

# ESL

Esterline

Annual

in thousands,  
except per share  
amounts

for the years ended October 31,

1999

1998

## Financial Highlights.

### Operating Results

Sales	\$ 460,969	\$ 453,902
Segment earnings	56,932	60,143
Net earnings	29,862	30,084
Net earnings per share – basic	\$ 1.72	\$ 1.74
Net earnings per share – diluted	\$ 1.69	\$ 1.70

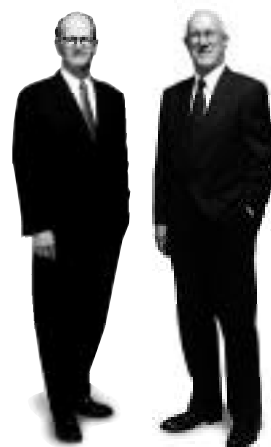
Weighted average shares outstanding – basic	17,337	17,290
Weighted average shares outstanding – diluted	17,658	17,718

### Financial Position

Total assets	\$ 453,082	\$ 387,179
Property, plant and equipment – net	89,339	94,062
Working capital	140,908	70,099
Shareholders' equity	224,620	196,376

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

To our shareholders The most important aspect of 1999 relates to Esterline's future. We pushed hard during the year to sharpen the focus on those core strengths that support our long-term strategic direction. The moves we made are creating a new Esterline – a leaner, more productive, more competitive company, with a profile that's simpler for investors to understand.



→ Robert W. Cremin  
President and Chief Executive Officer

Wendell P. Hurlbut  
Chairman

In the coming year, nearly 70% of Esterline's revenues will be generated from worldwide aerospace and defense markets. Within this arena, Esterline is the unquestioned market leader in:

- High-performance sensors and controls
- Illuminated cockpit components
- Advanced elastomer materials.

**New Business Segments** To better reflect our focused approach, beginning with this report, we will present the business in three new segments: Aerospace, Advanced Materials, and Automation (see Note 11, page 49).

The first two segments serve principally global aerospace and defense markets. In Aerospace, Auxitrol and Korry are key operations, designing and manufacturing high-end components for avionics, propulsion and guidance systems. In Advanced Materials, we develop high-performance elastomers and other complex materials for a variety of applications, chiefly through our Kirkhill operation.

**Targeting the Global Aerospace Market** Auxitrol is essential to our strategic growth plan as aviation markets continue to globalize. Over the past several years, combining new product development and market share expansion with acquisitions, we have nearly tripled Auxitrol's aerospace revenues, creating a significant growth platform serving the needs of manufacturers and

airlines around the world. Headquartered in Europe with a solid U.S. footing – enhanced through a key 1998 acquisition – Auxitrol manufactures high-end temperature and pressure sensors as well as fluid regulation devices for monitoring and controlling various flight systems. Auxitrol's key position on the GE/Snecma CFM-56 jet engine is indicative of this reach – the CFM-56 powers most Airbus models and all Boeing 737s. In a recent acquisition, we further expanded Auxitrol's market reach by adding a U.K.-based manufacturer of micro-motors and motion control sensors. With this transaction we gain solid new positions with the British Ministry of Defense and such prominent original equipment manufacturers (OEMs) as TRW and BAE Systems. We also gain consolidation benefits and the ability to support and cross-sell all of our product lines to key manufacturers throughout Europe, the U.S. and the U.K.

Korry is a similar success story. The world's leading manufacturer of lighted cockpit switches and flight control grips, Korry has grown more than threefold since we acquired it in 1989. Esterline benefits from Korry's long-time presence on every new Boeing commercial jet built – a position that leads to substantial aftermarket demand from airlines as well. And commercial aviation is only half the picture. Defense agency demand for our control sticks, grips and proprietary

sunlight-readable/night-vision compatible displays has grown dramatically over the past several years as fleets of military aircraft and land vehicles are upgraded to state-of-the-art electronic systems.

The continuing consolidation within the aerospace/defense industry is a dynamic contributor to preferred providers such as Auxitrol and Korry. As our customers move increasingly away from fabrication and toward assembly/integration, we see significant opportunities to move up the value chain. In order to sustain this momentum, we are continually offering a wider package of value-added products through internal development and synergistic acquisitions.

As a case-in-point, in December 1999 we completed the acquisition of the world's leading independent manufacturer of custom keyboards and other types of multifunction data input subsystems. The acquisition is a great fit, not only expanding our potential for high-end illuminated displays and custom panels for aerospace, but also extending our technology into medical and other high-end applications.

