ESTERLINE TECHNOLOGIES CORP
Form DEF 14A
January 25, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under § 240.14a-12

Esterline Technologies Corporation

(Name of Registrant as Specified In Its Charter)

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NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

ESTERLINE TECHNOLOGIES CORPORATION

500 108th Avenue NE

Bellevue, Washington 98004

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held March 6, 2013

To the Shareholders of Esterline Technologies Corporation:

NOTICE IS HEREBY GIVEN that the 2013 annual meeting of shareholders for ESTERLINE TECHNOLOGIES CORPORATION, a Delaware corporation (the Company), will be held on Wednesday, March 6, 2013, at 10:30 a.m. (local time), at the Seattle offices of Perkins Coie LLP, 1201 Third Avenue, Suite 4900, Seattle, Washington, for the following purposes:

(1) to elect as directors of the Company the three nominees named in the attached proxy statement;

(2) to consider and approve the Company s 2013 Equity Incentive Plan;

(3) to approve, on an advisory basis, the compensation of the Company s named executive officers for the fiscal year ended October 26, 2012;

(4) to ratify the selection of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending October 25, 2013; and

(5) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on January 8, 2013, as the record date for determination of shareholders entitled to notice of and to vote at the meeting or any adjournment or postponement thereof. Members of the Company s management will not make any formal presentations as part of the annual meeting, but will be available to address questions from shareholders, as appropriate.

The Company s Annual Report for fiscal year 2012 is provided for your convenience.

By order of the Board of Directors

/s/ AMY L. WATSON
AMY L. WATSON
Associate General Counsel and
Corporate Secretary

January 25, 2013

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

To Be Held March 6, 2013

This proxy statement, which is first being provided to shareholders on or about January 25, 2013, has been prepared in connection with the solicitation by the Board of Directors of Esterline Technologies Corporation (the Company) of proxies in the accompanying form to be voted at the 2013 annual meeting of shareholders of the Company to be held on Wednesday, March 6, 2013, at 10:30 a.m. (local time), at the Seattle offices of Perkins Coie LLP, 1201 Third Avenue, Suite 4900, Seattle, Washington 98101, and at any adjournment or postponement thereof. The Company s principal executive office is at 500 108th Avenue NE, Suite 1500, Bellevue, Washington 98004.

Shareholders are being asked to vote on four proposals at the 2013 annual meeting:

(1) to elect as directors of the Company three nominees, Paul V. Haack, Scott E. Kuechle and R. Bradley Lawrence;

(2) to consider and approve the Company s 2013 Equity Incentive Plan;

(3) to approve, on an advisory basis, the compensation of the Company s named executive officers for the fiscal year ended October 26, 2012; and

(4) to ratify the selection of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending October 25, 2013.

In addition, you may be asked to consider any other business properly presented at the 2013 annual meeting and any adjournment or postponement of the annual meeting. Members of the Company s management will not make any formal presentations as part of the 2013 annual meeting, but will be available to address questions from shareholders, as appropriate.

The cost of this solicitation will be borne by the Company. In addition to solicitation by mail, officers and employees of the Company may, without additional compensation, solicit the return of proxies by telephone, telegram, messenger, facsimile transmission or personal interview. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy material to their principals and the Company may reimburse such persons for their expenses in so doing. The Company has retained MacKenzie Partners, Inc. to provide proxy solicitation services for a fee of $9,000, plus reimbursement of its out-of-pocket expenses.

Registered shareholders can vote in person, by Internet, by telephone or by mail, as described below. If you are a beneficial shareholder, please refer to the information forwarded by your broker, bank or other holder of record to see what options are available to you. Registered shareholders may cast their vote by:

(1) Attending and voting in person at the annual meeting;

(2) Accessing the Internet website specified in the Notice of Internet Availability and following the instructions provided on the website (or if printed copies of the proxy materials were requested, as specified in the printed proxy card);

(3) Calling the telephone number specified in the Notice of Internet Availability and voting by following the instructions provided on the phone line (or if copies of the proxy materials were requested, as specified in the printed proxy card); or

(4) Requesting a printed proxy card and completing, signing, dating and promptly mailing the proxy card in the envelope provided.

Any proxy given pursuant to the solicitation may be revoked at any time prior to being voted. A proxy may be revoked by the record holder or other person entitled to vote (a) by attending the meeting in person and voting the shares, (b) by executing another proxy dated as of a later date or (c) by notifying the Secretary of the Company in writing, at the Company s address set forth on the notice of the meeting, provided that such notice is received by the Secretary prior to the meeting date. All shares represented by valid proxies will be voted at the meeting. Proxies will be voted in accordance with the specification made therein or, in the absence of specification, in accordance with the provisions of the proxy.

The Board of Directors has fixed the close of business on January 8, 2013, as the record date for determining the holders of common stock of the Company (the Common Stock) entitled to notice of and to vote at the annual meeting. The Common Stock is listed for trading on the New York Stock Exchange. At the close of business on the record date there were outstanding and entitled to vote 30,930,212 shares of Common Stock, which are entitled to one vote per share on all matters which properly come before the annual meeting.

The presence in person or by proxy of the holders of a majority of the outstanding shares of Common Stock entitled to vote is required to constitute a quorum for the transaction of business at the meeting. The inspector of elections, who determines whether or not a quorum is present at the annual meeting, will count abstentions and broker non-votes, which are discussed further below, as shares of Common Stock that are present and entitled to vote for purposes of determining the presence of a quorum. There must be a quorum for the meeting to be held. The Company has appointed Computershare Shareowner Services LLC as the inspector of elections for the annual meeting. Votes cast by proxy or in person at the annual meeting will be tabulated by the inspector of elections appointed for the annual meeting.

For Proposal One regarding the election of directors, each nominee must receive an affirmative vote of a majority of votes cast, either in person or represented by proxy at the meeting, to be elected to the Board of Directors. Shareholders are not entitled to cumulate votes in electing directors. For Proposal Two regarding the approval of the Company s 2013 Equity Incentive Plan, the affirmative vote of a majority of the votes case will be required for approval of the proposal, provided that the total votes cast represent over 50% in interest of all shares entitled to vote on the proposal. For Proposal Three regarding the advisory vote on the executive compensation of the Company s named executive officers, the affirmative vote of a majority of the votes cast will be required for approval of the proposal. For Proposal Four, an affirmative vote of a majority of votes cast will be required to approve the ratification of selection of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal year 2013. The votes on Proposal Three (regarding executive compensation) and Proposal Four (regarding the ratification of our independent auditors) are advisory in nature and are nonbinding.

Abstentions and broker non-votes will not be considered votes cast with respect to Proposals One, Three and Four and as a result, they will have no effect on the vote relating to those proposals. Abstentions on Proposal Two regarding approval of the Company s 2013 Equity Incentive Plan will have an effect of votes against the proposal. Broker non-votes on Proposal Two will not be considered votes cast and, as a result, will have no effect on the vote relating to Proposal Two. Broker non-votes occur when a person holding shares through a bank or brokerage account does not provide instructions as to how his or her shares should be voted and the broker does not exercise discretion to vote those shares on a particular matter. Brokers may not exercise discretion to vote shares as to non-routine matters, such as the election of directors, the approval of equity plans, or the advisory votes on executive compensation. Brokers may exercise discretion to vote shares as to which instructions are not given with respect to routine matters, such as the ratification of the selection of Ernst & Young LLP as the Company s independent registered public accounting firm.

PROPOSAL ONE:

ELECTION OF DIRECTORS

The Company s Amended and Restated Bylaws provide for a board of directors that consists of not less than seven (7) or more than twelve (12) members, as may be fixed from time to time by the Board of Directors. The Company s Restated Certificate of Incorporation provides that the directors will be divided into three classes, with the classes serving for staggered, three-year terms such that approximately one-third of the directors are elected each year.

In December 2012, the Board of Directors increased the authorized number of directors of the Board to eleven, elected Mr. Scott E. Kuechle and Mr. Henry W. Winship IV to fill the vacancies created by the expansion and, in accordance with the Company s Restated Certificate of Incorporation, classified Mr. Kuechle into the class of directors whose term expires at the 2013 annual meeting and Mr. Winship into the class of directors whose term expires at the 2014 annual meeting.

Mandatory Retirement

The Company s Corporate Governance Guidelines require directors to tender their resignation prior to the annual meeting of shareholders following their 72nd birthday. In accordance with this policy, Mr. Robert W. Cremin will retire as a director at the conclusion of the 2013 annual meeting. In light of the retirement of Mr. Cremin, by resolution of the Board of Directors effective at the end of the 2013 annual meeting, the number of authorized members of the Board of Directors will be reduced to ten.

Majority Voting in Director Elections

Pursuant to the Company s Amended and Restated Bylaws, a director nominee is elected to the Board if the votes cast for the nominee exceed the votes cast against the nominee. Abstentions will have no effect on the election of directors since only votes For or Against a nominee will be counted.

Under the Company s Corporate Governance Guidelines, the Board will nominate only those persons who tender, in advance, irrevocable resignations, which are effective upon a director s failure to receive the required vote at any annual meeting at which they are nominated for re-election and Board acceptance of the resignation. The Board will act on the resignation, taking into account the recommendation of the Nominating & Corporate Governance Committee, and publicly disclose its decision within 90 days from the date of the certification of the election results. Any director who tenders such a resignation in accordance with the Corporate Governance Guidelines will not participate in the Nominating & Corporate Governance Committee recommendation or Board decision on the resignation. If the Board does not accept the resignation, the director will continue to serve until the next annual meeting and until his or her successor is duly elected, or until his or her earlier resignation or removal. If the Board accepts the resignation, then the Board, in its sole discretion, may fill any resulting vacancy or may decrease the size of the Board as provided for and in accordance with the Bylaws.

The Board of Directors recommends a vote FOR its director nominees named below.

Information as to each nominee and each director whose term will continue after the 2013 annual meeting is provided below. Unless otherwise instructed, it is the intention of the persons named in the accompanying proxy to vote shares represented by properly executed proxies FOR the election of the nominees named below. The Board of Directors knows of no reason why any of its nominees will be unable or unwilling to serve. If any nominee becomes unavailable to serve, the Board of Directors intends for the persons named as proxies to vote for the election of such other persons, if any, as the Board of Directors may recommend.

Nominees to the class of directors whose term will expire at the 2016 annual meeting:

Paul V. Haack

Senior Partner (Retired), Deloitte & Touche LLP. Age 62.

Prior to 2006, Mr. Haack was a Senior Partner with Deloitte & Touche LLP (a public accounting firm) in their Chicago office, primarily serving companies in the aerospace and defense industry. He was also a director of SonoSite, Inc. until March 2012, when the company was acquired by Fujifilm. He is currently a trustee of the University of Montana. He has been a director of the Company since 2006.

Mr. Haack has extensive financial and accounting expertise gained from his many years with Deloitte & Touche LLP. He also has experience in complex mergers and acquisitions and capital structure issues gained from involvement in transactions during his career. Also, he has experience in the aerospace and defense industry, having worked with many companies in the industry as one of Deloitte s practice leaders in aerospace and defense.

Scott E. Kuechle

Executive Vice President and Chief Financial Officer (Retired), Goodrich Corporation. Age 53.

Prior to July 2012, Mr. Kuechle was the Executive Vice President and Chief Financial Officer of Goodrich Corporation (an aerospace and defense company) since August 2005. He is also a director of Wesco Aircraft Holdings, Inc. He has been a director of the Company since December 2012.

