications. We operate under five segments, Aircraft Controls, Space and Defense Controls, Industrial Controls, Components and Medical Devices. Our principal manufacturing facilities are located in the United States, including facilities in New York, California, Utah, Virginia, North Carolina and Pennsylvania, and in Germany, Italy, England, Japan, the Philippines, Ireland and India.

Revenue under long-term contracts, representing approximately one-third of our sales, is recognized using the percentage of completion, cost-to-cost method of accounting. This method of revenue recognition is associated with the Aircraft Controls and Space and Defense Controls segments due to the long-term contractual nature of the business activities, with the exception of their respective aftermarket activities. The remainder of our sales are recognized when the risks and rewards of ownership and title to the product are transferred to the customer, principally as units are delivered or as service obligations are satisfied. This method of revenue recognition is associated with the Industrial Controls, Components and Medical Devices segments, as well as with aftermarket activity.

We intend to increase our revenue base and improve our profitability and cash flows from operations by building on our market leadership positions and by strengthening our niche market positions in the principal markets that we serve. We also expect to maintain a balanced, diversified portfolio in terms of markets served, product applications, customer base and geographic presence. Our strategy to achieve our objectives includes maintaining our technological excellence by building upon our systems integration capabilities while solving our customers most demanding technical problems, growing our profitable aftermarket business, entering and developing new markets by using our broad expertise as a designer and supplier of precision controls, taking advantage of our global engineering, selling and manufacturing capabilities, striving for continuing cost improvements and capitalizing on strategic acquisition opportunities.

Challenges facing us include improving shareholder value through increased profitability as our investment in research and development activities on development programs has increased while experiencing pricing pressures from customers, strong competition, an increasingly complex network of suppliers and increases in costs such as health care. We address these challenges by focusing on strategic revenue growth and by continuing to improve operating efficiencies through various process and manufacturing initiatives including using low cost manufacturing facilities and strong supply chain management skills without compromising quality.

**Acquisitions**

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition.

On May 3, 2007, we acquired Thermal Control Products Inc. The adjusted purchase price, net of cash acquired, was $6.9 million. We paid $4.0 million in cash, which was financed with credit facility borrowings and issued unsecured notes to the sellers payable over 3 years with a discounted present value of $2.9 million. Thermal Control Products specializes in the design, prototype and manufacture of electronic cooling and air moving systems for the automotive,

telecommunications, server and electronic storage markets. Their blower assembly products are used in industrial equipment. This acquisition gives us the opportunity to offer completely integrated blower assembly units for our medical equipment customers and quiet air movement solutions for our industrial customers within our Components segment. Annual sales for the twelve months preceding the acquisition were approximately $5 million.

On March 16, 2007, we acquired ZEVEX International, Inc. The purchase price, net of cash acquired, was $82 million, which was financed with credit facility borrowings, and $2 million in assumed debt. ZEVEX manufactures and distributes a line of ambulatory pumps, stationary pumps and disposable sets that are used in the delivery of enteral nutrition for hospital, nursing home, neonatal and patient home use. ZEVEX also designs, develops and manufactures surgical tools and sensors and provides engineered solutions for the medical marketplace. This acquisition further expands our participation in medical markets within our Medical Devices segment. Annual sales for the twelve months preceding the acquisition were approximately $42 million.

In the first quarter of 2007, we acquired a ball screw manufacturer for $2.6 million in cash and $2.9 million in assumed debt.

On August 24, 2006, we acquired McKinley Medical by issuing 445,725 shares of Moog Class A common stock valued at $15 million and $.6 million in cash, of which $.5 million was paid in the first quarter of 2007. McKinley Medical designs, assembles and distributes disposable pumps and accessories used principally to administer therapeutic drugs for chemotherapy and antibiotic applications, and post-operative medication for pain management. This acquisition further expands our participation in medical markets within our Medical Devices segment. Annual sales for the twelve months preceding the acquisition were approximately $5 million.

On April 7, 2006, we acquired Curlin Medical and affiliated companies. The adjusted purchase price was $77 million, which was financed with credit facility borrowings of $65 million and a $12 million 53-week unsecured note held by the sellers, which was paid on April 9, 2007. Curlin Medical is a manufacturer of infusion pumps that provide controlled delivery of therapeutic drugs to patients. This acquisition resulted in the initial formation of our newest segment, Medical Devices. Annual sales for the twelve months preceding the acquisition were approximately $23 million.

