

ESTERLINE TECHNOLOGIES CORP
Form DEF 14A
December 29, 2016

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 (Amendment No.)

Filed by the Registrant

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))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Esterline Technologies Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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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 February 9, 2017

To the Shareholders of Esterline Technologies Corporation:

NOTICE IS HEREBY GIVEN that the 2017 annual meeting of shareholders for ESTERLINE TECHNOLOGIES CORPORATION, a Delaware corporation (the “Company”), will be held on Thursday, February 9, 2017, 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 Amended and Restated 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 September 30, 2016;
- (4) to approve, on an advisory basis, the frequency of the advisory vote on executive compensation;
- (5) to ratify the selection of Ernst & Young LLP as the Company’s independent registered public accounting firm for the fiscal year ending September 29, 2017; and
- (6) 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 December 14, 2016, 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 2016 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

December 29, 2016

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

To Be Held February 9, 2017

This proxy statement, which is first being provided to shareholders on or about December 29, 2016, 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 2017 annual meeting of shareholders of the Company to be held on Thursday, February 9, 2017, 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 five proposals at the 2017 annual meeting:

- (1) to elect as directors of the Company three nominees: Michael J. Cave, Anthony P. Franceschini and Nils E. Larsen to the class of directors whose term will expire at the 2020 annual meeting of shareholders;
- (2) to consider and approve the Company’s Amended and Restated 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 September 30, 2016;
- (4) to approve, on an advisory basis, the frequency of the advisory vote on executive compensation; and
- (5) to ratify the selection of Ernst & Young LLP as the Company’s independent registered public accounting firm for the fiscal year ending September 29, 2017.

In addition, you may be asked to consider any other business properly presented at the 2017 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 2017 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, 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 \$12,500, 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 December 14, 2016, 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 29,640,800 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 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 Amended and Restated Equity Incentive Plan, the affirmative vote of a majority of the votes cast will be required for approval of the proposal. For Proposal Three (regarding the advisory vote on the executive compensation of the Company's named executive officers) and Proposal Five (regarding the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2017), the affirmative vote of a majority of the votes cast will be required for approval of the proposals. For Proposal Four (regarding the frequency of the advisory vote on executive compensation) the option receiving the greatest number of votes will be the frequency that shareholders approve. The votes on Proposal Three (regarding executive compensation), Proposal Four (regarding frequency of say on pay) and Proposal Five (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, Four and Five and as a result, they will have no effect on the vote relating to those proposals. With respect to Proposal Two, abstentions will be considered votes cast and as a result, they will have the same effect as voting "no" on Proposal Two; however, broker non-votes will not be considered votes cast and therefore, they 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, which at the 2017 annual meeting include the election of directors, the approval of the 2013 Amended and Restated Equity Incentive Plan, the advisory vote on executive compensation and the advisory vote on the frequency of the advisory vote on executive compensation. Brokers may exercise discretion to vote shares as to which instructions are not given with respect to routine matters, which at the 2017 annual meeting includes 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.

Majority Voting in Director Elections and Irrevocable Resignations

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.

We entered into an agreement with First Pacific Advisors, LLC and certain of its affiliates named in the agreement (collectively, "FPA") dated October 18, 2016, (the "FPA Agreement"). Pursuant to the FPA Agreement, the Board appointed Mr. Nils E. Larsen as a new independent director effective October 18, 2016. As the new independent director under the FPA Agreement, Mr. Larsen tendered an irrevocable resignation letter pursuant to which he will immediately resign from the Board

and all applicable committees thereof if, at any time during the Standstill Period (as defined below), FPA fails to beneficially own at least 10% of the Company's Common Stock. The Standstill Period is the period from October 18, 2016, until the earlier of (i) the date that is fifteen (15) business days prior to the deadline for the submission of stockholder nominations for the 2020 Annual Meeting pursuant to the Bylaws and (ii) the date that is 100 days prior to the first anniversary of the 2019 Annual Meeting. See the "Certain Relationships and Related Transactions – The FPA Agreement" section of this proxy statement beginning on page 42 for further detail on the FPA Agreement.

If the Board does not accept the resignation of a director in any of the circumstances described above, 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.

Resignation and Replacement of Mr. James J. Morris as a Director of the Company

Mr. James J. Morris has informed the Board of his intention to retire from the Board of Directors and the Company's Audit and Enterprise Risk Committees at the expiration of his current term at the conclusion of the 2017 annual meeting, and therefore will not stand for reelection at the 2017 annual meeting. The process to select a nominee to replace Mr. Morris is ongoing, and it is currently anticipated that at some time following the 2017 annual meeting, a nominee will be selected by the Nominating & Corporate Governance Committee and approved by the Board. Pursuant to the FPA Agreement, as part of the Company's process to select a candidate to replace Mr. Morris, FPA shall have the right to submit potential candidates (the "FPA Candidates") to the Nominating & Corporate Governance Committee to be considered for election as a director. The Nominating & Corporate Governance Committee shall give due and careful consideration to the FPA Candidates and share with FPA information pertaining to the other final proposed candidates it considers to replace Mr. Morris. Accordingly, by resolution of the Board of Directors effective at the end of the 2017 annual meeting, the Board of Directors will accept Mr. Morris's resignation and reduce the number of authorized members of the Board of Directors to nine. At such time that Mr. Morris's replacement nominee is identified and approved by the Board, the size of the Board will be increased to ten directors, and the replacement nominee will be appointed to fill the vacancy and assigned to the class of directors whose term expires at the 2020 annual meeting. See the "Certain Relationships and Related Transactions – The FPA Agreement" section of this proxy statement beginning on page 42 for further detail on the FPA Agreement.

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 2017 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 2020 annual meeting:

Michael J. Cave

Senior Vice President (Retired), The Boeing Company.

President (Retired), Boeing Capital Corporation. Age 56.

Mr. Cave served as a Senior Vice President of The Boeing Company (a leading aerospace company and manufacturer of commercial jetliners and military aircraft), from January 2010 to May 2014. During this same time period, he also served as President of Boeing Capital Corporation (a wholly owned Boeing subsidiary that is primarily responsible for arranging, structuring and providing financing for Boeing's commercial airplane and space and defense products). He is the non-executive chairman of the board of Harley Davidson and also serves as a director of AirCastle Ltd. and Ball Corporation. He has been a director of the Company since November 2015.

Mr. Cave's skills, expertise and experience in financial services, strategic planning, operations management and business development he gained through senior leadership roles at The Boeing Company make him a valuable member of the Board. His insights into the various products under development and entering production at aerospace original equipment manufacturers and the many high-level customer relationships that he developed in his time at Boeing are particularly helpful in guiding the Company on strategic matters. In addition, Mr. Cave provides the benefits of service on the boards of other publicly traded companies and has significant experience with mergers and acquisitions, including integration of newly acquired businesses, which enhances the Board's strategic transaction oversight resources.

Anthony P. Franceschini

President and Chief Executive Officer (Retired), Stantec Inc. Age 65.

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 is on the advisory boards of two other private companies. He has been a director of the Company since 2002.

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, which enhances the Board's oversight of strategic transactions and other growth plans. His understanding of the acquisition process and post-acquisition integration is beneficial to the Board and management as acquisitions and effective integration of acquisitions remain key focus areas for the Company. Additionally, as a Canadian citizen, Mr. Franceschini's familiarity with Canadian business and banking practices adds meaningful oversight of Esterline's investments in Canada.

Nils E. Larsen

Senior Operating Advisor, The Carlyle Group. Age 46.

Mr. Larsen has been the Senior Operating Advisor of The Carlyle Group (a global alternative asset manager) since September 2013. He is also the President of SZR Consulting, LLC (a business consulting firm) and the Managing Director of Equity Group Investments, LLC (a private investment firm), having held those positions since September 2013 and March 2013, respectively. Prior to that time, he was President and Chief Executive Officer of the Tribune Company from May 2011 to March 2013 and Executive Vice President from December 2008 to March 2013. He is Chairman of Liberty Tire Recycling, LLC and a director of Vantage Drilling International and two other private companies. He has been a director of the Company since October 2016 and is nominated for election to the Board pursuant to the FPA Agreement and following the review and recommendation of the Nominating & Corporate Governance Committee.

Mr. Larsen has extensive experience in financial analysis for a variety of businesses and managing a number of portfolio companies for sophisticated investment firms, which brings relevant insight into the Board's oversight of the Company's capital structure, financial performance and financial risks. Mr. Larsen's management of portfolio companies includes extensive strategic, budget and operational responsibilities, which will enhance the Board's oversight of the Company's strategic plan and budgets. Mr. Larsen also brings deep experience in structuring, negotiating and managing business acquisitions and divestitures to the Board's oversight of the Company's merger and acquisition activities and evaluation of the performance of such transactions.

Continuing directors:

Delores M. Etter

Professor, Department of Electrical Engineering

Distinguished Fellow, Darwin Deason Institute for Cyber Security

Southern Methodist University, Dallas, TX. Age 69.

Dr. Etter has been a member of the Department of Electrical Engineering at Southern Methodist University since June 2008. She holds the Caruth Professorship in Engineering Education and is a Distinguished Fellow in the Darwin Deason Institute for Cyber Security. Dr. Etter is a member of the National Academy of Engineering, a former member of the National Science Board, and a Fellow of the Institute of Electrical and Electronic Engineers. She is also a director of Stantec Inc. She has been a director of the Company since 2010 and her current term expires in 2018.

Dr. Etter has had multiple, substantive experiences within the U.S. Department of Defense, including serving as the Assistant Secretary of the Navy for Research, Development, and Acquisition, and as the Deputy Under Secretary of Defense for Science and Technology, as well as serving on the faculty at public and private academic institutions. These experiences, coupled with her deep technical knowledge in the areas of sensors and software and her familiarity with the Joint Strike Fighter and other military aircraft, enable Dr. Etter to provide insight and guidance to management and the Board.

Paul V. Haack

Senior Partner (Retired), Deloitte & Touche LLP. Age 66.

Prior to 2006, Mr. Haack was a Senior Partner with Deloitte & Touche LLP (an international public accounting firm). He is currently a trustee of the University of Montana Foundation. He has been a director of the Company since 2006 and his current term expires in 2019.

During his tenure at Deloitte, Mr. Haack was a leader of its Aerospace and Defense Practice, which provided him with knowledge and experience relevant to the Company's industry. Mr. Haack also gained extensive experience in complex

mergers and acquisitions and capital structure issues from his career at Deloitte, and from his tenure as director and Audit Committee Chair at SonoSite, including during Sonosite's successful sale to FujiFilm for which he served on the Transaction Committee. As a practicing CPA for 33 years, he has extensive expertise in finance, accounting and regulatory matters related to financial reporting, and has experience with the complexities of doing business overseas. The broad skillset he brings to the Board enhances the Board's oversight of financial reporting, enterprise risks, as well as the Company's strategy in the markets in which the Company operates and positions him well to serve as the Company's lead independent director.

Mary L. Howell

Executive Vice President (Retired), Textron, Inc. Age 64.