Mr. Kuechle s extensive experience within the Aerospace & Defense industry, coupled with his deep financial expertise, provide the Board with a powerful skillset to draw upon as the Company continues to execute its strategic plan with a focus on organic sales growth and good-fit mergers and acquisitions.

R. Bradley Lawrence

Chairman, President and Chief Executive Officer, Esterline Technologies Corporation. Age 65.

Mr. Lawrence has been Chairman, President and Chief Executive Officer since March 2012. Prior to that time, he was President and Chief Executive Officer since November 2009, President and Chief Operating Officer since July 2009 and Group Vice President since January 2007. He has been a director of the Company since November 2009.

Mr. Lawrence has a breadth of experience in various functional areas including marketing, sales, and operations and in multiple industrial settings, including experience as the Platform President of the Company s Interface Technologies operations. As CEO of the Company, this knowledge and experience adds substantial insight and provides the driving force to the Company s operational excellence strategy.

Continuing directors:

Delores M. Etter

Director, Caruth Institute for Engineering Education and Texas Instruments

Distinguished Chair in Engineering Education, Southern Methodist University. Age 65.

Dr. Etter has been the Director of the Caruth Institute for Engineering Education and the Texas Instruments Distinguished Chair in Engineering Education at Southern Methodist University since June 2008. Previously, she held the position of Assistant Secretary of the Navy for Research, Development and Acquisition from November 2005 to November 2007. She is also a member of the National Academy of Engineering and is a Fellow of the Institute of Electrical and Electronic Engineers, the American Association for the Advancement of Science, and the American Society for Engineering Education. She is also a director of LORD Corporation and Stantec Inc. She has been a director of the Company since 2010, and her current term expires in 2015.

Dr. Etter has had multiple, substantive experiences within the U.S. Department of Defense, as well as serving on the faculty at the U.S. Naval Academy. This experience, coupled with her deep technical knowledge, and her familiarity with the Joint Strike Fighter and the Mine Resistant Ambush Protected Vehicle program enable Dr. Etter to provide insight and guidance to management and the Board.

Anthony P. Franceschini

President and Chief Executive Officer (Retired), Stantec Inc. Age 61.

Prior to May 2009, Mr. Franceschini was the President and Chief Executive Officer of Stantec Inc. (an engineering, architecture and related professional services design firm), having held such positions since June 1998. He has served and continues to serve as a director of Stantec Inc. since March 1994. He is chairman of the board for ZCL Composites Inc. and also a director of Aecon Group Inc. and two other private companies. He has been a director of the Company since 2002, and his current term expires in 2014.

Mr. Franceschini has substantive experience in the area of mergers and acquisitions, having guided Stantec Inc. through a period of significant growth facilitated through many successful acquisitions. His understanding of the acquisition process and post-acquisition integration is beneficial to the Board and management. Additionally, as a Canadian citizen, Mr. Franceschini s familiarity with Canadian business and banking practices is supportive of Esterline s investments in Canada.

Mary L. Howell

Executive Vice President (Retired), Textron, Inc. Age 60.

Prior to January 2010, Ms. Howell was the Executive Vice President of Textron, Inc. (a multi-industry company serving aircraft, automotive, defense, industrial, and finance businesses), having held such position since August 1995. Ms. Howell is also a board member of the Atlantic Council of the United States. She has been a director of the Company since 2011, and her current term expires in 2015.

Ms. Howell has had extensive experience in the commercial and military markets. She has deep expertise in marketing, sales and business development. She served on the boards of the National Association of Manufacturers and the Aerospace Industries Association. Further, her experience as a board member of FM Global gives her insight to sophisticated risk management practices.

Jerry D. Leitman

Chairman (Retired), FuelCell Energy, Inc. Age 70.

Prior to February 2007, Mr. Leitman was the Chairman of the Board of FuelCell Energy, Inc. (a fuel cell company), having held such position since June 2002. He has been a director of the Company since 1998, and his current term expires in 2015.

Mr. Leitman s contributions to the Board come from a combination of skills acquired from his time as an executive in a global, complex multinational firm ABB as well as the driving force and CEO and Chairman of a start-up energy company. These experiences enable Mr. Leitman to provide insight on capital structure decisions, compensation planning, and leadership in fast moving organizations.

James J. Morris

Vice President, Engineering and Manufacturing (Retired), The Boeing Company. Age 64.

Prior to 2007, Mr. Morris was the Vice President, Engineering and Manufacturing, of The Boeing Commercial Airplane Company, having held such position since 2005. He is a Principal at J2 Ventures and is a director of LORD Corporation, and JURA Corporation. He has been a consultant to Héroux-Devtek, Inc. since 2008. He has been a director of the Company since 2007, and his current term expires in 2014.

Mr. Morris experience in supply chain management, engineering, and manufacturing at The Boeing Commercial Airplane Company and within Boeing s helicopter business, as well as his continuing involvement in the aerospace industry, adds a depth of knowledge of the aerospace business, as well as a global perspective to the Board that is difficult to replicate. Mr. Morris has a solid understanding of the complexities involved in the dynamics of a low volume, high mix manufacturing environment found in many of Esterline s operations.

Gary E. Pruitt

Chairman (Retired), Univar. Age 62.

Prior to November 2010, Mr. Pruitt was the Chairman of Univar (a leading chemical distributor), having held such position since June 2002. In addition, he also served as Chief Executive Officer from June 2002 to October 2009. He is also a director of Itron, Inc., Premera Blue Cross, and PS business Parks, Inc., and a trustee of Public Storage, Inc. He has been a director of the Company since 2009, and his current term expires in 2015.

Mr. Pruitt brings extensive knowledge of growing and directing a large, complex, global company. Mr. Pruitt also is familiar with the nuances of international taxation, as he has significant experience in capital structure and treasury management. This unique set of skills is valuable to the Board as the Company has material portions of the business located outside of the U.S., as well as a complex organizational tax structure.

Henry W. Winship IV

Principal and Senior Managing Director, Relational Investor LLC. Age 45.

Mr. Winship has been Principal and Senior Managing Director of Relational Investors LLC (an investment advisory firm) since April 2011. Prior to that time, he was a Principal and Managing Director since 2004. Mr. Winship is also a member of Relational Investors Investment Committee. He has been a director of the Company since December 2012, and his current term expires in 2014.

Mr. Winship has over 20 years of experience in investment management, accounting and financial management. Mr. Winship adds the perspective of a large shareholder to the Board, as well as diverse industry experience and expertise in capital allocation. Mr. Winship has extensive experience in financial analysis of industrial and aerospace companies and possesses significant knowledge of business strategy development and merger and acquisition valuation and analysis.

OTHER INFORMATION AS TO DIRECTORS

Director Compensation

The following table describes the compensation earned by persons who served as non-employee directors during fiscal 2012. Messrs. Kuechle and Winship were appointed to the Board in December 2012, and so did not serve as directors during fiscal 2012. Employees of the Company serving on the Board or committees received no additional compensation for such service.

Name	Fees Earned or Paid in Cash ($) (1)	Stock Awards ($) (2)	All Other Compensation $ (3)	Total ($)
Robert W. Cremin	$ 161,250	$ 100,000	$ 25,000	$ 286,250
Delores M. Etter	57,000	100,000		157,000
Anthony P. Franceschini	63,250	100,000		163,250
Paul V. Haack	85,250	100,000		185,250
Mary L. Howell	61,000	100,000		161,000
Jerry D. Leitman	60,750	100,000		160,750
James J. Morris	67,500	100,000		167,500
Gary E. Pruitt	71,500	100,000		171,500

(1) Amounts in this column represent retainers, meeting fees and chair fees.

(2) Amounts in this column represent the aggregate grant date fair value of awards granted during fiscal 2012, computed in accordance with Accounting Standards Codification Topic 718 (ASC 718).

(3) The amount in this column represents financial planning advisory fees in the amount of $25,000.

For the first quarter of fiscal 2012, the Company paid the following cash fees to non-employee directors:

Non-Employee Chairman of the Board Annual Retainer	$ 150,000
Non-Employee Director (other than the Chairman) Annual Retainer	30,000
Lead Independent Director Additional Annual Retainer	25,000
Audit Committee Chair Additional Annual Retainer	12,500
Compensation Committee Chair Additional Annual Retainer	7,500
Nominating & Corporate Governance Committee Chair Additional Annual Retainer	5,000

Strategy & Technology Committee Chair Additional Annual Retainer	5,000
In Person Board Meeting	1,500
In Person Committee Meeting	1,500
Telephonic Board Meeting	750
Telephonic Committee Meeting	750

The Compensation Committee reviews director remuneration periodically, and seeks information and advice from its compensation consultant, Semler Brossy, to assist the Committee s consideration. Pursuant to such a review, the Committee recommended and the Board approved changes in the fee structure and amounts. The changes were based on updated market benchmark information concerning practices common among the 18-company peer group the Company references for purposes of making executive pay comparisons, and based on public company practices more generally. Further information about the peer group can be found in the Compensation Discussion and Analysis section of this proxy statement. In summary, the changes in director remuneration were made to: (1) increase the total amount of director remuneration to a more competitive level; (2) retain a sound balance between equity-based compensation and cash fees; and (3) focus on directors overall stewardship responsibility to the Company by better linking pay to the role each director holds, rather than paying for discrete activity, such as meeting attendance fees, which the Board eliminated. For these reasons, the fee structure for non-employee directors was revised effective in the second quarter of fiscal 2012, and the Company paid the cash fees to non-employee directors set forth below:

Non-Employee Director Annual Retainer	$	45,000
Lead Independent Director Additional Annual Retainer		25,000
Audit Committee Member Annual Retainer		12,500
Audit Committee Chair Additional Annual Retainer		12,500
Compensation Committee Member Annual Retainer		7,500
Compensation Committee Chair Additional Annual Retainer		7,500
Nominating & Corporate Governance Committee Member Annual Retainer		5,000
Nominating & Corporate Governance Committee Chair Additional Annual Retainer		5,000
Strategy & Technology Committee Member Annual Retainer		5,000
Strategy & Technology Committee Chair Additional Annual Retainer		5,000

All annual retainers are paid quarterly in arrears. The Company also reimburses non-employee directors for reasonable expenses incurred in attending Board and committee meetings. As the retired President and Chief Executive Officer of the Company, Mr. Cremin was also provided with financial planning benefits.

In addition, the Company pays an annual issuance of $100,000 worth of fully-paid Common Stock to each non-employee director serving on the Board the day after each annual meeting of shareholders. The number of shares of Common Stock issued is determined based on the closing price of our Common Stock on the date of the annual meeting, as reported in the Wall Street Journal the following day. During fiscal 2012, shares to non-employee directors were issued under the Company s 2004 Equity Incentive Plan. Board policy requires directors to acquire and hold shares of the Company s Common Stock that are equal to or greater in value than five times the amount of the annual cash retainer for Board service, which is currently $45,000, as shown above.

Board and Board Committees

There were thirteen meetings of the Board of Directors during fiscal 2012. During fiscal 2012, each director attended at least 93% of the total number of meetings of the Board of Directors and Board committees of which he/she was a member.