On November 23, 2005, we acquired Flo-Tork Inc. The adjusted purchase price was $26 million, which was financed with credit facility borrowings. Flo-Tork is a leading designer and manufacturer of hydraulic and pneumatic rotary actuators and specialized cylinders for niche military and industrial applications. This acquisition not only expands our reach within Industrial Controls, but also provides new opportunities for naval applications within Space and Defense Controls. Annual sales for the twelve months preceding the acquisition were approximately $10 million.

Our purchase price allocations for the ball screw manufacturer, McKinley Medical, ZEVEX and Thermal Control Products are based on preliminary estimates of fair values of assets acquired and liabilities assumed. These estimates are substantially complete.

**Issuance of Class A Common Stock**

On February 21, 2006, we completed the offering and sale of 2,875,000 shares of Class A common stock at a price of $31 per share. We used the net proceeds of $84 million to pay down outstanding credit facility borrowings.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2006, the FASB issued FASB Interpretation No.48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements.

In September 2006, the FASB issued SFAS No.157, Fair Value Measurements. This statement establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurement. SFAS No.157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact of adopting SFAS No. 157 on our consolidated financial statements.

In September 2006, the FASB issued SFAS No.158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires entities to recognize an asset for a defined benefit postretirement plan s overfunded status or a liability for a plan s underfunded status in its balance sheet, with changes in funded status being recognized in comprehensive income in the year in which the changes occur. This requirement is effective for fiscal years ending after December 15, 2006. This statement also requires an entity to measure a defined benefit postretirement plan s assets and obligations that determine its funded status as of the end of the employers fiscal year. This requirement is effective for fiscal years ending after December 15, 2008. The implementation of SFAS No. 158 will not affect the Company s results of operations or cash flows. We are unable to determine the effect on the Company s financial position as the actual impact is dependent on a number of factors and assumptions, including the discount rates in effect and the fair value of plan assets at the measurement date.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate

volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedging accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of adopting SFAS No. 159 on our consolidated financial statements.

## CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (dollars in millions) | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net sales | $ 403.8 | $ 333.5 | $ 1,144.7 | $ 965.7 |
| Gross margin | 35.1% | 32.6% | 34.2% | 32.4% |
| Research and development expenses | $ 28.3 | $ 18.2 | $ 76.2 | $ 47.8 |
| Selling, general and administrative expenses as a percentage of sales | 17.0% | 16.0% | 16.3% | 16.4% |
| Interest expense | $ 8.3 | $ 5.7 | $ 20.4 | $ 16.2 |
| Effective tax rate | 28.4% | 32.0% | 31.0% | 34.0% |
| Net earnings | $ 25.6 | $ 21.2 | $ 74.1 | $ 59.5 |

Our fiscal year ends on the Saturday in September or October that is closest to September 30. Our financial statements will include 52 weeks in 2007 and included 53 weeks in 2006. Our financial statements include 13 weeks for the three months ended June 30, 2007 and July 1, 2006, and 39 weeks for the nine months ended June 30, 2007 compared to 40 weeks for the nine months ended July 1, 2006. While this may have an impact on the comparability of the reported financial results, the impact cannot be determined.

Net sales increased $70 million, or 21%, in the third quarter of 2007 over the third quarter of 2006 and $179 million, or 19%, in the first nine months of the year. Sales increased in each of our segments even without considering the contributions from our acquisitions.

Our gross margin improved in the third quarter and first nine months of 2007 compared to the same periods last year due to favorable product mix in our Aircraft Controls, Space and Defense Controls and Industrial Controls segments. Our gross margin was also influenced by additions to contract loss reserves. Our additions to contract loss reserves were $1 million in the third quarter of 2007 compared to $4 million in the third quarter of 2006. For the first nine months our additions to contract loss reserves were $9 million in 2007 compared to $13 million in 2006. The higher level of contract loss reserves in 2006 primarily related to aircraft development contracts.

Research and development expenses significantly increased in the third quarter and first nine months of 2007 over the same periods last year. The higher level of research and development expenses largely relates to development activities on Boeing s next generation commercial aircraft, the 787 Dreamliner, most recently to get initial flight-test hardware produced and through safety-of-flight testing.