Advanced Materials – An Important Growth Platform      “Advanced Materials” may be a new business segment designation, but Esterline has successfully managed advanced materials operations

for more than a decade. It wasn't until the late 1998 acquisition of Kirkhill, however, that this segment gained the critical mass to be considered a growth platform. Over the years, we had carved out the leading niche position for elastomer applications in jet propulsion systems, through our TA Mfg. subsidiary. Kirkhill provided the broader market reach and extensive manufacturing capability to fully develop the opportunities for high-temperature elastomer products. Combining Kirkhill and TA offers obvious benefits as demand increases for higher performance, lighter weight components made from our engineered elastomer materials.

Armtec Defense Products also fits well in Advanced Materials. Armtec manufactures combustible ordnance products and is the U.S. Army's sole supplier of propellant cases for tank gun systems, artillery, and mortars. These products not only act as rigid propellant containers, they also ignite when fired, improving the performance of the ammunition. During the year, we brought on-line a new state-of-the-art facility to accommodate the U.S. Army's production requirements for its new-generation 155mm Modular Artillery Charge System (MACS). We have moved experimental round production into the new facility, and anticipate that initial production of the recently type-classified charge will begin in mid-2000.

Our Automation segment bore the brunt of the economic downturn in Asia, but we continue to lead the way in the development of highly specialized automated equipment for the manufacture of printed circuit boards and the fabrication of plate steel. During the year, we maintained our long-term focus in this segment with increased R&D efforts at Excellon and Whitney to ensure our technological edge when markets improve. Significantly, we introduced two new laser systems. Excellon's LVD-2001 uses two separate high-repetition pulsed laser sources for the production of microvias. These extraordinarily small holes are multiplying on the ever-shrinking circuit boards used increasingly by the telecommunications industry. And Whitney's PlateLASER™ is the fastest, most powerful laser available for precision cutting of plate steel – redefining the competitive landscape.

We also finalized our planned exit from the slow growth industrial instrumentation market late in the year, with the divestiture of our Federal Products subsidiary. The transaction, which resulted in an \$8 million gain, was the last of three such divestitures completed in recent years related to this market.

As for many small cap manufacturing companies, 1999 was not the best of years for Esterline's stock price. Yet in spite of some pretty tough market conditions, we finished the year




with sales and earnings effectively unchanged from last year's record-breaking performance.

We believe the actions of 1999 – particularly the continued refinement of our core growth platforms and the exit from non-strategic businesses – present a clearer, more coherent picture of Esterline's true strengths to investors. And more importantly, they underscore Esterline's strategic direction: to focus our efforts and resources on technologies that offer greater opportunities for growth and higher returns to shareholders.

In closing, we would like to draw attention to the extraordinary efforts of our employees. These dedicated people, numbering more than 4,000 around the world, have contributed significantly to Esterline's accomplishments. The booklet you found at the front of this report is a message from them and represents only a small sample of the tangible results achieved by their hard work.