The Board recognizes that there is no single best approach to the structure of Board leadership and therefore, our Corporate Governance Guidelines provide that there shall be a Chairman of the Board who may or may not be a member of management. In the event the Chairman is a member of management, a Lead Independent Director shall be selected from among the non-management directors. This gives the Board the flexibility to structure the Board s leadership in the best interests of the Company. Currently, Mr. Lawrence serves as the Chairman of the Board, and due to Mr. Lawrence s current position with the Company, Mr. Haack currently serves as the Lead Independent Director.

The Chairman of the Board, if a non-management director, presides over executive sessions of non-management directors, which are held on a regular basis, generally at each scheduled Board meeting. Because the Chairman of the Board is an employee of the Company, the Lead Independent Director, Paul V. Haack, presides over the sessions. Non-management directors who are considered independent under the NYSE independence listing standards also meet in executive session at least annually. In addition, the Audit Committee has adopted the practice of reserving time at each meeting to meet without members of Company management present. The Compensation Committee and the Nominating & Corporate Governance Committee also have adopted a similar practice of meeting periodically without members of Company management present.

Board s Role in Risk Oversight. The Company has traditionally identified and evaluated risk as part of its annual strategic planning process (carried out through its business units) and will continue to do so. Beginning in 2009, the Company developed and implemented an enterprise risk management program (ERM) which incorporates the business unit risk assessments. The Company s ERM program is a systematic approach to risk assessment and mitigation, which is designed to measure, manage and aggregate risks on an enterprise-wide basis. Under the Company s ERM program, management identifies various risks facing the Company and assesses such risks by likelihood of occurrence and potential impact on earnings. Management has the responsibility for developing an action plan to address, mitigate or monitor such risks. Management updates the ERM program annually to reassess existing risk profiles and to identify new risks that may need to be incorporated into the assessment.

The Board of Directors has chosen to retain overall responsibility for overseeing risk assessment in light of the interrelated nature of the elements of risk, rather than delegating this responsibility to a Board committee. As described below, the Board receives assistance from certain of its committees for the identification and monitoring of those risks that are related to the committees areas of focus as described in each committee charter. The Board and its committees exercise their risk oversight function by carefully evaluating management reports and making inquiries of management regarding material risk exposures and the steps taken to control such exposure.

The Audit Committee reviews risks related to internal controls, disclosure, financial reporting, and legal and compliance activity. Among other processes, the Audit Committee meets regularly in executive sessions with our internal and external auditors as well as the Chief Financial Officer and Chief Accounting Officer. As described more fully under Statement Regarding Compensation Practices in this proxy statement, the Compensation Committee reviews risks associated with the Company s compensation programs, to ensure that incentive compensation arrangements for employees do not encourage inappropriate risk taking.

Attendance at the Annual Meeting. The Board of Directors currently does not have a policy with regard to director attendance at the Company s annual shareholders meeting; however, it schedules the first quarter meeting of the Board of Directors on the same date as the annual shareholders meeting to facilitate director attendance at the annual meeting. All of the Company s directors attended the annual shareholders meeting in 2012.

Board Independence. The Board has reviewed the relationships between the Company and each director and has determined that a majority of the directors are independent for purposes of the NYSE corporate governance listing standards. In accordance with these listing standards, the Board adopted its own set of specified criteria, identified in the Company s Corporate Governance Guidelines which are posted on the Company s website at www.esterline.com under the Corporate Governance tab, to assist it in determining whether any relationship between a director and the Company impairs independence. Using the adopted criteria, the Board affirmatively determined that all of the directors, other than Mr. Lawrence, are independent under the NYSE listing standards. Mr. Lawrence does not meet NYSE independence listing standards due to his current position as President and Chief Executive Officer of the Company. In December 2012, the date of the Board s independence determinations, the three-year anniversary of Mr. Cremin s retirement as President and Chief Executive Officer of the Company that occurred in October 2009 had passed. Prior to October 2012, Mr. Cremin was not independent due to his prior service with the Company.

The Audit Committee currently consists of directors Pruitt (Chairman), Haack, Howell and Morris, each of whom is independent in accordance with applicable rules promulgated by the Securities and Exchange Commission (SEC) and NYSE listing standards. The Audit Committee selects and retains the independent registered public accounting firm to audit the Company s annual financial statements, approves the terms of the engagement of the independent registered public accounting firm and reviews and approves the fees charged for audits and for any non-audit assignments. The Board of Directors has adopted a written charter for the Audit

Committee, a copy of which is posted on the Company s website at www.esterline.com under the Corporate Governance tab. The Audit Committee s responsibilities also include, among others, overseeing (1) the integrity of the Company s financial statements, which includes reviewing the scope and results of the annual audit by the independent registered public accounting firm, any recommendations of the independent registered public accounting firm resulting therefrom and management s response thereto and the accounting principles being applied by the Company in financial reporting, (2) the Company s compliance with legal and regulatory requirements, (3) the independent registered public accounting firm s qualifications and independence, (4) the performance of the Company s internal auditors and the independent registered public accounting firm, and (5) such other related matters as may be assigned to it by the Board of Directors.

The Board of Directors has determined that both Messrs. Haack and Pruitt qualify as an audit committee financial expert as defined in Item 407 of Regulation S-K promulgated by the SEC and that each Audit Committee member has accounting and financial management literacy under NYSE listing standards.

The Compensation Committee currently consists of directors Franceschini (Chairman), Etter, Haack, Leitman and Winship, each of whom is independent in accordance with applicable NYSE listing standards. The Compensation Committee develops, evaluates and recommends to the independent members of the Board for its approval corporate goals and objectives relevant to the compensation of the Chief Executive Officer; evaluates the Chief Executive Officer s performance and that of other corporate officers in light of corporate goals and objectives, develops, evaluates and decides the form and level of compensation for the CEO and other officers of the Company, recommends compensation for Board members, oversees the Company s succession planning process, and is responsible for performing the other related responsibilities set forth in its written charter, which is posted on the Company s website at www.esterline.com under the Corporate Governance tab. The Compensation Committee also administers the Company s equity and incentive compensation plans for officers and senior corporate management, which includes recommending amendments to such plans. When appropriate, the Compensation Committee may form and delegate authority to subcommittees, or may delegate authority to one or more designated members of the Board or to corporate officers. The Chief Executive Officer and the General Counsel, Vice President Administration are non-voting advisors to the Compensation Committee from whom the Compensation Committee solicits and considers recommendations as to compensation for the other executive officers as well as other matters related to the Company s executive compensation program.

The Compensation Committee has engaged Semler Brossy, an independent executive compensation consultant, to: (1) review and develop compensation program recommendations for Company executives and directors; (2) provide and analyze benchmark compensation data for executive officers and directors from peer companies and from general compensation surveys; (3) advise the Committee on compensation levels for executive officers and directors; and (4) provide analysis and recommendations related to the design of executive incentive plans. Semler Brossy does no other work for and has no other business relationships with Esterline. The firm reports directly to the Committee, and the Committee may replace the firm or hire additional consultants at any time. A representative of the firm attends meetings of the Committee, upon request, and communicates with the Committee chair between meetings.

The Compensation Committee has the sole authority from the Board of Directors for the appointment, compensation, and oversight of the Company s outside executive and director compensation consultant. Semler Brossy s fees and costs for executive and director compensation consulting to the Compensation Committee in fiscal year 2012 were $408,328. Those services included assistance with reviewing the Company s executive compensation strategy and programs, updating executive incentive programs, providing compensation benchmark information, advising on the competitiveness of director compensation, and providing governance guidance.

The Nominating & Corporate Governance Committee currently consists of directors Leitman (Chairman), Franceschini, and Pruitt, each of whom is independent in accordance with applicable NYSE listing standards. The Nominating & Corporate Governance Committee recommends director candidates to the entire Board, oversees the evaluation of the Board of Directors and Company management, develops and monitors corporate governance principles, practices and guidelines for the Board of Directors and the Company, and is responsible for performing the other related responsibilities set forth in its written charter, which is posted on the Company s website at www.esterline.com under the Corporate Governance tab.

The Executive Committee currently consists of directors Lawrence (Chairman), Cremin, Franceschini, and Haack. The Executive Committee reviews situations that might, at some future time, become items for consideration of the entire Board of Directors and acts on behalf of the entire Board of Directors between its meetings.

The Strategy & Technology Committee currently consists of directors Morris (Chairman), Cremin, Etter, Howell and Winship. The Strategy & Technology Committee reviews and makes recommendations to the Board of Directors regarding business and technology acquisition opportunities, monitors and evaluates the execution and performance of significant new product and technology launches, and monitors and evaluates the Company s research and development programs.

Director Nominations and Qualifications

In accordance with the Company s Amended and Restated Bylaws, any shareholder entitled to vote for the election of directors at the annual meeting may nominate persons for election as directors at the 2014 annual shareholders meeting only if the Corporate Secretary receives written notice of any such nominations no earlier than October 6, 2013, and no later than November 5, 2013. Such nominations should be sent to: Esterline Technologies Corporation, Attn: Corporate Secretary, 500 108th Avenue NE, Suite 1500, Bellevue, WA 98004 and comply with the requirements set forth in our Bylaws.

The Chairman of the Board, other directors or senior management of the Company may also recommend director nominees. The Nominating & Corporate Governance Committee will evaluate recommended director nominees, including those that are submitted to the Company by a shareholder, taking into consideration certain criteria such as business or community leadership experience, policy-making experience, record of accomplishments, personal integrity and high moral responsibility, capacity to evaluate strategy and reach sound conclusions and current Board composition. In addition, prospective directors must have time available to devote to Board activities and be able to work well with the Chief Executive Officer and other members of the Board. Although there is no formal policy in place, the Company and the Nominating and Corporate Governance Committee value board members with varying viewpoints, backgrounds, and experiences. They consider candidates diverse backgrounds as a favorable asset in identifying nominees for director.

The Company did not receive any shareholder nominations for directors to be considered by the Nominating & Corporate Governance Committee for the 2013 annual shareholders meeting.

Communications with the Board

Shareholders, and other interested parties, may contact Mr. Lawrence, as the Chairman, Mr. Haack, as the Lead Independent Director, the non-management directors as a group, the Board of Directors as a group or an individual director by the following means:

Email: boardofdirectors@esterline.com

Mail: Board of Directors

Attn: Lead Independent Director or Corporate Secretary

Esterline Technologies Corporation

500 108th Avenue NE, Suite 1500

Bellevue, WA 98004

Each communication should clearly specify the name of the individual director or group of directors to whom the communication is addressed. Communications sent by email are delivered directly to the Lead Independent Director and to the Corporate Secretary, who will promptly forward such communications to the specified director addressees. Communications sent by mail will be promptly forwarded by the Corporate Secretary to the specified director addressee or, if such communication is addressed to the full Board of

Directors, to the Chairman of the Board and the Lead Independent Director, who will promptly forward such communication to the full Board of Directors. Shareholders wishing to submit proposals for inclusion in the proxy statement relating to the 2014 annual shareholders meeting should follow the procedures specified under Shareholder Proposals for 2014 in this proxy statement. Shareholders wishing to nominate or recommend directors should follow the procedures specified under Other Information as to Directors Director Nominations and Qualifications above.

CODE OF ETHICS

The Company has adopted a code of ethics that applies to its accounting and financial employees, including the Chief Executive Officer and Chief Financial Officer. This code of ethics, which is included as part of the Company s Code of Business Conduct and Ethics that applies to the Company s employees and directors, is posted on the Company s website at www.esterline.com under the Corporate Governance tab. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to or waiver from application of the code of ethics provisions of the Code of Business Conduct and Ethics that applies to the Chief Executive Officer or the Chief Financial Officer, and any other applicable accounting and financial employee, by posting such information on its website at www.esterline.com under the Corporate Governance tab.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of shares of Common Stock as of January 8, 2013, by (i) each person or entity who is known by the Company to own beneficially more than 5% of the Common Stock, (ii) each of the Company s directors, (iii) each of the Company s Named Executive Officers (NEOs) and (iv) all directors and executive officers of the Company as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class
BlackRock, Inc 40 East 52nd Street, New York, NY 10022	2,524,445(3)	8.2%
Dimensional Fund Advisors LP Palisades West Bldg. One, 6300 Bee Cave Road, Austin, TX 78746	2,358,062(4)	7.6%
Relational Investors LLC 12400 High Bluff Drive, Suite 600, San Diego, CA 92130	2,338,237(5)	7.6%
Henry W. Winship IV	2,338,237(6)	7.6%
FMR LLC 82 Devonshire Street, Boston, MA 02109	2,336,092(7)	7.6%
The Vanguard Group, Inc. 100 Vanguard Boulevard, Malvern, PA 19355	1,554,519(8)	5.0%
Robert W. Cremin	272,671(9)	*
Robert D. George	147,350(9)	*
R. Bradley Lawrence	170,272(9)	*
Frank E. Houston	69,650(9)	*
Marcia J. Mason	43,724(9)	*
Jerry D. Leitman	25,792	*
Paul V. Haack	18,471	*
Anthony P. Franceschini	13,712	*
James J. Morris	10,938	*
Delores M. Etter	5,975	*
Gary E. Pruitt	4,150	*
Mary L. Howell	3,540	*
Scott E. Kuechle		
Directors, nominees and executive officers as a group (17 persons)	3,186,763(9)	10.1%

* Less than 1%

(1) Unless otherwise indicated, the business address of each of the shareholders named in this table is Esterline Technologies Corporation, 500 108th Avenue NE, Bellevue, Washington 98004.

(2) Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of Common Stock subject to options currently exercisable or exercisable within 60 days after January 8, 2013, are deemed outstanding, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. As of January 8, 2013, there were 30,930,212 shares of Common Stock outstanding. Unless otherwise indicated in the footnotes to this table, the person and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(3) The information on the number of shares held is based on a Schedule 13G filed on January 20, 2012, on behalf of BlackRock, Inc. (BlackRock). Based upon such filing, BlackRock beneficially owns 2,524,445 shares.

(4) The information on the number of shares held is based upon a Schedule 13G filed on February 10, 2012, on behalf of Dimensional Fund Advisors LP (Dimensional). Based upon such filing, Dimensional is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940. Dimensional furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other investment vehicles, including commingled group trusts. These investment companies and investment vehicles are the Funds. In its role as investment advisor or investment manager, Dimensional possessed sole voting and investment power over all of the shares. The Funds own all of the shares, and Dimensional disclaims beneficial ownership of such shares. Dimensional has sole voting power over 2,323,394 shares and sole dispositive power over 2,358,062 shares.

(5) The information on the number of shares held is based on a Schedule 13D filed on December 13, 2012, on behalf of Relational Investors, LLC (Relational). Based upon such filing, Relational beneficially owns 2,338,237 shares.

(6) Mr. Winship is a Principal of Relational Investors LLC (RILLC). RILLC is the record owner of 100 shares and sole general partner of Relational Investors Mid-Cap Fund I, L.P. and Relational Investors Mid-Cap Fund II, L.P. These limited partnerships own a total of 2,153,410 shares. An additional 184,727 shares are held in accounts managed by RILLC. Mr. Winship disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.

(7) The information on the number of shares held is based upon a Schedule 13G filed on November 9, 2012, on behalf of FMR LLC (FMR). Based upon such filing, FMR beneficially owns 2,336,092 shares.

(8) According to a 5% Shareholder Questionnaire received on November 21, 2012, The Vanguard Group, Inc. owns 1,554,519 shares.

(9) Includes shares subject to options granted under the Company s Amended and Restated 1997 Stock Option Plan and the Company s 2004 Equity Incentive Plan which are exercisable currently or within 60 days of January 8, 2013, as follows: Mr. Cremin, 266,508 shares; Mr. Lawrence, 161,700; Mr. George, 141,350 shares;; Mr. Houston, 69,650 shares; Ms. Mason, 40,825; Mr. Yost, 32,235 shares; and directors, nominees and executive officers as a group, 750,643 shares.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The following discussion describes and analyzes Esterline s compensation program for its NEOs. For fiscal 2012, our NEOs are:

R. Bradley Lawrence, Chairman, President and Chief Executive Officer (CEO);

Robert D. George, Chief Financial Officer (CFO), Vice President, and Corporate Development;

Frank E. Houston, Senior Group Vice President;

Marcia J. Mason, General Counsel and Vice President, Administration; and

Albert S. Yost, Group Vice President and Treasurer.

For fiscal 2012, there were role and responsibility changes among our NEOs, reflecting executive succession in the normal course:

- Stephen R. Larson, former Vice President, Strategy and Technology and a NEO in fiscal 2011, retired from the Company effective January 1, 2012;
- Mr. George assumed responsibility for the Company s Corporate Development function, previously held led by Mr. Larson;
- Mr. Lawrence, our CEO, was elected to serve as Chairman of the Board of Directors, effective March 7, 2012;
- Ms. Mason was appointed to the position General Counsel and Vice President, Administration, effective August 1, 2012, having previously served as the Company s Vice President, Human Resources; and,
- Mr. George transferred his corporate secretary responsibilities in October 2012 to a newly-created position of Associate General Counsel and Corporate Secretary.

This Compensation Discussion and Analysis (CD&A) is organized as follows:

- *Executive Summary*
- *Objectives of our Executive Compensation Program*
- *Summary of Compensation Program Components*
- *Compensation Decision Process*
- *Company Performance in Fiscal 2012*
- *Summary of Compensation Decisions & Results in Fiscal 2012*
- *Specific Compensation Decisions for the NEOs in Fiscal 2012*
- *Fiscal 2013 Executive Compensation Program Changes*

Executive Summary

The key events related to executive compensation in fiscal 2012, and recent developments for 2013, are outlined briefly below. Each are described more fully in later sections of this CD&A.

The Company delivered record-level operational performance in fiscal 2012.

Our fiscal 2012 annual incentive program paid at 90.3% of target, based on achievement of adjusted earnings per share (EPS) of $4.96 against a target of $5.16.

The long-term incentive plan (LTIP) paid at 101.6% for the 2010 2012 performance cycle, based on EPS growth of 7.4% and average return on invested capital (ROIC) of 6.5%.

Executive share ownership guidelines are now in place.

On recommendation from the Compensation Committee (Committee), the Board made three key changes to our executive compensation program for 2013: (1) Adding a new return on sales performance goal to the fiscal 2013 annual incentive plan, such that the plan now has two financial objectives: return on sales and EPS; (2) Updating the cash LTIP to revise the ROIC definition and to increase ROIC performance requirements; and, (3) Incorporating restricted stock unit (RSU) grants to work alongside stock options and the cash LTIP as an additional form of long-term incentive.

Objectives of our Executive Compensation Program

The Committee works to provide our executives with competitive compensation opportunities that reward strong performance and promote shareholder interests. We base our executive compensation practices on principles designed to align executive compensation with Company business strategy, management initiatives, financial objectives and performance. In applying these principles, the Committee has established an executive compensation program to:

Attract and retain key executives critical to the success of the Company;

- Ensure the long-term retention and continued development of strong operating leaders capable of managing a growing number of decentralized, worldwide operations;
- Reinforce a pay-for-performance environment that rewards both the Company s annual financial results and its longer-term achievements;
- Reward executives for long-term strategic management and the enhancement of shareholder value;
- Provide an appropriate mix of fixed and variable pay; and
- Optimize organizational and individual performance, while controlling for potential risks through thoughtful program design and sound administration.

The Committee applies the same philosophy, objectives, and methods for establishing the CEO s compensation as it does for all other executive officers.

Summary of Compensation Program Components

We believe the components of our compensation program are well-aligned to accomplish the objectives listed above. The Committee reviews the executive compensation program annually and makes adjustments as appropriate to meet Company objectives. In fiscal 2012, our executive compensation program remained generally consistent with our program for fiscal 2011 and had the following principal components:

PRINCIPAL ELEMENTS OF COMPENSATION FOR FISCAL 2012

Base salary		Provides a competitive level of annual compensation to attract and retain executives with the skills and experience necessary to lead our Company.
Annual cash incentive opportunities		Focus and reward our NEOs on achievement of critical annual financial goals. For fiscal 2012, performance was measured by EPS. Serve as a critical element of our overall pay-for-performance approach.
Long-term incentive opportunities	**Stock options**	Link pay for our NEOs directly to the shareholder experience, because value to the executive comes only with increases in share price.
	Cash-based long-term incentive	Focuses and rewards our NEOs on driving profitable growth over time, which is strongly correlated with share price appreciation and shareholder value. Financial metrics include three-year compound annual growth in EPS and three-year average annual ROIC.

OTHER ELEMENTS OF COMPENSATION FOR FISCAL 2012

Retirement earnings opportunities	Contribute to a competitive compensation package, thereby helping the Company to attract and retain talented executives. Principally, these programs are designed to:
	Help our NEOs and other employees save for their retirement; and
	Provide the opportunity to plan and defer taxation on income.
	Are based on programs available to the general U.S. workforce. The programs are as follows:
	A 401(k) savings plan, supplemented with an executive retirement and deferred compensation plan that permits deferrals in excess of statutory limits on the 401(k) plan and provides a Company match, allowing executives savings levels equivalent to those of the general workforce.
	A traditional pension plan, supplemented with an executive retirement pension plan that permits benefits to be earned on compensation that is in excess of statutory limits that apply to the traditional pension plan.
	Are further described in the Benefits and Other Programs section of this CD&A.
Limited perquisites	Are comprised of conservative allowances for car expenses and for financial planning advisory services that: (1) save time and maintain focus for our executives; (2) provide our executives value beyond their cost to the Company; and (3) are fairly common in the broader market and in keeping with reasonable, competitive practices.
Change in control severance agreements	Intended to minimize personal considerations and maintain focus on the Company in the event of rumored or actual change in corporate control. No benefits are due under these agreements unless there is both: (1) a change in control; and (2) a loss of employment by the executive caused by termination or by job changes that constitute good reason to resign (commonly referred to as double-trigger agreements).
	Exclude tax gross-ups that would cover personal tax liabilities that might apply to any of these change in control benefits.

With respect to the principal elements of our executive pay program above, we consider annual incentives, cash-based long-term incentives and stock options to be performance-based, because each of these three elements is valuable to the executive only if performance goals are achieved and/ or share price improves. In 2012, performance-based incentives made up approximately 75% of the total target pay opportunity for our CEO and an average of approximately 63% for other NEOs.

Compensation Decision Process

Market-Based Assessments of Pay Opportunities for Our NEOs

As input into the compensation decision process, the Committee annually reviews the executive labor market in which we compete for talent to compare compensation levels for our executives to the compensation paid to executives of comparable companies in the market in which we compete for employees. For fiscal year 2012, the Committee retained Semler Brossy as its independent advisor to assist with this work, and to advise the Committee generally as to other executive compensation matters.