Selling, general and administrative expenses as a percentage of sales increased in the third quarter of 2007 compared to the third quarter of 2006. Bid and proposal efforts, including work on the new Airbus A350, were higher and represents approximately one half of the increase. In addition, the cost structure of our new Medical Devices segment, which included ZEVEX for the entire third quarter, is higher than in our other markets and represents most of the remaining increase. Selling, general and administrative expenses as a percentage of sales for the first nine months of 2007 compared to 2006 were down slightly due to the efficiencies associated with our higher sales volume and a $2 million charge in 2006 related to the termination of an agreement with a long-standing sales representative. Those benefits were offset by the higher cost structure of Medical Devices.

Interest expense was higher in the third quarter and first nine months of 2007 compared to the same 2006 periods due to higher debt levels associated with our acquisitions, capital expenditures and working capital requirements. Higher interest rates in 2007 also contributed to the increase in interest expense over the comparable year-to-date period.

The effective tax rate for the third quarter and first nine months of 2007 was lower than the same 2006 periods as we benefited from research and development tax credits in 2007 as well as the mix of earnings from countries with lower tax rates. In addition, our effective tax rate for the first nine months of 2006 was negatively impacted by a $2 million

write-off of a tax asset at our U.K. subsidiary resulting from an adverse European tax court ruling for an unrelated taxpayer.

Net earnings increased 20% and 25% in the third quarter and first nine months of 2007, respectively, and diluted earnings per share increased 18% in both the third quarter and first nine months of 2007 compared to 2006. Average common shares outstanding increased primarily as a result of the sale of 2,875,000 shares of Class A common stock on February 21, 2006.

***2007 Outlook*** We expect sales in 2007 to increase by 18% to approximately $1.54 billion with contributions coming from all segments. We expect margins to be 12.7% in 2007 compared to 12.4% in 2006. We expect our operating margins to increase in Space and Defense Controls, Industrial Controls, Components and Medical Devices but decline in Aircraft Controls as a result of the higher investment in research and development. We expect net earnings to increase to $101 million and diluted earnings per share to increase by 18% to $2.33.

***2008 Outlook*** We expect sales in 2008 to increase by a range of 11% to 12% to approximately $1.72 billion with increases in each of our segments. Sales are expected to increase $49 million in Aircraft Controls, between $33 million and $53 million in Industrial Controls, $39 million in Medical Devices, $33 million in Components and $14 million in Space and Defense Controls over 2007. We expect operating margins to be 13.1% in 2008 compared to 12.7% in 2007. We expect operating margins to increase in Aircraft Controls and Medical Devices, maintain their levels in Industrial Controls and Components and decline in Space and Defense Controls. We expect net earnings to increase to between $115 million and $118 million. We expect diluted earnings per share to increase by a range of 13% to 16% to between $2.63 and $2.71.

**SEGMENT RESULTS OF OPERATIONS AND OUTLOOK**

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding stock compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit is reconciled to earnings before income taxes in Note 14 of the Notes to Consolidated Condensed Financial Statements included in this report.

**Aircraft Controls**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (dollars in millions) | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net sales military aircraft | $ 81.8 | $ 80.2 | $ 237.7 | $ 240.3 |
| Net sales commercial aircraft | 68.0 | 49.7 | 188.6 | 144.3 |
| | $ 149.8 | $ 129.9 | $ 426.3 | $ 384.6 |
| Operating profit | $ 15.8 | $ 15.6 | $ 43.7 | $ 47.9 |
| Operating margin | 10.6% | 12.0% | 10.3% | 12.5% |
| Backlog | | | $ 304.6 | $ 275.1 |

Net sales in Aircraft Controls increased 15% in the third quarter and 11% in the first nine months of 2007 due to strong commercial aircraft sales. OEM sales to Boeing increased $10 million in the quarter and $25 million for the year-to-date period, including over $6 million associated with our first production order for the new Boeing 787 in the quarter and $15 million for the year-to-date period. Commercial aftermarket revenues also contributed $4 million of the increase in the quarter and $7 million in the year-to-date period, which reflects increased activity in commercial and business jets. Military aircraft sales were fairly level in the third quarter of 2007 as a result of sales to Japan of parts and subassemblies for the F-15 increasing $3 million and aftermarket activity decreasing $4 million. We believe the lower aftermarket reflects delays and deferred orders. Military aircraft sales were flat in the year-to-date period as sales increases in the V-22, Seahawk and Blackhawk helicopter programs were offset by $9 million of lower sales on the F-35 program.