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 and Vectrus, Inc. She has been a director of the Company since 2011 and her current term expires in 2018.

Ms. Howell has extensive experience in the commercial and military markets that strengthen the Board's oversight of the Company's strategic plans. Her deep expertise in global operations, marketing, sales, business development and merger and acquisition transactions as well as her service on the boards of the National Association of Manufacturers and the Aerospace Industries Association enhance the Board's oversight of strategic matters and enterprise risk. Further, her former experience as a board member of FM Global has given her insight to sophisticated risk management practices that contributes to the Board's oversight of the Company's complex global operations.

Scott E. Kuechle

Executive Vice President and Chief Financial Officer (Retired), Goodrich Corporation. Age 57.

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 Kaman Corporation and Wesco Aircraft Holdings, Inc. He has been a director of the Company since 2012 and his current term expires in 2019.

Mr. Kuechle's extensive experience within the aerospace and defense industry during his 29-year tenure at Goodrich and ongoing board experience at two other aerospace public companies provide relevant and valuable insights to the Board's oversight of the Company's strategic plans and initiatives. This industry experience, coupled with his deep expertise in corporate finance, mergers and acquisitions, and financial controls and analysis, provide the Board with a powerful skillset to draw upon as the Company continues to execute its strategic plan with a focus on organic growth, good-fit mergers and acquisitions, and operational excellence. In addition, Mr. Kuechle's experience in complex corporate finance matters, including capital allocation, strengthen the Audit Committee's oversight of audit, financial reporting and financial risk matters.

Gary E. Pruitt

Chairman (Retired), Univar Inc. Age 66.

Prior to November 2010, Mr. Pruitt was the Chairman of Univar Inc. (a leading chemical distributor), having held such position since June 2002. He is also a director of Itron, Inc., Premera Blue Cross, and PS Business Parks, Inc., and is a trustee of Public Storage, Inc. He has been a director of the Company since 2009 and his current term expires

in 2018.

Mr. Pruitt brings extensive knowledge of growing and directing large, complex, global companies gained through experience in CEO and Chairman roles at international public companies that enhances the Board's oversight of the Company's complex global operations. Mr. Pruitt also has significant experience in mergers and acquisitions, capital structure, treasury management and international finance and taxation that is valuable to the Board's oversight of strategic transactions and the Company's complex organizational tax structure. Mr. Pruitt's significant experience over the years as a director for multiple public companies enables him to provide meaningful insight into Board function, governance and oversight responsibilities, and his experience with manufacturing companies strengthens the Board's oversight of the Company's operational excellence initiatives.

Curtis C. Reusser

Chairman, President and Chief Executive Officer, Esterline Technologies Corporation. Age 56

Mr. Reusser has been Chairman, President and Chief Executive Officer of the Company since March 2014 and served as President and Chief Executive Officer of the Company from October 2013 to March 2014. Previously, he was President, Aircraft Systems of UTC Aerospace Systems for United Technologies Corporation ("UTC") (a provider of a broad range of high-technology products and services to the global aerospace and building systems industries) from July 2012 to October 2013. Prior to that time, he was President of the Electronic Systems segment of Goodrich Corporation (an aerospace and defense company that was acquired by UTC in July 2012) from January 2008 to July 2012. He has been a director of the Company since 2013 and his current term expires in 2019.

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Mr. Reusser brings to the Board over 30 years of experience in the aerospace and defense industry, which significantly strengthens the Board's oversight of the development and execution of the Company's strategic plans and initiatives. With his engineering background and substantive leadership experience at Goodrich Corporation and UTC, Mr. Reusser adds a "hands-on" dynamic to the Board. Mr. Reusser has direct experience in growing and leading businesses that are complementary to Esterline's, including sensors and systems, power systems and avionics and communication systems. Mr. Reusser's extensive and relevant industry experiences and experience in merger and acquisition transactions add significantly to the Board's oversight of the Company's global operations, operational excellence initiatives, strategic transactions and strategy deployment.

OTHER INFORMATION AS TO DIRECTORS

Director Compensation

The following table describes the compensation earned by persons who served as non-employee directors during fiscal 2016. Employees of the Company serving on the Board or committees received no additional compensation for such service. Mr. Nils E. Larsen was appointed to the Board in October 2016 and was therefore not paid any fees in fiscal 2016.

Name	Fees Earned or Paid in		Stock Awards	All Other Compensation	Total
	Cash				
	(\$) (1)	(\$) (2)			(\$)
Michael J. Cave	\$65,000	\$110,000	\$	-	\$175,000
Delores M. Etter	88,750	110,000		-	198,750
Anthony P. Franceschini	76,250	110,000		-	186,250
Paul V. Haack	100,000	110,000		-	210,000
Mary L. Howell	88,750	110,000		-	198,750
Scott E. Kuechle	93,750	110,000		-	203,750
James J. Morris	88,750	110,000		-	198,750
Gary E. Pruitt	68,750	110,000		-	178,750

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

(2) Amounts in this column represent the aggregate grant date fair value of awards granted during fiscal 2016, computed in accordance with Accounting Standards Codification Topic 718 (ASC 718).

For fiscal 2016, the Company paid the following cash fees to non-employee directors:

	Through April 2016	Beginning May 2016
Non-Employee Director Annual Retainer	\$55,000	\$55,000
Lead Independent Director Additional Annual Retainer	25,000	25,000

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Audit Committee Member Annual Retainer	12,500	12,500
Audit Committee Chair Additional Annual Retainer	12,500	12,500
Compensation Committee Member Annual Retainer	7,500	7,500
Compensation Committee Chair Additional Annual Retainer	7,500	7,500
Regulatory Compliance Subcommittee Member Annual Retainer	7,500	7,500
Regulatory Compliance Subcommittee Chair Additional Annual Retainer	7,500	7,500
Nominating & Corporate Governance Committee Member Annual Retainer	5,000	7,500
Nominating & Corporate Governance Committee Chair Additional Annual Retainer	5,000	7,500
Enterprise Risk Committee Member Annual Retainer	5,000	7,500
Enterprise Risk Committee Chair Additional Annual Retainer	7,500	7,500

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 confirmed it was generally satisfied with the level and structure of director fees overall, but recommended and the Board approved increases in May 2016 to \$7,500 for the annual Chair and Member retainer for the Nominating & Corporate Governance Committee as well as the annual Member retainer for the Enterprise Risk Committee. The fee increases were based on updated market benchmark information concerning practices common among the 17-company peer group the Company references for purposes of making executive pay comparisons, and based on public company practices more

generally as well as consideration of the responsibilities of the affected positions. Further information about the peer group can be found in the Compensation Discussion and Analysis section of this proxy statement starting on page 12.

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.

In addition, the Company makes an annual issuance of fully-paid Common Stock to each non-employee director serving on the Board the day after each annual meeting of shareholders. In fiscal 2016, each non-employee director who continued service on the Board after the annual meeting date was issued \$110,000 of fully-paid Common Stock. 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 2016, shares to non-employee directors were issued under the Company's 2013 Equity Incentive Plan. Board policy requires non-employee 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 \$55,000, as described above. All non-employee directors, other than Messrs. Kuechle, Cave and Larsen, are to achieve this stock ownership level by the end of the second fiscal quarter of 2017, and met the share ownership requirement as of the end of fiscal 2016. Mr. Kuechle is to achieve the required ownership level by the fifth anniversary of his election to the Board, or December 2017, and met the share ownership requirement as of the end of fiscal 2016. Messrs. Cave and Larsen are to achieve the required ownership level by the fifth anniversary of their election to the Board, or November 2020 and October 2021, respectively.

Board and Board Committees

There were nine meetings of the Board of Directors during fiscal 2016. During fiscal 2016, each director attended at least 75% 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. Reusser serves as the Chairman of the Board, and due to Mr. Reusser'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, Mr. Haack, presides over the sessions. Non-management directors who are considered independent under the New York Stock Exchange ("NYSE") independence listing standards also meet in executive session at least once 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. In addition, the Company developed and implemented an enterprise risk management program ("ERM") which incorporates senior officer and business unit risk assessments, including those identified as part of the strategic planning process. 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. Management has the responsibility for developing an action plan to address, mitigate or monitor such risks. Management updates the ERM program annually to reassess its risk profile and to identify new risks that might need to be incorporated into the assessment.

In fiscal 2016, the Board of Directors retained responsibility for overseeing risk assessment for the enterprise in light of the interrelated nature of the elements of risk. However, the Board has delegated certain risk areas for inquiry and monitoring to Board committees. 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. Oversight of some compliance activities, including trade compliance risks and business ethics programs in particular, is shared with the Enterprise Risk Committee, as further described below. Among other processes, the Audit Committee meets

regularly in executive sessions with our internal auditors and external accounting firm as well as the Chief Financial Officer, Chief Accounting Officer, and the General Counsel. The Audit Committee met in executive session with our accounting firm, Ernst & Young LLP, as part of each of the four regular meetings held in fiscal 2016.

In February 2016, the Board formed an Enterprise Risk Committee that is focused on supporting the Board's oversight of enterprise risk management, including the ERM described above, trade compliance programs and risks and corporate acquisition and divestiture transactions and key research and development ("R&D") opportunities. The corporate transactions and R&D oversight areas were previously supported by a Strategy & Technology Committee, which was replaced by this Enterprise Risk Committee. With the formation of the Enterprise Risk Committee, the Regulatory Compliance Subcommittee (the "Subcommittee"), which was formed in August 2013 to support and enhance oversight of the Company's risk management and related activities associated with export control compliance, is now overseen the Enterprise Risk Committee rather than by the Audit Committee. The Subcommittee was delegated and has retained the authority to oversee the Company's export control compliance activities and program development resulting from its obligations under the Consent Agreement entered into in March 2014 (the "Consent Agreement") with the U.S. Department of State's Directorate of Defense Trade Controls Office of Defense Trade Controls Compliance to resolve alleged International Traffic in Arms Regulations civil violations.

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, as described more fully under the Statement Regarding Compensation Practices section in this proxy statement on page 30.

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 second fiscal 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 then serving on the Board attended the annual shareholders meeting in 2016.

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. Reusser, are independent under the NYSE listing standards. Mr. Reusser does not meet NYSE independence listing standards due to his current positions as Chairman, President and Chief Executive Officer of the Company.

The Audit Committee currently consists of directors Kuechle (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. Mr. Morris has informed the Board of Directors of his intention to retire from the Board of Directors and its committees at the expiration of his current term at the conclusion of the 2017 annual meeting, and therefore will not stand for reelection at the 2017 annual meeting. 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, and the selection of the lead partner from, 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 Audit Committee met seven times during fiscal 2016.

The Board of Directors has determined that Messrs. Haack and Kuechle each 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.

In August 2013, the Audit Committee formed the Subcommittee to support and enhance the Audit Committee's oversight of the Company's risk management and related activities associated with trade compliance. The Subcommittee's oversight is focused on the Company's compliance activities resulting from its obligations under the Consent Agreement. In fiscal 2016, oversight of the Subcommittee was shifted to the Enterprise Risk Committee, which was formed in February 2016 and oversees export control risks, including those risk areas impacted by the Consent Agreement. The Regulatory Compliance Subcommittee currently consists of directors Howell (Chair), Etter, Kuechle and Morris.