In determining fiscal 2012 compensation, the Committee referenced available public information for a group of peer companies, identified with the help of Semler Brossy based principally on the following criteria: similar businesses and industries; comparable size; and subject to similar reporting requirements.

In selecting companies with similar business focus, primary consideration was given to Aerospace and Defense, with representation of broader industrial companies not to exceed 1/3 of the total group. For fiscal 2012, the following 18 companies comprised the peer group, which, taken as a whole, provides an appropriate representation of the competitive market when assessing pay levels and practices for our NEOs.

AAR Corp.*	Flowserve Corp.*	Spirit Aerosystems Holdings Inc.*
Alliant Techsystems Inc.*	Hexcel Corp.*	SPX Corp.*
AMETEK Inc.*	Moog Inc.	Teledyne Technologies Inc.
BE Aerospace Inc.	Orbital Sciences Corp.	TriMas Corp.*
Crane Co.	Rockwell Collins Inc.*	Triumph Group Inc.
Curtiss-Wright Corp.	Roper Industries Inc.	Woodward Governor Co.

* These companies were added to the peer group for fiscal 2012. Companies eliminated from the prior 2011 peer group were: Ducommun Inc., JDS Uniphase Corp., Sauer-Danfoss Inc. and Tetra Tech Inc.

For this group of 18 companies, median revenue as of each company s 2011 fiscal year end was $2.5 billion (versus Esterline s revenue of $2.0 in fiscal 2012), median market capitalization as of October 2012 was $2.3 billion (versus Esterline s $1.8 billion as of October 26, 2012), and median total assets as of each company s 2011 fiscal year end was $3.4 billion (versus Esterline s $3.2 billion for fiscal 2012). This revised peer group is intended to better reflect our growing business, particularly given the 2011 acquisition of the Souriau Group, which significantly increased our revenue and assets.

In addition, the Committee reviewed pay information from the following published surveys to complement the peer group information. The surveys were selected to represent pay levels for positions of comparable responsibility within companies of comparable size to Esterline. (The identity of companies that participated in these specific surveys is proprietary and not available to the Company.) For fiscal 2012 compensation decisions, the published survey sources used were:

- 2011 Towers Watson Compensation Data Bank General Industry Compensation Survey Report U.S., reporting data from 105 participating companies with annual revenues between $1 billion and $3 billion;

- 2011 U.S. Mercer Benchmark Database for Executives, reporting data for 406 participating organizations with annual revenues between $1 billion and $2.5 billion; and the,

- 2011 Watson Wyatt Top Management Compensation Report, reporting data for 244 organizations with revenues between $500 million and $2.5 billion.

In determining fiscal 2012 compensation, the Committee reviewed and compared the executives aggregate target direct compensation (base salary, short- and long-term incentives at target) against the aggregate compensation offered to executives in the 2012 peer group and the market surveys. In doing so, the Committee focused principally to 25th, 50th, and 75th percentile values.

Review of Total Compensation

When the Committee evaluates any significant component of an executive officer s total compensation, it considers the aggregate amounts and mix of all components in making its decision. For fiscal 2012, the Committee reviewed all components of compensation for each executive officer to get a complete picture of the total compensation opportunities awarded, including base salary, annual incentive compensation, long-term incentive compensation, retirement earnings opportunities, the dollar value to the executive and cost to the Company of all perquisites and other personal benefits. The Committee does not target any single element of compensation to specific peer company percentiles; rather, the Committee reviews pay for our NEOs relative to the peer and survey data to ensure that pay levels are competitive, or within a reasonable range around the median.

Governance Process

The Committee and the independent members of the Board approve all officer compensation programs and establish individual pay levels for all executive officers. In doing so, the Committee consults with its independent executive compensation advisor, Semler Brossy, which does no other work for and has no other business relationships with Esterline. The independent advisor routinely provides the Committee with an evaluation of the market competitiveness of executive compensation packages; advice on the CEO and other executive pay decisions; and advice on other compensation-related matters, as requested by the Committee. The firm reports directly to the Committee, and the Committee may replace the firm or hire additional consultants at any time. A representative of the firm attends meetings of the Committee, upon request, and communicates with the Committee chair between meetings. While the Committee values the advice of its consultant, the Committee and the independent members of the Board are the sole decision-makers concerning compensation of executive officers.

The Committee also seeks recommendations from management the CEO and the General Counsel and Vice President, Administration as to appropriate program changes and pay levels for all executive officers apart from the CEO. It then consults with its outside advisor as to those recommendations and seeks advice as to appropriate pay levels for the CEO. In addition, the Committee and the independent members of the Board conduct an annual performance evaluation of the CEO, the results of which significantly contribute to decisions concerning CEO compensation. On this basis, the Committee develops proposals for consideration by all independent directors, who act on those proposals in executive session, outside the presence of the CEO and of any other officers.

We had an advisory vote on our executive compensation program (commonly referred to as the say on pay vote) at our annual meeting of shareholders held on March 7, 2012, as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). Our 2012 say on pay proposal received substantial majority support from shareholders (approximately 91% For votes). We take this strong shareholder support as an assurance that our executive pay program and practices continue to be reasonable and well-aligned with shareholder expectations. Nevertheless, we review our overall approach to executive pay periodically, and we expect to make changes from time to time. In fiscal 2012, we implemented stock ownership requirements for our executive officers to help further alignment of interests with shareholders. Looking ahead to fiscal 2013, we are making other program changes, which are outlined in the final section of this CD&A. We will hold an advisory vote on executive compensation on an annual basis; we are and will remain committed to being responsive to shareholder feedback, and the results of our annual say on pay votes help inform the Committee s discussions about the executive pay program.

Risk Assessment

In developing and reviewing the Company s executive incentive programs, management and the Committee analyze the incentives inherent in program designs to help ensure they do not induce executives to undertake unacceptable levels of business risk. Our compensation program, in total, is intended to reward the management team for strong performance over the long-term, with consideration to near-term actions and results that strengthen and protect our Company. We believe our balanced approach to performance measurement and pay delivery works and includes appropriate safeguards. Further, program administration is subject to considerable internal controls, and when determining the principal outcomes performance assessments and pay decisions we rely on principles of sound governance and good business judgment. The Committee is satisfied that our plan designs are conservative in this respect, and that, together, the various components of pay work as a check and balance to ensure executive incentives are consistent with shareholder interests. For example, the annual incentive compensation plan s goal to maximize current year EPS is balanced by the long-term incentive plan that measures growth in EPS and ROIC over a three-year period. Thus, risks are mitigated by a balance between time horizons, across different performance metrics, and across overlapping performance periods. The Company s stock option grants also serve to moderate and balance risk; the grant vesting schedule is laddered incrementally over four years with the potential to increase in value over the full ten-year term of the grant.

Executive Stock Ownership Requirements

In 2012, the Board implemented the stock ownership requirements for our executive officers it had approved in December 2011, to further strengthen alignment of our executives interests with those of our shareholders. Under those ownership requirements, our CEO is required to own shares of our Common Stock having a value equal to three times base salary; other executive officers are required to own shares of our Common Stock having a value equal to one times base salary. To help encourage progress to meet these requirements and to ensure maintenance of these ownership levels, our executive officers are required: (1) to hold 50% of shares of our Common Stock acquired upon the exercise of stock options granted after December 8, 2011, net of income taxes due; and (2) to receive 50% of any payment under the Company s LTIP for plan cycles beginning with fiscal 2012-2014 as shares of our Common Stock (rather than cash), net of income taxes due. These two conditions apply to our executive officers option exercises and to LTIP awards until required ownership levels are met.

Other Considerations

In determining executive compensation, the Committee also considers, among other factors, the possible tax consequences to Esterline and to its executives. For example, the Committee considers the exception for performance-based compensation under Internal Revenue Code of 1986, as amended (IRC) Section 162(m) in designing our compensation programs. In addition, we considered the tax ramifications of the change in control termination protection agreements with our officers under Section 280G and Section 4999 of the IRC. The Company does not gross up such payments or otherwise pay an officer s individual tax liability in these circumstances. The agreements generally provide that in the event any payments under the agreements are considered to be excess parachute payments under Section 280G, either alone or together with other payments from us, the payments will be reduced so that the payments will not be treated as excess parachute payments. However, this payment reduction will only take place if the reduction would provide to the officer a greater net, after-tax benefit than he or she would receive if the payments were not subject to the reduction. Finally, we considered the impact of Section 409A of the IRC on our compensation programs, which imposes tax penalties on certain nonqualified deferred compensation arrangements. We operate our covered arrangements in a manner intended to comply with or be exempt from Section 409A.

In addition to the above, the Committee considers the accounting consequences to the Company of different compensation decisions, as well as the impact on shareholder dilution.

In December 2012, the Committee decided to adopt a compensation recovery policy applicable to the Company s incentive plans, often referred to as a clawback policy. The new policy will supplement the existing clawback provisions that apply to the CEO and CFO under the Sarbanes-Oxley Act of 2002.[1] The details of this new clawback policy are in development as of the publication date of this proxy statement, with the expectation that a completed policy will be implemented by the Committee at its next regularly-scheduled meeting in March 2013. In adopting this new policy, the Committee is aware of a rule-making process pending with the Securities and Exchange Commission (SEC) pursuant to its implementation of statutory clawback provisions contained in the Dodd-Frank Act. The Committee will continue to monitor developments in this area, and will reconsider and revise its policy, as needed, when the SEC issues final rules relating to compensation clawbacks.

1 Sarbanes-Oxley provides that the CEO and the CFO must reimburse the Company for any bonus or other incentive-based or equity-based compensation received during the twelve-month period following the preparation of an accounting restatement, where the restatement is caused by misconduct.

Company Performance in Fiscal 2012

In fiscal 2012, Esterline achieved record sales of $2.0 billion, which was 16% over the prior year. The Company also earned income from continuing operations of $164.7 million, or $5.27 per diluted share, a 23.4% growth over fiscal 2011, excluding a one-time, non-cash charge against goodwill explained below. Cash flow at $194 million also achieved an all-time high, fully-supporting the Company s commitment to repay acquisition-related debt and de-lever its balance sheet. New orders grew 9.9% to $2.1 billion, and backlog ended the year even with fiscal 2011 at $1.3 billion.

This operational performance was especially notable in the context of an uncertain global economy and declining defense markets. The Company s proven process for integrating newly-acquired businesses continued to deliver, as the Souriau Group and Eclipse Electronics performed well in their first full year under Esterline ownership. Management made important progress in other areas also, advancing the Company s operational excellence initiatives, establishing a new legal department, transitioning key executive assignments, and planning for future leadership succession.