Our operating margin decreased in the third quarter and first nine months of 2007, reflecting significant research and development efforts particularly on the Boeing 787 program. Total aircraft research and development expenses were $18 million and $48 million for the third quarter and first nine months of 2007, respectively, compared to $11 million and $27 million in the same periods of 2006. The third quarter of 2006 also benefited from the release of a loss reserve

of over $1 million on a terminated program. Offsetting those declines in margin were lower charges to contract loss reserves. Additions to contract loss reserves were lower in the third quarter of 2007 compared to 2006 by $3 million and lower in the first nine months of 2007 compared to 2006 by $5 million.

Twelve-month backlog for Aircraft Controls increased to $305 million at June 30, 2007 from $275 million at July 1, 2006 largely related to strong commercial orders.

***2007 Outlook for Aircraft Controls*** We expect sales in Aircraft Controls to increase 9% to $573 million in 2007. Commercial aircraft sales are expected to increase 30% to $256 million, principally related to Boeing OEM, including the beginning of production on the 787, business jets on which production quantities are ramping up and commercial aftermarket. Within military aircraft, we expect sales to decrease $13 million mainly due to declining development activity on the F-35 Joint Strike Fighter. We expect our operating margin to be 10.5% in 2007, a decline from 12.6% in 2006, resulting from the high levels of research and development and the changing mix of business toward more lower margin commercial sales.

***2008 Outlook for Aircraft Controls*** We expect sales in Aircraft Controls to increase 9% to $623 million in 2008. Commercial aircraft sales are expected to increase 12% to $287 million, principally related to business jets and Boeing OEM. Within military aircraft, we expect sales to increase $18 million mainly due to increases in military aftermarket and the V-22 helicopter program. We expect our operating margin to be 11.4% in 2008, an improvement from 10.5% in 2007, resulting mainly from lower research and development spending.

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**Space and Defense Controls**

| (dollars in millions) | Three Months Ended June 30, 2007 | Three Months Ended July 1, 2006 | Nine Months Ended June 30, 2007 | Nine Months Ended July 1, 2006 |
|---|---|---|---|---|
| Net sales | $ 47.8 | $ 36.1 | $ 138.7 | $ 112.2 |
| Operating profit | $ 6.2 | $ 3.6 | $ 18.7 | $ 10.1 |
| Operating margin | 12.9% | 10.0% | 13.5% | 9.0% |
| Backlog | | | $ 126.0 | $ 122.4 |

Net sales in Space and Defense Controls increased 32% in the third quarter and 24% in the first nine months of 2007 due principally to new defense controls programs. The Marine s Light-Armored Vehicle (LAV-25) program, which had only $1 million of sales during the third quarter of 2006, generated $5 million of sales in the third quarter of 2007 and $13 million year-to-date. Future Combat Systems, which started in the third quarter of 2006 with a negligible amount of sales, generated $3 million of sales this quarter and $8 million year-to-date.

Our operating margin for Space and Defense Controls was strong in the third quarter and first nine months of 2007, due largely to strong sales volume and favorable product mix. The first nine months of 2007 also favorably compares to the first nine months of 2006 due to the $2 million charge associated with the termination of a sales representative agreement in the first quarter of 2006.

Twelve-month backlog for Space and Defense Controls increased to $126 million at June 30, 2007 from $122 million at July 1, 2006 due to increased orders for various satellite and tactical missile programs, partially offset by decreased orders in defense controls programs.

***2007 Outlook for Space and Defense Controls*** We expect sales in Space and Defense Controls to increase 23% to $182 million in 2007. Sales of defense controls, including hardware for LAV-25 and Future Combat Systems, are expected to increase significantly. We expect our operating margin in 2007 to be 13.5%, an improvement over the 9.0% we achieved in 2006, due to strong sales volume and favorable product mix.

***2008 Outlook for Space and Defense Controls*** We expect sales in Space and Defense Controls to increase 7% to $196 million in 2008. We expect increases in commercial space transportation initiatives and the Space Shuttle replacement programs, which includes work on the Ares I Crew Launch and Orion Crew Exploration vehicles. We expect sales of defense controls to decrease as the LAV-25 program will finish in the early part of 2008 and Future Combat Systems will be at a lower level. We expect our operating margin in 2008 to decrease to 12.0%, down from 13.5% in 2007, as a result of a shift towards a larger portion of sales coming from lower margin cost plus contracts.