The Compensation Committee currently consists of directors Franceschini (Chairman), Etter, Haack, and Pruitt, 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 recommends 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, the Executive Vice President and Chief Human Resources Officer, and the Executive Vice President & General Counsel 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 the sole authority from the Board of Directors for the appointment, compensation, and oversight of the Company's outside executive and director compensation consultant. 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 compensation consultant reports directly to the Committee, and the Committee may replace the firm or hire additional consultants at any time. A representative of the compensation consultant attends meetings of the Committee, upon request, and communicates with the Committee chair between meetings. The Compensation Committee met six times during fiscal 2016.

The Nominating & Corporate Governance Committee currently consists of directors Etter (Chair), Cave, 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 Nominating & Corporate Governance Committee met seven times during fiscal 2016.

The Enterprise Risk Committee was formed in February 2016 and currently consists of directors Morris (Chairman), Cave, Etter, Howell, and Kuechle. Mr. Morris has informed the Board of Directors of his intention to retire from the Board of Directors and its committees at the expiration of his current term at the conclusion of the 2017 annual meeting, and therefore will not stand for reelection at the 2017 annual meeting. The Enterprise Risk Committee provides oversight for the Company's enterprise risk management program, and for risks associated with export control, business ethics, cyber security, corporate transactions, and research and development investment opportunities. Oversight of the Company's export control program has been delegated to the Subcommittee of the Enterprise Risk Committee, as further described under "Board's Role in Risk Oversight" on page 7. In addition, the Enterprise Risk Committee reviews and makes recommendations to the Board of Directors regarding business acquisition and sale opportunities and key research and development opportunities that were formerly overseen by a Strategy & Technology Committee, which was replaced by this new Enterprise Risk Committee.

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 2018 annual shareholders meeting only if the Corporate Secretary receives written notice of any such nominations not fewer than 120 days nor more than 150 days prior to the date of the annual meeting. It is anticipated that the 2018 annual meeting will be held on February 8, 2017, in which case the Corporate Secretary must receive written notice of any such nominations no earlier than September 11, 2017, and no later than October 11, 2017. 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 diversity policy in place, the Company and the Nominating & 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.

One new director nominee, Mr. Nils E. Larsen, is being presented to the shareholders for election at the Annual Meeting. Mr. Larsen was initially identified as a potential nominee by First Pacific Advisors, LLC, our largest shareholder, as part of the negotiation of the FPA Agreement. The Nominating & Corporate Governance Committee evaluated Mr. Larsen as a director nominee and determined to recommend him for appointment to the Board of Directors, which recommendation the Board adopted as part of its approval of the terms of the FPA Agreement. See the "Certain Relationships and Related Transactions – The FPA Agreement" section of this proxy statement beginning on page 42 for further detail on the FPA Agreement.

Other than with respect to Mr. Larsen as described above, the Company did not receive any shareholder nominations for directors to be considered by the Nominating & Corporate Governance Committee for the 2017 annual shareholders meeting.

Communications with the Board

Shareholders, and other interested parties, may contact Mr. Reusser, 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 2018 annual shareholders meeting should follow the procedures specified under Shareholder Proposals for 2018 in this proxy statement. Shareholders wishing to nominate or recommend directors should follow the procedures specified under the Other Information as to Directors—Director Nominations and Qualifications section 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.

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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 December 14, 2016, 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") who are further defined in the Compensation Discussion and Analysis section of this proxy statement on page 12 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
First Pacific Advisors, LLC 11601 Wilshire Boulevard, Suite 1200, Los Angeles, CA 98025	3,690,774 (3)	12.5%
BlackRock, Inc. 40 East 52nd Street, New York, NY 10022	3,144,101 (4)	10.6%
Dimensional Fund Advisors LP Palisades West - Bldg. One, 6300 Bee Cave Road, Austin, TX 78746	2,230,792 (5)	7.5%
The Vanguard Group, Inc. 100 Vanguard Boulevard, Malver, PA 19355	2,191,954 (7)	7.4%
FMR LLC 82 Devonshire Street, Boston, MA 02109	2,087,165 (6)	7.0%
Robert D. George	137,003 (8)	*
Curtis C. Reusser	74,324 (8)	*
Marcia J. Mason	67,013 (8)	*
Paul V. Haack	23,883	*
Anthony P. Franceschini	19,124	*
Albert S. Yost	19,716 (8)	*
James J. Morris	17,350	*
Delores M. Etter	11,387	*
Gary E. Pruitt	9,562	*
Mary L. Howell	9,252	*
Scott E. Kuechle	5,412	*
Roger A. Ross	4,842 (8)	*
Michael J. Cave	2,081	*
Nils E. Larsen	-	*
Directors, nominees and executive officers as a group (15 persons)	404,699 (8)	1.4%

*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, Suite 1500, 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 December 14, 2016, are deemed outstanding, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. As of December 14, 2016, there were 29,640,800 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 upon a Schedule 13D filed on October 19, 2016, on behalf of First Pacific Advisors, LLC (“FPA”). Based upon such filing, FPA beneficially owns 3,690,774 shares.
- (4) The information on the number of shares held is based on a Schedule 13G filed on December 9, 2016, on behalf of BlackRock, Inc. (“BlackRock”). Based upon such filing, BlackRock beneficially owns 3,144,101 shares. BlackRock has sole voting power over 3,085,583 shares and sole dispositive power over 3,144,101 shares.
- (5) The information on the number of shares held is based upon a Schedule 13G filed on February 9, 2016, 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 2,205,098 shares and sole dispositive power over 2,230,792 shares.

- (6) The information on the number of shares held is based upon an ownership questionnaire dated December 6, 2016, on behalf of The Vanguard Group (“Vanguard”). Based upon such questionnaire, Vanguard beneficially owns 2,191,954 shares as of September 30, 2016.
- (7) The information on the number of shares held is based upon a Schedule 13G filed on February 12, 2016, on behalf of FMR LLC (“FMR”). Based upon such filing, FMR beneficially owns 2,087,165 shares.
- (8) Includes shares subject to options granted under the Company’s 2004 Equity Incentive Plan and the Company’s 2013 Equity Incentive Plan which are exercisable currently or within 60 days of December 14, 2016, as follows: Mr. Reusser, 38,025; Mr. George, 124,200 shares; Ms. Mason, 60,725 shares; Mr. Ross, 3,825; Mr. Yost, 13,800 shares; and directors, nominees and executive officers as a group, 244,325 shares.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The following discussion describes and analyzes Esterline’s compensation program for its NEOs. For fiscal 2016, our NEOs are:

- Curtis C. Reusser, Chairman, President & Chief Executive Officer (“CEO”);
- Robert D. George, Executive Vice President, Chief Financial Officer (“CFO”), & Corporate Development;
- Marcia J. Mason, Executive Vice President & General Counsel;
- Roger A. Ross, Executive Vice President and President, Sensors & Systems;
- Albert S. Yost, Executive Vice President and President, Advanced Materials and Avionics & Controls;

Executive Summary

The key events related to Company performance and resulting executive compensation decisions in fiscal 2016 are outlined briefly below and described more fully in later sections of this CD&A. As detailed further below, fiscal 2016 was a challenging year for the Company overall that fell short of expectations. The key events impacting fiscal 2016 performance were as follows:

- The Company’s financial performance in fiscal 2016 began with a weaker than expected first quarter impacted by weak product demand and delays in orders across a number of markets and end customers as well as internal execution challenges that impacted our expected profitability.
- As a result, the Company re-baselined its financial performance expectations for full year fiscal 2016. The Company completed the year by achieving those re-set targets, ending with fourth quarter financial results that were stronger across most key metrics, including earnings from continuing operations, than results achieved in the fourth quarter of fiscal 2015.

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The Company continued to make progress during the fiscal year on key initiatives to better position the Company for future growth, including the completion of the accelerated integration projects initially identified in fiscal 2014 and continued progress and investment in the Company's trade compliance program. These projects focused on consolidating certain facilities and creating greater cost-efficiency through shared services in sales, general administrative and support functions.

The Company's results were also impacted by discrete effects related to corporate transactions and long-term contracts.

The Company's financial results are reflected in incentive payouts to our NEOs that were significantly below target – under both the fiscal 2016 annual incentive program and the 2014-2016 long-term incentive plan (“LTIP”). More information about the key drivers for the Company's performance in fiscal 2016 is contained below under “Company Performance in Fiscal 2016” on page 19.

In fiscal 2015, Esterline transitioned its fiscal year to end approximately one month earlier than in prior years. As a result, the Company's financial results in fiscal 2015 as reported in last year's CD&A were for an 11-month transition year that ended on October 2, 2015, subject to certain exceptions that were noted in last year's CD&A. However, in this CD&A, all financial results for fiscal 2016 are for the fiscal year ended September 30, 2016, and unless otherwise noted, all financial results for fiscal 2015 are recast for the 12 months ended October 2, 2015, so as to provide more meaningful comparisons between the

two fiscal years. Consequently, the Company's financial results for recast fiscal 2015 reported in this CD&A are not the same as the Company's financial results for the 11-month period ending October 2, 2015, that were reported in last year's CD&A.

Key Compensation Decisions

- Base salaries and target annual and LTI program award opportunities for NEOs either remained unchanged from fiscal 2015 amounts or increased moderately for fiscal 2016 to acknowledge strength of individual performance and to align them more closely with the competitive market. Mr. Reusser's long-term target opportunity was increased from 250% of base salary to 300% to help reposition his target pay opportunity relative to competitive references – moving from a low competitive baseline when Mr. Reusser joined Esterline to a level more aligned with the Company's intended competitive positioning for executive roles in light of his performance in the CEO role.

Our fiscal 2016 annual incentive program was based on earnings from continuing operations before interest and taxes ("EBIT"), return on sales ("ROS"), and the achievement of performance objectives under our strategic plan established at the beginning of the year. The EBIT target and ROS target for fiscal 2016 were \$231.0 million and 11.0%, respectively. Based on below-target achievement of each financial metric and the pre-established strategic objectives, each NEO earned a payout that was 42.7% of target.

The 2014–2016 performance cycle of the cash-based LTIP was based on average return on invested capital ("ROIC") and earnings per share ("EPS") growth, with three-year targets of 9.3% and 10.0%, respectively. Actual ROIC and EPS performance, including the adjustments described later in this CD&A were below these targets. As a result, no payouts were made to our NEOs for the 2014–2016 performance cycle under the cash-based LTIP.

The Committee believes that the fiscal 2016 pay decisions were appropriate in light of the Company's performance and that the overall pay program continues to align pay and performance over time.

Changes to Compensation-Related Programs in 2016

The Committee made changes to certain elements of the Company's executive compensation programs in fiscal 2016. Generally, these changes strengthen the alignment of our executive pay programs with shareholder interests and work to ensure our Company's practices are in keeping with today's leading governance standards. More specifically, these changes include:

Increases under the Executive Stock Ownership Guidelines to five times base salary for the CEO and three times base salary for the other executive officers as of February 2016. The increase in these ownership guidelines supports a longer-term orientation to Company performance and pay. These guidelines are discussed in more detail below under "Executive Stock Ownership Requirements and Insider Trading Policy" on page 18.

Changes to the executive termination protection agreements that preserved the "double-trigger" benefits to the NEOs, but (1) expanded the "Change in Control" definition to include certain acquisitions of the Company's outstanding securities and changes in the composition of the Board, which were eliminated as triggering events under the Company's 2013 Equity Incentive Plan in 2015, and (2) added a severance benefit of acceleration of equity awards held by the NEO immediately prior to the qualifying change in control event to the extent the award was not accelerated in connection with the change in control. These agreements are further described under "Change in Control Arrangements" on page 27.

Changes to the Company's peer group to better balance the Company's position across multiple factors within the selected peers, which changes are described further below under "Compensation Decision Process" on page 16.

The Committee also approved changes to the treatment of NEO equity awards upon retirement, including stock options, restricted stock units, and performance shares, based on a competitive market review of retirement practices in support of the succession planning process among this group, which changes are further described under "Fiscal 2017 Compensation Program Changes" on page 28. Most of these changes will be implemented in grants of equity awards to NEOs beginning in fiscal 2017, so they did not impact the fiscal 2016 compensation programs for the

NEOs.

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 worldwide operations;

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- Reinforce a pay-for-performance environment that provides awards based on 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. For fiscal year 2016, our executive compensation program had the following principal components:

PRINCIPAL ELEMENTS OF COMPENSATION FOR FISCAL 2016

- | | |
|---|--|
| Base Salary | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • Focus and reward our NEOs on achievement of critical annual financial goals and key performance objectives to help the Company achieve its strategic plan priorities. For fiscal 2016, performance was measured by EBIT and ROS, as well as achievement of the strategic performance objectives. • Serve as a critical element of our overall pay-for-performance approach. |
| Long-term Performance-based incentive opportunities | <ul style="list-style-type: none"> • 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. • All current performance cycles are now settled in shares under the Company's performance share plan (“PSP”); the 2014-2016 performance cycle was the last cycle to be paid in cash. |
| Stock options | <ul style="list-style-type: none"> • Link pay for our NEOs directly to the shareholder experience, as potential compensatory value to the executive comes only with increases in the Company's share price. |
| Restricted stock units | <ul style="list-style-type: none"> • Address our retention objectives directly and reinforce a strong ownership culture. • Further the alignment of executive interests with shareholders. |
| Retirement earnings opportunities | <ul style="list-style-type: none"> • Contribute to a competitive compensation package, thereby helping the Company to attract and retain talented executives. Principally, these programs are designed to: <ul style="list-style-type: none"> • Help our NEOs and other employees save for their retirement; and • Provide the opportunity to plan and defer taxation on income. • The programs are as follows: <ul style="list-style-type: none"> • A 401K savings plan, supplemented with a nonqualified, unsecured, executive retirement and deferred compensation plan (“DC SERP”) that permits deferrals in excess of certain compensation limits that apply to the underlying tax-qualified 401(k) plan. The DC SERP also provides a corresponding Company match that applies to the underlying tax-qualified |

plan. This design is commonly known as a “restoration” plan because it allows executives to contribute to and earn retirement savings levels that are equivalent to those available to the general workforce, measured as a percentage of compensation.

- A traditional pension plan, supplemented with a nonqualified, unsecured, executive retirement pension plan (“Pension SERP”) that permits executives to earn pension benefits on compensation that is in excess of certain compensation limits that apply to the tax-qualified pension program. The Pension SERP design is also a “restoration” plan because it allows executives to earn and accrue pension benefits equivalent to those of the general workforce, measured as a percentage of compensation.
- Are further described in the “Benefits and Other Programs” section of this CD&A on page 26.

PRINCIPAL ELEMENTS OF COMPENSATION FOR FISCAL 2016

Our compensation policy is primarily comprised of conservative allowances for car expenses, airline club memberships and 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.

Our compensation policy is designed to minimize personal considerations and maintain focus on the Company in the event of rumored or actual change in corporate control. These are “double-trigger” benefits, meaning that no benefits are due under these agreements unless there is both: (1) a change in control; and (2) a loss of employment due to termination by the Company without cause or by specified circumstances that constitute good reason to resign.

agreements

- Do not provide any tax gross-ups for 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- and stock-based long-term incentives and stock options to be performance based, because all of these three elements are valuable to the executive only if performance goals are achieved and/or share price improves. Further, the value of RSU grants also varies directly with share price performance.

We also consider the mix of fixed (e.g., base salary) and variable (e.g., annual and long-term incentives) pay opportunity when reviewing target total compensation.

* Values for options and restricted stock units were based on the percentage of each NEO’s annual long-term incentive allocated to options and restricted stock units, respectively, as indicated in the table under “Long-Term Incentives” on page 24. Actual mix, calculated using grant date value may be slightly different.

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Compensation Decision Process

Market-Based Assessments of Pay Opportunities for Our NEOs

Each year, the Committee reviews current competitive market information on executive pay levels for our executives. For fiscal year 2016, the Committee retained Semler Brossy as its independent advisor to assist with this benchmarking work, and to advise the Committee generally as to other executive compensation matters.

In determining fiscal 2016 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 public 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 one-third of the total group. For fiscal 2016, the following 17 companies comprised the peer group. Taken as a whole and in combination with broader survey information, the Committee believes this group continues to provide an appropriate representation of the competitive market when assessing pay levels and practices for our NEOs.

AAR Corp.	Curtiss-Wright Corp.	Roper Industries Inc.
AMETEK Inc.	HEICO Corp. *	Teledyne Technologies Inc.
Barnes Group Inc. *	Hexcel Corp.	TransDigm Group Inc. *
BE Aerospace Inc.	Moog Inc.	Triumph Group Inc.
Crane Co.	Orbital ATK **	Woodward Governor Co.
Cubic Corp. *	Rockwell Collins Inc.	

*These companies were added to the peer group for fiscal 2016. Companies eliminated from the prior 2015 peer group were: Flowserve Corp., Spirit Aerosystems Holdings Inc., SPX Corp., and TriMas Corp.

** Previously Orbital Sciences Corp. and Alliant Techsystems Inc.

For fiscal 2016, the Committee removed four companies and added four new companies. In addition, two existing peers, Alliant Techsystems and Orbital Sciences Corp, merged to become Orbital ATK. Spirit Aerosystems and TriMas Corp. were removed due to their smaller scale. SPX Corp and Flowserve were replaced by companies which are more closely aligned with Esterline in terms of business fundamentals.

Key statistics for these 17 peer companies are as follows:

- Median revenue was \$2.4 billion (25th percentile: \$1.9 billion) versus Esterline's revenue of \$2.0 billion,
- Median market capitalization was \$3.2 billion (25th percentile: \$2.1 billion) versus Esterline's \$2.2 billion, and
- Median total capital was \$2.2 billion (25th percentile: \$1.6 billion) versus Esterline's \$2.5 billion.

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 precise make-up of the participating companies is proprietary to the survey administrators and therefore not available to the Company. For fiscal 2016 compensation decisions, we looked to two leading survey sources:

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September 2015 CDB General Industry Executive Compensation Report, reporting data from 360 participating companies using a regression to the Company's \$2.0 billion in revenue in fiscal 2014 and September 2015 Equilar Top 25 Executive Compensation Survey, reporting data for 19 participating industrial organizations with annual revenues between \$1 billion and \$3 billion.

In determining fiscal 2016 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 2016 peer group and the market surveys. In doing so, the Committee focused principally on competitive 25th and 50th percentile values. For the most part, the 25th percentile competitive reference simply acknowledges Esterline's relative size among the defined peer companies.

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 2016, 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 reasonable relative to the 25th and 50th percentile benchmarks.

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 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 has the authority to 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 and members 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 assessed the independence of its advisors, including Semler Brossy, in accordance with applicable rules of the SEC regarding independence of advisors to compensation committees. As part of this assessment, the Committee reviewed independence and conflict of interest policies of its advisors as well as each advisor's relationship with the Company. Based on this review and assessment, the Committee determined that there were no independence or conflict of interest issues related to any of its advisors, including Semler Brossy.

The Committee also seeks recommendations from management – the CEO, the Executive Vice President & Chief Human Resources Officer, and the Executive Vice President & General Counsel – as to appropriate program changes and pay levels for all executive officers apart from the CEO. For all officers, the Committee consults with its outside advisor as to those recommendations and seeks specific 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 any other officers.

Say on Pay Vote

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 February 10, 2016, as required under the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd–Frank Act”). Our 2016 “say on pay” vote received strong support from shareholders, garnering approximately 93% “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.

We will continue to review our overall approach to executive pay periodically, and we expect to make changes from time to time to ensure it remains well aligned with Company business strategy and with shareholder interests and provides appropriate earning opportunities for our executives.

We will continue to 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 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 to compensation program design works and includes appropriate safeguards. Further, program administration is subject to effective 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 remains 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. These checks and balances work across a few key dimensions:

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- **Time:** Our executive pay programs balance annual and long-term performance measurement and pay delivery.
- **Performance focus:** Our incentive pay programs balance growth (e.g., EBIT, EPS) and profitability (e.g., ROS and ROIC), with both an annual and long-term lens (per the above).
- **Cash and equity pay:** Our executive pay programs balance cash compensation – a tangible, more immediate currency – with equity compensation – which is directly tied to the shareholder experience and serves to align interests. This alignment is underscored by ownership requirements, which were increased for our NEOs in February 2016.

Executive Stock Ownership and Holding Requirements and Insider Trading Policy

Since 2012, we have in place stock ownership requirements for our executive officers to strengthen the alignment of executive interests with those of our shareholders. Under the current policy effective in February 2016, our CEO is required to own shares of our Common Stock having a value equal to five times base salary – other executive officers are required to own shares of our Common Stock having a value equal to three times base salary (the “Revised Threshold”). Prior to February 2016, the value of shares of Common Stock to be held by our CEO was three times annual base salary and by our other NEOs was one times base salary (“Original Threshold”). To ensure progress against these requirements and to ensure maintenance of these ownership levels over time, our executive officers are required:

- to hold 50% of shares of our Common Stock acquired upon the exercise of stock options granted, net of income taxes due
- to hold 50% of shares of our Common Stock received upon vesting of restricted stock units, net of income taxes due
- to receive 50% of any payment under the Company’s cash-based LTIP for plan cycles beginning in 2012, 2013 and 2014 as shares of our Common Stock (rather than cash), net of income taxes due; and
- to hold 50% of shares earned under the PSP, net of income taxes due.