Reported results under U.S. Generally Accepted Accounting Principles (GAAP) of $3.60 EPS were reduced from $5.27 by a charge against goodwill of $52.2 million, or $1.67 per diluted share, related to our U.K.-based Racal Acoustics, Inc. military headset business (Racal Acoustics). The Committee decided to exclude the charge from Company earnings for purposes of calculating incentive compensation awards considering: (1) the Company s strong operational performance for the year, and (2) the disproportionate impact on incentive plan outcomes had this item been included. The Committee also excluded another event: a $0.30 per diluted share gain attributable to a litigation settlement connected with the acquisition of our Avionics business in 2007 (Computershare). Excluding these two items, EPS for incentive purposes was $4.96 ($3.60 + $1.67 - $0.30, rounded), which resulted in (a) an annual incentive outcome more closely aligned with the Company s operation performance for the year, and (b) a baseline year in the Company s long-term cash plan that is more reflective of the Company s ongoing earnings from operations.[2]

This CD&A uses the term adjusted to refer to fiscal 2012 reported results under GAAP adjusted to exclude both the $0.30 Computershare gain and the ($1.67) Racal Acoustics charge, as in the table below:

	Fiscal 2011	Fiscal 2012 *as reported under GAAP, without adjustments*	Fiscal 2012 adjusted	% Change *between Fiscal 2011 and Fiscal 2012 adjusted*
Net revenues, in thousands	$ 1,717,985	$ 1,992,318	$ 1,992,318	16.0%
Income from continuing operations, in thousands	$ 133,087	$ 112,535	$ 155,191	16.6%
Diluted earnings per share continuing operations	$ 4.27	$ 3.60	$ 4.96	16.2%
Net income, in thousands	$ 133,040	$ 112,535	$ 155,191	16.6%
ROIC	6.9%	5.8%	6.5%	(0.2%)

Despite a challenging economic environment, our performance in 2012 continued our long-term story of growth and profitability. Over the five-year period ending fiscal 2012, we delivered a compound annual growth rate (CAGR) of + 11% for revenue. For earnings per share growth, the CAGR over the same period using reported results under GAAP is lower at 2%, depressed in large part by the significant non-cash charge against goodwill in 2012. Absent this unusual, one-time item, earnings per share grew at a compound annual rate of 10% over the five-year period ($3.27 EPS in fiscal 2007 to $5.27 EPS in fiscal 2012, excluding the goodwill charge only and including the Computershare gain), or at the rate of nearly 9% when compared with the $4.96 adjusted EPS used for fiscal 2012 incentive calculation purposes.

[2] The adjustment calculation was: $3.60 EPS + $1.67 Racal Acoustics charge - $0.30 Computershare gain = $4.96 (rounded).

Summary of Compensation Decisions & Results in Fiscal 2012

Our executive pay program is based on (1) long-standing principles of fairness internally among our executives and externally relative to comparable peer companies, and (2) paying for performance where pay outcomes link directly to the Company s performance. Further, and in keeping with these principles, we emphasize the direct elements of pay base salaries and incentive compensation and have few indirect elements (e.g., perquisites, or special executive benefits). For 2012, the main executive pay decisions were as follows:

Base salaries: Base salaries for Messrs. George, Houston, and Yost increased moderately (+3.8% to +4.6%) from fiscal 2011 levels based on the competitiveness of their salaries relative to market. Ms. Mason s salary increase (+14.2%) also reflected her appointment to General Counsel and Vice President, Administration. The base salary for Mr. Lawrence also increased significantly (+14.3%), in recognition of the Company s strong performance in fiscal 2011 and to move his salary toward a more competitive level.

Target annual incentive opportunities: Target annual incentive opportunities for the NEOs increased from fiscal 2011 levels to more closely reflect competitive levels (+20% for Mr. Lawrence to 80% of base salary from 60%; +10% for other NEOs).

Actual annual incentive outcomes: Actual annual incentive awards reflected the Company s fiscal 2012 adjusted EPS of $4.96, which was below our targeted EPS of $5.16 and resulted in payouts at 90.3% of target amounts. Absent the two adjustments described above (+$1.67 and -$0.30), the Company s EPS result would have been below the threshold for payout. The Committee, with consideration to the unusual nature of these two events, determined to exclude both for purposes of calculating incentives, resulting in incentive outcomes more closely aligned with the Company s strong operational performance.

Over the last five years, CEO annual incentive outcomes have tracked closely with our earnings per share performance. In fiscal years 2008 and 2009 in the chart below, Mr. Cremin was CEO and Mr. Lawrence was a Group Vice President. Effective in fiscal 2010, Mr. Lawrence became President and CEO (and then Chairman of the Board in 2012). The bar in each year reflects actual annual incentive for the CEO in that year.

Note for chart above: For 2012, the company used an adjusted EPS for computing the incentive compensation award; the adjustment calculation was as follows: $3.60 EPS +$1.67 Racal Acoustics charge -$0.30 Computershare gain = $4.96 (rounded). Without this adjustment, there would have been no annual incentive payout.

Target long-term incentive opportunities: For fiscal 2012, long-term incentive opportunities increased for Messrs. Lawrence (+25%), Houston (+10%), Yost (+10%), and Ms. Mason (+10%), again with consideration to more closely aligning our executive pay levels with opportunities in the competitive market. In addition, during the year, Ms. Mason was granted a one-time stock option for 20,000 shares in consideration of her appointment to General Counsel and Vice President, Administration.

Actual long-term incentive outcomes: Actual amounts to be earned from the fiscal 2012 long-term incentive target opportunities will be based on our future stock price performance (for stock options) and our sustained financial performance for the three years beginning fiscal 2012 and ending with fiscal 2014. The other pertinent period for fiscal 2012 long-term compensation relates to our cash-based LTIP for the three-year cycle from fiscal 2010 through fiscal 2012. Actual awards under the LTIP for that period ending fiscal 2012 paid at 101.6% of target, based on our EPS growth of 7.4% (compound annual growth rate for the three-year period), which was below our targeted EPS growth of 10%, and ROIC results of 6.5% (average annual return for the three-year period), which was above our targeted ROIC of 6.0%. The calculation of these results used the adjusted $4.96 EPS for fiscal 2012, as explained above in the Company performance in Fiscal 2012 section of this CD&A.

	Target	*Actual***
Earnings Per Share Growth	10.0%	7.4%
Return on Invested Capital*	6.0%	6.5%
Payout (as a % of target award amount)	100%	101.6%

* ROIC was calculated as net income for the three-year period before extraordinary items, divided by the three-year average investment (shareholder s equity plus total debt).

** Uses adjusted fiscal 2012 EPS

CEO Pay and Shareholder Returns

Our compensation programs focus on pay-for-performance and are designed to reward financial performance and shareholder value creation. The chart below helps demonstrate the link between total CEO pay and total shareholder returns. In the chart below, total pay includes base salary, actual annual incentive earned, actual cash long-term incentive payouts, and grant date fair value of equity awards (all as defined for disclosure in the Summary Compensation Table). Indexed total shareholder return shows the value of $100 invested in our Common Stock in the first year shown.

Specific Compensation Decisions for NEOs in Fiscal 2012

Competitive Position of Total Target Compensation for Fiscal 2012

As described above in the Compensation Decision Process section of this CD&A, specific compensation decisions for our executive officers in fiscal 2012 were based in part on a competitive assessment of our executive compensation opportunities relative to those at comparable companies. The Committee considers available market information from our peer group and published surveys for base salary, annual incentive target values, and long term incentive target values, which together comprise total target compensation .

While the Committee does not manage executive pay opportunities to a specific percentile in the market, it does reference a competitive range to help guide decisions. For target total compensation, this competitive range is defined as plus or minus 15% of market medians for each executive position. With the fiscal 2012 decisions reported in this section below, total target compensation for Mr. Lawrence is closer to, but still significantly below, this competitive range. Taking our other named executive officers as a group, the fiscal 2012 decisions reported below position total target compensation within this competitive range.

Following are the specifics of fiscal 2012 decisions for the NEOs as they relate to each component of compensation.

Base Salary

The Committee targets base salaries to be competitive in the marketplaces in which we compete for key executive officers. The Committee considers available market data, referencing the peer group data and pay surveys (as discussed above), and targets pay to be within a reasonable range around the median. Our executive base salaries take into account competitive norms, scope and complexity of responsibilities, internal equity, the Company s financial condition, as well as the qualifications, experience and sustained individual performance of the executive.

Effective January 2012, the independent members of the Board approved a base salary increase for Mr. Lawrence of 14.3% from $700,000 to $800,000; this was intended to move his compensation toward a more competitive level relative to available market information. Effective August 2012, Ms. Mason s base salary was increased 11.3% due to her appointment as General Counsel and Vice President, Administration; her earlier January 2012 increase as Vice President, Human Resources was 2.6%. Base salary increases for the other NEOs in January 2012 ranged from 3.8% to 4.6%, principally to more closely reflect available competitive market information.

Executive	*Title*	*2011 Base Salary*	*2012 Base Salary*	*% Increase*
R. Bradley Lawrence	President and CEO	$700,000	$800,000	14.3%
Robert D. George	CFO, Vice President, and Corporate Development	$435,000	$452,000	3.9%
Frank E. Houston	Senior Group Vice President	$395,000	$410,000	3.8%
Marcia J. Mason *	General Counsel and Vice President, Administration	$302,000	$345,000	14.2%
Albert S. Yost	Group Vice President and Treasurer	$325,000	$340,000	4.6%

* Ms. Mason received a January 2012 base salary increase of 2.6% as Vice President Human Resources and a further increase of 11.3% in August 2012 related to her new assignment as General Counsel and Vice President, Administration.

Annual Incentive Compensation Plan

We provide executives with annual incentive opportunities contingent on meeting pre-defined financial goals for the year. The purpose of the annual incentive plan is to encourage our officers to make prudent decisions that will strengthen current year financial results for shareholders. No executive is eligible to receive annual incentive compensation unless the Company achieves a minimum level of performance recommended by the Committee at the beginning of the fiscal year and approved by the independent members of the Board.

For fiscal 2012, the Committee identified a target award amount of annual incentive compensation for each participant expressed as a percentage of the base salary rate in effect as of the last day of the fiscal year. This percentage varied in proportion to the level of the individual executive s responsibility within the Company, as well as a review of competitive compensation opportunities provided by Semler Brossy. The target award amount was not guaranteed, but reflected what would be payable if targeted results were achieved. Target annual incentive opportunities for the NEOs increased from fiscal 2011 levels to more closely reflect competitive levels (+ 20% for Mr. Lawrence to 80% of base salary from 60%; + 10% for other NEOs). The following table shows the fiscal 2012 target opportunities for each NEO under our annual incentive plan:

Executive	*Title*	*Target Annual Incentive Compensation as % of Base Salary*
R. Bradley Lawrence	Chairman, President and CEO	80%
Robert D. George	CFO, Vice President, and Corporate Development	50%
Frank E. Houston	Senior Group Vice President	50%
Marcia J. Mason *	General Counsel and Vice President, Administration	45%
Albert S. Yost	Group Vice President and Treasurer	45%

* Ms. Mason s actual annual incentive plan award was pro-rated to reflect the changes in salary and incentive target levels associated with the two positions she held in fiscal 2012. Her actual annual incentive award was calculated based on 9 months as Vice President Human Resources with a base salary of $310,000 and an incentive target of 40%, and three months as General Counsel and Vice President, Administration with a base salary of $345,000 and a target of 45%.

For fiscal 2012, the financial performance measure established for the annual incentive plan was fully-diluted net EPS. EPS is a critical measure of annual performance for our Company internally, as well as for our shareholders and for stock market analysts. The EPS goal in the annual incentive plan for fiscal 2012 was $5.16. This target was higher than the fiscal 2011 result of $4.27, which itself was an all-time record. As fiscal 2012 developed, our performance fell short of expectations due to delays or reductions in certain key customer programs and to operational problems. Even so, the fourth quarter finished strongly, bringing full-year EPS results (adjusted per the discussion above) to an overall achievement of 96.1% of our EPS target, on an adjusted basis as described above, and resulting in a 90.3% annual incentive payout for all NEOs. As discussed in more detail above, the Committee adjusted EPS for purposes of computing incentive awards to not penalize or benefit management for factors that were not reasonably foreseeable or within their control. The following table shows the potential payouts for each NEO under the fiscal 2012 annual incentive plan at various levels of EPS achievement (with linear interpolation for achievement between threshold and target and between target and maximum).