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**Industrial Controls**

| (dollars in millions) | Three Months Ended June 30, 2007 | July 1, 2006 | Nine Months Ended June 30, 2007 | July 1, 2006 |
|---|---|---|---|---|
| Net sales | $ 111.7 | $ 99.5 | $ 324.8 | $ 286.4 |
| Operating profit | $ 15.4 | $ 12.0 | $ 43.7 | $ 35.2 |
| Operating margin | 13.8% | 12.1% | 13.4% | 12.3% |
| Backlog | | | $ 138.8 | $ 118.8 |

Net sales in Industrial Controls increased 12% in the third quarter and 13% in the first nine months of 2007. Sales were up substantially in three of our major markets: plastics making machinery, presses and metal forming and heavy industry, reflecting strong demand in Europe. In addition, sales of gauge controls for steel mills have been strong in China. Stronger foreign currencies, in particular the euro, compared to the U.S. dollar had a positive impact on sales, representing over a third of the sales increases in both periods.

Our operating margin for Industrial Controls improved in the third quarter and first nine months of 2007 over the comparable 2006 periods due to higher volume and a more favorable product mix.

The higher level of twelve-month backlog for Industrial Controls at June 30, 2007 compared to July 1, 2006 primarily relates to increased orders for motion simulator programs.

***2007 Outlook for Industrial Controls*** We expect sales in Industrial Controls to increase 15% to $436 million in 2007. The expected sales growth comes from nearly all of our major markets, most notably from plastics making machinery, motion simulation, presses and metal forming, and gauge controls for steel mills. We expect our operating margin to be 13.5% in 2007, an improvement over our 2006 margin of 11.8%, due to stronger sales and improved operating efficiencies.

***2008 Outlook for Industrial Controls*** We expect sales in Industrial Controls to increase between 8% and 12% to an amount in the range of $469 million to $489 million in 2008. The expected sales growth comes primarily from motion simulation, aftermarket and test equipment. We expect our operating margin to be 13.5% in 2008, similar to the strong performance we expect in 2007.

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**Components**

| (dollars in millions) | Three Months Ended June 30, 2007 | July 1, 2006 | Nine Months Ended June 30, 2007 | July 1, 2006 |
|---|---|---|---|---|
| Net sales | $ 72.8 | $ 61.3 | $ 210.5 | $ 176.0 |
| Operating profit | $ 10.9 | $ 10.1 | $ 33.8 | $ 28.5 |
| Operating margin | 14.9% | 16.4% | 16.1% | 16.2% |
| Backlog | | | $ 151.2 | $ 114.9 |

Net sales in Components increased 19% in the third quarter and 20% in the first nine months of 2007 with improvements in every major market. Aircraft sales increased $4 million in the quarter and $16 million year-to-date due mainly to increased military procurement over a broad range of customers and programs as well as growth in commercial aircraft products. Sales of medical equipment components, such as motors used in sleep apnea machines, improved $3 million in the quarter and $4 million year-to-date. Sales of defense controls, including foreign military sales of fiber optic modems for battlefield communication and various components supplied on the commander s independent viewer for the Bradley fighting vehicle contributed $2 million to the quarter over quarter increase and $8 million for the year-to-date increase. In addition, marine market sales were up $2 million in the quarter and $6 million year-to-date.

The operating margin decline in the third quarter of 2007 relative to 2006 is a result of unusually high margins in the 2006 period as a result of product mix that quarter and lower than normal research and development spending. The margins on a year-to-date basis for both 2007 and 2006 are comparable.

The higher level of twelve-month backlog at June 30, 2007 compared to July 1, 2006 primarily relates to increased orders in defense controls and military aircraft programs.

***2007 Outlook for Components*** We expect sales in Components to increase 18% to $281 million in 2007. We expect the largest sales increases in 2007 to be in controls for aircraft and defense controls. We expect our operating margin to be 15.8% in 2007, a slight increase in margin performance from the 15.5% we achieved in 2006.

***2008 Outlook for Components*** We expect sales in Components to increase 12% to $314 million in 2008. We expect the largest sales increases in 2008 to come almost equally from medical markets, industrial markets, which will benefit from the acquisition of Thermal Control Products, and defense controls. We expect our operating margin to be 15.8% in 2008, the same strong margin performance we expect to achieve in 2007.