These conditions apply to (i) stock options granted between December 8, 2011, and January 31, 2016, (ii) restricted stock units granted between December 5, 2013, and January 31, 2016, (iii) all cash-based LTIP awards and (iv) performance shares granted between November 18, 2015, and January 31, 2016, until the Original Threshold levels are met and apply to stock options, restricted stock units and performance shares granted on or after February 1, 2016, until the Revised Threshold levels are met. As of the end of fiscal 2016, all of our NEOs, other than Messrs. Benson and Ross, who joined the Company in fiscal 2015, had achieved the Original Threshold level of equity ownership, but none of our NEOs had achieved the Revised Threshold of equity ownership due to the fact that this level was first established during fiscal 2016.

We maintain an Insider Trading Policy that includes provisions prohibiting NEOs, directors and employees from engaging in short-term or speculative transactions in the Company’s securities. The policy also prohibits other transactions in the Company’s securities such as short sales, put or call options, hedging transactions, margin accounts and pledges, and other actions that may lead to inadvertent violations of the insider trading laws.

Clawback Policy

The Committee has adopted a compensation recovery policy applicable to the Company’s incentive plans, often referred to as a “clawback” policy. This policy supplemented existing clawback provisions that apply to the CEO and CFO under the Sarbanes–Oxley Act of 2002. 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.

The terms of the Company’s supplemental clawback policy were reviewed by the Committee in fiscal 2016. The Committee clarified that the policy applies to the top senior leaders of the Company, including the NEOs, the platform presidents and financial directors and senior managers on corporate staff. The policy extends to all incentive programs (cash and equity, annual and long-term), gains made on option exercises or stock sales, awards received, monies earned, and grants made in the current fiscal year and the previous three fiscal years. The policy covers the

following events:

- any material error that causes a financial restatement, irrespective of cause
- material error in internal, non–public business unit or platform financial statements, in addition to corporate financial statements subject to SEC public reporting and
- misconduct of any type that harms the Company, whether it affects financial statements or not (e.g., attempted bribery or other fraud, misuse of trade secrets for personal gain, etc.).

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The Committee is aware of a rule-making process pending with the 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.

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 the Internal Revenue Code of 1986, as amended (“IRC”) Section 162(m) in designing our compensation programs, but retains the flexibility and discretion to grant compensation awards, whether or not deductible under Section 162(m) of the IRC.

•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.

•We considered the potential 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.

Similar to fiscal 2015, for fiscal 2016, the Committee also considered the potential financial impacts of the accelerated integration projects launched during fiscal 2015 on the Company’s financial performance in establishing the EBIT and ROS goals for the fiscal 2016 annual incentive plan and the EPS growth and ROIC targets for the 2016-2018 performance cycle of the PSP. The Committee factored expected accelerated integration project costs of \$16.4 million into the establishment of each of the financial targets under both the annual incentive plan and the PSP. As was the case in fiscal 2015, the Committee concluded that excluding such costs was appropriate in fiscal 2016 because the projects were of a nature and extent that had not been previously undertaken by the Company, but were identified as strategically important to complete in order to position the Company for improved margin and operating income in future periods.

Company Performance in Fiscal 2016

In fiscal 2016, Esterline achieved sales of \$2.0 billion, which was even with recast fiscal 2015. The Company earned income from continuing operations of \$117.0 million, or \$3.93 per diluted share, a decline of 4.1% from recast fiscal 2015. The Company generated cash flows from operations of \$167.2 million in fiscal 2016 compared with \$193.7 million in recast fiscal 2015, down 13.7%. New orders were \$2.1 billion in fiscal 2016, while backlog ended the fiscal year at \$1.3 billion, up from \$1.9 million and \$1.2 billion, respectively, from fiscal 2015. As introduced in the Executive Summary above, fiscal 2016 financial results were impacted significantly by the following:

•The Company’s financial performance in fiscal 2016 began with a weaker than expected first quarter influenced by weak product demand and delays in orders across a number of markets and end customers as well as internal execution challenges that reduced our expected profitability. As a result, the Company re-baselined its financial

performance expectations for full year fiscal 2016. The combination of these events resulted in a substantial decline in the Company's stock price following the announcement of first quarter fiscal 2016 earnings. However, the Company completed the year by achieving those re-set targets, ending with fourth quarter financial results that were stronger than results achieved in the fourth quarter of fiscal 2015 and a stock price that fully recovered at the end of fiscal 2016 to the pre-first quarter fiscal 2016 announcement level.

- We made substantial progress on our accelerated integration projects that are focused on consolidating certain facilities and creating greater cost efficiency through shared services in sales, general administrative and support functions. The expenses associated with our accelerated integration projects for fiscal 2016 were \$17.5 million, net of taxes of \$3.3 million.

• We continued to invest in strengthening and expanding our compliance programs, which was driven in significant part by the requirements set forth in our Consent Agreement with the Department of State's office of Defense Trade Control Compliance that we entered into in fiscal 2014. For fiscal 2016, incremental compliance costs were

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\$8.8 million, net of taxes of \$1.7 million, which was a decline from compliance costs of \$15.7 million, net of taxes of \$3.3 million, in recast fiscal 2015.

*We absorbed discrete impacts associated with long-term contracts that negatively affected our fiscal 2016 financial performance by an aggregate of \$1.6 million, net of taxes of \$0.3 million.

Key operating financial metrics for fiscal 2015 and fiscal 2016, as well as adjusted fiscal 2015 and adjusted fiscal 2016 financial metrics are summarized in the table below. The amounts reported for fiscal 2015 are based on results for the eleven-month period ended October 2, 2015, and the amounts for adjusted fiscal 2015 also include various adjustments as well as an adjustment to annualize the 11-month results, in both cases, as described in the footnotes below the table. The amounts for fiscal 2016 and fiscal 2015 reflected in the tables below were the basis for financial metrics under our annual incentive plan and LTIP for both years.

In thousands, except per share amounts.

Key Operating Metrics	GAAP Fiscal 2015	Adjusted Fiscal 2015	GAAP Fiscal 2016	Adjusted Fiscal 2016
Net revenue *	\$1,774,449	\$1,691,924	\$1,992,631	\$1,992,631
Operating earnings **	156,985	191,093	170,159	190,896
Net earnings ***	59,612	106,478	101,685	119,161
Earnings per share - diluted ***	\$1.91	\$3.41	\$3.42	\$4.00

*Fiscal 2015 adjusted net revenues exclude revenue of \$82.5 million from the January 2015 acquisition of the defense, aerospace and training display (“DAT”) business of Belgium-based Barco N.V.

**Fiscal 2016 adjusted operating earnings exclude the accelerated integration expenses of \$20.7 million. Fiscal 2015 adjusted operating earnings exclude the accelerated integration expenses of \$11.7 million, incremental compliance expenses of \$12.0 million, and DAT acquisition charges, DAT first-year operating loss, a pension adjustment, and a non-income tax gain of an aggregate of \$34.1 million. Operating earnings, as adjusted, was used for the calculation of EBIT and ROS under our annual incentive plan.

***Fiscal 2016 adjusted net earnings and adjusted EPS exclude the accelerated integration expenses of \$17.5 million, net of tax of \$3.3 million. Fiscal 2015 adjusted net earnings and adjusted EPS exclude the accelerated integration expenses of \$9.8 million, net of tax of \$2.0 million, incremental compliance expenses of \$10.0 million, net of tax of \$2 million, and the effects of all of the discrete events described in the footnote above, net of tax of \$0.2 million, as well as the senior note redemption costs of an aggregate of \$35.9 million, net of tax of \$6.0 million. These adjustments yielded an adjusted net earnings which was then increased by 11.5% to account for the 11-month fiscal year 2015. The adjusted net earnings and adjusted EPS for both fiscal 2015 and fiscal 2016 were used for the calculation of ROIC the calculation of EPS growth for the fiscal 2013-2015 performance cycle and 2014-2016 performance cycle under the LTIP for both years.

Over the period from fiscal 2012 to fiscal 2016, we delivered a compound annual growth rate (“CAGR”) of +1.5% for revenue. For EPS growth, the CAGR over the same period using reported results under generally accepted accounting principles (“GAAP”) for EPS from continuing operations, except as noted in the footnote below the chart below, is +2.4%. As noted above, both fiscal 2015 and fiscal 2016 EPS results were impacted by extraordinary items.

*Fiscal 2015 revenue and diluted EPS reflect GAAP revenue and diluted EPS for the eleven-month period ended October 2, 2015, increased by 11.5% to account for the 11-month fiscal year 2015.

CEO Pay and Shareholder Returns

Our compensation programs focus on pay-for-performance and are designed to reward financial performance and shareholder value creation. Both charts below help demonstrate the link between total CEO pay and total shareholder returns. In the chart immediately below, total pay includes base salary, actual annual incentive earned, and target long-term incentives (as defined for disclosure in the Summary Compensation Table). The figure for Mr. Reusser's 2014 compensation does not include the cash sign-on bonus or special RSU award made at the time of hire. These one-time items are excluded given that both elements reflect compensation provided to replace retirement or equity benefits forfeited upon departure from his prior employer. Indexed total shareholder return shows the value of \$100 invested in our Common Stock in the first year shown. In fiscal years 2012-2013 in both charts below, R. Bradley Lawrence, who retired at the end of fiscal 2013, was CEO and Mr. Reusser became CEO in fiscal 2014.

In addition to the notes included in the introduction to the chart above that also apply to the chart below, the bar in each year in the chart below reflects the actual annual incentive payout for the CEO in that year.

*EBIT annual incentive for fiscal 2015 and fiscal 2016 and ROS annual incentive for fiscal years 2014, 2015 and 2016 were based on results that were adjusted from GAAP. Adjusted EBIT and ROS for fiscal 2016 exclude the accelerated integration expenses of \$20.7 million. Adjusted EBIT and ROS for fiscal 2015 exclude accelerated integration expenses of \$11.7 million, incremental compliance expenses of \$12.0 million, and DAT acquisition charges, DAT first-year operating loss, a pension adjustment, and a non-income tax gain of an aggregate of \$34.1 million. Adjusted EBIT and ROS for fiscal 2014 excludes accelerated integration costs of \$20.4 million and the operating results from the Sunbank acquisition completed in December 2013. Fiscal 2014 adjusted EBIT and ROS include the operating results from discontinued operations.

**The EPS annual incentives for fiscal years 2012 and 2014 were based on results that were adjusted from GAAP. The adjustments to EPS results for fiscal 2014 excludes (i) accelerated integration costs of \$16.1 million, net of tax of \$4.3 million, (ii) the loss on the assets held for sale of \$49.5 million, and (iii) losses associated with a previously sold business recorded in discontinued operations of \$0.7 million. For fiscal 2012, the Company adjusted GAAP EPS for computing the incentive award as follows: \$3.60 EPS + \$1.67 Racal Acoustics charge – \$0.30 Computershare gain = \$4.96 (rounded). Fiscal 2015 adjusted EPS excludes (i) the accelerated integration expenses of \$11.7 million, net of tax of \$2.0 million, (ii) incremental compliance expenses of \$12.0 million, net of tax of \$2.0 million, and (iii) the effects of the senior note redemption, a pension adjustment, DAT acquisition charges, DAT first-year operating loss and a non-income tax gain of an aggregate of \$35.9 million. Fiscal 2016 adjusted EPS excludes accelerated integration costs of \$17.5 million, net of tax of \$3.3 million. The EPS annual incentive for fiscal 2015 and 2016 are included for informational purposes and was not the basis for any annual incentive award payable to the CEO in fiscal 2015 or 2016.

Specific Compensation Decisions for NEOs in Fiscal 2016

Competitive Position of Total Target Compensation for Fiscal 2016

As described above in the “Compensation Decision Process” section of this CD&A starting on page 16, specific compensation decisions for our executive officers in fiscal 2016 were based 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 initially established as a range between the 25th percentile and median references and then defined as plus or minus 15% of market references for each executive position. With the fiscal 2016 decisions reported below in this section, total target compensation for Mr. Reusser is within the competitive range and towards the lower end. Taking our other NEOs as a group, the fiscal 2016 decisions reported below position total target compensation within this competitive range.

Following are the specifics of fiscal 2016 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 2016, the independent members of the Board approved base salary increases for the NEOs (other than Mr. Reusser) ranging from 2.9% to 5.3%, with consideration to individual performance and to more closely align with competitive references.

The following table shows the base salary increases in fiscal 2016 for each NEO:

Executive	Title	2015 Base Salary	2016 Base Salary	% Increase
Curtis C. Reusser	Chairman, President and CEO	\$850,000	\$850,000	0.0%
Robert D. George	Executive Vice President, CFO and Corporate Development	510,000	525,000	2.9%
Marcia J. Mason	Executive Vice President & General Counsel	396,000	410,000	3.5%
Roger A. Ross	Executive Vice President and President, Sensors & Systems	375,000	395,000	5.3%
Albert S. Yost	Executive Vice President and President, Advanced Materials and Avionics & Controls	442,000	455,000	2.9%

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 2016, 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. The target award amount was not guaranteed, but reflected what would be payable if targeted results were achieved. The following table shows the fiscal 2016 target opportunities for each NEO under our annual incentive plan, which remained unchanged from 2015 target opportunities.

Executive	Target Annual Incentive
-----------	-------------------------------

Compensation
as % of Base
Salary

Curtis C. Reusser	90%
Robert D. George	60%
Marcia J. Mason	55%
Roger A. Ross	55%
Albert S. Yost	55%

For fiscal 2016, the financial performance measures established for the annual incentive plan were (i) EBIT weighted at 50%, (ii) ROS weighted at 30%, and (iii) a strategic component weighted at 20%. EBIT measures the performance of the core operations and does not include certain financing decisions or corporate effects (e.g., share buybacks, taxes). EBIT works well with ROS, ensuring that operational profitability is accomplished efficiently and that both profitability and growth are focus areas. For fiscal 2016, target EBIT was \$231.0 million and target ROS was 11.0%, both of which excluded the expected expenses from the Company's accelerated integration projects. The fiscal 2016 targets were developed from the Company's annual operating plan, which took into account the challenging performance in fiscal 2015 and expectations for fiscal 2016. While the fiscal 2016 targets were modestly down from the fiscal 2015 targets, the fiscal 2016 target reflected representative growth over fiscal 2015 actual performance.

The strategic component identifies a few specific performance objectives that are intended to set the Company up for sustained long-term success and connected to the five core elements of the Company's strategic plan: (1) Profitable & Balanced Sales Growth, (2) Enterprise Excellence, (3) Leverage the Enterprise, (4) Employee Engagement, and (5) Regulatory & Customer Compliance. In fiscal 2016, the Committee established the following four strategic objectives:

◆ Minimum growth targets measured by achievement of the fiscal 2016 sales budget and target book-to-bill ratios;

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- The Company’s aggregate on–time–in–full achievement on customer deliveries and aggregate performance on product quality improvement;
- Effective implementation of the Company’s trade compliance program as measured by the business units’ aggregate level of completion of specific trade compliance initiatives and responses to corrective actions; and
- Our business units’ aggregate completion of the Company’s operating system assessment.

In addition, in fiscal 2016, the Committee added a minimum performance threshold to preserve flexibility in structuring awards under the annual incentive plan in a manner intended to qualify as performance-based compensation under Section 162(m) of the IRC. The minimum performance threshold for the fiscal 2016 annual incentive plan was \$50 million in earnings from continuing operations before income taxes, as reported in the Company’s consolidated financial statements for the fiscal year ended September 30, 2016, which performance threshold was fully achieved.

The following table shows the actual and potential payouts for each NEO under the fiscal 2016 annual incentive plan at various levels of EBIT and ROS achievement (with linear interpolation for achievement between threshold and target and between target and maximum) as well as for achievement of the specified strategic objectives. Actual award amounts for each NEO under the 2016 annual incentive plan are reflected in the “Summary Compensation Table for Fiscal 2016” included in this proxy statement.

	Actual *	Payout %	Threshold	Target	Maximum
EBIT ** (50% weighting)	\$ 190.9	17.5 %	\$ 184.8	\$ 231.0	\$ 277.2
ROS (30% weighting)	9.58 %	10.7 %	9.35 %	11.00 %	12.65 %
Strategic objectives (four objectives - total 20% weighting)	N/A	14.5 %	N/A	100 %	200 %
Payout (as a % of target award amount)	***	42.7 %	25 %	100 %	200 %

*The amounts for EBIT and ROS were adjusted to exclude accelerated integration expenses as further described in the second footnote to the Key Operating Metrics table on page 20. The actual amount for the strategic objectives reflects aggregated performance results across the Company’s businesses for each the four separate objectives as described further below.

**In millions.

***See the Non-Equity Incentive Plan Compensation Earnings column of the “Summary Compensation Table for Fiscal 2016” on page 31 of this proxy statement for the actual payout amount earned by each NEO.

As the table above reflects, actual results for EBIT and ROS exceeded the threshold level at 83% and 87%, respectively. This performance resulted in a payout of 17.5% of target award based on actual EBIT results and a payout of 10.7% of target award based on actual ROS results. In addition, the Committee determined that the NEOs earned an award based on the partial achievement of each of the four strategic objectives. The performance metric for each objective was challenging, but achievable, as the Committee recognized the importance of incentivizing the Company’s executives to make significant progress on, and/or effective completion of, important strategic initiatives. Each objective was weighted equally and the target achievement of each objective would result in a 5% target award for each NEO. The Committee reviewed and discussed the results summarized in a report on the Company’s achievement of the strategic objectives prepared by the Company’s CEO, which reflected the Company’s partial achievement of each objective ranging from 1.7% to 4.5% achievement for each objective and a cumulative achievement of 14.5% of the potential 20% target award. Based on these results for the strategic objectives plus the EBIT and ROS results of 17.5% and 10.7% of the target award, respectively, the Committee confirmed that the Company achieved performance that resulted in an aggregate 42.7% payout of the target award for each NEO. In

fiscal 2015, each NEO received a payout of 16.3% of the target award, which was based solely on achievement of the strategic objectives established at the beginning of fiscal 2015.

Long-Term Incentives

For fiscal 2016, we continued to use our PSP program, implemented for fiscal 2015, to further strengthen executive alignment with the shareholder experience, in addition to our prior grants of stock options and restricted stock units. The PSP program replaced the cash-based awards under our LTI program, carrying forward the focus on EPS growth and ROIC – two metrics selected for their comparatively strong correlation with the creation of shareholder value over time and that focus on both profitability and growth. This three-component approach – share price, EPS growth, and ROIC – helps to balance pay delivery and outcomes, thereby (i) working to avoid potential unintended consequences with any single measure or component, and, (ii) helping to engage our NEOs, alongside other key elements of executive pay programs. Overall, the PSP program helps to engage our NEOs to:

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

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◆ 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 2016, long-term incentive opportunities under our LTI program were consistent with prior levels for the NEOs (other than Mr. Reusser) and with the competitive market. Mr. Reusser's target long-term incentive opportunity was increased from 250% of base salary to 300% of base salary (resulting in an increase in target value from \$2,125,000 to \$2,550,000), reflecting (i) growth from a starting target that was set low relative to competitive market information in light of Mr. Reusser's shorter tenure as a CEO compared with peer companies and (ii) recognition of strong contributions in his second year with the Company. The long-term incentive target award opportunities under our LTI program for each of our NEOs established in fiscal 2016 were as set forth in the table below. Mr. Reusser's heavier allocation for stock options was established when he joined the Company and was designed to provide a strong link to value creation from his point of hire, with an expectation his overall long-term award allocation would migrate over time to align with the allocation of the Company's other NEOs.

Executive	Total target annual	long-term incentive opportunity as	Target value (in thousands)	Percentage allocated to PSP	Percentage allocated to stock options	Percentage allocated to restricted stock units
	% of base salary					
Curtis C. Reusser	300%		\$ 2,550	30%	45%	25%
Robert D. George	140%		735	40%	35%	25%
Marcia J. Mason	120%		492	40%	35%	25%
Roger A. Ross	120%		474	40%	35%	25%
Albert S. Yost	120%		546	40%	35%	25%

Cash-Based LTIP and Performance Share Program

Under our legacy cash-based LTIP and the new PSP, a new performance period begins with each fiscal year and extends for three years. The two relevant performance cycles for purposes of fiscal year 2016 compensation are (i) the 2014–2016 cycle under the cash-based LTIP which ended on the last day of fiscal 2016 and for which payments are to be made in early fiscal 2017, and (ii) the 2016–2018 cycle under the PSP for which target opportunities were set in early fiscal 2016. With the introduction of the PSP for the 2015–2017 cycle, the 2014–2016 cycle is the only remaining cycle still subject to the cash-based LTIP. There are two equally weighted performance goals under both the cash-based LTIP and the PSP: (1) growth in EPS and (2) ROIC. For purposes of the cash-based LTIP and PSP: (a) 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 (b) ROIC is calculated as: $(x+y)/z$, where:

- ◆ x is net income, before extraordinary items and before interest expense;
- ◆ y is tax-adjusted interest expense; and

z is the monthly average invested capital during the corresponding fiscal year, averaged over the applicable performance cycle and expressed as a percentage.

For these purposes, invested capital is defined as total debt plus total shareholders' equity, less cash. This definition of ROIC was initially introduced for the 2013–2015 performance cycle and has been maintained for the subsequent performance cycles. These two performance measures – EPS growth and ROIC – were selected for their direct correlation over time with the creation of shareholder value.

Cash-Based LTIP – 2014-2016 Performance Cycle

For the 2014–2016 performance cycle under the cash–based LTIP, the two performance targets were as follows: 10% EPS growth and 9.3% ROIC. Payout amounts are 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. Award opportunities range from 0% to 400% of target, depending on actual performance. There was no payout for the 2014–2016 performance cycle based on our adjusted EPS growth results of (8.5%) and adjusted ROIC results of 6.8%. In determining results for the 2014–2016 performance cycle, the Committee calculated ESP growth and ROIC using adjusted net income and adjusted EPS calculated as described in the third footnote to the “Key Operating Metrics” table on page 20. However, even after applying these adjustments, the negative EPS growth resulted in no payout on the matrix.

