ESTERLINE TECHNOLOGIES

1998

NYSE ESL

ANNUAL REPORT

ESTERLINE TECHNOLOGIES |

Esterline Technologies is a specialized manufacturing company serving several major markets including the aerospace and defense industry, electronic equipment manufacturers, and general manufacturing industries. Esterline is headquartered in Bellevue, Washington, and is listed on the New York Stock Exchange with the trading symbol ESL.

Financial Highlights.

in thousands, except per share amounts

	for the years ended October 31,	1998	1997
Operating Results >	Sales	$453,902	$390,958
	Operating earnings	60,143	47,612
	Net earnings	30,084	25,321
	Net earnings per share – basic	$ 1.74	$ 1.48
	Net earnings per share – diluted	$ 1.70	$ 1.44
	Weighted average shares outstanding – basic	17,290	17,124
	Weighted average shares outstanding – diluted	17,718	17,608
Financial Position >	Total assets	$387,179	$289,847
	Property, plant and equipment – net	94,062	58,376
	Working capital	70,099	99,419
	Shareholders' equity	196,376	165,718

All share and per share data in this report reflect a 1998 two-for-one stock split.

To Our Shareholders.

left | Robert W. Cremin
President and Chief Executive Officer

right | Wendell P. Hurlbut
Chairman

Esterline had a great year. Fiscal 1998 not only produced record sales and earnings for our company, but also marked the fourth consecutive year of double-digit earnings growth.

The results are largely due to our long-term strategy:

We leverage Esterline's well-balanced structure to best take advantage of the business cycles in the markets we serve. Basically, we're a group of specialized manufacturing operations providing both growth and value opportunities.

We maintain an unremitting focus on operating effectiveness in order to grow the company from within. Our managers are disciplined to make the necessary investments in timely new products, new or expanded facilities, new equipment or systems, and the most highly qualified people available.

And we are committed to seek out acquisitions that fit our strategy, preferably manufacturers of engineered products, serving industrial customers, and operating within a market niche where we can be a significant player. We also look for synergy with our existing companies or with markets those companies serve.

This strategy has proved to be particularly effective. Certainly we have the advantages of the classic diversified company, where we are able to balance the ups and downs of inherent cycles that affect our markets. Unlike most diversified companies, however, Esterline is highly focused. We offer specialized, highly engineered products that are at, or near, the top of their market niches.

During the year, this approach resulted in a number of noteworthy achievements.

> Aerospace Markets Again Led the Way

As with last year's performance, our companies serving aerospace markets led the way again in 1998.

Commercial airline passenger and air cargo traffic continues to grow, leaving most carriers solidly profitable. In addition, record shipments of new aircraft by the original equipment manufacturers, and a solid defense base, created opportunity and we acted on it.

Possibly the most noteworthy event of the year was the acquisition of Kirkhill Rubber Co. in August. This acquisition was the largest of seven (four companies and three product lines) completed by Esterline during fiscal 1998.

November 1997 » Acquired Fluid Regulators Co. for Auxitrol

» Acquired SAGEM aerospace pressure sensor product line for Auxitrol

» Acquired Boeing 777 cockpit switch line from ITW for Korry

December 1997 » Announced record sales and earnings for fiscal 1997

Kirkhill is a leading manufacturer of high-performance custom-engineered elastomer components for the aerospace industry. Elastomers are chemically engineered materials resembling rubber. These products offer the aerospace industry great opportunities to replace metal components with lighter weight materials, often having better performance at a lower cost.

In addition to aerospace markets, Kirkhill serves a wide spectrum of industrial customers, providing a broad business base that helps insulate it from industrial cycles.

The addition of Kirkhill expands our already solid elastomer manufacturing capability. Our TA Mfg. operation is a leader in elastomer applications for jet propulsion systems. Improved jet engine performance is dependent on the ability to sustain increasingly higher temperatures. This performance, however, is limited by the ability of an engine's supporting components to withstand these elevated temperatures. TA Mfg. has developed silicone elastomers capable of withstanding extreme temperatures – some as high as 700 degrees Fahrenheit for extended periods of time. As we noted at the outset, one characteristic we look for in an acquisition is synergy with our existing companies. We believe that Kirkhill's broad market reach and extensive manufacturing capabilities will help TA Mfg. significantly expand the opportunities for its high-temperature products.

In June, TA Mfg. completed its move into a custom-designed facility in Valencia, California, that more than doubles its manufacturing capacity and creates ample opportunity for meaningful production efficiencies and organizational improvements.

Two other Esterline operations specializing in material science principally for aerospace and defense markets also turned in solid results during the year.

Armtec, which manufactures combustible propellant casings for large bore ammunition and mortars, continues to be the U.S. Army's sole supplier of these products for 155mm artillery, 120mm tank cannons, and 60, 81, and 120mm mortars. This has been a very stable business for Esterline, notwithstanding the relative peace in the world. One reason for this stability is the Army's utilization of live-round training – especially for tank crews – a result of the Defense Department's continued emphasis on training.

And our Hytek Finishes operation, the West Coast's leading supplier of specialized finishes for aerospace, not only rode the commercial aerospace crest, but significantly expanded its market share. Hytek increased its capacity by nearly 20% during the year, enabling it to broaden its market reach and offer its customers the fastest turn-around times available.

> Growth Opportunities for Sensors and Switches

Significant actions to expand our aerospace sensor and switch businesses also took place during the year. Our France-based Auxitrol subsidiary achieved a significant goal with the acquisition of Fluid Regulators Co., a Cleveland-area manufacturer of advanced hydraulic controls. Auxitrol manufactures high precision temperature and pressure sensors used on a variety of aerospace applications – most notably the GE/SNECMA CFM-56 jet engine that powers all new Boeing 737s and most Airbus models. The addition of Fluid Regulators not only expands Auxitrol's product offering into hydraulic controls, but establishes a solid foothold in the United States that presents the opportunity to significantly expand its market share beyond Europe. Auxitrol also relocated to a brand new 100,000-square-foot facility in Bourges, nearly doubling its manufacturing capacity.

Equally important were the gains made at our Korry Electronics subsidiary. Korry was busy during the year expanding its already dominant position in lighted cockpit switches, indicators and panels for both commercial and military applications.

Early in the year, Korry acquired the Boeing 777 switch line from ITW and had the line completely assimilated in less than a month with no delivery disruption.

Shortly thereafter, Korry received FAA approval for a newly developed line of cockpit switches that use light emitting diodes (LEDs) as a light source, as opposed to incandescent bulbs. The new switch provides a retrofit option that is proving very popular with the airlines. United Airlines, which placed the first major order for the new LED switch, has retrofit their entire fleet of 767s.

In May, we acquired Memtron Technologies for Korry. Memtron is a designer and manufacturer of membrane switches and panels for medical, industrial computer, and other commercial markets. Memtron's panel technology is a good match for Korry, and Memtron's commercial/industrial markets add diversity and a broader business base to Korry's existing markets.

Korry's defense business is benefiting from electronics upgrade programs to the existing inventory of military aircraft and land vehicles.

One important advantage Korry maintains in this market is its proprietary sunlight-readable, night-vision compatible displays.

Mason Electric's products also are found in aircraft cockpits. Mason designs and manufactures the flight controls for more than 60 different models of military and commercial aircraft worldwide. Like Korry, it too is benefiting from military electronics upgrade programs. As existing aircraft are retrofit with sophisticated avionics packages, the control grips, which are the primary interface between the pilot and the new systems, also must be upgraded. Some of Mason's grips perform as many as 25 separate actuations, enabling a pilot to have exceptional control with only the slightest hand movements. Mason, which was acquired just two years ago, continues to outpace the performance expectations we set for it at that time.

> Precision Manufacturing Equipment Reaches Many Industrial Markets

Esterline also serves a number of diverse markets with a focus on high value-added engineered products. Our W. A. Whitney subsidiary manufactures automated systems for cutting and punching heavy-gauge metal used primarily in the manufacture of construction, agriculture, and transportation equipment. Federal Products designs and manufactures quality control inspection equipment for a broad range of customers, including automotive and other transportation markets. And our Excellon operation produces automated equipment used in the fabrication of printed circuit boards. These companies produced mixed results during the year due to a variety of market conditions.

Whitney has performed well for the past several years and continues to do so despite ups and downs in agriculture and construction equipment markets. One reason is a solid new product development effort that responds to its customers' need to increase productivity. Last year the company extended its product range to include a fabricating machine with the same cutting quality as its top-end equipment, but with a much simplified tool changer. Late this year, Whitney again extended its product line – this time on the high end – with the development of a powerful laser cutting system for heavy-gauge metal. And like some other operations, Whitney also completed a plant expansion to accommodate increased demand and to provide space for demonstration and customer training.

June 1998 » TA Mfg. completed move to new facility in Valencia, CA

August 1998 » Acquired Kirkhill Rubber Co. – a new Esterline subsidiary

» Announced record third quarter earnings

» Acquired ATI router product line for Excellon

Federal offers a range of products from hand-held gauges to fully automated inspection systems. These products are increasingly applied to in-process quality control applications, helping customers determine accuracy and fit before a product is assembled. Although Federal serves a number of markets, its principal customers are the big three U.S. automakers and their supplier base. The mid-year strike at General Motors not only disrupted market conditions during the strike, but focused the industry on the fundamental issue of over-capacity. The fallout had a negative impact on Federal's second half and has dampened expectations for at least the first half of 1999.

And lastly, our Excellon operation presented a perfect illustration of how Esterline's strategy is designed to work, i.e. balancing the cycles, staying focused on operating efficiency, and being in a position to make an acquisition when the opportunity arises.

It's no secret that the past year was a tough one for the electronics industry. But Excellon has seen any number of cycles in the past decade. If there's one thing we've learned about serving cyclical industries, it's that the key to success is staying competitive during the down cycle so you're in the best possible position when the market invariably turns up. At Excellon we're doing just that.

Throughout the year Excellon saw increasing pressure on margins as Japanese and European competitors took advantage of their weaker currencies. But price is not the only issue in the circuit board fabrication industry. Excellon has some important competitive advantages on its side, not the least of which is its comprehensive line of technically superior products driven by what is unquestionably the leading software in the industry.

In addition, Excellon continued its focus on new product development. In this environment of ever-more rapid technical obsolescence, our managers are very aware that a company that neglects R&D risks everything. During the year, Excellon introduced a number of new material-handling products and expanded its Amtech material handling equipment operation to contend with increased demand. And Excellon drew a line in the sand late in the year, with the development of the fastest and most versatile laser drilling machine available – the result of a strategic alliance with U.K.-based Exitech Ltd.

Acquisitions also continued to play a part in Excellon's strategy. In August we acquired Advanced Technology, Inc. (ATI), a designer/manufacturer of dedicated circuit board routers primarily for populated board applications. ATI fills out Excellon's router product line by substantially expanding its position in this rapidly growing market.

In the near-term for Excellon, we see more of the same sluggish market conditions as its customers deal with issues such as surplus inventory, over-capacity, and the destabilized economic conditions in Asia. In the longer run, however, there's room for optimism. Consumers of computers and cell phones want more power, functionality, and networking. For example, as the Internet continues to grow, demand will increase for "access tools" such as PCs, laptops and small hand-held devices, not to mention the computers and peripherals that manage the Internet itself. This means more circuit boards with more holes on the board – smaller holes, and holes that are much closer together. And then there's the issue of productivity. As average selling prices come down for computer and telecommunications gear, board manufacturers must reduce costs. Both of these examples point to increased future demand for Excellon's highly productive automated equipment.

> Balance, Discipline and Agility Equate to Opportunity

Esterline's future growth will be built on the same long-term strategy that got us this far: A balanced market approach to engineered solutions, a disciplined focus on operating effectiveness, and strategic acquisitions.

As we enter 1999, Esterline has more options than ever before, thanks to the progress made over the last several years. We have the best operational balance in a decade, which equates to greater stability. We have excellent products, as evidenced by our market leading positions. We have a highly disciplined management team in place, and we have employees with exceptional capabilities and talents. We're confident these attributes will enable us to respond quickly and decisively to opportunities we create for ourselves or that are presented to us.

On a final note, we would like to take this opportunity to thank our more than 4,000 employees around the world for their achievements in 1998, and for what they will undoubtedly achieve tomorrow.

W P Hurlbut

Wendell P. Hurlbut
Chairman

Robert W Cremin

Robert W. Cremin
President and
Chief Executive Officer

THIS IS OUR LOGIC:

1 > MARKET BALANCE

2 > SPECIALIZATION

3 > INTERNAL GROWTH

4 > EXTERNAL GROWTH

1 > Our logic is to manage Esterline in a way that best takes advantage of inherent market cycles. 2 > Simultaneously we focus on the manufacture of highly engineered products targeted at specific market niches where we can be a significant player. Our growth is driven by both internal and external engines. 3 > Internally, we emphasize operating effectiveness, management discipline, and making the investments necessary to stay at the top of our game. 4 > Externally, we remain alert to acquisitions that further our strategy – companies or product lines that expand current market positions or provide the opportunity to extend our market reach.

ATTRIBUTES

1 specialized

PRODUCTS & MARKETS BALANCED FOR GROWTH:

FOCUS

our products

proprietary technologies

focused product lines

ADVANTAGES >

expertise

efficiency

2 balanced

3 leadership

FOCUS

our markets

multiple markets

related products

lower risk

FOCUS

our companies

depth of capabilities

depth of products

market leadership

long-term customer relationships

1998

markets:

commercial aircraft

military aerospace

computers

telecommunications

construction equipment

land-based defense

transportation

ATTRIBUTES

1 specialized

We are specialists. Specialization requires a discipline that has clearly defined our product lines and capabilities. All are strictly aligned with specific market needs. This focus has helped us build a depth of understanding that reaches beyond what competitors can offer. It has made our market-driven research and development efforts highly efficient. Across our family of Esterline companies you'll find the same discipline and focus, the same determination to offer results that can only be derived from a thorough understanding of the details behind each market we serve.

VALUABLE ATTRIBUTES FOR GROWTH >

- Specialized, engineered solutions are the common denominator among all our markets. Our products are essential for aerospace, electronics and general manufacturing companies that want to make the most of their products and their operations, especially where accuracy, reliability, efficiency and productivity are factors. Specialization also offers us a tactical advantage: because of our focus, our components are often written in to the base specifications of our customers' products. This positions Esterline to build long-term relationships with that customer. We are also in the best position to continue to innovate and evolve our products to meet the emerging needs of our markets, adding to the depth of our understanding and the growing range of our opportunities.

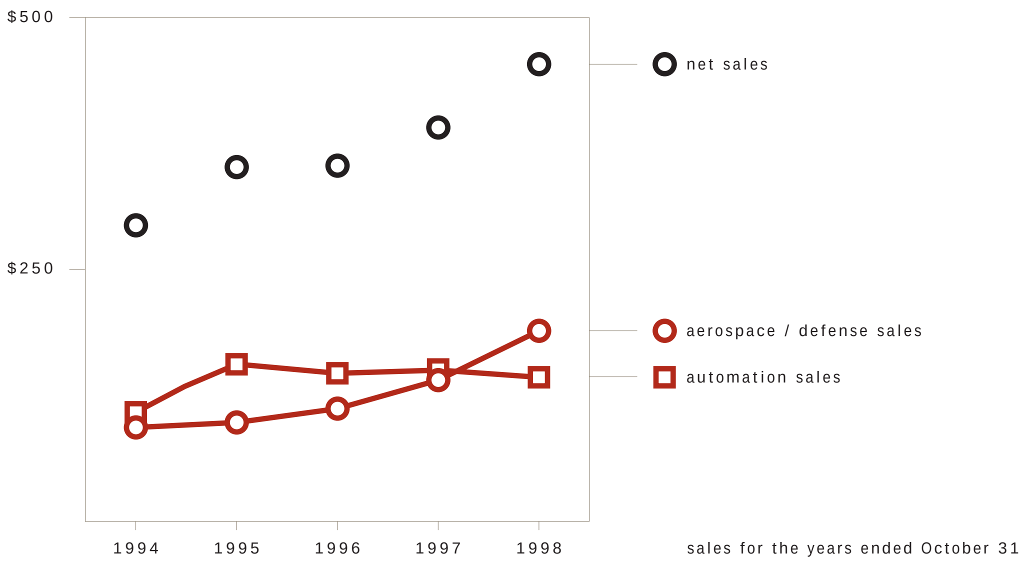
2 balanced

Viewed from the perspective of technologies and disciplines, our companies are closely interrelated. Viewed from the perspective of markets, we are purposefully differentiated. The logic is simple: we seek to avoid the exposure of being too closely dependent on any single market cycle.

3 leadership

We understand where we can best compete and win. Not in diluted product segments filled with competitors, where best efforts will gain only a minority market share, but in highly specialized areas where we have clearly defined technological, manufacturing and functional advantages. Our goal, through our own and acquired technologies, is to become the leading source for every product niche we serve.

Our market strategy at work: while total sales grow, a decline in Automation markets is balanced by growth in our Aerospace / Defense markets (dollars in millions).



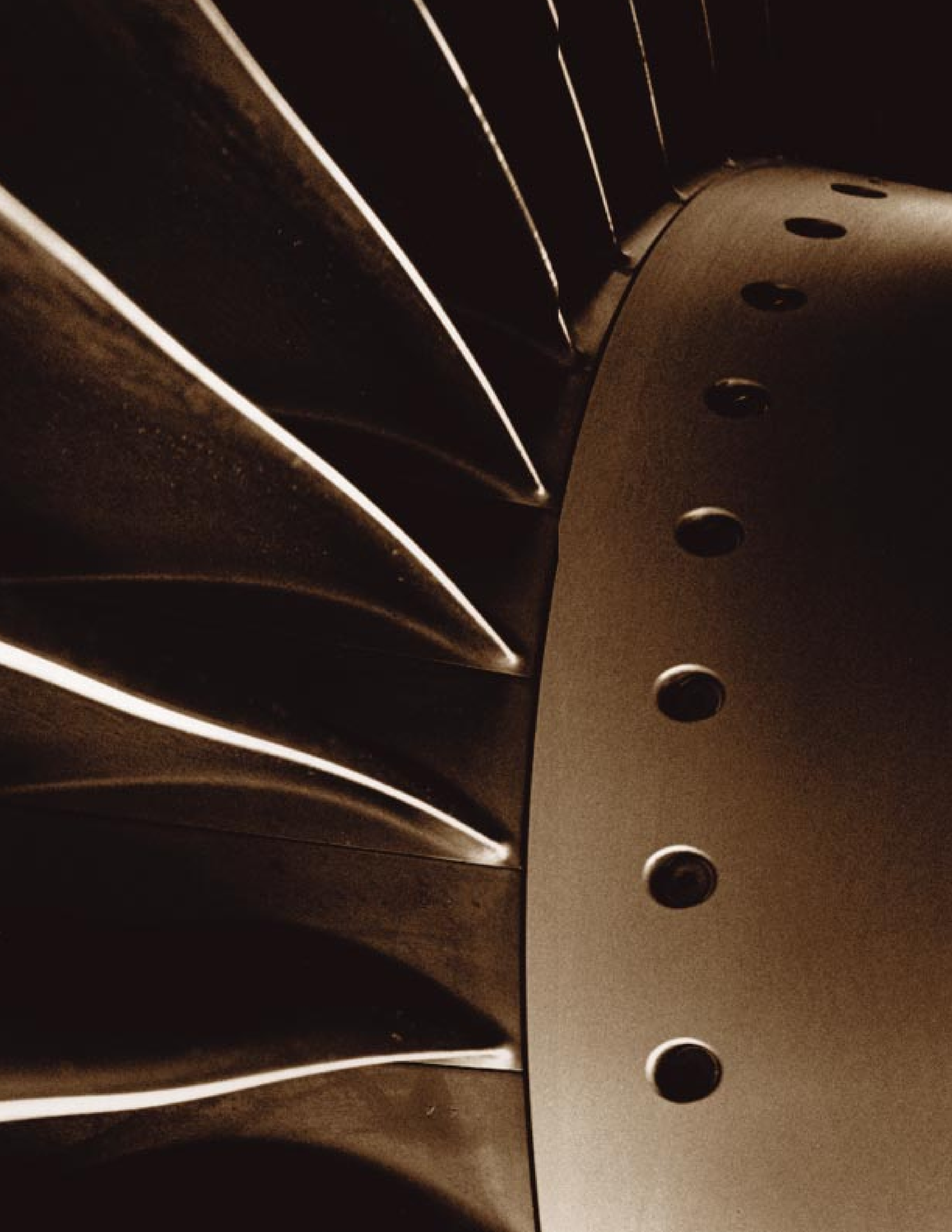
images

color:
Printed circuit board hole diameters continue to shrink as electronic devices get smaller and more powerful. (Photo magnified 2.5 times.)

b&w:
Esterline produces a wide range of specialized products for the aerospace industry.

- The mix of markets we serve today has spread our risk considerably: while all our market sectors require engineered solutions, a downturn in the electronics industry, for example, is seldom in sync with similar conditions in aerospace or in manufacturing sectors. The result is a market balance that helps to reduce our exposure and increase our opportunities for growth.

- Esterline works to be indispensable to its customers. Some measures of our success are: we have the largest installed base of automated printed circuit board drilling machines in the world; our lighted switches are designed into every Boeing commercial jet flying from the 707 to the 777; and the U.S. Army has designated us as the sole source for combustible shell casings for large-bore weapons. The pattern is similar in all our product lines. By offering the best solution, we extend our relationships and our opportunities with every customer. Our logic is a highly effective engine for growth: by becoming the dominant player in these specific product niches, we have the best opportunity to not just stay ahead, but extend our lead and maintain our advantage.



1 efficient facilities

EVOLVING CAPABILITIES, APPLYING RESOURCES:

RESULTS

infrastructure

new facilities for
Auxitrol and TA Mfg.

MEASURES >

more space for
operational efficiencies

2 efficient tools

RESULTS

techniques

best practices
throughout divisions

increased use of cell
manufacturing techniques

3 efficient R&D

RESULTS

R&D

evolutionary and
directed to customer needs

lighting solutions and high temperature
synthetic materials

new laser applications
to existing markets

1998

initiatives:

effective facilities

best practices

continued R&D

new products and materials

expanded applications

1 efficient facilities

We engineer all of our operations to respond to customer needs. Whether it's as simple as the removal of a wall to better facilitate the shipping process, or the construction of an entirely new plant, we do it with an eye not only to immediate operating efficiency, but our customers' long-term requirements as well. At the end of fiscal 1998, Esterline's more than 1.8 million square feet of manufacturing space was optimized to our long-term strategy.

GROWING OUR COMPANY FROM WITHIN >

- During 1998 Esterline completed the construction of two new facilities: one in France for Auxitrol, our primary overseas operation, and another in southern California for TA Mfg. Both business units are benefiting from robust commercial aerospace markets, but more importantly from market share expansion due to successful new product development. Auxitrol's new 100,000-square-foot plant, among other benefits, smoothed the absorption of a competitor's pressure sensor line acquired early in the year. And TA Mfg., after only six months in its new custom-designed plant, is already seeing meaningful productivity improvement.

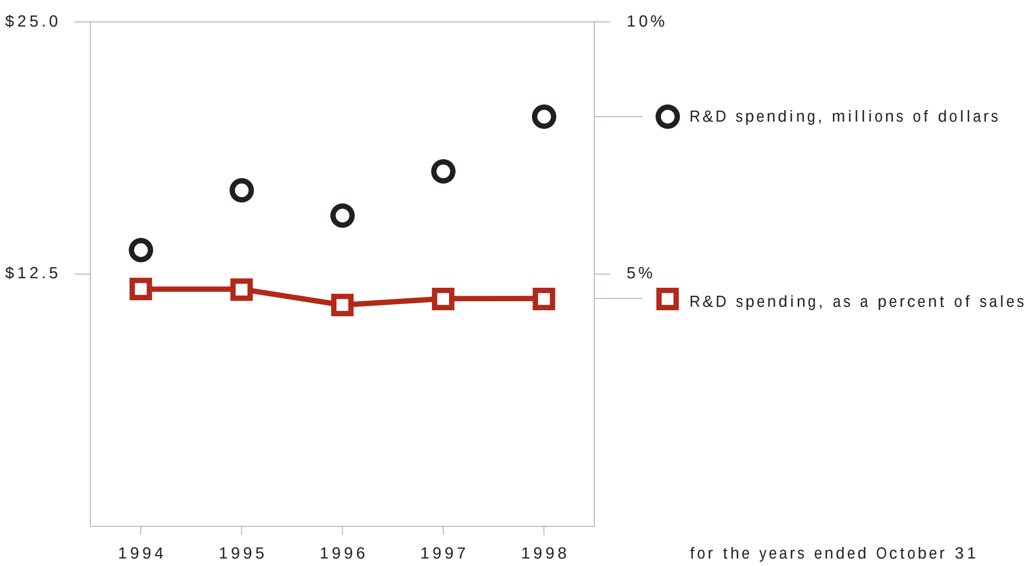
2 efficient tools

The capital we invest in our businesses is carefully calculated to maximize return on investment. Whether it's for a facility expansion or for specialized machinery, equipment or information systems, these investments are all carefully monitored and measured to ensure continuous operating improvement.

3 efficient R&D

Research and development at Esterline has a real-world focus, tempered further by a requirement to reach the desired result in the most efficient way possible. We apply our science and experience directly to what customers need, to what we together identify as clear opportunities for improving performance, durability and value. This ensures that our new products have a ready market. And we do it in a way that is enriched by having access to the distinct range of expertise our companies accumulate, and the added depth offered by strategic alliances.

As a measure of Esterline's focus on maintaining its leadership position, R&D spending has increased with annual sales at an almost constant rate. (dollars in millions).



images

color:
Korry's newly developed lighted cockpit switch uses light emitting diodes (LEDs) instead of incandescent bulbs as a light source.

b&w:
New facilities enabled our operations to implement more efficient manufacturing techniques.

- On the information technology (IT) front, our structure has provided a distinct advantage over many of our competitors. Esterline's breadth of manufacturing experience has helped to create a companywide pool of seasoned IT professionals. This valuable intellectual resource has been deployed throughout the company to ensure Y2K compliance and to assess longer-range system requirements.

- Two examples: first by applying its internal engineering capabilities, Korry has become the world's leading provider of lighting solutions for aviation. This year Korry introduced a line of LED illuminated switches for commercial jet applications. The product derives from Korry's more than 60 years' experience developing specialized display and switching solutions for aircraft manufacturers. Second, we also work with outside experts to find the best answers. At Excellon, the development of laser technology for printed circuit board fabrication was more efficiently realized through a research alliance and an exclusive manufacturing, marketing and distribution agreement with Exitech in the U.K. The result is faster time-to-market with the most efficient use of our own resources.

GOALS

1 cross-fertilize business

INCREASE MARKET PRESENCE THROUGH ACQUISITION:

CAPABILITY EXPANSION

TA Mfg.

proprietary technologies
specialized markets

ACQUISITIONS >

Kirkhill

high-volume capabilities
broad market reach

2 leverage marketing

3 add market breadth

GEOGRAPHIC EXPANSION

Auxitrol

principally European markets

Fluid Regulators

extend product offering

open U.S. presence for Auxitrol

open European presence for FRC

PRODUCT LINE EXPANSION

Excellon

acquired technologies

upstream and downstream

of drilling technology

ATI

expand PCB equipment to

include both fabrication and

assembly customers

1998

acquisitions:

ATI

Fluid Regulators

Kai R. Kuhl

Kirkhill

Memtron

Sagem Sensors

ITW Switches

GOALS

1 cross-fertilize business

When the right acquisition is made, there is a multiple to be realized: leveraging facilities, processes, science, marketing efforts and more, in a way that adds depth to Esterline. Although this kind of synergy is an evolutionary process we're already seeing good evidence of it between Auxitrol and Fluid Regulators; Korry and Memtron; Excellon and ATI; TA Mfg. and Kai R. Kuhl; between every acquisition and its related Esterline company, market, customer and technology.

GROWING WITH STRATEGIC ACQUISITIONS >

- We see a real opportunity in developing the technologies and markets shared by Kirkhill, acquired in August 1998, and TA Mfg. Kirkhill mass produces specialty rubber components for aerospace plus a wide variety of other customers. TA Mfg. leads the industry in high-value, specialized elastomeric products for aerospace, principally jet engine applications. The combination of Kirkhill's experience in large-scale manufacturing and the proprietary technologies of TA Mfg. promise performance benefits for both companies by energizing new product development, refining and expanding manufacturing techniques, optimizing the use of our facilities and strengthening our presence in a number of market niches. It is this level of performance that we expect to realize through all our acquisitions.

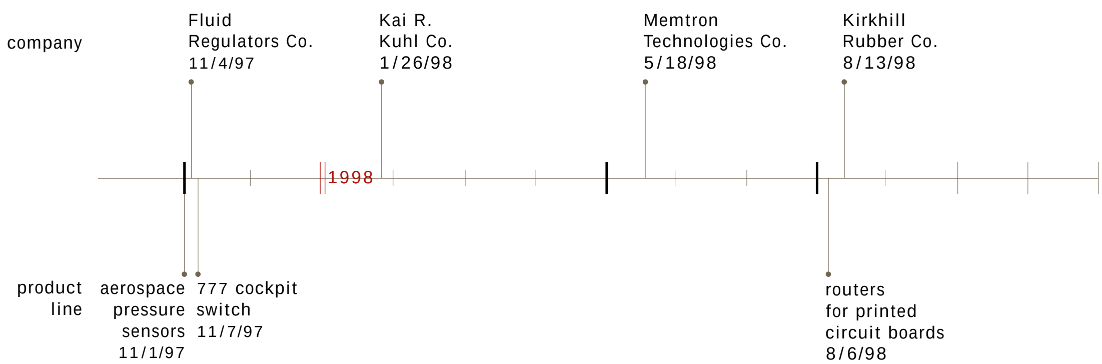
2 leverage marketing

The value in some acquisitions also includes a geographic plus: through acquisition we can expand the reach of the engineered solutions we provide to customers beyond current markets served. In matching Fluid Regulators to Auxitrol, we matched U.S. and European market opportunities.

Acquisition timeline.

3 add market breadth

In order to own specialized market niches, it is vital that we comprehensively address all the needs of a particular niche. It also demands that we provide the means to maintain our products throughout their lifecycles: from parts and upgrades to retrofits, we look at the incremental opportunities as carefully as the initial sale. Through acquisitions we extend the capabilities of our products, working to offer a genuine suite of solutions that are compatible, integrated and scaled to the needs of our customers.