**Medical Devices**

| (dollars in millions) | Three Months Ended June 30, 2007 | July 1, 2006 | Nine Months Ended June 30, 2007 | July 1, 2006 |
|---|---|---|---|---|
| Net sales | $ 21.7 | $ 6.6 | $ 44.4 | $ 6.6 |
| Operating profit | $ .8 | $ (.2) | $ 4.1 | $ (.2) |
| Operating margin | 3.8% | (3.6%) | 9.3% | (3.6%) |
| Backlog | | | $ 10.4 | $ 2.6 |

The Medical Devices segment was established in the third quarter of 2006 as a result of the acquisition of Curlin Medical. In the fourth quarter of 2006, the McKinley Medical acquisition added to this segment and the acquisition of

ZEVEX in the second quarter of 2007 further expands this segment.

Our operating margin for Medical Devices was 3.8% in the third quarter of 2007, down from the first half of 2007. Our operating margin was negatively impacted in the third quarter of 2007 primarily as a result of lower pump sales in the quarter.

***2007 Outlook for Medical Devices*** We expect sales in Medical Devices to be $70 million in 2007, our first full year of sales in this segment. We expect our operating margin to be 10.0% after including over $6 million of purchase accounting adjustments, including amortization of intangible assets and write-offs associated with inventory step-ups.

***2008 Outlook for Medical Devices*** We expect sales in Medical Devices to be $109 million in 2008, our first full year of sales in this segment with ZEVEX. We expect our operating margin to increase to 15.0% as we gain efficiencies associated with the integration of the ZEVEX acquisition and this new segment.

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**FINANCIAL CONDITION AND LIQUIDITY**

| (dollars in millions) | Nine Months Ended June 30, 2007 | July 1, 2006 |
|---|---|---|
| Net cash provided (used) by: | | |
| Operating activities | $ 7.3 | $ 30.2 |
| Investing activities | (165.8) | (144.2) |
| Financing activities | 156.7 | 125.5 |

Cash flow from operations and available borrowing capacity provide us with resources needed to run our operations, continually reinvest in our business and take advantage of acquisition opportunities as they may arise.

**Operating activities**

Net cash provided by operating activities decreased in the first nine months of 2007 compared to 2006. The decrease relates to higher working capital requirements related primarily to receivables, inventories and payables associated with our increasing sales and higher income tax payments. The increase in receivables is partially driven by the 787 program where suppliers are not scheduled to be paid for delivered hardware until the first airplane is delivered to an airline in mid to late 2008. The decrease was only partially offset by higher earnings adjusted for non-cash charges.

**Investing activities**

Net cash used by investing activities in the first nine months of 2007 consisted of $82 million, net of cash acquired, for the acquisition of ZEVEX, $4 million paid towards the acquisition of Thermal Control Products, a $3 million purchase price for a ball screw manufacturer and $78 million of capital expenditures. The high level of capital expenditures in the first nine months of 2007 resulted from spending associated with the Boeing 787 production program and, to a lesser extent, facility expansions. Net cash used by investing activities in the first nine months of 2006 consisted of $65 million for the acquisition of Curlin Medical and the $24 million purchase price for the Flo-Tork acquisition, offset partially by a purchase price adjustment related to our July 2005 acquisition of the Power and Data Technologies Group of the Kaydon Corporation, and $60 million of capital expenditures.

**Financing activities**

Net cash provided by financing activities in the first nine months of 2007 reflects the use of our U.S. credit facility to finance the ZEVEX acquisition in March 2007 and to fund our higher working capital requirements and capital expenditures, partially offset by the payment of the $12 million note for the Curlin Medical acquisition. The comparable 2006 period reflects the net proceeds of $85 million received from the issuance of Class A common stock and additional borrowings on our revolving credit facility.

**Off Balance Sheet Arrangements**

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

**Contractual Obligations and Commercial Commitments**

Our contractual obligations and commercial commitments have not changed materially from the disclosures in our 2006
Form 10-K.