Performance Share Program – 2016-2018 Performance Cycle

Four key payout mechanics are different for the PSP vis-à-vis the cash-based LTIP: (i) performance goals are established considering the Company's long-term strategic plan rather than a standards-based approach, (ii) all payouts are share-based rather than cash-based, (iii) payouts are determined by measuring EPS growth and ROIC independently rather than a developed matrix, and (iv) the maximum upside opportunity is 300%, reduced from the 400% maximum opportunity under the cash-based LTIP. As discussed previously in this CD&A, the Committee believes the PSP deepens the alignment with shareholders. Using individual components instead of a matrix brings clarity to the program. This clarity makes it easier to communicate and for the participants to understand the program. The decrease in the maximum payout to 300% recognizes that a share-based vehicle has share price leverage that can provide a similar payout as under the 400% maximum with the cash-based LTIP. In addition, in fiscal 2016, the Committee added a minimum performance threshold to preserve flexibility in structuring awards under the PSP in a manner intended to qualify as performance-based compensation under Section 162(m) of the IRC.

In November 2015, the independent members of the Board assigned each participating executive a target opportunity for the 2016–2018 performance cycle under the PSP based on competitive market 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. The target and maximum number of shares that may be earned by the NEOs for the 2016–2018 performance cycle under the PSP are disclosed in the “Grants of Plan-Based Awards Table for Fiscal 2016” in this proxy statement on page 32.

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 \$75.16 per share based on the average closing trading price of our Common Stock from October 1-30, 2015. Options were granted on November 18, 2015, with an exercise price equal to the closing price of our Common Stock on that date (\$79.31). The stock options granted to the NEOs in fiscal 2016 are disclosed in the “Grants of Plan-Based Awards Table for Fiscal 2016” in this proxy statement on page 32.

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 November when other aspects of executive compensation are reviewed, including awards based on the financial results of the prior fiscal year, which concludes at the end of September. The Committee may also recommend option grants at other times, such as in connection with promotions. 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.

Restricted Stock Units

The Committee continued the use of restricted stock units as a third component to our long-term incentive opportunities for executives in fiscal 2016. Typically, each grant vests 100% after the third anniversary of the grant date, thereby providing additional retention and aligning with shareholders. Management and the Committee determined the number of restricted stock units awarded, using a representative price of \$75.16 per share based on the

average closing trading price of our Common Stock from October 1-30, 2015. Restricted stock units were granted on November 18, 2015. The restricted stock units granted to the NEOs in fiscal 2016 are disclosed in the “Grants of Plan-Based Awards Table for Fiscal 2016” in this proxy statement on page 32.

Generally, we grant restricted stock units to executives once per year along with the stock options and when other aspects of executive compensation are reviewed, as described above. The Committee may also recommend restricted stock units at other times, such as in connection with promotions or for additional retention purposes.

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), stock purchase, health and wellness, employee assistance, and similar retirement and health and group insurance plans.

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In addition, all of our executive officers are 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 for Fiscal 2016” table in this proxy statement on page 35. The Committee believes that these programs are important attraction and retention tools, and that they are reasonable because they are designed to provide executives similar 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 Table for Fiscal 2016” in this proxy statement on page 37. 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.

Executive officers also receive automobile allowances, 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, an annual physical, a temporary housing stipend where the Company requires an executive to move to a substantially higher-cost area, and additional unemployment insurance. Where applicable, the value of these items is disclosed in the “Summary Compensation Table for Fiscal 2016” on page 31 and accompanying notes. These benefits are a very small percentage of total compensation for NEOs and, overall, the dollar values are in keeping with competitive norms. 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, including cash awards issuable under the Company’s annual incentive plan and PSP 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.

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 equity award acceleration to certain types of change in control transactions and events that defeat the retention purpose of equity. For these reasons, all options and restricted stock units issued under the Company’s 2004 Equity Incentive Plan and 2013 Equity Incentive Plan, including those granted to the NEOs, do not accelerate in vesting upon certain transactions such as a merger or similar transaction if the successor converts, assumes or replaces such awards. In addition, as described previously in this CD&A, we amended the Company’s 2013 Equity Incentive plan to eliminate single-trigger acceleration upon certain acquisitions of the Company’s outstanding securities and changes in the composition of the Board.

In view of these change in control events in which equity awards do not accelerate, the Committee determined to make changes to the executive termination protection agreements in fiscal 2016 (i) adding as the first triggering event the “Change in Control” events as defined in the 2013 Equity Incentive Plan (after amendment), as well as the events that were eliminated from the 2013 Equity Incentive Plan and (ii) adding as an additional severance benefit the full acceleration of any equity award held by the executive immediately prior to the qualifying change in control event, to the extent such award was not accelerated in connection with the change in control event. As a result of the amendments to the 2013 Equity Incentive Plan and the executive termination protection agreements, all time-based equity awards granted to executive officers beginning in fiscal 2016 will not accelerate in vesting unless there is a qualifying change in control event and the executive is terminated without cause or resigns with good reason within 24 months following such transaction. Accordingly, the payout to executives in those circumstances is a “double-trigger” benefit. If the acquiring or successor entity does not assume or replace unvested equity, these unvested awards will generally become immediately vested and exercisable. Outstanding PSP awards as of the date of change in control for which the payout has not been determined will be prorated at the target payout level up to and including the date of the change in control. See the “Termination of Employment and Change in Control Arrangements” section of this

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proxy statement beginning on page 41 for further detail on the treatment of equity awards in alternative change in control events.

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 2017 Compensation Program Changes

Shift in Mix of Equity Awards Granted to NEOs

For equity grants made to our NEOs as part of our fiscal 2017 compensation programs, the Committee determined to shift the mix of equity awards to 35% PSP awards, 35% stock options and 30% RSUs, which is a modest shift in the equity award mix that was in place for grants made in fiscal 2016, as indicated in the table under “Long-Term Incentives” above on page 24. This adjusted mix maintains a strong orientation to performance-based equity, and it establishes a common approach for our CEO and other NEOs.

Retirement Provisions in NEO Equity Awards

In fiscal 2016, the Committee reviewed the retirement provisions in the Company’s equity awards for NEOs. As further described in this proxy statement under “Termination of Employment and Change in Control Arrangements” on page 41, the award agreements for stock options and RSUs provide that an NEO may be eligible to retain his or her stock options and restricted stock units upon “Full Retirement,” generally defined as a voluntary termination when the participant is age 65 or older and such termination is a bona fide end to the participant’s career in the industries and markets within which the Company does business. In reviewing retirement market practices and considering the desire for more flexibility in supporting succession planning for NEOs, the Committee determined to update the definition of “retirement” under equity awards to provide for a 2-pronged definition: (i) age 65 or older or (ii) age 60 or older with at least 10 years of continuous service, in each case where such termination is a bona fide end of the NEO’s career in the Company’s industries or markets.

For stock options, this means that if an NEO meets either prong of the retirement definition, the NEO’s stock options will continue to vest after retirement in accordance with the normal vesting schedule. This change will be included in grants of stock options to NEOs beginning in fiscal 2017, and in addition, outstanding stock options held by NEO’s who are eligible to meet either prong of the new retirement definition will be amended to include the new retirement definition.

For restricted stock units, in addition to the change in the definition of retirement, the Committee also determined to change the vesting and settlement dates upon retirement of the NEO. As a result of these changes, if an NEO meets either prong of the retirement definition, the restricted stock units will vest at termination of service, but settlement will follow in accordance with the original vesting schedule of the restricted stock unit award. For restricted stock units granted to NEOs prior to this change, the Committee has in its sole discretion the ability to provide that all unvested units become vested upon “Full Retirement.” Finally, the Committee also determined to structure restricted stock unit grants in a manner intended to qualify as performance-based compensation under Section 162(m) of the IRC by adding a minimum performance threshold that must generally be met in order for the “covered person” (as defined under Section 162(m) of the IRC) to earn any vested restricted stock units under the award. The performance period will be a two-year measurement period, while the restricted stock units will retain a three-year cliff vesting schedule. In addition, the minimum performance threshold will be the same minimum performance threshold utilized under the PSP. All of these changes will be included in grants of restricted stock units to NEOs beginning in fiscal 2017.

Beginning with the PSP for 2017-2019 performance period, the new definition for retirement described above will be included so that an NEO meeting either prong of the retirement definition may be entitled to retain earned performance shares. Accordingly, upon the occurrence of either prong of the retirement definition, each NEO will be entitled to awards issued in the normal course under the PSP for the full performance period based on actual achievement of the applicable PSP goals so long as the NEO completes at least one full year of continuous, active employment during the performance period. If that service period is not met, the NEO will not be entitled to any award under the PSP upon his or her retirement.

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

GARY E. PRUITT

STATEMENT REGARDING COMPENSATION PRACTICES

In fiscal 2016, 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;
- 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, segment presidents, Chief Human Resources Officer, 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 incentive plan focuses on earnings growth and average return on investment over overlapping three-year award periods and settles awards in shares for performance periods beginning in fiscal 2016. 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 on all Company incentive plans to eliminate the potential for dramatic or risky windfalls;
- A compensation recovery (or “clawback”) policy applicable to all executive and senior management incentive programs;
- 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 2016 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 2016 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 2016

The table below summarizes certain compensation information for fiscal 2016 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 2016.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value & Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Curtis C. Reusser Chairman, President & CEO	2016	\$850,000	\$-	\$1,483,097	\$1,218,796	\$326,655	\$180,570	\$54,563	\$4,113,681
	2015	768,269	-	1,175,300	1,111,101	124,695	187,122	44,837	3,411,324
	2014	764,423	600,000	4,771,675	1,123,710	752,325	90,859	27,169	8,130,161
Robert D. George Executive Vice President, CFO &	2016	520,962	-	499,653	272,480	134,505	435,212	36,029	1,898,841
	2015	467,500	-	458,367	292,681	49,878	144,416	41,157	1,453,999
	2014	495,808	-	186,375	319,825	479,138	371,214	40,138	1,892,498
Corporate Development									
Marcia J. Mason Executive Vice President &	2016	406,231	-	333,102	184,108	96,289	381,556	31,978	1,433,264
	2015	363,250	-	305,578	195,121	35,501	150,705	36,112	1,086,267
General Counsel									
Roger A. Ross Executive Vice President and	2016	389,615	-	325,171	176,744	92,766	32,441	119,283	1,136,020

President,
Sensors

& Systems

Albert S. Yost	2016	451,500	-	372,757	202,519	106,857	175,513	32,423	1,341,569
Executive Vice	2015	382,615	-	467,396	205,960	39,625	61,989	36,130	1,193,715
President and President, Advanced	2014	391,577	-	133,125	220,420	322,346	119,382	34,264	1,221,114

Materials and

Avionics &
Controls

(1) For fiscal 2015, represents amounts earned for the eleven months in the fiscal year due to the transition to an earlier fiscal year-end.

(2) Represents the aggregate grant date fair value of awards granted during the fiscal year, computed in accordance with ASC 718. Under the Stock Awards column, amounts include the grant date fair value of the 2016-2018 performance cycle under the PSP at target as follows: Mr. Reusser, \$808,962; Mr. George, \$309,309; Ms. Mason, \$206,206; Mr. Ross, \$198,275; and Mr. Yost, \$229,999. At the maximum level of achievement, these values would be as follows: Mr. Reusser, \$2,426,886; Mr. George, \$927,927; Ms. Mason, \$618,618; Mr. Ross, \$594,825; and Mr. Yost, \$689,997. Assumptions used to calculate the amounts for fiscal 2016 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 September 30, 2016.

(3) For fiscal 2016, represents amounts earned under the annual incentive. There were no amounts earned under the 2014-2016 performance cycle under the LTIP.

(4) 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+).

(5) For fiscal 2016, includes match payments under the Company's 401(k) plan (\$7,950 for each NEO), the Company's Supplemental Executive Retirement & Deferred Compensation Plan (Mr. Reusser, \$21,291; Mr. George, \$8,846; Ms. Mason, \$4,995; Mr. Ross,

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\$3,461; Mr. Yost, \$5,957). Also includes the following for each NEO: Mr. Reusser (automobile allowance, financial planning and club memberships); Mr. George (automobile allowance, financial planning, club memberships and cost of annual physical); Ms. Mason (automobile allowance, financial planning, club memberships and cost of annual physical); Mr. Ross (automobile allowance, financial planning and \$89,321 for moving expenses, including a tax gross-up of \$34,606); Mr. Yost (automobile allowance and financial planning). 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 2016

The following table provides information regarding grants of plan-based awards to the NEOs under our 2016 Annual Incentive Compensation Plan and the 2013 Equity Incentive Plan during fiscal 2016.

Name	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards:		Exercise Price	Grant Date or Fair Value of Stock and Option Awards (\$)
					Threshold (#)	Target (#)	Maximum (#)	Units of Stock or Underlying Options	Number of Securities		
Curtis											
C.	(1)	\$191,250	\$765,000	\$1,530,000	-	-	-	-	-	\$-	\$-
Reusser	11/18/15 (2)	-	-	-	2,550	10,200	30,600	-	-	-	808,962
	11/18/15 (3)	-	-	-	-	-	-	-	33,100	79.31	1,218,796
	11/18/15 (4)	-	-	-	-	-	-	8,500	-	-	674,135
Robert											
D.	(1)	78,750	315,000	630,000	-	-	-	-	-	-	-
George	11/18/15 (2)	-	-	-	975	3,900	11,700	-	-	-	309,309
	11/18/15 (3)	-	-	-	-	-	-	-	7,400	79.31	272,480
	11/18/15 (4)	-	-	-	-	-	-	2,400	-	-	190,344
Marcia											
J.	(1)	56,375	225,500	451,000	-	-	-	-	-	-	-
Mason	11/18/15 (2)	-	-	-	650	2,600	7,800	-	-	-	206,206
	11/18/15 (3)	-	-	-	-	-	-	-	5,000	79.31	184,108
	11/18/15 (4)	-	-	-	-	-	-	1,600	-	-	126,896
Roger											
A.	(1)	54,313	217,250	434,500	-	-	-	-	-	-	-
Ross	11/18/15 (2)	-	-	-	625	2,500	7,500	-	-	-	198,275

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	11/18/15 (3)	-	-	-	-	-	-	-	4,800	79.31	176,744
	11/18/15 (4)	-	-	-	-	-	-	1,600	-	-	126,896
Albert											
S.	(1)	62,563	250,250	500,500	-	-	-	-	-	-	-
Yost	11/18/15 (2)	-	-	-	725	2,900	8,700	-	-	-	229,999
	11/18/15 (3)	-	-	-	-	-	-	-	5,500	79.31	202,519
	11/18/15 (4)	-	-	-	-	-	-	1,800	-	-	142,758

(1) This shows the potential value of the payout for each NEO under the 2016 Annual Incentive Compensation Plan if the threshold, target or maximum goals are satisfied. The potential payouts are performance driven and therefore completely at risk. The business measurements, performance goals and calculation for determining the payout are described in the Compensation Discussion and Analysis section of this proxy statement. Actual amounts earned are disclosed in the Summary Compensation Table for Fiscal 2016 in this proxy statement.

(2) This shows the potential number of shares that may be earned by each NEO under the PSP program if the threshold, target or maximum goals of the 2016-2018 performance cycle are satisfied. The potential payouts are performance driven and therefore completely at risk. The business measurements, performance goals and calculation determining the payout are described in the Compensation Discussion and Analysis section of this proxy statement. Any payouts under the 2016-2018 performance cycle will be made after November 18, 2018, pursuant to the Company's 2013 Equity Incentive Plan.

(3) The option grants were made pursuant to the Company's 2013 Equity Incentive Plan. The exercise price of the options is equal to the closing price of the Common Stock on the date of grant. The options vest at the rate of 25% per year on each of the first four anniversaries of the date of grant.

(4) The restricted stock units were granted pursuant to the Company's 2013 Equity Incentive Plan. They vest in full on the third anniversary of the date of grant.

Annual Incentive Compensation Plan

Payments under the 2016 Annual Incentive Compensation Plan are tied to key measures of corporate performance relating to the following financial objectives: earnings before interest and taxes and return on sales, in addition to four strategic objectives. For additional information regarding the 2016 Annual Incentive Compensation Plan, please refer to the Compensation Discussion and Analysis section of this proxy statement starting on page 12.

2013 Equity Incentive Plan

Equity awards granted to our executive officers in fiscal 2016 consisted of stock options, restricted stock units and PSP awards granted under the Company's 2013 Equity Incentive Plan, as amended. Stock options have a term of ten years and typically vest in equal annual installments over the period from the date of grant until the fourth anniversary of the date of grant. The exercise price for all stock options is equal to the closing price of the Common Stock on the date of grant. Restricted stock units generally have a three-year cliff vesting. PSP awards granted in fiscal 2016 are earned based on the level of achievement of specified performance goals during a three-year performance period. To the extent earned, awards are settled in shares of fully vested Common Stock. For additional information regarding the PSP, please see the Compensation Discussion and Analysis section of this proxy statement starting on page 12.

Offer Letter for Roger A. Ross

Pursuant to Mr. Ross's offer letter dated July 27, 2015, as part of his compensation arrangements, Mr. Ross is entitled to participate in Esterline's retirement, health care and other benefit plans and in the Supplemental Retirement Income Plan and the Supplemental Executive Retirement and Deferred Compensation Plan. In addition, he is eligible receive a car allowance of up to approximately \$800 per month, before taxes, and reimbursement for certain relocation expenses in accordance with standard corporate policy. In fiscal 2016, Mr. Ross was reimbursed \$89,321 for moving expenses, including a tax gross-up of \$34,606.

Fixed Cash Compensation in Proportion to Total Compensation

The proportion of fixed cash compensation (salary) compared to total compensation (as reported in the Summary Compensation Table for Fiscal 2016 included in this proxy statement) varies somewhat among the NEOs. Specifically, allocation among the different components of compensation varies based on the position and level of responsibility as well as on market data provided by Semler Brossy that reflects the practices of other companies. For example, those NEOs with the greater ability to influence our performance will have a higher level of at-risk compensation in the form of an increased percentage of total compensation in equity awards and cash-based incentive plan target awards. The lower the level of influence of an executive, the higher the percentage of their total compensation is in the form of base salary with a correspondingly lower percentage of equity awards and cash-based incentive plan target awards. In general, the proportion of at-risk compensation increases with base salary level, which usually indicates relative scope and level of responsibility, such that those with higher salaries also have more of their total compensation at risk. Accordingly, executive compensation for higher-level executives is set to align closely with shareholder and Company long-term shared interests. In fiscal 2016, the percentage of fixed cash compensation as compared to total compensation was 20% for the CEO. For the other NEOs, the average percentage of fixed cash compensation as compared to total compensation was 36%.

Outstanding Equity Awards Table at Fiscal Year End 2016

The following table summarizes the total outstanding equity awards held as of September 30, 2016, by each of the NEOs. The market value of the restricted stock units and PSP awards is based on the closing price of the Company's Common Stock on September 30, 2016, which was \$76.04.

Name	Grant Date	Option Awards				Stock Awards		Equity Incentive	
		Number of Exercisable	Number of Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Units of Stock That Have Not Vested	Market Value of Units of Stock That Have Not Vested (\$)	Plan Awards Number of Market or Payout Unearned Value of Shares, Unearned	Other Rights That Have Not Vested (\$)
Curtis C. Reusser	10/28/13	(1) -	-	\$-	-	17,583	\$1,337,011	-	\$-
	12/05/13	(2) 13,000	13,000	88.75	12/05/23	-	-	-	-
	12/05/13	(3) -	-	-	-	5,800	441,032	-	-
	12/11/14	(2) 5,125	15,375	117.53	12/11/24	-	-	-	-
	12/11/14	(3) -	-	-	-	4,500	342,180	-	-
	12/11/14	(5) -	-	-	-	-	-	1,375	104,555
	11/18/15	(2) -	33,100	79.31	11/18/25	-	-	-	-
	11/18/15	(3) -	-	-	-	8,500	646,340	-	-
	11/18/15	(5) -	-	-	-	-	-	2,550	193,902
Robert D. George	12/06/07	(2) 17,100	-	53.00	12/06/17	-	-	-	-
	12/11/08	(2) 26,700	-	32.00	12/11/18	-	-	-	-
	12/10/09	(2) 21,700	-	41.00	12/10/19	-	-	-	-
	12/09/10	(2) 15,300	-	64.56	12/09/20	-	-	-	-
	07/26/11	(2) 5,000	-	78.24	07/26/21	-	-	-	-
	12/08/11	(2) 18,300	-	51.08	12/08/21	-	-	-	-
	12/06/12	(2) 7,500	2,500	60.65	12/06/22	-	-	-	-
	09/11/13	(4) -	-	-	-	2,970	225,839	-	-
	12/05/13	(2) 3,700	3,700	88.75	12/05/23	-	-	-	-
	12/05/13	(3) -	-	-	-	2,100	159,684	-	-
	12/11/14	(2) 1,350	4,050	117.53	12/11/24	-	-	-	-
	12/11/14	(3) -	-	-	-	1,500	114,060	-	-
	12/11/14	(5) -	-	-	-	-	-	600	45,624
	11/18/15	(2) -	7,400	79.31	11/18/25	-	-	-	-
	11/18/15	(3) -	-	-	-	2,400	182,496	-	-
	11/18/15	(5) -	-	-	-	-	-	975	74,139
Marcia J. Mason	12/10/09	(2) 10,800	-	41.00	12/10/19	-	-	-	-
	12/09/10	(2) 7,600	-	64.56	12/09/20	-	-	-	-
	12/08/11	(2) 8,900	-	51.08	12/08/21	-	-	-	-

Edgar Filing: ESTERLINE TECHNOLOGIES CORP - Form DEF 14A

08/01/12	(2)	20,000	-	57.03	08/01/22	-	-	-	-
12/06/12	(2)	5,025	1,675	60.65	12/06/22				