	Threshold	*Actual**	*Target*	*Maximum*
Earnings Per Share	$ 3.61	$ 4.96	$ 5.16	$ 6.71
Payout (as a % of target award amount)	25%	90.3%	100%	200%

* Adjusted as explained above in the Company Performance in Fiscal 2012 section of this CD&A.

Actual award amounts under the annual incentive plan are reflected in the Summary Compensation Table for Fiscal 2012 included in this proxy statement.

After annual incentive award amounts were computed for fiscal 2012, the Committee had discretion under plan terms to adjust the actual payouts upward or downward by as much as 25% of the greater of the executive s computed award and the executive s target award amount to reflect the individual contributions. The Committee rarely makes such adjustments and did not make any to annual incentive awards for fiscal 2012. The Committee may only exercise downward discretion for CEO awards or those for any other executive where awards are intended to qualify as performance-based compensation under Section 162(m) of the IRC.

Long-Term Incentives

For fiscal 2012, we continued with a combination of stock option grants and a cash-based LTIP. Stock options help to align executive and shareholder interests by linking executive pay directly to share price appreciation. The cash-based LTIP continues to be based on EPS growth and ROIC, two metrics selected for their comparatively strong correlation with shareholder value over time. Further, the allocation of long-term incentive earning opportunities between option grants and the cash-based LTIP helps balance pay delivery and outcomes, and serves to engage our NEOs in concert with other executive compensation elements to:

Focus on increasing total shareholder returns over the long term by concentrating on key drivers of share price;

Consider and make reasonable, long-term investments by measuring performance over multiple years; and

Use Company assets effectively in achieving earnings growth goals.

For fiscal 2012, long-term incentive opportunities increased for Messrs. Lawrence (+25%), Houston (+10%), Yost (+10%), and Ms. Mason (+10%), again with consideration to more closely aligning our executive pay levels with opportunities in the competitive market. The long-term incentive target award opportunities for each of our NEOs established in fiscal 2012 were as follows:

Executive	*Title*	*Total target annual award value for options and cash LTIP as % of base salary*	*Target value (in thousands)*	*Percentage allocated to stock options*	*Percentage allocated to cash LTIP*
R. Bradley Lawrence	Chairman, President and CEO	225%	$1,800.0	70%	30%
Robert D. George	CFO, Vice President, and Corporate Development	140%	$632.8	60%	40%
Frank E. Houston	Senior Group Vice President	125%	$512.5	60%	40%
Marcia J. Mason*	General Counsel and Vice President Administration	110%	$379.5	60%	40%
Albert S. Yost	Group Vice President and Treasurer	110%	$374.0	60%	40%

* Coincident with her promotion in August 2012, Ms. Mason s long-term incentive target was increased from 100% of base salary to 110%. Accordingly, her target award in the cash LTIP for the FY12-FY14 performance cycle was increased to $151,800, which is 40% of the total $379,500 long-term incentive target [($345,000 base salary)(110% target)(40% allocation)]. Ms. Mason received two stock option grants in fiscal 2012: (1) In December 2011 she was granted a stock option to purchase 8,900 shares, which was equivalent to 60% of her long-term incentive target at that time; and, (2) In August 2012, she received an additional, one-time stock option grant to purchase 20,000 shares in connection with her promotion.

Stock Options

Management and the Committee determined the number of shares subject to each stock option grant using a Black-Scholes value per option of 40% of our Common Stock s face value at grant, using a representative price of $52.00 per share based on late November 2011 trading. Options were granted a week or so later on December 8, 2011, with an exercise price equal to the closing price of our Common Stock on that date ($51.08). The stock options granted to the NEOs in fiscal 2012 are disclosed in the Grants of Plan-Based Awards Table for Fiscal 2012 in this proxy statement. In January 2012, the Company discovered an administrative error in the size of the stock option issued to Mr. Lawrence in December 2010, having been issued for 38,600 shares rather than for 40,900, as approved. Accordingly, a stock option grant for the 2,300 share shortfall was issued to Mr. Lawrence in January 2012 with an exercise price of $64.56 (equal to the closing price of our Common Stock on December 9, 2010, which is the date of the original grant) to correct the administrative error and complete the grant approved by the independent members of the Board in December 2010. Also, the usual vesting periods for that supplemental grant were adjusted as a further equitable correction. This corrective stock option issued to Mr. Lawrence in January 2012 is also included in the Grants of Plan-Based Awards Table for Fiscal 2012.

The independent members of the Board grant stock options based on Committee recommendations, with an exercise price equal to the closing price of our Common Stock on the date of grant. Typically, each grant vests and becomes exercisable in four equal annual installments and continues to be exercisable until ten years from the date granted. Options carry value only as the Company s share price increases, thereby linking potential executive gains with the creation of shareholder value over time.

Generally, stock options to executives are granted once per year in December when other aspects of executive compensation are reviewed. The Committee may also recommend option grants at other times, such as in connection with promotions. In August 2012, Ms. Mason received a special stock option grant for 20,000 shares in connection with her new assignment to the General Counsel and Vice President, Administration role. We do not time employee stock option grants in coordination with the release of material nonpublic information for the purpose of affecting the value of compensation.

Cash-Based Long-Term Incentive Plan

The LTIP was first adopted in fiscal 2005 and was continued for fiscal 2012. In this plan, a new LTIP performance period begins with each fiscal year and extends for three years. Accordingly, there are three overlapping LTIP performance periods running at any given time. For example, currently, the 2011-2013 cycle is in its last year, the 2012-2014 cycle is in its second year, and the 2013-2015 cycle is in its first year. The two relevant cycles for purposes of fiscal 2012 compensation are: (1) the 2010-2012 cycle which ended on the last day of fiscal 2012 and for which payments were made in early fiscal 2013; and (2) the 2012-2014 cycle for which target opportunities were set in early fiscal 2012.

In December 2011, the independent members of the Board assigned each participating executive a target opportunity for the 2012-2014 performance cycle based on compensation survey data and on Committee recommendations, as discussed above. The target opportunity is not guaranteed, but reflects what will be payable if the Company achieves established performance goals. Actual awards paid may be larger or smaller than target depending on Company performance over the three-year period. Award opportunities range from 0% to 400% of target opportunities. The 400% maximum award opportunity is intended to provide meaningful upside for significant outperformance relative to our performance targets, which is in keeping with our entrepreneurial management orientation. Actual awards are generally made in cash, but may also be made in a combination of cash and shares in accordance with the stock ownership policy that applies to executive officers, as discussed in the Compensation Decision Process section of this CD&A.

There are two performance goals under the LTIP: (1) growth in EPS and (2) ROIC. Payout amounts under the LTIP are determined based on the level of achievement of each of these two performance goals relative to each other, pursuant to a matrix where EPS growth is one axis and ROIC is the other axis. For purposes of the LTIP: (1) growth in EPS is based on all operating earnings and is calculated as the compound annual growth rate measured from the beginning of the base year to the end of the last year in a given performance cycle; and (2) ROIC is calculated as net income (before extraordinary items) divided by the monthly average invested capital during the corresponding fiscal year, averaged over the applicable performance cycle and expressed as a percentage. Again, these two performance measures were selected for the LTIP for their direct correlation with the creation of shareholder value over time.

The performance goals established for the 2010-2012 performance cycle and the 2012-2014 performance cycle are the same and consistent with expectations for longer-term performance in the market, inclusive of option expenses: 10% EPS growth and 6.0% ROIC. Generally, we hold these performance goals consistent over time, viewing them as longer-term standards for strong performance, with lesser regard to point-in-time economic conditions.

We review these performance goals and the plan s matrix periodically to ensure continuing effectiveness. For awards under both the 2010-2012 and 2012-2014 performance cycles to equal 400% of target amounts, EPS would need to grow by 32% or more, and ROIC would need to equal or exceed 10%. For the 2010-2012 performance cycle, actual achievement of the growth in EPS goal was 7.4% and actual achievement of the ROIC goal was 6.5%. Accordingly, executives were paid 101.6% of their respective target amounts. The calculation of the results used the adjusted $4.96 EPS for fiscal 2012, as explained in more detail in the Company Performance in Fiscal 2012 section of this CD&A. Had the Committee not adjusted EPS for fiscal 2012 to eliminate the goodwill impairment, there would have been no payout under the LTIP for the 2010-2012 performance cycle. Nevertheless, due to the period-over-period compound annual growth formula that is intrinsic to the plan design, estimated projected payouts for the six years from fiscal 2012 through fiscal 2017 would have been the same amount in total with or without the fiscal 2012 adjustments to EPS. Thus, the Committee s decision to use an adjusted EPS amount for purposes of calculating LTIP results reduced volatility in plan results, but should not increase projected total payments over time, all other factors being equal. Actual award amounts under the LTIP are reflected in the Summary Compensation Table for Fiscal 2012 in this proxy statement.

Benefits and Other Programs

Executive officers are allowed to participate in the Company s standard benefit programs that are generally available to other U.S.-based employees, including medical, dental, life, disability, pension, 401(k), employee assistance, and similar retirement and health and group insurance plans.

In addition, each of our executive officers based in the U.S. is eligible to participate in a supplemental executive retirement pension plan that permits benefits to be earned on compensation that is in excess of certain statutory limits that apply to the traditional pension plan, as more fully described in the Pension Benefits section of this proxy statement. The Committee believes that these programs are important attraction and retention tools, and that they are reasonable because they are designed to provide executives the same benefits as other employee participants, albeit on above-limit compensation. Executive officers are also eligible to participate in an executive supplemental retirement and deferred compensation plan that allows participants to defer compensation in excess of certain statutory limits in the tax-qualified 401(k) plan and provides a Company match on deferred compensation amounts that exceed certain limits in the tax-qualified 401(k) plan, allowing executives to earn an equivalent portion in Company matching funds as that available to the general workforce in the tax-qualified plan, as more fully described in the Nonqualified Deferred Compensation Section of this proxy statement. The Company does not pay or guarantee above-market returns. The appreciation, if any, in the account balances of plan participants is due solely to contributions by participants, any Company matching contributions and the underlying performance of the investment funds selected by the participants.

Consistent with past practice, internal equity and independent advice from Towers Watson, the Committee s outside advisor at the time, the Board approved an enhancement to the CEO s supplemental retirement formula in September 2009. The enhanced formula allows the CEO to earn pension benefits at the same accrual rate (1.6% per year of service) as other longer-service executive officers and recognizes Mr. Lawrence s entire service with Esterline in that calculation.

Executive officers also receive automobile allowances based on competitive market benchmarks, as do the Company s subsidiary presidents and certain sales personnel. Similarly, executive officers are eligible for relocation benefits under standard Company policy, which may be enhanced for executive officers and other management employees on a case-by-case basis. Certain executive officers and other senior managers also receive limited financial planning services, airline club memberships and an annual physical. Where applicable, the value of these items is disclosed in the Summary Compensation Table for Fiscal 2012 and accompanying notes. These benefits are a very small percentage of total compensation for NEOs. The Company does not provide executives with a tax gross-up to cover personal income taxes that might apply to any of these benefits, except in the case of certain company-required, actual relocation costs that an officer must include as regular income, and for taxes due on temporary housing stipends that are provided as a transition measure to assist an executive who has relocated to a substantially higher-cost area.