## CAPITAL STRUCTURE AND RESOURCES

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

On October 25, 2006, we amended our U.S. credit facility. Previously our credit facility consisted of a $75 million term loan and a $315 million revolver. Our new revolving credit facility, which matures on October 25, 2011, increased our borrowing capacity to $600 million. The new revolving credit facility had an outstanding balance of $326 million at June 30, 2007. Interest on outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which increased to 125 basis points during the third quarter of 2007 as a result of our acquisition of ZEVEX. The credit facility is secured by substantially all of our U.S. assets.

The U.S. credit facility contains various covenants. The covenant for minimum net worth, defined as total shareholders equity adjusted to maintain the amounts of accumulated other comprehensive loss at the level in existence as of September 30, 2006 is $550 million. The covenant for minimum interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The covenant for the maximum leverage ratio, defined as the ratio of net debt including letters of credit to EBITDA for the most recent four quarters, is 3.5. The covenant for maximum capital expenditures is $110 million in 2007, $85 million in 2008 and $90 million thereafter. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash stock related expenses minus (ii) other non-cash items increasing consolidated net income. We are in compliance with all covenants.

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

At June 30, 2007, we had $297 million of unused borrowing capacity, including $262 million from the U.S. credit facility after considering standby letters of credit.

Total debt to capitalization was 39% at June 30, 2007 and 34% at September 30, 2006. The increase in total debt to capitalization is due to amounts borrowed to fund acquisitions, capital expenditures and working capital requirements, offset by earnings for the first nine months of 2007.

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

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## ECONOMIC CONDITIONS AND MARKET TRENDS

### Military Aerospace and Defense

Approximately 40% of our 2006 sales related to global military defense or government-funded programs. Most of these sales were within Aircraft Controls and Space and Defense Controls.

The military aircraft market is dependent on military spending for development and production programs. Military spending is expected to remain strong in the near term. Production programs are typically long-term in nature, offering greater predictability as to capacity needs and future revenues. We maintain positions on numerous high priority programs, including the F-35 Joint Strike Fighter, F/A-18E/F Super Hornet and V-22 Osprey. These and other government programs can be reduced, delayed or terminated. The large installed base of our products leads to attractive aftermarket sales and service opportunities. Aftermarket revenues are expected to continue to grow, due to military retrofit programs and increased flight hours resulting from increased military activity.

The military and government space market is primarily dependent on the authorized levels of funding for satellite communications needs. We believe that long-term government spending on military satellites will continue to trend upwards as the military s need for improved intelligence gathering increases.

The tactical missile, missile defense and defense controls markets are dependent on many of the same market conditions as military aircraft, including overall military spending and program funding levels.

### Industrial and Medical

Approximately 40% of our 2006 sales were generated in industrial and medical markets. The industrial and medical markets we serve are influenced by several factors, including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. However, due to the high degree of sophistication of our products and the niche markets we serve, we believe we may be less susceptible to overall macro-economic industrial trends. Opportunities for growth include demand in China, particularly in power generation and steel manufacturing markets, advancements in medical technology, automotive manufacturers that are upgrading their metal forming, injection molding and material test capabilities, increasing demand for aircraft training simulators, and the need for precision controls on plastics injection molding machines to provide improved manufacturing efficiencies.

### Commercial Aircraft

Approximately 15% of our 2006 sales were on commercial aircraft programs. The commercial OEM aircraft market has historically exhibited cyclical swings and sensitivity to economic conditions. The aftermarket, which is driven by usage of the existing aircraft fleet, has proven to be more stable. Higher aircraft utilization rates result in the need for increased maintenance and spare parts and enhance aftermarket sales. Boeing and Airbus are both increasing production levels for new planes related to air traffic growth and further production increases are projected. We have contract coverage through 2012 with Boeing for the existing 7-series aircraft and are also developing flight control actuation systems for the 787, its next generation commercial aircraft. In the business jet market, our flight controls on a couple of newer jets are in early production.

### Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in Industrial Controls. About one-third of our 2006 sales were denominated in foreign currencies including the euro and British pound. During the first nine months of 2007, these foreign currencies strengthened against the U.S. dollar and the translation of the results of our foreign subsidiaries into U.S. dollars contributed $21 million to the sales increase over the same period one year ago. During 2006, the U.S. dollar strengthened against these currencies and the translation of the results of our foreign subsidiaries into U.S. dollars reduced sales by $13 million compared to 2005.

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## CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies in the current year from those disclosed in our 2006 Form 10-K.

