MOOG INC.
Form 10-Q
August 04, 2015

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

FORM 10-Q

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

For the quarterly period ended July 4, 2015

OR

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

For the transition period from ________ to _________

Commission File Number: 1-05129

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

New York State (State or other jurisdiction of incorporation or organization)	16-0757636 (I.R.S. Employer Identification No.)
East Aurora, New York (Address of principal executive offices)	14052-0018 (Zip Code)
(716) 652-2000 (Telephone number including area code)	

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 ý 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 ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý   Accelerated filer ¨   Non-accelerated filer ¨   Smaller reporting company ¨

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

The number of shares outstanding of each class of common stock as of July 29, 2015 was:
Class A common stock, $1.00 par value, 33,899,751 shares
Class B common stock, $1.00 par value, 3,429,353 shares

Moog Inc.
QUARTERLY REPORT ON FORM 10-Q
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
Moog Inc.
Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)	July 4, 2015	September 27, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$277,444	$231,292
Receivables	710,965	780,874
Inventories	505,187	517,056
Other current assets	128,162	134,842
Total current assets	1,621,758	1,664,064
Property, plant and equipment, net of accumulated depreciation of $667,800 and $639,076, respectively	537,012	555,348
Goodwill	740,184	757,852
Intangible assets, net	154,223	178,070
Other assets	47,792	53,118
Total assets	$3,100,969	$3,208,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$407	$103,660
Current installments of long-term debt	33	5,262
Accounts payable	166,649	162,667
Customer advances	138,962	145,500
Contract loss reserves	31,388	35,984
Other accrued liabilities	235,224	269,731
Total current liabilities	572,663	722,804
Long-term debt, excluding current installments	1,075,075	765,114
Long-term pension and retirement obligations	237,544	288,216
Deferred income taxes	100,962	83,931
Other long-term liabilities	1,705	972
Total liabilities	1,987,949	1,861,037
Commitment and contingencies (Note 17)	—	—
Shareholders' equity		
Common stock	51,280	51,280
Other shareholders' equity	1,061,740	1,296,135
Total shareholders' equity	1,113,020	1,347,415
Total liabilities and shareholders' equity	$3,100,969	$3,208,452

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
Consolidated Condensed Statements of Earnings
(Unaudited)

(dollars in thousands, except per share data)	Three Months Ended July 4, 2015	Three Months Ended June 28, 2014	Nine Months Ended July 4, 2015	Nine Months Ended June 28, 2014
Net sales	$634,539	$683,698	$1,902,308	$1,976,961
Cost of sales	443,963	481,431	1,354,264	1,378,567
Gross profit	190,576	202,267	548,044	598,394
Research and development	34,157	32,498	96,882	105,478
Selling, general and administrative	90,733	102,616	280,718	307,349
Interest	7,916	2,215	20,953	9,788
Restructuring	6,604	—	6,604	—
Other	442	283	1,327	10,656
Earnings before income taxes	50,724	64,655	141,560	165,123
Income taxes	14,393	16,533	37,871	47,179
Net earnings	$36,331	$48,122	$103,689	$117,944
Net earnings per share				
Basic	$0.95	$1.09	$2.62	$2.62
Diluted	$0.94	$1.08	$2.59	$2.59
Average common shares outstanding				
Basic	38,389,629	44,077,121	39,555,423	44,946,413
Diluted	38,744,620	44,669,248	39,963,142	45,541,561

See accompanying Notes to Consolidated Condensed Financial Statements.

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

(dollars in thousands)	Three Months Ended July 4, 2015	Three Months Ended June 28, 2014	Nine Months Ended July 4, 2015	Nine Months Ended June 28, 2014
Net earnings	$36,331	$48,122	$103,689	$117,944
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	12,067	6,117	(68,212)	10,711
Retirement liability adjustment	3,498	2,767	14,988	7,868
Change in accumulated loss on derivatives	465	612	392	28
Other comprehensive income (loss), net of tax	16,030	9,496	(52,832)	18,607
Comprehensive income	$52,361	$57,618	$50,857	$136,551

See accompanying Notes to Consolidated Condensed Financial Statements.

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

(dollars in thousands)	Nine Months Ended July 4, 2015	June 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$103,689	$117,944
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	59,468	57,997
Amortization	19,010	23,589
Equity-based compensation expense	4,569	6,545
Redemption of senior subordinated notes	—	8,002
Other	18,781	9,182
Changes in assets and liabilities providing (using) cash:		
Receivables	51,547	34,651
Inventories	(4,763)	449
Accounts payable	7,332	(18,857)
Customer advances	(5,008)	(11,953)
Accrued expenses	(21,182)	(4,449)
Accrued income taxes	(8,205)	9,695
Pension assets and liabilities	(23,817)	(16,902)
Other assets and liabilities	5,407	(5,844)
Net cash provided by operating activities	206,828	210,049
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(57,712)	(57,842)
Other investing transactions	12,597	(8,404)
Net cash used by investing activities	(45,115)	(66,246)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net short term repayments	(3,337)	(977)
Net (repayments) proceeds from revolving lines of credit	(90,000)	266,135
Net repayments on long-term debt	(5,250)	(3,377)
Proceeds from senior notes, net of issuance costs	294,430	—
Payments on senior subordinated notes	—	(191,575)
Payment of premium on redemption of senior subordinated notes	—	(6,945)
Proceeds from sale of treasury stock	11,437	2,413
Purchase of outstanding shares for treasury	(297,417)	(147,360)
Proceeds from sale of stock held by SECT	7,328	1,144
Purchase of stock held by SECT	(12,121)	(5,206)
Purchase of stock held by SERP Trust	(7,328)	—
Excess tax benefits from equity-based payment arrangements	5,973	2,695
Other financing transactions	—	(2,238)
Net cash used by financing activities	(96,285)	(85,291)
Effect of exchange rate changes on cash	(19,276)	583

Increase in cash and cash equivalents	46,152	59,095
Cash and cash equivalents at beginning of period	231,292	157,090
Cash and cash equivalents at end of period	$277,444	$216,185

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.
Notes to Consolidated Condensed Financial Statements
Nine Months Ended July 4, 2015
(Unaudited)
(dollars in thousands, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for the fair presentation of results for the interim period have been included. The results of operations for the three and nine months ended July 4, 2015 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 27, 2014. All references to years in these financial statements are to fiscal years.

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Group of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU is intended to eliminate diversity in practice on the release of cumulative translation adjustments into net income when a parent either sells part or all of its investment in a foreign entity, or when it no longer holds a controlling financial interest. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The provisions of this ASU are effective for fiscal years beginning after December 15, 2013 and interim periods within those fiscal years. We adopted this amendment in the first quarter of 2015. The adoption of this standard did not have a material impact on our financial statements.

In June 2014, the FASB issued ASU No. 2014-11, “Transfers and Servicing (Topic 860): Repurchase to Maturity Transactions, Repurchase Financings and Disclosures.” This ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting, requires certain disclosures for transactions accounted for as sales and requires certain disclosures for other transactions accounted for as secured borrowings. The provisions of this ASU are effective for fiscal years beginning after December 15, 2014 and for interim periods beginning after March 15, 2015. We adopted this amendment in the third quarter of 2015. The adoption of this standard did not have a material impact on our financial statements.

Note 2 - Divestitures

On March 27, 2015, we completed one divestiture in our Medical Devices segment. We sold our Rochester, New York and Erie, Pennsylvania life sciences operations for $3,500 in cash, subject to a working capital adjustment, which is expected to be settled before the end of 2015.

Note 3 - Receivables

Receivables consist of:

	July 4, 2015	September 27, 2014
Accounts receivable	$302,675	$332,450
Long-term contract receivables:		
Amounts billed	97,875	125,497
Unbilled recoverable costs and accrued profits	303,729	313,530
Total long-term contract receivables	401,604	439,027
Other	11,835	13,738
Total receivables	716,114	785,215
Less allowance for doubtful accounts	(5,149)	(4,341)
Receivables	$710,965	$780,874

We securitize certain trade receivables in transactions that are accounted for as secured borrowings (Securitization Program). We maintain a subordinated interest in a portion of the pool of trade receivables that are securitized. The retained interest, which is included in Receivables in the consolidated condensed balance sheets, is recorded at fair value, which approximates the total amount of the designated pool of accounts receivable. Refer to Note 6, Indebtedness, for additional disclosures related to the Securitization Program.

Note 4 - Inventories

Inventories, net of reserves, consist of:

	July 4, 2015	September 27, 2014
Raw materials and purchased parts	$197,043	$198,166
Work in progress	245,502	251,701
Finished goods	62,642	67,189
Inventories	$505,187	$517,056

There are no material inventoried costs relating to long-term contracts where revenue is accounted for using the percentage of completion, cost-to-cost method of accounting as of July 4, 2015 and September 27, 2014.

Note 5 - Goodwill and Intangible Assets

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

	Aircraft Controls	Space and Defense Controls	Industrial Systems	Components	Medical Devices	Total
Balance as of September 27, 2014	$192,852	$159,607	$118,009	$202,910	$84,474	$757,852
Divestiture	—	—	—	—	(1,715)	(1,715)
Foreign currency translation	(2,735)	(1,490)	(6,942)	(3,426)	(1,360)	(15,953)
Balance as of July 4, 2015	$190,117	$158,117	$111,067	$199,484	$81,399	$740,184

Goodwill at September 27, 2014, in our Medical Devices reporting unit, is net of a $38,200 accumulated impairment loss. Certain factors, including industry conditions and the future profitability of our business, might have a negative impact on the carrying value of our goodwill and we may incur additional goodwill impairment charges.

The components of acquired intangible assets are as follows:

		July 4, 2015		September 27, 2014	
	Weighted - Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	11	$174,455	$(108,303)	$180,670	$(102,251)
Program-related	18	77,314	(26,882)	80,054	(24,065)
Technology-related	9	74,751	(48,608)	76,057	(46,296)
Marketing-related	10	26,149	(16,168)	26,707	(14,779)
Acquired intangible assets	12	$352,669	$(199,961)	$363,488	$(187,391)

All acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Program-related intangible assets consist of long-term programs represented by current contracts and probable follow on work. Technology-related intangible assets primarily consist of technology, patents, intellectual property and software. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements.

Amortization of acquired intangible assets was $5,994 and $18,788 for the three and nine months ended July 4, 2015 and $7,495 and $22,606 for the three and nine months ended June 28, 2014. Based on acquired intangible assets recorded at July 4, 2015, amortization is expected to be approximately $24,600 in 2015, $23,100 in 2016, $19,900 in 2017, $18,200 in 2018 and $16,300 in 2019.

Note 6 - Indebtedness

Short-term borrowings consist of:

	July 4, 2015	September 27, 2014
Lines of credit	$407	$3,660
Securitization program	—	100,000
Short-term borrowings	$407	$103,660

We maintain short-term credit facilities with banks throughout the world that are principally demand lines subject to revision by the banks.

Long-term debt consists of:

	July 4, 2015	September 27, 2014
U.S. revolving credit facility	$675,000	$765,000
Senior notes	300,000	—
Securitization program	100,000	—
Obligations under capital leases	108	151
Other long-term debt	—	5,225
Senior debt	1,075,108	770,376
Less current installments	(33)	(5,262)
Long-term debt	$1,075,075	$765,114

On May 22, 2014, we amended our U.S. revolving credit facility. The amendment increased the capacity on our revolving credit facility from $900,000 to $1,100,000 and extended the maturity of the credit facility to May 22, 2019. The amendment also provides an expansion option, which permits us to request an increase of up to $200,000 to the credit facility upon satisfaction of certain conditions. The credit facility is secured by substantially all of our U.S. assets.

On November 21, 2014, we completed the sale of $300,000 aggregate principal amount of 5.25% senior notes due December 1, 2022 at par with interest paid semiannually on June 1 and December 1 of each year, which commenced on June 1, 2015. The aggregate net proceeds of $294,430 were used to repay indebtedness under our U.S. bank credit facility, thereby increasing the unused portion of our revolving credit facility.

The Securitization Program matures on February 10, 2017 and effectively increases our borrowing capacity by up to $100,000. Under the Securitization Program, we sell certain trade receivables and related rights to an affiliate, which in turn sells an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. Interest for the Securitization Program is based on 30-day LIBOR plus an applicable margin. A commitment fee is also charged based on a percentage of the unused amounts available and is not material. The agreement governing the Securitization Program contains restrictions and covenants which include limitations on the making of certain restricted payments, creation of certain liens, and certain corporate acts such as mergers, consolidations and sale of substantially all assets. The Securitization Program has a minimum borrowing requirement equal to the lesser of either 80% of our borrowing capacity or 100% of our borrowing base, which is a subset of the trade receivables sold under this agreement. As of July 4, 2015, our minimum borrowing requirement is $80,000.

On December 19, 2013, we repurchased our 7.25% senior subordinated notes due on January 15, 2018 at 103.625%, pursuant to an early redemption right. We redeemed the aggregate principal amount of $200,000 using proceeds drawn from our U.S. revolving credit facility. The associated loss on the redemption includes $6,945 of call premium paid to external bondholders and a $1,057 write off of deferred debt issuance costs.

Note 7 - Product Warranties

In the ordinary course of business, we warrant our products against defects in design, materials and workmanship typically over periods ranging from twelve to sixty 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	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Warranty accrual at beginning of period	$17,618	$17,037	$19,953	$17,429
Warranties issued during current period	2,358	3,231	6,057	7,134
Adjustments to pre-existing warranties	(391)	(311)	(1,976)	(835)
Reductions for settling warranties	(2,306)	(1,918)	(5,462)	(5,899)
Foreign currency translation	322	153	(971)	363
Warranty accrual at end of period	$17,601	$18,192	$17,601	$18,192

Note 8 - Derivative Financial Instruments

We principally use derivative financial instruments to manage interest rate risk associated with long-term debt and foreign exchange risk related to foreign operations and foreign currency transactions. We enter into derivative financial instruments with a number of major financial institutions to minimize counterparty credit risk.

Derivatives designated as hedging instruments

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At July 4, 2015, we had interest rate swaps with notional amounts totaling $245,000. The interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 2.3%, including the applicable margin of 163 basis points as of July 4, 2015. The interest will revert back to variable rates based on LIBOR plus the applicable margin upon the maturity of the interest rate swaps. These interest rate swaps mature at various times between January 15, 2016 and June 5, 2017.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments and revenue. To mitigate exposure in movements between various currencies, primarily the Philippine peso, we had outstanding foreign currency forwards with notional amounts of $55,627 at July 4, 2015. These contracts mature at various times through June 2, 2017.

These interest rate swaps and foreign currency forwards are recorded in the consolidated condensed balance sheets at fair value and the related gains or losses are deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments and revenue being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first nine months of 2015 or 2014.

Derivatives not designated as hedging instruments

We also have foreign currency exposure on balances, primarily intercompany, that are denominated in foreign currencies and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the consolidated condensed statements of earnings. To minimize foreign currency exposure, we had foreign currency forwards with notional amounts of $121,301 at July 4, 2015. The foreign currency forwards are recorded in the consolidated condensed balance sheets at fair value and resulting gains or losses are recorded in the consolidated condensed statements of earnings. We recorded the following gains or losses on foreign currency forwards which are included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other income or expense:

	Three Months Ended		Nine Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Net gain (loss)	$(1,246)	$3,416	$(2,661)	$5,941

Summary of derivatives

The fair value and classification of derivatives is summarized as follows:

		July 4, 2015	September 27, 2014
Derivatives designated as hedging instruments:			
Foreign currency forwards	Other current assets	$294	$—
Foreign currency forwards	Other assets	43	—
Interest rate swaps	Other current assets	—	70
Interest rate swaps	Other assets	—	107
	Total asset derivatives	$337	$177
Foreign currency forwards	Other accrued liabilities	$867	$1,521
Foreign currency forwards	Other long-term liabilities	223	494
Interest rate swaps	Other accrued liabilities	522	110
Interest rate swaps	Other long-term liabilities	215	28
	Total liability derivatives	$1,827	$2,153
Derivatives not designated as hedging instruments:			
Foreign currency forwards	Other current assets	$451	$821
Foreign currency forwards	Other accrued liabilities	$898	$2,991

Note 9 - Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 – Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.

Our derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market data, such as interest rate yield curves and currency rates, and are classified as Level 2 within the valuation hierarchy. Our Level 3 fair value liabilities represent contingent consideration recorded for acquisitions to be paid if various financial targets are met. The amounts recorded were calculated for each payment scenario in each period using an estimate of the probability of the future cash outflows. The varying contingent payments were then discounted to the present value at the weighted average cost of capital. Fair value is assessed on a quarterly basis, or whenever events or circumstances change that indicates an adjustment is required. The assessment includes an evaluation of the performance of the acquired business compared to previous expectations, changes to future projections and the probability of achieving the earn out targets.

The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis, all of which are classified as Level 2:

	Classification	July 4, 2015	September 27, 2014
Foreign currency forwards	Other current assets	$745	$821
Foreign currency forwards	Other assets	43	—
Interest rate swaps	Other current assets	—	70
Interest rate swaps	Other assets	—	107
	Total asset fair values	$788	$998
Foreign currency forwards	Other accrued liabilities	$1,765	$4,512
Foreign currency forwards	Other long-term liabilities	223	494
Interest rate swaps	Other accrued liabilities	522	110
Interest rate swaps	Other long-term liabilities	215	28
	Total liability fair values	$2,725	$5,144

There were no financial assets or liabilities classified as Level 3 within the fair value hierarchy for the three and nine months ended July 4, 2015. The changes in financial liabilities classified as Level 3 within the fair value hierarchy are as follows:

	Three Months Ended June 28, 2014	Nine Months Ended June 28, 2014
Balance at beginning of period	$2,422	$4,007
Increase (decrease) in discounted future cash flows recorded as interest expense	(83)	73
Decrease in earn out provisions recorded as other income	(859)	(350)
Settlements paid in cash	—	(2,250)
Balance at end of period	$1,480	$1,480

Our only financial instrument for which the carrying value differs from its fair value is long-term debt. At July 4, 2015, the fair value of long-term debt was $1,079,046 compared to its carrying value of $1,075,108. The fair value of long-term debt is classified as Level 2 within the fair value hierarchy and was estimated based on quoted market prices.

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Note 10 - Employee Benefit Plans

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

	Three Months Ended		Nine Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	$5,909	$5,392	$17,726	$16,178
Interest cost	8,508	8,339	25,523	25,016
Expected return on plan assets	(11,784)	(10,844)	(35,352)	(32,531)
Amortization of prior service cost	37	38	112	112
Amortization of actuarial loss	5,588	4,086	16,766	12,259
Pension expense for defined benefit plans	$8,258	$7,011	$24,775	$21,034

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

	Three Months Ended		Nine Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	$1,553	$1,339	$4,529	$4,092
Interest cost	1,271	1,491	3,640	4,543
Expected return on plan assets	(1,364)	(1,157)	(3,908)	(3,467)
Amortization of prior service credit	(12)	(12)	(37)	(35)
Amortization of actuarial loss	574	343	1,645	1,052
Pension expense for defined benefit plans	$2,022	$2,004	$5,869	$6,185

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

	Three Months Ended		Nine Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	$56	$56	$169	$169
Interest cost	144	156	432	468
Amortization of actuarial gain	(26)	(65)	(79)	(196)
Total periodic post-retirement benefit cost	$174	$147	$522	$441

Pension expense for the defined contribution plans consists of:

	Three Months Ended		Nine Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
U.S. defined contribution plans	$3,483	$3,417	$10,426	$9,748
Non-U.S. defined contribution plans	1,819	1,836	5,118	4,839
Total pension expense for defined contribution plans	$5,302	$5,253	$15,544	$14,587

Actual contributions for the nine months ended July 4, 2015 and anticipated additional 2015 contributions to our defined benefit pension plans are as follows:

	U.S. Plans	Non-U.S. Plans	Total
Actual	$46,922	$7,539	$54,461
Anticipated	5,624	1,868	7,492
Total expected contributions	$52,546	$9,407	$61,953