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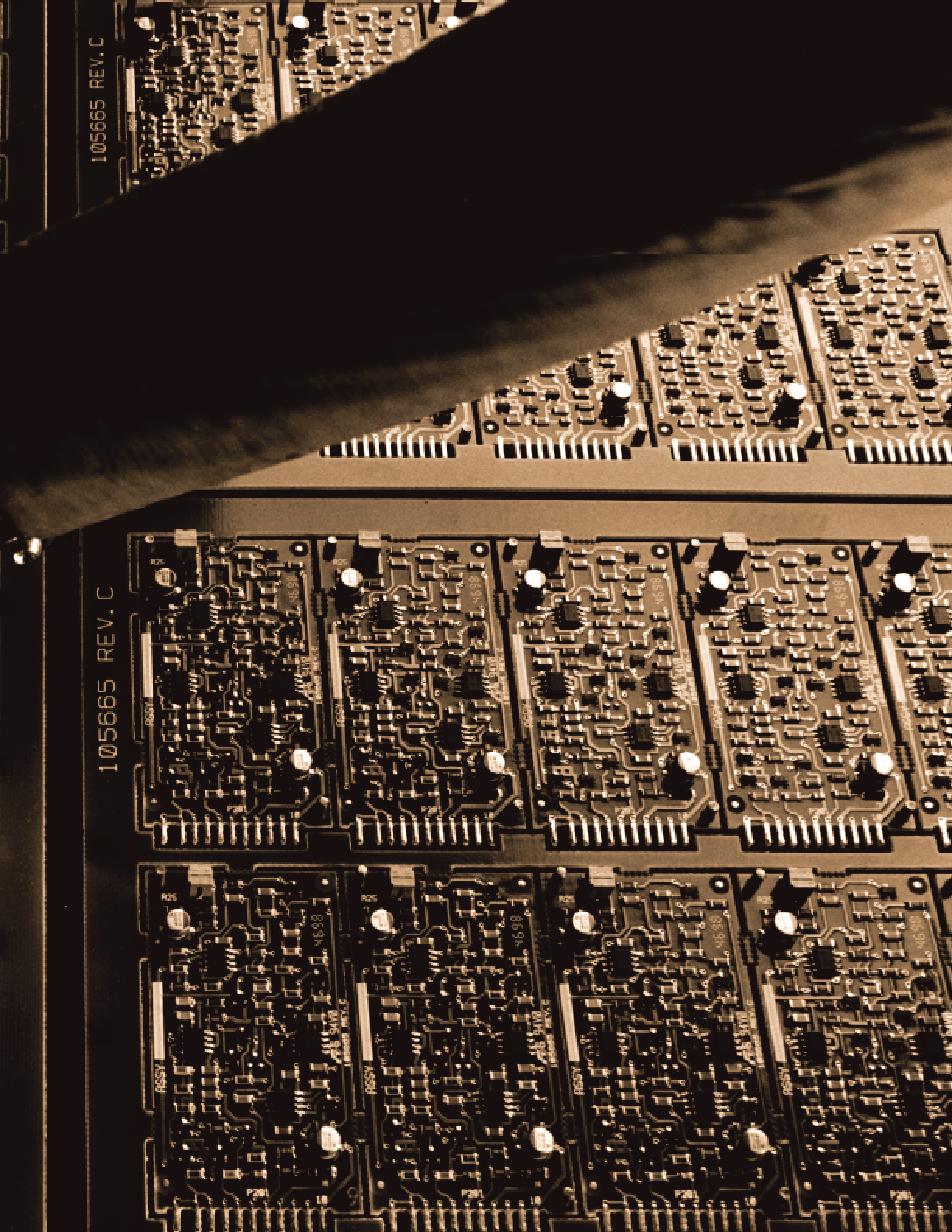
color:
The acquisition of Kirkhill Rubber Co. brought large-scale manufacturing capabilities to our existing specialty elastomer businesses.

b&w:
Excellon extended its capabilities with the acquisition of the ATI line of precision routers, designed specifically for use on finished or "populated" printed circuit boards.

• Auxitrol's specialized measurement technologies are now finding broader market possibilities by utilizing Fluid Regulators as a U.S. sales channel, opening the U.S. market to Auxitrol's product lines. For Fluid Regulators the market opportunity is reciprocal: direct access to European markets through Auxitrol's highly developed sales channels. A classic definition of cross-selling.

• Three years ago, for example, our acquisition of Amtech added automated material handling capability to the printed circuit board (PCB) drilling products of our Excellon subsidiary: a critical need in large scale circuit board drilling operations. The acquisition initially contributed to the capture of one of Excellon's largest single sales on record. Then, last year, we acquired Kennard for Excellon, adding dedicated routers to its full line of PCB drilling equipment. This year, the acquisition of ATI further extends our offering with the addition of a complementary line of routers capable of handling finished circuit boards – a logical progression up and down stream of our core drilling technologies and our goal of owning the market niches in which we operate.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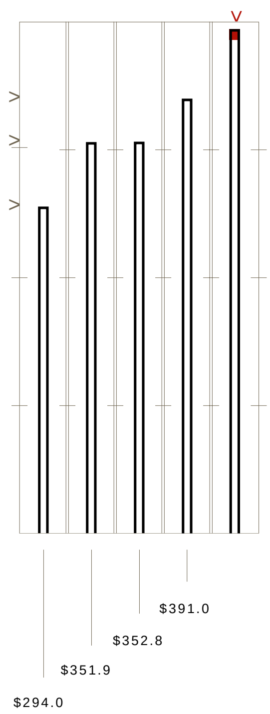
1998 ESTERLINE FINANCIAL REVIEW:

Results.

1994 - 1998 in millions, except as noted

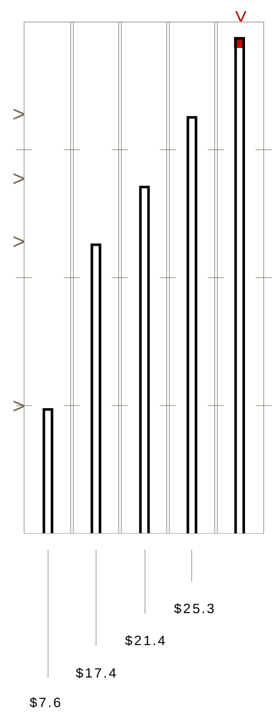
Sales

$453.9



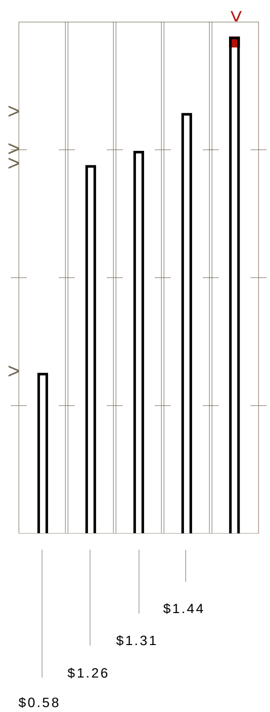
Net Earnings

$30.1



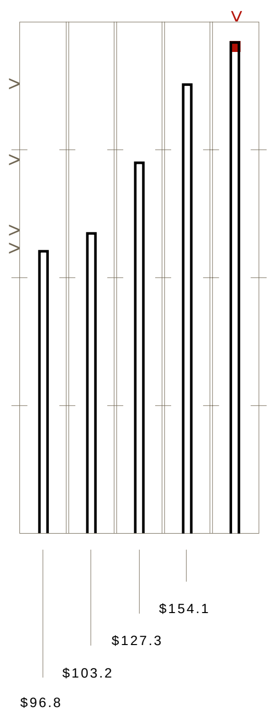
Net Earnings Per Share – Diluted
> dollars

$1.70



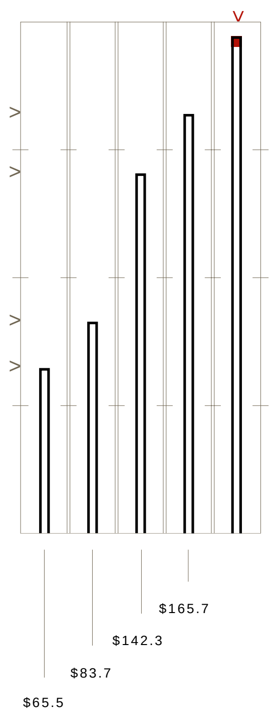
Backlog

$168.4



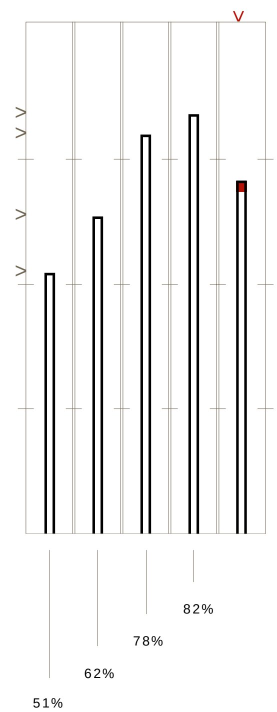
Shareholders’ Equity

$196.4



Total Equity/ Total Capital
> percent

69%



Management's Discussion and Analysis.

General

> Esterline Technologies (the "Company") completed its second consecutive year of record sales and earnings in 1998. A two-for-one stock split was declared for shareholders of record on March 31, 1998 and became effective April 20, 1998. During the year, the Company completed seven acquisitions with cash (four companies and three product lines) for a combined total purchase price of $127.2 million. The largest acquisition, Kirkhill Rubber Co., significantly bolsters the Aerospace and Defense Group. Kirkhill is a manufacturer of high-performance custom-engineered elastomer products for the aerospace industry and a broad array of specialty elastomer products for other markets. Two subsidiaries, Auxitrol and TA Mfg., moved into new, larger facilities enabling them to meet growing customer demand, allowing for new product expansions and providing for increased operating efficiencies. The Company divested Tulon Co., a small drill bit manufacturer, which no longer fit the strategic criteria used to evaluate the Company's ongoing businesses. Subsequent to year-end, the Company completed a $100 million private placement of senior notes. A portion of the proceeds was used to retire the bridge facility used for the Kirkhill acquisition, and the remainder will be used to finance continued expansion efforts as opportunities are identified.

The Company focuses on developing businesses with strategically-positioned niche products managed through three groups: Automation, Aerospace/Defense, and Instrumentation. The groups focus on multiple, counter-cyclical industrial markets and on high quality, capital-intensive engineered products. These markets include aerospace, defense, electronic equipment, automotive, metal fabricating and general manufacturing industries.

Results of Operations

> Year Ended October 31, 1998 Compared to Year Ended October 31, 1997

Sales for 1998 grew 16% when compared with the prior period. Sales by Group were as follows:

dollars in thousands	increase (decrease) from prior year	1998	1997
Automation	(5%)	$ 143,356	$ 150,522
Aerospace and Defense	35%	189,569	140,200
Instrumentation	21%	120,977	100,236
		$ 453,902	$ 390,958

Sales in the Aerospace/Defense and Instrumentation Groups grew substantially in 1998. The growth was primarily attributable to continued strong aerospace market demand and acquisitions. In the past several years, both Groups have benefited from the increased production of new aircraft. The Company expects the rate of growth in new aircraft deliveries to begin to slow over the next few years. However, production supporting maintenance, repair and retrofit for the active fleet of aircraft will continue to grow. The Automation Group experienced a downturn during the last half of the year primarily due to sluggish worldwide market demand for printed circuit board ("PCB") manufacturing equipment. A contributing factor was the destabilized Asian economy. Sales to foreign customers, including export sales by domestic operations, totaled $120.2 million and $129.6 million, and accounted for 26% and 33% of the Company's sales for 1998 and 1997, respectively.

Gross margin as a percentage of sales was 38% for both 1998 and 1997. On a comparative basis, the Aerospace/Defense Group's gross margin improved due to favorable commercial aerospace market conditions, while decreases were experienced in the Instrumentation and Automation Groups. A key factor in the Instrumentation Group's gross margin decrease was the fourth quarter weakness in the market for quality control instrumentation products related to a strike at General Motors. The Automation Group's margin deteriorated due to the economic instability in Asia that directly affected pricing and demand for PCB manufacturing equipment. The Company expects that this dampening effect will continue through 1999. In addition, consolidation of the customer base has resulted in larger, but fewer buyers in the PCB manufacturing markets. Gross margins by Group ranged from 34% to 41% in 1998, compared with 35% to 41% in the prior year.

Selling, general and administrative expenses (which include corporate expenses, and research, development and related engineering costs) increased to $122.6 million in 1998 compared with $108.5 million in the prior year. As a percentage of sales, selling, general and administrative expenses improved to 27% in 1998 compared with 28% in 1997. Research, development and related engineering spending increased to $20.3 million in 1998 from $17.6 million in 1997, and remained constant as a percentage of sales. A core strategy of the Company is to invest in the future through research and development notwithstanding business cycles. New laser technology, specialized materials, and lighting solutions for aircraft cockpits were some of the projects being pursued in 1998 which resulted in new and enhanced products.

Operating earnings (excluding corporate expenses) increased 26% to $60.1 million compared with $47.6 million in the prior year. The Aerospace/Defense and Instrumentation Groups posted operating earnings of $35.6 million and $13.4 million in 1998 compared with $22.3 million and $9.9 million in 1997. Strong aerospace and defense markets were the primary factors for improved operating earnings in both Groups. In addition, current year acquisitions and the prior year divestiture of Angus Electronics Co. contributed to improved operating earnings. The Automation Group's operating earnings decreased 28% for the year to $11.1 million from $15.5 million in the prior year primarily due to the difficult PCB manufacturing environment.

As available cash was used to complete acquisitions, interest income decreased to $1.6 million compared with $2.4 million in the prior year. Interest expense remained essentially unchanged at $3.8 million during 1998 from $3.6 million in the prior year.

The effective income tax rate increased to 35.9% in 1998 from 33.5% in 1997 primarily due to non-deductible goodwill resulting from acquisitions made during the year.

Net earnings in 1998 were $30.1 million, or $1.70 per share on a diluted basis, compared with $25.3 million, or $1.44 per share, in the prior year.

Orders received in 1998 increased 7% to $448.5 million from $417.8 million in the prior year. Backlog at October 31, 1998 was $168.4 million compared with $154.1 million at the end of the prior year. Approximately $17.7 million of backlog is scheduled to be delivered after 1999. Backlog is subject to cancellation until delivery.

> Year Ended October 31, 1997 Compared to Year Ended October 31, 1996

Sales for 1997 grew 11% when compared with the prior period. Sales by Group were as follows:

dollars in thousands	increase from prior year	1997	1996
Automation	3%	$ 150,522	$ 146,698
Aerospace and Defense	26%	140,200	111,691
Instrumentation	6%	100,236	94,454
		$ 390,958	$ 352,843

Sales were a record $391 million and showed increases across all Groups for 1997. The improvement was driven by the Aerospace/Defense Group which benefited from the overall strong aerospace market demand and the effects of a full year of operation from Mason Electric, acquired in August 1996. The Instrumentation Group also improved due to the strengthening order rate in aerospace-related and quality control instrumentation markets, despite the divestiture of Angus Electronics in May. Sales activity for the Automation Group began the year at the slow pace experienced during the second half of 1996. Indications of improvement in the electronic component industry noted in the first quarter of 1997 were realized by the Group over the remainder of the year. Sales to foreign customers, including export sales by domestic operations, totaled $129.6 million and $122.6 million, and accounted for 33% and 35% of the Company's sales for 1997 and 1996, respectively.

Total gross margin as a percentage of sales was 38% during 1997 compared with 39% in the prior year. On a comparative basis, the Aerospace/Defense Group's gross margin increased due to overall favorable commercial aerospace market conditions. Both the Instrumentation and Automation Groups experienced decreases in gross margins. The decreases were primarily the result of pricing pressures due to the strong U.S. dollar. Other contributing factors were consolidation within the printed circuit board manufacturing industry and new product/program start-up costs. Gross margins by Group ranged from 35% to 41% in 1997, compared with 38% to 39% in the prior year.

Selling, general and administrative expenses (which include corporate expenses, and research, development and related engineering costs) increased to $108.5 million in 1997 compared with $103.4 million in the prior year. Just under half of the overall increase was from research, development and related engineering spending which increased to $17.6 million in 1997 from $15.4 million in 1996. As a percentage of sales, selling, general and administrative expenses improved to 28% in 1997 from 29% in 1996.

Operating earnings (excluding corporate expenses) increased 11% to $47.6 million compared with $42.8 million in the prior year. The Aerospace/Defense and Instrumentation Groups posted operating earnings of $22.3 million and $9.9 million in 1997 compared with $13.6 million and $5.5 million in 1996. Strong aerospace markets, operating earnings generated by Mason, the sale of Angus and increased demand for quality control instrumentation contributed to this improvement. The Automation Group's operating earnings decreased 35% for the year to $15.5 million from $23.7 million in the prior year primarily as a result of the foreign pricing pressures, the slow start at the beginning of the year and increased spending for research and new product development.

Increased levels of investment resulted in interest income of $2.4 million, compared with $2 million in the prior year. Interest expense decreased to $3.6 million during 1997 from $4.3 million in the prior year, primarily due to the annual repayment on the Senior Notes.

Net earnings were $25.3 million, or $1.44 per share on a diluted basis, for 1997 compared with $21.4 million, or $1.31 per share, in the prior year.

Orders received in 1997 increased 16% to $417.8 million from $361.4 million in the prior year. Backlog at October 31, 1997 was $154.1 million compared with $127.3 million at the end of the prior year. Approximately $19.8 million of backlog was scheduled to be delivered after 1998. Backlog is subject to cancellation until delivery.

Liquidity and Capital Resources >

The Company completed seven acquisitions during 1998, the most significant of which was Kirkhill Rubber Co. While most of the transactions were structured using available cash, the Kirkhill transaction required additional funds provided through a bridge facility available to the Company. Essentially all major asset categories other than cash increased due to acquisition activity. In each case, the majority of the increase was attributed directly to the acquisition of Kirkhill.

In November 1998, the Company completed a private placement of senior notes for $100 million. The placement has maturities ranging from 5 to 10 years and interest rates from 6% to 6.77%. A portion of the cash received from this placement retired the bridge facility and residual proceeds will be used for other internal expansion and acquisition activities. Management believes cash on hand (including cash from the subsequent private placement of senior notes) and funds generated from operations will adequately service operating cash requirements and capital expenditures through 1999.

Cash and equivalents at October 31, 1998 totaled $8.9 million compared to $56 million in the prior year. Net working capital decreased to $70.1 million at October 31, 1998 from $99.4 million at October 31, 1997, primarily due to the cash reduction for acquisitions.

Total debt at October 31, 1998 was $89.9 million, an increase of $53.9 million from a year earlier, and is principally due to the Kirkhill acquisition. The existing 8.75% Senior Notes have a scheduled payment of $5.7 million, which will continue annually until maturity on July 30, 2002. Debt was comprised of the $50 million bridge facility used in the Kirkhill transaction, $22.9 million under the Company's 8.75% Senior Notes, $15.4 million under various foreign currency debt agreements, and $1.6 million for revenue bonds assumed as part of a smaller acquisition completed during the year. Domestic and foreign credit facilities totaled $96 million, of which $34.6 million was available at October 31, 1998.

To the extent that foreign sales are transacted in a foreign currency, the Company would be subject to the risk of losses due to foreign currency fluctuations. In addition, the Company has substantial assets denominated in foreign currencies that are not offset by liabilities denominated in such foreign currencies. These net foreign currency investments are subject to material changes in the event of fluctuations in foreign currencies against the U.S. dollar.

Capital expenditures for 1998 (excluding acquisitions) were comprised of two new plants, expansion of certain existing plants, machinery and equipment, and enhancements to information technology systems in order to support growth and operational effectiveness. Capital expenditures are anticipated to be approximately $21 million for 1999 compared with $29.8 million in 1998. In 1999, the Company expects to continue to support expansion through investments in machinery, equipment and improvements to information technology, however there are no current plans for plant expansion.

The Company is aware of the issues associated with programming codes in existing computer systems as the year 2000 ("Y2K") approaches and is utilizing both internal and external resources to address Y2K compliance. The Company continues to assess the Y2K risk from failure of its internal systems as low. It is the Company's belief that the impact of a Y2K failure at any one location would not have a material impact due to its diversified and decentralized nature. Although risk is assessed as low, the Company recognizes that not all of its internal computer systems are compliant and steps are being taken to resolve these issues. Currently, it is expected that the systems will be materially compliant by March 1999, even though efforts on ancillary and supporting modules will continue throughout the year. Based on current information available, it is estimated that the cost of compliance will be less than $1 million.

While the Company does not have a complete assessment of third party exposure for Y2K issues, its decentralized structure minimizes the reliance on single product vendors and most third party relationships are deemed replaceable.

Forward-Looking Statements >

Certain statements in the above commentary and throughout this annual report contain forward-looking statements within the meanings of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements involve risks and uncertainties regarding matters that could significantly affect expected results, including information about industry trends, growth, Y2K, orders, currency fluctuations, backlog, capital expenditures and cash requirements. The Company is susceptible to economic cycles and financial results can vary widely based on a number of factors, including domestic and foreign economic conditions and developments affecting specific industries and customers.

A significant portion of the sales and profitability of some Company businesses is derived from telecommunications, electronics, computer, automotive, aerospace and defense markets. The products sold by most of the Company's businesses represent capital investment or support for capital investment by either the initial customer or the ultimate end-user. Changes in general economic conditions or conditions in these and other specific industries, capital acquisition cycles and government policies, collectively or individually, can have a significant effect on the Company's results of operations and financial condition. Thus, actual results may vary materially from these forward-looking statements. The Company does not undertake any obligation to publicly release the results of any revisions that may be made to these forward-looking statements to reflect any future events or circumstances.

Recent Accounting Pronouncements

> Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income and its components. Comprehensive income represents net income plus certain items that are charged directly to shareholders' equity. This Statement will be effective for the Company in fiscal 1999.

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the disclosure of information relating to operating segments. This Statement will be effective for the Company in fiscal 1999.

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," an amendment of SFAS Nos. 87, 88, and 106. The objective of this amendment is to provide disclosures that are more comparable, understandable and concise. This Statement will be effective for the Company in fiscal 1999.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and established standards for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. The Statement will become effective in the Company's fiscal 1999 third quarter.

The Company is studying each of these pronouncements to determine their effect, including additional disclosure requirements that may be necessary.

Selected Financial Data.

in thousands, except per share amounts

	for the years ended October 31,	1998	1997	1996	1995	1994
Operating Results >	Sales	$ 453,902	$ 390,958	$ 352,843	$ 351,897	$ 294,044
	Cost of sales	282,135	243,197	215,015	215,934	178,397
	Selling, general and administrative	122,611	108,474	103,415	107,113	100,845
	Restructuring credit	–	–	–	(2,067)	–
	Interest income	(1,594)	(2,397)	(1,989)	(1,156)	(113)
	Interest expense	3,803	3,603	4,328	5,598	6,098
	Income tax expense	16,863	12,760	10,720	9,094	1,254
	Net earnings	30,084	25,321	21,354	17,381	7,563
	Net earnings per share – diluted	$ 1.70	$ 1.44	$ 1.31	$ 1.26	$ .58
Financial Structure >	Total assets	$ 387,179	$ 289,847	$ 276,646	$ 225,714	$ 217,524
	Long-term debt, net	74,043	27,218	29,007	35,543	41,714
	Shareholders' equity	196,376	165,718	142,304	83,706	65,491
	Weighted average shares outstanding – diluted	17,718	17,608	16,334	13,740	13,142

Market Price of Esterline Common Stock.

Principal Market – New York Stock Exchange

for the years ended October 31,	1998		1997	
	High	Low	High	Low
Quarter > First	$ 19.13	$ 15.81	$ 14.00	$ 11.25
Second	23.13	16.50	14.88	12.56
Third	24.50	17.63	19.25	14.13
Fourth	21.88	15.50	21.75	17.28

At October 31, 1998 there were approximately 860 holders of record of the Company's common stock.

Consolidated Statement of Operations.

in thousands, except per share amounts

for the years ended October 31,	1998	1997	1996
Sales	$ 453,902	$ 390,958	$ 352,843
Costs and Expenses			
Cost of sales	282,135	243,197	215,015
Selling, general and administrative	122,611	108,474	103,415
Interest income	(1,594)	(2,397)	(1,989)
Interest expense	3,803	3,603	4,328
	406,955	352,877	320,769
Earnings Before Income Taxes	46,947	38,081	32,074
Income Tax Expense	16,863	12,760	10,720
Net Earnings	$ 30,084	$ 25,321	$ 21,354
Net Earnings Per Share – Basic	$ 1.74	$ 1.48	$ 1.35
Net Earnings Per Share – Diluted	$ 1.70	$ 1.44	$ 1.31

see notes to consolidated financial statements

Consolidated Balance Sheet.

in thousands, except share and per share amounts

	October 31,	1998	1997
Assets			
Current Assets >	Cash and equivalents	$ 8,897	$ 56,045
	Accounts receivable, net of allowances of $2,987 and $2,860	77,477	67,520
	Inventories	71,835	53,386
	Deferred income taxes	15,693	14,186
	Prepaid expenses	4,055	3,290
	Total Current Assets	177,957	194,427
Property, Plant and Equipment >	Land	13,400	2,885
	Buildings	66,451	47,899
	Machinery and equipment	126,253	124,831
		206,104	175,615
	Accumulated depreciation	112,042	117,239
		94,062	58,376
Other Non-Current Assets >	Goodwill and intangibles, net	99,344	22,925
	Other assets	15,816	14,119
		$ 387,179	$ 289,847
Liabilities and Shareholders' Equity			
Current Liabilities >	Accounts payable	$ 23,307	$ 20,475
	Accrued liabilities	68,275	64,208
	Credit facilities	9,533	2,467
	Current maturities of long-term debt	6,358	6,386
	Federal and foreign income taxes	385	1,472
	Total Current Liabilities	107,858	95,008
Long-Term Liabilities >	Long-term debt, net of current maturities	74,043	27,218
	Deferred income taxes	8,902	1,903
	Commitments and contingencies	–	–
Shareholders' Equity >	Common stock, par value $.20 per share, authorized 30,000,000 shares, issued and outstanding 17,317,178 and 17,285,822 shares	3,463	3,457
	Capital in excess of par value	46,793	46,831
	Retained earnings	149,091	119,007
	Cumulative translation adjustment	(2,971)	(3,577)
	Total Shareholders' Equity	196,376	165,718
		$ 387,179	$ 289,847

see notes to consolidated financial statements

Consolidated Statement of Cash Flows.

in thousands

	for the years ended October 31,	1998	1997	1996
Cash Flows Provided (Used) by Operating Activities >	Net earnings	$ 30,084	$ 25,321	$ 21,354
	Depreciation and amortization	18,316	17,404	16,269
	Deferred income taxes	(447)	4,764	(413)
	Working capital changes, net of effect of acquisitions			
	Accounts receivable	(2,344)	(436)	(4,319)
	Inventories	(4,920)	(8,947)	(2,694)
	Prepaid expenses	(222)	(862)	(291)
	Accounts payable	167	447	(2,399)
	Accrued liabilities	(1,557)	(3,525)	605
	Federal and foreign income taxes	(1,542)	(2,611)	1,886
	Other, net	(2,420)	(1,099)	2,411
		35,115	30,456	32,409
Cash Flows Provided (Used) by Investing Activities >	Capital expenditures	(29,773)	(17,390)	(17,203)
	Capital dispositions	9,421	1,820	1,054
	Acquisitions	(113,304)	–	(20,485)
		(133,656)	(15,570)	(36,634)
Cash Flows Provided (Used) by Financing Activities >	Net change in credit facilities	6,579	(2,417)	(2,214)
	Repayment of long-term debt	(5,079)	(1,922)	(6,812)
	Proceeds from bridge facility	50,000	–	–
	Net proceeds provided by sale of common stock	–	–	38,365
		51,500	(4,339)	29,339
	Effect of exchange rates	(107)	(938)	(775)
	Net increase (decrease) in cash and equivalents	(47,148)	9,609	24,339
	Cash and equivalents – beginning of year	56,045	46,436	22,097
	Cash and equivalents – end of year	$ 8,897	$ 56,045	$ 46,436
Supplemental Cash Flow Information >	Cash paid during the year for			
	Interest	$ 3,244	$ 3,720	$ 4,480
	Income taxes	17,517	7,015	6,357

see notes to consolidated financial statements

Consolidated Statement of Shareholders' Equity.

in thousands, except share amounts

	for the years ended October 31,	1998	1997	1996
Common Stock, Par Value $.20 Per Share >	Beginning of year	$ 3,457	$ 3,401	$ 2,657
	3,600,000 shares issued	–	–	720
	Shares issued under stock option plans	6	56	24
	End of year	3,463	3,457	3,401
Capital in Excess of Par Value >	Beginning of year	46,831	46,716	9,061
	3,600,000 shares issued	–	–	37,645
	Shares issued under stock option plans	(38)	115	10
	End of year	46,793	46,831	46,716
Retained Earnings >	Beginning of year	119,007	93,686	72,332
	Net earnings	30,084	25,321	21,354
	End of year	149,091	119,007	93,686
Cumulative Foreign Currency Translation Adjustments >	Beginning of year	(3,577)	(1,499)	(344)
	Change in foreign currency translation	606	(2,078)	(1,155)
	End of year	(2,971)	(3,577)	(1,499)
	Shareholders' Equity	$ 196,376	$ 165,718	$ 142,304

see notes to consolidated financial statements

Notes to Consolidated Financial Statements.

Note 1. Accounting Policies >

Nature of Operations

Esterline Technologies (the "Company") – through its three groups – designs, manufactures and markets a broad array of capital-intensive engineered products. The Company principally serves the aerospace and defense industry, electronic equipment manufacturers, metal fabricators and general manufacturing industries throughout the world.

Basis of Presentation

The consolidated financial statements include all subsidiaries. All significant intercompany accounts and transactions have been eliminated. Classifications have been changed for certain amounts in the preceding period to conform with the current year's presentation.

Management Estimates

To prepare financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Foreign Currency Translation

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on year-end exchange rates. Revenue and expense accounts are generally translated at average exchange rates. Aggregate exchange gains and losses arising from the translation of foreign assets and liabilities are included in shareholders' equity. Transaction gains and losses are included in income and have not been significant in amount.

Inventories

Inventories are stated at the lower of cost or market. Two subsidiaries value their inventories under the last-in, first-out (LIFO) method while the remainder use the first-in, first-out (FIFO) method. Inventory cost includes material, labor and factory overhead.

Research, Development and Related Engineering Costs

Research, development and related engineering costs approximated $20,250,000, $17,556,000 and $15,373,000 in 1998, 1997 and 1996, respectively, and are generally expensed as incurred.

Property, Plant and Equipment, and Depreciation

Property, plant and equipment is carried at cost and includes expenditures for major improvements. Depreciation is generally provided on the straight-line method.

Goodwill and Intangibles

Intangible assets and the excess purchase price paid over net assets of businesses acquired are amortized on a straight-line basis over the period of expected benefit which ranges from 5 to 40 years. Accumulated amortization as of October 31, 1998 and 1997 was $28,876,000 and $25,612,000, respectively.

Asset Valuation

The carrying amount of long-lived assets is reviewed periodically for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon discounted future cash flow.

Environmental

Environmental exposures are provided for at the time they are known to exist or are considered reasonably probable and estimable. No provision has been recorded for environmental remediation costs which could result from changes in laws or other circumstances currently not contemplated by the Company.

Stock Split

In April 1998, the Company effected a two-for-one stock split on all outstanding shares of common stock. All share and per share data have been restated.

Earnings Per Share

All prior period earnings per share data have been restated to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Basic earnings per share are computed on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share also include the dilutive effect of stock options. The weighted average number of shares outstanding used to compute basic earnings per share was 17,290,000, 17,124,000 and 15,842,000 for the years ended October 31, 1998, 1997 and 1996, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 17,718,000, 17,608,000 and 16,334,000 for the years ended October 31, 1998, 1997 and 1996, respectively.

Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase. Fair value of cash equivalents approximates carrying value.

Note 2. Inventories >

Inventories at October 31 consisted of the following:

in thousands	1998	1997
Raw materials and purchased parts	$ 27,239	$ 17,502
Work in process	33,284	26,191
Finished goods	11,312	9,693
	$ 71,835	$ 53,386

Inventories stated under the last-in, first-out method totaled $8,845,000 and $11,945,000 at October 31, 1998 and 1997, respectively. Had the first-in, first-out method been used, these inventories would have been $5,621,000 and $5,274,000 higher than reported at October 31, 1998 and 1997, respectively.

Note 3. Accrued Liabilities >

Accrued liabilities at October 31 consisted of the following:

in thousands	1998	1997
Payroll and other compensation	$ 24,762	$ 19,354
Self-insurance	5,137	6,329
Interest	1,240	2,244
Warranties	7,212	9,356
State and other tax accruals	8,077	8,292
Other	21,847	18,633
	$ 68,275	$ 64,208

Note 4. Retirement Benefits >

Pension benefits are provided for substantially all U.S. employees under contributory and non-contributory pension and other plans, and are based on years of service and five-year average compensation. The Company makes actuarially computed contributions as necessary to adequately fund benefits. The actuarial computations assumed discount rates for benefit obligations on plan assets of 6.5% for 1998 and 7.5% for both 1997 and 1996 and annual compensation increases of 5%. The expected long-term rate of return on plan assets was assumed at 8.5% for 1998 and 1997 and 7.5% for 1996. Plan assets primarily consist of publicly traded common stocks, bonds and government securities.

Total pension expense (benefit) for all benefit plans, including defined benefit plans, was ($971,000), $1,758,000 and $2,329,000 for the years ended October 31, 1998, 1997 and 1996, respectively. Net periodic pension expense (benefit) for the Company's defined benefit plans for the years ended October 31 consisted of the following:

in thousands	1998	1997	1996
Service cost – benefits earned during the year	$ 2,639	$ 3,150	$ 2,871
Interest cost on projected benefit obligation	5,645	5,598	5,154
Actual return on plan assets – investment gains	(7,144)	(26,279)	(8,074)
Net amortization and deferral	(3,208)	18,297	1,319
Net pension expense (benefit)	$ (2,068)	$ 766	$ 1,270

The funded status of the defined benefit pension plan at October 31 was as follows:

in thousands	1998	1997
Plan assets at fair value	$ 109,663	$ 113,001
Projected benefit obligation for service rendered to date	87,272	77,751
Plan assets in excess of projected benefit obligation	22,391	35,250
Unrecognized prior service cost	634	–
Unrecognized net gain	(8,635)	(23,091)
Unrecognized transition asset	(963)	(1,444)
Prepaid pension expense, included in other assets	$ 13,427	$ 10,715
Actuarial present value of accumulated benefit obligation, including vested benefits of $73,083 and $67,360	$ 73,620	$ 67,744

The Company also has an unfunded supplemental retirement plan for key executives providing for periodic payments upon retirement. The related liability was $3,774,000 and $3,169,000 as of October 31, 1998 and 1997, respectively. This has been accounted for in accrued liabilities.

Note 5. Income Taxes

> Income tax expense (benefit) for the years ended October 31 consisted of the following:

in thousands	1998	1997	1996
Current			
U.S. Federal	$ 14,799	$ 5,776	$ 9,309
State	1,295	1,200	1,394
Foreign	1,216	1,020	430
	17,310	7,996	11,133
Deferred			
U.S. Federal	(429)	3,138	(593)
State	(18)	196	(17)
Foreign	–	1,430	197
	(447)	4,764	(413)
	$ 16,863	$ 12,760	$ 10,720

U.S. and foreign components of income before income taxes for the years ended October 31 were:

in thousands	1998	1997	1996
U.S.	$ 45,608	$ 34,121	$ 30,444
Foreign	1,339	3,960	1,630
	$ 46,947	$ 38,081	$ 32,074

Primary components of the Company's deferred tax assets and (liabilities) for the years ended October 31 resulted from temporary tax differences associated with the following:

in thousands	1998	1997
Reserves and liabilities	$ 17,108	$ 15,776
Employee benefits	4,306	4,067
Total deferred tax assets	21,414	19,843
Depreciation and amortization	(10,869)	(4,806)
Retirement benefits	(3,496)	(2,754)
Other	(258)	–
Total deferred tax liabilities	(14,623)	(7,560)
	$ 6,791	$ 12,283

A valuation allowance was not required due to the nature of and circumstances associated with the temporary tax differences.

A reconciliation of the United States federal statutory income tax rate to the effective income tax rate for the years ended October 31 was as follows:

	1998	1997	1996
U.S. statutory income tax	35.0%	35.0%	35.0%
State income taxes	1.8	2.0	2.8
Foreign taxes	1.3	0.5	(0.3)
Foreign sales corporation	(1.5)	(1.8)	(2.1)
Tax exempt interest	(0.3)	(0.7)	(1.5)
Non-deductible goodwill	0.9	–	–
Other, net	(1.3)	(1.5)	(0.5)
Effective income tax rate	35.9%	33.5%	33.4%

No provision for federal income taxes has been made on accumulated earnings of foreign subsidiaries, since such earnings have either been permanently reinvested or would be substantially offset by foreign tax credits.

Note 6. Debt

> Long-term debt at October 31 consisted of the following:

in thousands	1998	1997
Bridge facility	$ 50,000	$ –
8.75% Senior Notes, due 2002	22,857	28,571
Other	7,544	5,033
	80,401	33,604
Less current maturities	6,358	6,386
	$ 74,043	$ 27,218

The Senior Notes are unsecured and payable in equal annual installments. Interest is payable semi-annually in January and July of each year. The unsecured bridge facility was retired in November 1998 from the proceeds of the private placement senior notes of $100,000,000. Maturities of these debt instruments range from 5 years to 10 years, with interest rates from 6.0% to 6.77%.

Maturities of long-term debt are as follows:

in thousands	
1999	$ 6,358
2000	6,645
2001	6,692
2002	6,290
2003	30,366
2004 and thereafter	24,050
	$ 80,401

Short-term credit facilities at October 31 consisted of the following:

	1998		1997	
in thousands	Outstanding Borrowings	Interest Rate	Outstanding Borrowings	Interest Rate
U.S. dollar	$ –	–	$ –	–
Foreign	9,533	4.22%	2,467	7.7%
	$ 9,533		$ 2,467	

The Company's primary U.S. dollar credit facility totals $35,000,000 through a group of banks. The credit agreement is unsecured and interest is based on standard inter-bank offering rates. An additional $11,000,000 of unsecured foreign currency credit facilities have been extended by foreign banks for a total of $46,000,000 available companywide. The underlying agreements contain various covenant restrictions which include maintenance of net worth, payment of dividends, interest coverage and limitations on additional borrowings. The Company is in compliance with these covenants. Available credit under the above credit facilities was $34,617,000 at October 31, 1998, when reduced by outstanding borrowings and letters of credit of $1,850,000.

The fair value of the Company's long-term debt and short-term borrowings was estimated at $91,000,000 and $36,800,000 at October 31, 1998 and 1997, respectively. These estimates were derived using interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities.

Note 7. Commitments and Contingencies

> Net rental expense for operating leases totaled $4,628,000, $3,754,000 and $3,159,000 in 1998, 1997 and 1996, respectively.

The Company's rental commitments for noncancelable operating leases with a duration in excess of one year are as follows:

in thousands

1999	$ 3,532
2000	3,219
2001	3,136
2002	3,099
2003	3,085
2004 and thereafter	6,102
	$ 22,173

The Company has various lawsuits and claims, both offensive and defensive, and contingent liabilities arising from the conduct of business, none of which, in the opinion of management, is expected to have a material effect on the Company's financial position or results of operations.

Note 8. Stock Option Plans >

The Company provides a non-qualified stock option plan for officers and key employees. At October 31, 1998, the Company had 1,849,500 shares reserved for issuance to officers and key employees, of which 536,250 shares were available to be granted in the future. The Board of Directors authorized the Compensation and Stock Option Committee to administer option grants and their terms. Awards under the plan may be granted to eligible employees of the Company over a 10-year period ending March 4, 2007. Options granted become exercisable over a period of four years following the date of grant and expire on the tenth anniversary of the grant. Option exercise prices are equal to the fair value of the Company's common stock on the date of grant.

The following table summarizes the changes in outstanding options granted under the Company's stock option plans:

	1998		1997		1996	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding, beginning of year	1,190,000	$ 8.472	1,516,250	$ 6.089	1,509,250	$ 4.893
Granted	187,000	18.644	271,000	14.304	258,000	11.155
Exercised	(63,750)	4.261	(589,750)	5.086	(243,500)	4.112
Cancelled	–	–	(7,500)	3.750	(7,500)	3.813
Outstanding, end of year	1,313,250	$ 10.125	1,190,000	$ 8.472	1,516,250	$ 6.089
Exercisable, end of year	741,500	$ 6.893	574,750	$ 5.511	950,500	$ 4.946

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Additional disclosures as required under the Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," are included below. The Black-Scholes option-pricing model was used to calculate the estimated compensation expense that would have been recognized under these guidelines.

If only options granted after 1995 were included, as prescribed by SFAS No. 123, pro forma net income would have been $28,971,000, $24,517,000 and $21,089,000, respectively. Basic earnings per share for 1998, 1997 and 1996 would have been $1.68, $1.43 and $1.33, respectively. Diluted earnings per share for 1998, 1997 and 1996 would have been $1.64, $1.40 and $1.29, respectively.

The pro forma disclosures presented below include the fair value compensation expense for all options that would have been amortized during 1998, 1997 and 1996.

in thousands, except per share amounts years ended October 31,	1998	1997	1996
Net earnings as reported	$ 30,084	$ 25,321	$ 21,354
Pro forma net earnings	28,928	24,400	20,852
Basic earnings per share as reported	$ 1.74	$ 1.48	$ 1.35
Pro forma basic earnings per share	$ 1.67	$ 1.43	$ 1.32
Diluted earnings per share as reported	$ 1.70	$ 1.44	$ 1.31
Pro forma diluted earnings per share	$ 1.63	$ 1.39	$ 1.28

The weighted average Black-Scholes value of options granted during 1998, 1997 and 1996 was $10.870, $7.320 and $6.012, respectively. The assumptions used in the Black-Scholes option-pricing model for 1998, 1997, and 1996 were as follows:

	1998	1997	1996
Volatility	55.3%	41.6%	44.6%
Risk-free interest rate	4.1 – 4.57%	5.73 – 5.92%	6.12 – 6.38%
Expected life (years)	5 – 8	5 – 8	5 – 8
Dividends	–	–	–

The following table summarizes information for stock options outstanding at October 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Life (years)	Weighted Average Price	Shares	Weighted Average Price
$ 3.6875 – 4.3750	278,000	4.74	$ 4.0226	278,000	$ 4.0226
4.5000 – 6.4375	295,000	4.92	5.9820	252,500	5.9053
6.9375 – 11.6875	286,000	7.38	10.8433	147,000	10.7700
13.2500 – 17.8125	261,250	8.33	14.0308	57,500	13.7310
18.2500 – 19.8750	193,000	9.16	18.8964	6,500	19.8750

Note 9. Capital Stock

> The authorized capital stock of the Company consists of 500,000 shares of preferred stock, including 25,000 shares ($100 par value) and 475,000 shares ($1.00 par value) issuable in series, and 30,000,000 shares of common stock ($.20 par value). At October 31, 1998, there were no shares of preferred stock outstanding. All prior share and per share data have been restated for the two-for-one stock split effected in April 1998.

The Company has a Shareholder Rights Plan providing for the distribution of one Preferred Stock Purchase Right (Right) for each share of common stock held. Each Right entitles the holder to purchase one-one hundredth of a share of Series A Serial Preferred Stock at an exercise price of $56. The Rights expire December 23, 2002.

The Rights will be exercisable and transferable apart from the common stock only if a person or group acquires beneficial ownership of 10% or more of the Company's common stock or commences a tender offer or exchange offer which would result in a person or group beneficially owning 10% or more of the Company's common stock. The Rights will be redeemable by the Company for $.01 each at any time prior to the tenth day after an announcement that a person or group beneficially owns 10% or more of the common stock. Upon the occurrence of certain events, the holder of a Right can purchase, for the then current exercise price of the Right, shares of common stock of the Company (or under certain circumstances, as determined by the Board of Directors, cash, other securities or property) having a value of twice the Right's exercise price. Upon the occurrence of certain other events, the holder of each Right would be entitled to purchase, at the exercise price of the Right, shares of common stock of a corporation or other entity acquiring the Company or engaging in certain transactions involving the Company, that has a market value of twice the Right's exercise price.

Note 10. Acquisitions

> The Company completed seven acquisitions during 1998. The acquisitions were financed with available cash and credit facilities. Following is a table summarizing the acquisitions:

		Purchase Date	Description
Company	Fluid Regulators Co.	11/97	Manufacturer of advanced hydraulic controls and components for the commercial aerospace and defense industries
	Kai R. Kuhl Co.	1/98	Manufacturer of high-performance seals for the aerospace industry
	Memtron Technologies Co.	5/98	Manufacturer of membrane switches and panels for medical, industrial computer and other commercial markets
	Kirkhill Rubber Co.	8/98	Manufacturer of high-performance custom-engineered elastomer products for the aerospace industry and broad array of other specialty elastomer products for other markets
Product Line	Sagem	11/97	An aerospace pressure sensor product line
	Illinois Tool Works	11/97	A Boeing 777 cockpit switch product line
	Advanced Technology, Inc.	8/98	Manufacturer of dedicated routers for the printed circuit board industry, primarily for populated board applications

The total purchase price (including post-closing adjustments and third-party acquisition costs) for Kirkhill Rubber Co. and the other acquisitions were $93,140,000 and $34,022,000, respectively, and the purchase method of accounting was applied. For each transaction, the purchase price exceeded net assets resulting in goodwill which will be amortized over a range of 10 to 40 years using the straight-line method. The consolidated financial statements include the operating results from the date of the acquisition. In conjunction with these acquisitions, liabilities were assumed as follows:

in thousands

Fair value of assets acquired	$ 139,967
Cash paid	122,812
Liabilities assumed	$ 17,155

The following unaudited pro forma information gives effect to the acquisition of Kirkhill had the acquisition occurred as of the beginning of the prior year. Pro forma results have not been presented for the other acquisitions since they are not material, both individually and in the aggregate, when compared to the pro forma results being presented. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of the future financial position or future results of operations of the combined company, or of the financial position or results of operations of the combined company had the acquisition actually occurred as of the beginning of the prior period:

	1998	1997
Sales	$ 498,419	$ 448,354
Net Income	31,595	27,125
Earnings per share – basic	$ 1.83	$ 1.58
Earnings per share – diluted	$ 1.78	$ 1.54

On August 1, 1996, the Company acquired all of the operating assets of Mason Electric Co. The purchase method of accounting was used, with the results of operations included from the date of acquisition. In 1996, the Company also acquired a noncontrolling equity interest in a company.

Note 11. Business Segment Information

> Details of the Company's operations by business segment for the years ended October 31 were as follows:

in thousands	1998	1997	1996
Sales			
Automation	$ 143,356	$ 150,522	$ 146,698
Aerospace and Defense	189,569	140,200	111,691
Instrumentation	120,977	100,236	94,454
	$ 453,902	$ 390,958	$ 352,843
Earnings Before Income Taxes			
Automation	$ 11,101	$ 15,450	$ 23,684
Aerospace and Defense	35,623	22,273	13,649
Instrumentation	13,419	9,889	5,507
Operating Earnings	$ 60,143	$ 47,612	$ 42,840
Corporate expense	(10,987)	(8,325)	(8,427)
Interest income	1,594	2,397	1,989
Interest expense	(3,803)	(3,603)	(4,328)
	$ 46,947	$ 38,081	$ 32,074
Identifiable Assets			
Automation	$ 66,757	$ 67,957	$ 67,360
Aerospace and Defense	222,065	88,399	86,303
Instrumentation	64,653	50,691	46,507
Corporate[1]	33,704	82,800	76,476
	$ 387,179	$ 289,847	$ 276,646
Capital Expenditures			
Automation	$ 5,653	$ 4,301	$ 7,379
Aerospace and Defense	16,368	9,851	3,414
Instrumentation	6,827	6,995	5,926
Corporate	925	461	484
	$ 29,773	$ 21,608	$ 17,203
Depreciation and Amortization			
Automation	$ 4,894	$ 5,037	$ 4,667
Aerospace and Defense	7,946	7,144	5,705
Instrumentation	4,888	4,814	5,618
Corporate	588	409	279
	$ 18,316	$ 17,404	$ 16,269

1 Primarily cash, prepaid pension expense (see Note 4) and net deferred tax assets (see Note 5).

Note 11. Business Segment Information (Continued)

The Company's operations by geographic area for the years ended October 31 were as follows:

in thousands	1998	1997	1996
Sales			
Domestic			
Unaffiliated customers – U.S.	$ 333,678	$ 261,391	$ 230,286
Unaffiliated customers – export	58,926	67,194	57,130
Intercompany	11,042	10,202	11,367
	403,646	338,787	298,783
France			
Unaffiliated customers	47,056	40,467	41,690
Intercompany	9,552	9,576	–
	56,608	50,043	41,690
All Other Foreign			
Unaffiliated customers	14,242	21,906	23,737
Intercompany	1,761	1,815	1,900
	16,003	23,721	25,637
Eliminations	(22,355)	(21,593)	(13,267)
	$ 453,902	$ 390,958	$ 352,843
Operating Earnings[1]			
Domestic	$ 58,579	$ 43,439	$ 41,517
France	2,485	3,587	2,647
All other foreign	(1,025)	(122)	(1,742)
Eliminations	104	708	418
	$ 60,143	$ 47,612	$ 42,840
Identifiable Assets[2]			
Domestic	$ 302,977	$ 165,216	$ 158,004
France	39,343	28,986	29,378
All other foreign	11,155	12,845	12,788
	$ 353,475	$ 207,047	$ 200,170

1 Before corporate expense, shown on page 58.

2 Excludes corporate, shown on page 58.

The Company's principal foreign operations consist of manufacturing facilities located in France and Spain, and include sales and service operations located in England, Germany, Italy, Japan, Singapore and France. The sales above are based upon geographic origin of sale. Intercompany sales are made at selling prices comparable with sales to unaffiliated customers. Sales to any single customer or government entity did not exceed 10% of consolidated sales.

Product lines contributing more than 10% of total sales in any of the years ended October 31 were as follows:

	1998	1997	1996
Printed circuit board drilling equipment	16%	22%	22%
Aerospace switches and Indicators	13%	12%	9%
Gauge products	10%	11%	12%

Note 12. Quarterly Financial Data (Unaudited)

> The following is a summary of unaudited quarterly financial information:

in thousands, except per share amounts	Fourth	Third	Second	First
Year ended October 31, 1998				
Sales	$132,730	$110,891	$114,551	$95,730
Gross margin	48,860	42,051	44,149	36,707
Net earnings	9,417	7,919	7,912	4,836
Net earnings per share – basic	$ .54	$ .46	$ .46	$ .28
Net earnings per share – diluted	$ .53	$ .45	$ .45	$ .27
Year ended October 31, 1997				
Sales	$108,741	$102,068	$ 97,951	$82,198
Gross margin	39,130	37,822	38,720	32,089
Net earnings	8,035	6,925	6,602	3,759
Net earnings per share – basic	$ .47	$ .40	$ .39	$ .22
Net earnings per share[1] – diluted	$ .45	$ .39	$ .38	$ .21

1 The sum of quarterly per share amounts may not equal per share amounts reported for year-to-date periods. This is due to changes in the number of weighted average shares outstanding and the effects of rounding for each period.

Report of Independent Auditors.

To the Shareholders and the Board of Directors
Esterline Technologies Corporation
Bellevue, Washington

We have audited the accompanying consolidated balance sheets of Esterline Technologies Corporation and its subsidiaries as of October 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Esterline Technologies Corporation and its subsidiaries as of October 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1998 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Seattle, Washington
December 9, 1998

Esterline Technologies Information.

Directors

Wendell P. Hurlbut
Chairman
Esterline Technologies

Richard R. Albrecht
Executive Vice President (Retired)
Commercial Airplane Group
The Boeing Company

Gilbert W. Anderson
President and
Chief Executive Officer (Retired)
Physio-Control Corporation;
Private Investments

John F. Clearman
Chief Financial Officer
Milliman & Robertson

Robert W. Cremin
President and
Chief Executive Officer
Esterline Technologies

E. John Finn
Chairman (Retired)
Dorr-Oliver Incorporated

Robert F. Goldhammer
Chairman
ImClone Systems,
Incorporated;
President
Concord International
Investments Group L.L.P.

Jerry D. Leitman
President and
Chief Executive Officer
Energy Research Corporation

Jerome J. Meyer
Chairman and
Chief Executive Officer
Tektronix, Inc.

Paul G. Schloemer
President and
Chief Executive Officer (Retired)
Parker Hannifin Corporation

Malcolm T. Stamper
Vice Chairman (Retired)
The Boeing Company;
Chairman, Chief Executive
Officer and Publisher
Storytellers Ink

Officers

Wendell P. Hurlbut
Chairman

Robert W. Cremin
President and
Chief Executive Officer

Robert W. Stevenson
Executive Vice President
and Chief Financial Officer

James J. Cich, Jr.
Group Vice President

Larry A. Kring
Group Vice President

Stephen R. Larson
Group Vice President

Marcia J.M. Greenberg
Vice President
Human Resources

Robert D. George
Treasurer and Controller

Investor Information

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Symbol-ESL

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Annual Meeting of Shareholders
The 1999 annual meeting of shareholders will be held at the Hyatt Regency Bellevue, 900 Bellevue Way, Bellevue, Washington, on Wednesday, March 3, 1999. The meeting will start at 10:00 a.m.

10-K report
A copy of Esterline's annual report on Form 10-K filed with the Securities and Exchange Commission will be provided without charge upon written request to the corporate headquarters, attention: Director, Corporate Communications.

Stock Held in Street Name
Esterline maintains a direct mailing list to help ensure that shareholders whose stock is held in street name (broker or similar accounts) receive information on a timely basis. If you would like your name added to this list, please send your request to the corporate headquarters, attention: Director, Corporate Communications.

Esterline Operations + Locations.

Automation Group >

Excellon Automation Co.
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Excellon Japan Co.
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Chiyoda-Ku
Tokyo 102
Japan

Excellon U.K.
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West Sussex, BN16 3HQ
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Poligono Industrial
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Madrid, Spain

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313 Gillett Street
Painesville, OH 44077

Hytek Finishes Co.
8127 South 216th Street
Kent, WA 98032

Kirkhill Rubber Co.
300 East Cypress Street
Brea, CA 92821

Mason Electric Co.
605 8th Street
P.O. Box 3110
San Fernando, CA 91341

Midcon Cables Co.
2500 Davis Boulevard
P.O. Box 1786
Joplin, MO 64802

TA Mfg. Co.
28065 West Franklin Parkway
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3170 E. 11th Street
Los Angeles, CA 90023

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Instrumentation Group >

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