**Cautionary Statement**

Information included herein or incorporated by reference that does not consist of historical facts, including statements accompanied by or containing words such as may, will, should, believes, expects, expected, intends, plar estimates, predicts, potential, outlook, forecast, anticipates, presume and assume, are forward-looking s Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. These important factors, risks and uncertainties include (i) fluctuations in general business cycles for commercial aircraft, military aircraft, space and defense products, industrial capital goods and medical devices, (ii) our dependence on government contracts that may not be fully funded or may be terminated, (iii) our dependence on certain major customers, such as The Boeing Company and Lockheed Martin, for a significant percentage of our sales, (iv) the possibility that the demand for our products may be reduced if we are unable to adapt to technological change, (v) intense competition which may require us to lower prices or offer more favorable terms of sale, (vi) our significant indebtedness which could limit our operational and financial flexibility, (vii) the possibility that new product and research and development efforts may not be successful which could reduce our sales and profits, (viii) increased cash funding requirements for pension plans, which could occur in future years based on assumptions used for our defined benefit pension plans, including returns on plan assets and discount rates, (ix) a write-off of all or part of our goodwill, which could adversely affect our operating results and net worth and cause us to violate covenants in our bank agreements, (x) the potential for substantial fines and penalties or suspension or debarment from future contracts in the event we do not comply with regulations relating to defense industry contracting, (xi) the potential for cost overruns on development jobs and fixed price contracts and the risk that actual results may differ from estimates used in contract accounting, (xii) the possibility that our subcontractors may fail to perform their contractual obligations, which may adversely affect our contract performance and our ability to obtain future business, (xiii) our ability to successfully identify and consummate acquisitions and integrate the acquired businesses and the risks associated with acquisitions, including that the acquired businesses do not perform in accordance with our expectations, and that we assume unknown liabilities in connection with the acquired businesses for which we are not indemnified, (xiv) our dependence on our management team and key personnel, (xv) the possibility of a catastrophic loss of one or more of our manufacturing facilities, (xvi) the possibility that future terror attacks, war or other civil disturbances could negatively impact our business, (xvii) that our operations in foreign countries could expose us to political risks and adverse changes in local, legal, tax and regulatory schemes, (xviii) the possibility that government regulation could limit our ability to sell our products outside the United States, (xix) the impact of product liability claims related to our products used in applications where failure can result in significant property damage, injury or death and in damage to our reputation, (xx) the possibility that litigation may result unfavorably to us, (xxi) foreign currency fluctuations in those countries in which we do business and other risks associated with international operations and (xxii) the cost of compliance with environmental laws. The factors identified above are not exhaustive. New factors, risks and uncertainties may emerge from time to time that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements made in this report.

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

Refer to the Company s Annual Report on Form 10-K for the year ended September 30, 2006 for a complete discussion of our market risk. There have been no material changes in the current year regarding this market risk information.

**Item 4. Controls and Procedures.**

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

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

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## PART II OTHER INFORMATION

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

(c) The following table summarizes our purchases of our common stock for the quarter ended June 30, 2007.

| Period | (a) Total Number of Shares Purchased (1)(2) | | (b) Average Priced Paid Per Share | (c) Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (2) | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---|---|---|---|
| April 1 - 30, 2007 | | $ | | N/A | N/A |
| May 1 - 31, 2007 | 6,500 | $ | 43.62 | N/A | N/A |
| June 1 - 30, 2007 | | $ | | N/A | N/A |
| Total | 6,500 | $ | 43.62 | N/A | N/A |

(1) The purchases during May represent the purchase of 6,500 shares of Class B common stock from the Moog family at $43.62 per share.

(2) In connection with the exercise and vesting of stock options, we accept, from time to time, delivery of shares to pay the exercise price of employee stock

options. We do not otherwise have any plan or program to purchase our common stock.

**Item 6. Exhibits**

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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## SIGNATURES

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

Moog Inc.
(Registrant)

Date: August 7, 2007

By /s/ Robert T. Brady
Robert T. Brady
Chairman Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2007

By /s/ Robert R. Banta
Robert R. Banta
Executive Vice President Chief Financial Officer
(Principal Financial Officer)

Date: August 7, 2007

By /s/ Donald R. Fishback
Donald R. Fishback
Controller
(Principal Accounting Officer)

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## Exhibit Index

| Exhibits | Description |
| --- | --- |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |