

ESTERLINE TECHNOLOGIES CORP
Form 10-K/A
March 30, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Amendment No. 1)

FORM 10-K/A

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

For the fiscal year ended September 29, 2017.

OR

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

For the transition period from _____ to _____ 3

Commission file number 1-6357

ESTERLINE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	13-2595091
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 108th Avenue N.E., Bellevue, Washington 98004

(Address of principal executive offices)(Zip Code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 No

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “accelerated filer,” “large accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of March 27, 2018, 29,426,691 shares of the Registrant’s common stock were outstanding. The aggregate market value of shares of common stock held by non-affiliates as of March 31, 2017, was \$2,562,036,264 (based upon the closing sales price of \$86.05 per share).

Documents Incorporated by Reference

Part III incorporates information by reference to the registrant’s definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on December 27, 2017.

EXPLANATORY NOTE TO AMENDMENT NO. 1

The purpose of this Amendment No. 1 (this Amendment or Form 10-K/A) to our Form 10-K for fiscal 2017, previously filed on November 21, 2017, (Original Filing) with the Securities and Exchange Commission (SEC), is to restate our previously issued consolidated financial statements and related disclosures. This Amendment also includes, in Note 21 – “Quarterly Financial Data (Unaudited)” to the Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K/A – restated quarterly financial information for each of the first three quarterly periods in the fiscal years ended September 29, 2017, and September 30, 2016, included in our Quarterly Reports on Form 10-Q for those respective periods, as well as for the fourth quarters of fiscal 2017 and 2016.

In this Amendment we have restated our consolidated financial statements for fiscal year ended September 29, 2017 (fiscal 2017), fiscal year ended September 30, 2016 (fiscal 2016), 11-month transition period ended October 2, 2015, and the unaudited recast fiscal year ended October 2, 2015 (fiscal 2015), the quarters in fiscal 2017 and 2016, as originally filed on Form 10-Q, and the 11-month transition period of November 1, 2014, through October 2, 2015, presented in Part II, Item 8, Financial Statements and Supplementary Data, and the unaudited selected financial data for the fiscal years 2017, 2016 and 2015 presented in Part II, Item 6, Selected Financial Data. The impacts of the restatement on fiscal 2014 are reflected in the consolidated financial statements as an adjustment to the beginning retained earnings in the consolidated financial statements for fiscal 2015. We refer to the corrections of accounting errors contained in the restated financial statements described herein collectively as the “Restatement.”

Description of the Restatement

As previously disclosed in our Current Reports on Form 8-K filed on February 7, 2018, and February 1, 2018, the Audit Committee of the Board of Directors (Audit Committee) of the Company, after considering the recommendation of management, concluded that our previously issued financial statements for the periods mentioned above should no longer be relied upon due to accounting errors identified at business units in the Sensors & System segment. As a result of these errors and certain additional errors described below corrected in the Restatement, the total corrections resulted in reduction of previously reported after tax income for fiscal 2017, fiscal 2016 and fiscal 2015 of \$5.8 million, \$3.7 million and \$1.4 million, respectively. The table below summarizes the impact of the errors by category and year as well as the tax impact from the corrections. Beginning retained earnings for fiscal 2015, reflect the impacts of the restatement to fiscal 2014.

In Thousands	2017	2016	2015	Total
Operating Earnings (Loss):				
Intercompany Reconciliation	\$(5,363)	\$(4,044)	\$(1,566)	\$(10,973)
Review of Balance Sheet	(4,541)	(938)	(453)	(5,932)
Out-of-Period Adjustments	(1,832)	572	(1,893)	(3,153)
Total	(11,736)	(4,410)	(3,912)	(20,058)
Income Tax Expense (Benefit):				
Tax Expense (Benefit)	(4,155)	(1,625)	(1,346)	(7,126)
Out-of-Period Adjustments	(1,748)	947	(1,124)	(1,925)
Corrections, Net of Tax	\$(5,833)	\$(3,732)	\$(1,442)	\$(11,007)

The Restatement corrects misstatements resulting from three categories of errors.

The first category includes errors from unreconciled intercompany transactions for purchases and sales of manufactured product and research, development and engineering expense at our power systems French and U.S.

business units included in our Sensors & Systems segment.

The second category includes errors from a re-examination of the power systems business balance sheets for fiscal year 2017, fiscal 2016, and fiscal 2015, which review initiated following the discovery of the errors in the first category. The balance sheet review identified misstatements in unbilled accounts receivable under a long-term contract, work-in-process associated with customer-funded research, development and engineering projects at our U.S. and French power systems business units and the elimination of gross margin in inter-affiliate inventory at our power systems business unit.

The third category includes out-of-period errors in income tax expense, stock compensation expense, a lower of cost or market inventory reserve and sales and cost of goods sold on a long-term contract.

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In the consolidated financial statements, the impact of the restatement in fiscal 2014 are reflected in this Amendment as an adjustment of \$0.9 million to beginning retained earnings for fiscal 2015.

Internal Investigation

The Audit Committee of the Board of Directors, in consultation with senior management, determined that the Company should conduct an internal investigation, under its supervision, of the circumstances surrounding the misstatements in the accounting for intercompany transactions at our power systems units. The investigation was undertaken by outside counsel and is complete. Based on the internal investigation, the Audit Committee and senior management concluded financial personnel at the Company's U.S. power systems business unit directed financial accountants at that unit to make improper accounting entries in the financial records. These actions were contrary to our internal accounting policies and circumvented the Company's internal control over the reconciliation of intercompany charges between the Company's French and U.S. power systems business units. In addition, monitoring controls at our power systems business units designed to detect these errors failed, and accordingly, we also concluded that our internal control over the review and approval of power systems financial statements and intercompany account reconciliations was not effective.

The Board of Directors and management are fully committed to maintaining a strong internal control environment. The Company has taken and will continue to take significant and comprehensive remedial actions in response to the conduct and other factors that led to the Restatement, including actions to remediate the material weaknesses in internal control over financial reporting identified by management that contributed to the misstatements.

For more information about the internal investigation, the specific material weaknesses in internal control over financial reporting and the Company's remedial actions, please see Part II, Item 9A, Controls and Procedures.

For more information regarding the Restatement, see Part II, Item 8, Financial Statements and Supplementary Data - Note 2 (Restatement), to the consolidated financial statements in this Amendment.

Amendment

This Form 10-K/A sets forth the Original Filing, as modified and superseded where necessary to reflect the Restatement.

Specifically, the following items of the Original Filing are amended by this Form 10-K/A to reflect the Restatement and related matters:

Part I - Item 1. Business

Part I - Item 1A. Risk Factors

Part I - Item 3. Legal Proceedings

Part II - Item 6. Selected Financial Data

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

Part II - Item 8. Financial Statements and Supplementary Data - including revised "Reports of Independent Registered Public Accounting Firm" of Ernst & Young LLP, an explanatory note describing the Restatement (Note 2) and updates to selected notes impacted by the Restatement in the Notes to the Consolidated Financial Statements.

Part II - Item 9A. Controls and Procedures

Part IV - Item 15. Exhibits and Financial Statement Schedules

This Form 10-K/A also amends the Original Filing to restate management's report on internal control over financial reporting (included under Item 9A) to disclose the material weaknesses identified by management as a result of this Restatement. This Form 10-K/A also amends the Original Filing to include a restated report of Ernst & Young LLP on the effectiveness of our internal control over financial reporting as of September 29, 2017.

In accordance with applicable SEC rules, this Form 10-K/A includes certifications from our Chief Executive Officer and Chief Financial Officer dated as of the date of this filing.

PART I

This Report includes a number of forward-looking statements that reflect the Company's current views with respect to future events and financial performance. Please refer to the section addressing forward-looking information on page 12 for further discussion. In this report, "we," "our," "us," "Company," and "Esterline" refer to Esterline Technologies Corporation and subsidiaries, unless otherwise noted or context otherwise indicates.

Explanatory Note

We changed our fiscal year to the twelve months ending the last Friday in September, effective beginning with the year ended on September 30, 2016. As a result, our 2015 fiscal year was shortened from twelve months to an eleven-month transition period ended on October 2, 2015.

Unless otherwise noted in this Part I, when financial results for fiscal 2016 are compared to the prior-year period, the results compare the twelve-month periods ended September 30, 2016, and October 2, 2015, respectively.

The results for the twelve-month period ended October 2, 2015, are unaudited.

Item 1. Business

General Development of Business

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

Our current business and strategic plan focuses on continued development of our products principally for aerospace and defense markets in three key technology segments: Avionics & Controls, Sensors & Systems, and Advanced Materi