Note 11 - Restructuring
In 2014, we initiated restructuring plans in response to the business outlook, which includes a change in the mix of sales and delays and cancellations of orders for certain product lines. The restructuring actions taken have resulted in workforce reductions, primarily in the U.S. and Europe.
In 2015, we initiated additional restructuring plans as a result of ongoing reviews of our lines of business and operations. The restructuring actions taken have resulted in workforce reductions in the U.S., Europe and Canada.
Restructuring activity for severance and other costs by segment is as follows:

	Aircraft Controls	Space and Defense Controls	Industrial Systems	Components	Total
Balance at September 27, 2014	$5,439	$5,764	$186	—	$11,389
Charged to expense - 2015 plan	—	6,182	—	422	6,604
Adjustments to provision	(407)	(282)	—	—	(689)
Payments - 2013 plan	—	(490)	—	—	(490)
Payments - 2014 plan	(4,833)	(3,295)	(178)	—	(8,306)
Payments - 2015 plan	—	(203)	—	(283)	(486)
Foreign currency translation	(11)	(69)	(8)	—	(88)
Balance at July 4, 2015	$188	$7,607	$—	$139	$7,934

Payments related to the 2013 plan were paid in full as of April 4, 2015. Payments for the 2014 plan will be primarily paid by October 3, 2015, with the exception of amounts classified as long-term liabilities based on payment arrangements. The charge for the 2015 plan consists of $3,773 related to the termination of a sales and marketing contract and the remainder relates to severance. Payments for the 2015 plan will be primarily paid by April 2, 2016. As of July 4, 2015, the restructuring accrual consists of $1,979 for the 2014 plan and $5,955 for the 2015 plan.
Note 12 - Income Taxes
The effective tax rates of 28.4% and 26.8% for the three and nine months ended July 4, 2015 and 25.6% and 28.6% for the three and nine months ended June 28, 2014 are lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes primarily as a result of a significant portion of our earnings that come from foreign operations with lower tax rates.

Note 13 - Shareholders’ Equity

The changes in shareholders’ equity for the nine months ended July 4, 2015 are summarized as follows:

		Number of Shares	
	Amount	Class A Common Stock	Class B Common Stock
COMMON STOCK			
Beginning of period	$51,280	43,627,531	7,652,182
Conversion of Class B to Class A	—	11,087	(11,087)
End of Period	51,280	43,638,618	7,641,095
ADDITIONAL PAID-IN CAPITAL			
Beginning of period	463,965		
Equity-based compensation expense	4,569		
Issuance of treasury shares	(4,460)		
Adjustment to market - SECT, SERP and other	7,524		
End of period	471,598		
RETAINED EARNINGS			
Beginning of period	1,447,911		
Net earnings	103,689		
End of period	1,551,600		
TREASURY STOCK			
Beginning of period	(360,445)	(5,806,702)	(3,319,038)
Issuance of treasury shares	15,897	541,695	—
Purchase of treasury shares	(295,110)	(4,116,739)	(4,583)
End of period	(639,658)	(9,381,746)	(3,323,621)
STOCK EMPLOYEE COMPENSATION TRUST (SECT)			
Beginning of period	(48,458)		(710,841)
Issuance of shares	7,328		100,000
Purchase of shares	(12,121)		(169,063)
Adjustment to market	(1,818)		—
End of period	(55,069)	—	(779,904)
SUPPLEMENTAL RETIREMENT PLAN (SERP) TRUST			
Beginning of period	—		—
Purchase of shares	(7,328)		(100,000)
Adjustment to market	267		—
End of period	(7,061)	—	(100,000)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Beginning of period	(206,838)		
Other comprehensive income (loss)	(52,832)		
End of period	(259,670)		
TOTAL SHAREHOLDERS' EQUITY	$1,113,020	34,256,872	3,437,570

The changes in AOCI, net of tax, by component for the nine months ended July 4, 2015 are as follows:

	Accumulated foreign currency translation	Accumulated retirement liability	Accumulated (loss) on derivatives	Total
AOCI at beginning of period	$9,254	$(214,984)	$(1,108)	$(206,838)
Other comprehensive income (loss) before reclassifications	(68,212)	3,348	(900)	(65,764)
Amounts reclassified from AOCI	—	11,640	1,292	12,932
Other comprehensive income (loss)	(68,212)	14,988	392	(52,832)
AOCI at end of period	$(58,958)	$(199,996)	$(716)	$(259,670)

The amounts reclassified from AOCI into earnings are as follows:

		Three Months Ended		Nine Months Ended	
	Statement of earnings classification	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Retirement liability:					
Prior service cost (credit)		$25	$26	$73	$(105)
Actuarial losses		6,093	4,374	18,362	13,116
Reclassification from AOCI into earnings		6,118	4,400	18,435	13,011
Tax effect		(2,254)	(1,622)	(6,795)	(4,795)
Net reclassification from AOCI into earnings		$3,864	$2,778	$11,640	$8,216
Derivatives:					
Foreign currency forwards	Sales	$(33)	$—	$3	$(192)
Foreign currency forwards	Cost of sales	93	406	1,011	1,368
Interest rate swaps	Interest	322	137	1,062	279
Reclassification from AOCI into earnings		382	543	2,076	1,455
Tax effect		(157)	(206)	(784)	(623)
Net reclassification from AOCI into earnings		$225	$337	$1,292	$832

The amounts deferred in AOCI related to derivatives are as follows:

		Net deferral in AOCI of derivatives - effective portion			
		Three Months Ended		Nine Months Ended	
	Statement of earnings classification	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Foreign currency forwards	Sales	$677	$—	$276	$3
Foreign currency forwards	Cost of sales	(641)	994	(68)	(554)
Interest rate swaps	Interest	(62)	(552)	(1,823)	(743)
Net gain (loss)		(26)	442	(1,615)	(1,294)
Tax effect		266	(167)	715	490
Net deferral in AOCI of derivatives		$240	$275	$(900)	$(804)

Note 14 - Stock Employee Compensation Trust and Supplemental Retirement Plan Trust

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for equity-based compensation plans and benefit programs, including the Moog Inc. Retirement Savings Plan (RSP). The Supplemental Retirement Plan (SERP) Trust provides funding for benefits under the Moog Inc. SERP. Both the SECT and the SERP Trusts hold shares as investments. The shares in the SECT and SERP Trusts are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreements governing the SECT and SERP Trusts, the trustees vote all shares held by the SECT and SERP Trusts on all matters submitted to shareholders.

Note 15 - Earnings per Share

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

	Three Months Ended		Nine Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Weighted-average shares outstanding - Basic	38,389,629	44,077,121	39,555,423	44,946,413
Dilutive effect of equity-based awards	354,991	592,127	407,719	595,148
Weighted-average shares outstanding - Diluted	38,744,620	44,669,248	39,963,142	45,541,561

There were no material antidilutive equity-based awards outstanding for the three and nine months ended July 4, 2015 and June 28, 2014.

Note 16 - Segment Information

Below are sales and operating profit by segment for the three and nine months ended July 4, 2015 and June 28, 2014 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, number of employees or profit.

	Three Months Ended		Nine Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Net sales:				
Aircraft Controls	$270,339	$294,194	$811,103	$834,420
Space and Defense Controls	95,266	102,505	288,477	297,260
Industrial Systems	130,581	147,722	393,092	442,998
Components	106,826	110,587	315,432	314,433
Medical Devices	31,527	28,690	94,204	87,850
Net sales	$634,539	$683,698	$1,902,308	$1,976,961
Operating profit:				
Aircraft Controls	$28,401	$30,342	$75,195	$87,980
Space and Defense Controls	6,149	8,664	19,784	25,523
Industrial Systems	13,068	16,826	38,972	44,010
Components	13,602	16,972	42,258	46,707
Medical Devices	4,870	2,343	12,128	7,348
Total operating profit	66,090	75,147	188,337	211,568
Deductions from operating profit:				
Interest expense	7,916	2,215	20,953	9,788
Equity-based compensation expense	603	1,553	4,569	6,545
Corporate expenses and other	6,847	6,724	21,255	30,112
Earnings before income taxes	$50,724	$64,655	$141,560	$165,123