Change in Control Arrangements

To help ensure key officers focus their energy and attention on the best interests of the Company s shareholders, we have entered into double-trigger change in control termination protection agreements with our officers, including the NEOs. These agreements are designed to protect our executives in the event of a change in control, by assuring compensation benefits if an executive were terminated without cause or were to resign for good reason following a change in control. The Committee believes the amounts payable under these agreements provide our executives with reasonable protection, both in principle and with consideration to competitive market practice. These agreements are more fully described in the Termination of Employment and Change in Control Arrangements section of this proxy statement.

The Committee believes it is important to balance the need to provide an incentive for the NEOs to seek out and complete transactions that are in the best interests of the Company and its shareholders, while limiting option acceleration to events intended to protect the Company from certain types of change in control transactions and to events that defeat the retention purpose of time-vested equity, which results if the acquiring company does not assume or replace options. For these reasons, all options issued under the Company s 2004 Equity Incentive Plan, including those granted to the NEOs, become immediately vested and exercisable upon the consummation of certain events constituting a change in control of the Company, such as the acquisition by a third party of a significant portion of the Company s outstanding securities or if there is a significant change in the composition of the Board. However, in the event of a merger or other similar transaction, only options not assumed or replaced by the acquiring company will become immediately vested and exercisable. See the Termination of Employment and Change in Control Arrangements section of this proxy statement for further detail.

The Company does not provide executives with a tax gross-up to cover personal income or excise taxes that may apply to any of these change in control benefits.

Fiscal 2013 Executive Compensation Program Changes

From time to time, we review and make adjustments to our executive pay programs to help ensure continuing effectiveness within the context of (1) our long-standing principles of fairness internally among our executives and externally relative to competitors; and (2) our commitment to paying for performance where pay outcomes link directly to the Company s operational and financial performance or to share price performance. For fiscal 2013, we are making three key changes to our executive pay programs that will affect our NEOs:

Adding return on sales as a second performance measure in our annual incentive program: EPS will remain the principal focus, and return on sales will help capture managerial efficiency and qualify the EPS result, thereby strengthening our annual performance assessment.

Updating the definition of ROIC in our LTIP and increasing the ROIC performance goal: The new ROIC definition will more closely reflect external perspectives on returns, and will therefore allow more direct comparisons of our ROIC with other companies. The principal changes to the ROIC formula are: (1) adding back interest expense to the numerator on a tax-adjusted basis to render the calculation more or less neutral with respect to debt and equity financing; and (2) subtracting cash from the denominator because cash is not fully employed, and therefore is not expected to generate a meaningful return. Apart from and in addition to this definition change, performance requirements for ROIC will increase for the 2013-2015 performance cycle, consistent with our increasing expectations for ROIC results over time.

Introducing restricted stock units as a third long-term incentive vehicle: Beginning with fiscal 2013 grants (made in December 2012), RSUs will complement stock options and the LTIP. At grant, these new RSUs will make up roughly 25% of the overall long-term incentive value, and they will vest in full at the third anniversary of grant. RSUs will address executive retention as a key program objective more so than stock options and the LTIP. They will also provide for more natural accumulation of stock ownership over time. Thus, these RSUs will underscore our program s strong orientation to the alignment of executive and shareholder interests.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed with management the above CD&A. Based on that review and discussion, the Committee has recommended to the Board that this CD&A be included in this proxy statement.

Respectfully submitted,

ANTHONY P. FRANCESCHINI, CHAIRMAN

DELORES M. ETTER

PAUL V. HAACK

JERRY D. LEITMAN

HENRY W. WINSHIP IV [3]

STATEMENT REGARDING COMPENSATION PRACTICES

In fiscal 2012, the Compensation Committee and management continued their practice of conducting a comprehensive review of our compensation programs, including executive compensation and major broad-based compensation programs in which salaried and hourly employees at various levels of the organization participate. The goal of this review was to assess whether any of our compensation programs, either individually or in the aggregate, would encourage executives or employees to undertake unnecessary or excessive risks that were reasonably likely to have a material adverse impact on our business.

The Compensation Committee reviewed an inventory of our variable pay and sales commission plans, considering the number of participants in each plan, the target and maximum payment potential, and the performance goals of each plan. The Compensation Committee concluded that these programs were appropriate for our businesses and highly unlikely to create a material risk.

Although the programs are generally designed to pay for performance and provide incentive-based compensation, the programs contain various mitigating factors to ensure our employees, including our NEOs, are not encouraged to take unnecessary risks in managing our business. These factors include:

Oversight of programs (or components of programs) by committees of the Board, including the Compensation Committee;

3

Mr. Winship was appointed to the Compensation Committee on December 13, 2012 and, therefore, did not attend or participate in any Compensation Committee meetings or deliberations in fiscal or calendar year 2012.

Discretion provided to the Board and the Compensation Committee (including negative discretion) to set targets, monitor performance and determine final payouts for executive-level incentive plans;

Oversight of programs by a broad-based group of functions within the organization, including the CEO, CFO, General Counsel, group vice presidents, vice president of Human Resources, and at multiple levels within the organization (both corporate and business units);

Target awards that are indexed on base pay, which is determined based on market data and the merit of individual performance; further, Company policy and practices control base pay levels carefully through analysis, reporting, and executive approvals that ensure we compensate employees fairly;

Incentives focused primarily on the use of broad-based financial metrics (such as growth in operating profit and return on investment), including a mixture of consolidated and business-specific goals, with no one factor receiving an excessive weighting;

A mixture of programs that provide focus on both short- and long-term goals and that provide a mixture of cash and equity compensation;

Our long-term cash incentive plan focuses on operating earnings growth and average return on operating investment over overlapping three-year award periods. This creates a focus on driving sustained performance over multiple award periods, mitigating the potential for executives to take excessive risks to drive short-term performance spikes in any one award period;

Capping the potential payouts under both short- and long-term incentive plans to eliminate the potential for dramatic or risky windfalls;

Service-based vesting conditions with respect to equity grants; and

The long-term ownership interests in the Company held by our key executive officers and by members of the Board of Directors.

As a result of this review, both management and the Compensation Committee concluded that our total compensation plans, programs and practices are structured in the best interest of the Company and its shareholders. They are appropriately tailored to encourage employees to grow our business, but not incent them to do so in a way that poses unnecessary or excessive material risk to us.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

All members of the Compensation Committee during the 2012 fiscal year, each of whom was listed in Board and Board Committees Compensation Committee were independent directors and no member was an employee or former employee. No Compensation Committee member had any relationship requiring disclosure under Item 404 of Regulation S-K. No executive officer of the Company has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of the Board of Directors or the Compensation Committee during the 2012 fiscal year.

ADDITIONAL INFORMATION REGARDING EXECUTIVE COMPENSATION

The following tables and accompanying narrative disclosure should be read in conjunction with the CD&A, which presents the objectives of our executive compensation and benefits programs.

Summary Compensation Table for Fiscal 2012

The table below summarizes certain compensation information for fiscal 2012 for our NEOs, who include the CEO, CFO and the three other most highly-compensated executive officers of the Company who were serving as executive officers at the end of fiscal 2012.

Name and Principal Position	Year	Salary ($)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value & Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
R. Bradley Lawrence	2012	$ 782,692	$ 1,564,732	$ 943,680	$ 662,847	$ 50,216	$ 4,004,167
Chairman, President and CEO	2011	682,692	1,264,233	436,968	449,335	50,877	2,884,105
	2010	600,000	1,812,589	922,724	678,531	49,935	4,063,779
Robert D. George	2012	449,058	450,889	441,619	387,394	29,478	1,758,438
CFO, Vice President and Corporate	2011	431,971	699,567	265,692	230,519	29,220	1,656,969
Development	2010	417,500	475,010	722,268	219,565	33,997	1,868,340
Frank E. Houston	2012	407,404	364,654	338,734	373,146	26,064	1,501,001
Senior Group Vice President	2011	392,404	373,375	211,932	256,632	15,953	1,250,296
	2010	376,538	354,616	527,340	217,272	29,334	1,505,100
Marcia J. Mason	2012	317,365	769,460	236,883	331,160	23,044	1,677,913
General Counsel and Vice President, Administration							
Albert S. Yost	2012	337,404	266,099	249,919	75,942	60,890	990,253
Group Vice President and	2011	310,962	248,916	153,128	35,575	87,767	836,348
Treasurer	2010	271,538	560,195	389,548	19,301	192,396	1,432,978

(1) Represents the aggregate grant date fair value of option awards granted during the fiscal year, computed in accordance with ASC 718. Assumptions used to calculate these amounts are included in Note 13, Employee Stock Plans, of the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended October 26, 2012.

(2) For fiscal 2012, represents amounts earned under the annual incentive plan and the 2010-2012 performance cycle under the LTIP. Amounts earned under the annual incentive plan for fiscal 2012 were: Mr. Lawrence, $577,920; Mr. George, $204,078; Mr. Houston, $185,115; Ms. Mason, $119,027; Mr. Yost, $138,159. Amounts earned under the 2010-2012 performance cycle under the LTIP were: Mr. Lawrence, $365,760; Mr. George, $237,541; Mr. Houston, $153,619; Ms. Mason, $117,856; Mr. Yost, $111,760.

(3) Represents the annual increase in the actuarial present value of accumulated benefits under our Pension Plan and Supplemental Executive Retirement Plans (SERP Pre 2005 and 2005+).

(4) For fiscal 2012, includes match payments under the Company s 401(k) plan ($7,500 for each NEO and the Company s Supplemental Executive Retirement & Deferred Compensation Plan (Mr. Lawrence, $24,648; Mr. George, $10,284; Mr. Houston, $8,663; Ms. Mason, $4,493; Mr. Yost, $5,015). Also includes the following for each NEO: Mr. Lawrence (automobile allowance, financial planning, club memberships and cost of annual physical); Mr. George (automobile allowance, club memberships and cost of annual physical); Mr. Houston (automobile allowance); Ms. Mason (automobile allowance and club memberships); Mr. Yost (automobile allowance, financial planning and club memberships). For Mr. Yost, the amount also includes $19,595 for a living stipend and $10,551 of tax gross-up on the living stipend. We value the incremental cost to us for these benefits based on the actual costs or charges incurred by us for the

benefits.

Grants of Plan-Based Awards Table for Fiscal 2012

The following table provides information regarding grants of plan-based awards to the NEOs under our 2012 Annual Incentive Compensation Plan, LTIP and the 2004 Equity Incentive Plan during fiscal 2012.

Name	Approval Date	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	All Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Share)	Grant Date Fair Value of Option Awards ($)
R. Bradley Lawrence		(1)	$ 160,000	$ 640,000	$ 1,280,000		$	$
		(2)		540,000	2,160,000			
	12/08/11	12/08/11 (3)				60,600	51.08	1,493,108
	01/04/12	01/04/12 (4)				2,300	64.56	71,624
Robert D. George		(1)	56,500	226,000	452,000			
		(2)		253,000	1,012,000			
	12/08/11	12/08/11(3)				18,300	51.08	450,889
Frank E. Houston		(1)	51,250	205,000	410,000			
		(2)		205,000	820,000			
	12/08/11	12/08/11 (3)				14,800	51.08	364,654
Marcia J. Mason (5)		(1)	32,953	131,813	263,626			
		(2)		151,800	607,200			
	12/08/11	12/08/11 (3)						