Robert W. Cremin  
President and Chief Executive Officer

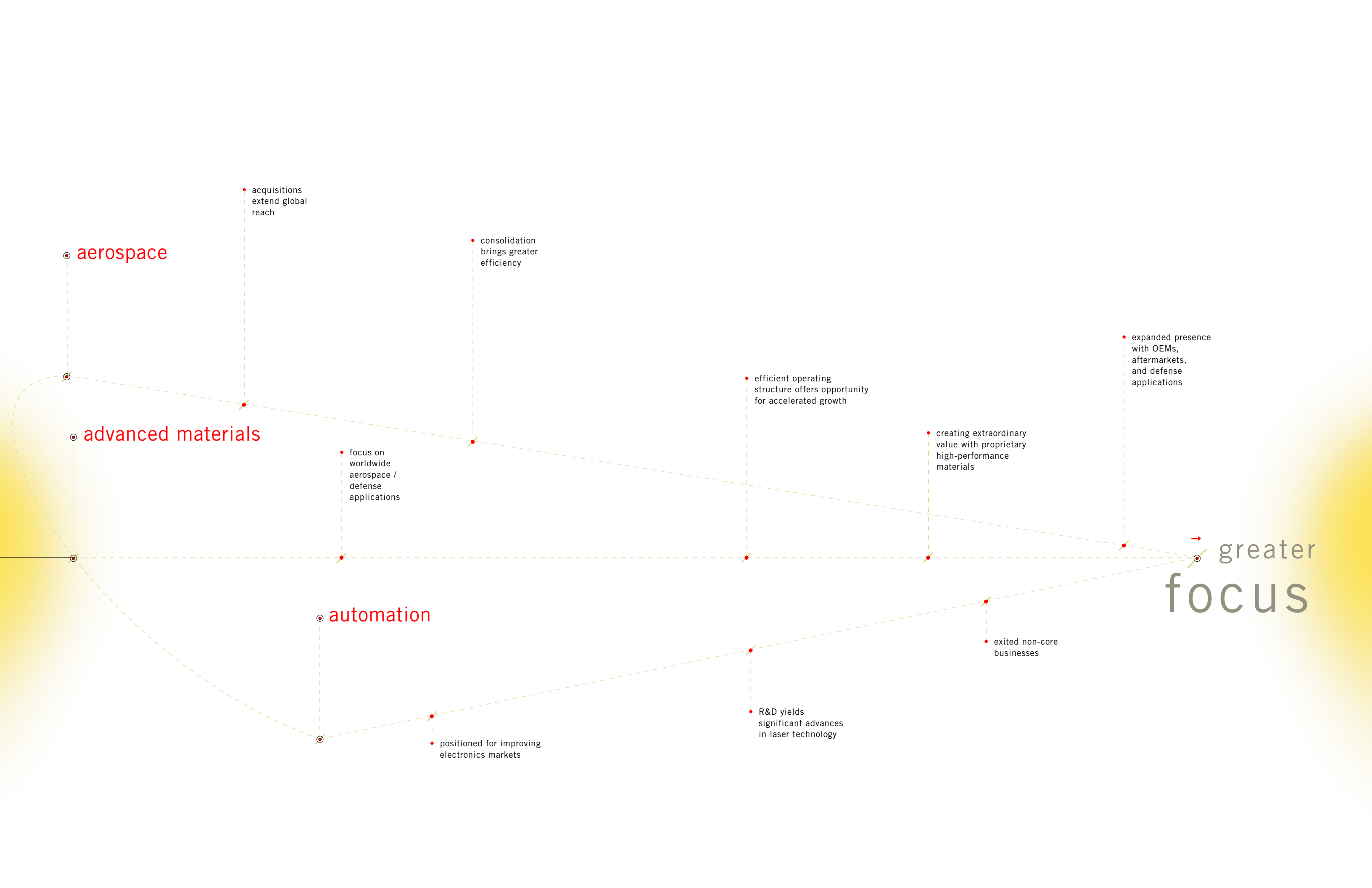
| Wendell P. Hurlbut  
Chairman



Four dashed lines in a light yellow-green color originate from the left edge of the frame and converge towards the right, passing behind the text 'our moves'.

our moves

A small red arrow points to the right, positioned above the dot of the 'o' in 'moves'. A small red dot is located at the end of the horizontal line that passes through the 'o' in 'moves'.

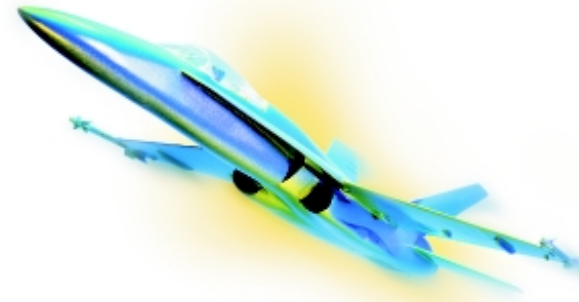


- Acquisitions play an important role in our global expansion – particularly for our Europe-based Auxitrol. In addition to consolidating the European design and manufacture of aerospace temperature and pressure sensors, aggressive moves have been made to acquire U.S. and U.K.-based companies to expand our geographic reach and our product offering to include fluid regulation devices and motion control sensors.

- acquisitions extend global reach

- We lead the industry in high-performance sensors, controls and illuminated cockpit components – worldwide. And as aviation markets continue to globalize, we are combining acquisitions, new product development and market share expansion in our own globalization. Our aerospace revenues are now derived equally from U.S. and Europe, OEMs and airlines, commercial and defense.

- consolidation brings greater efficiency



- Continuing industry consolidation provides significant growth opportunities for preferred partners like Esterline to provide more value-added products to customers. Internal consolidation also provides benefits. Korry and Mason will operate as one going into 2000, creating the opportunity to cross-sell displays and control wheels, sticks and grips to cockpit designers around the world.

- expanded presence with OEMs, aftermarket, and defense applications



- efficient operating structure offers opportunity for accelerated growth

- creating extraordinary value with proprietary high-performance materials

- focus on worldwide aerospace / defense applications

greater  
execution

aerospace

advanced materials

automation

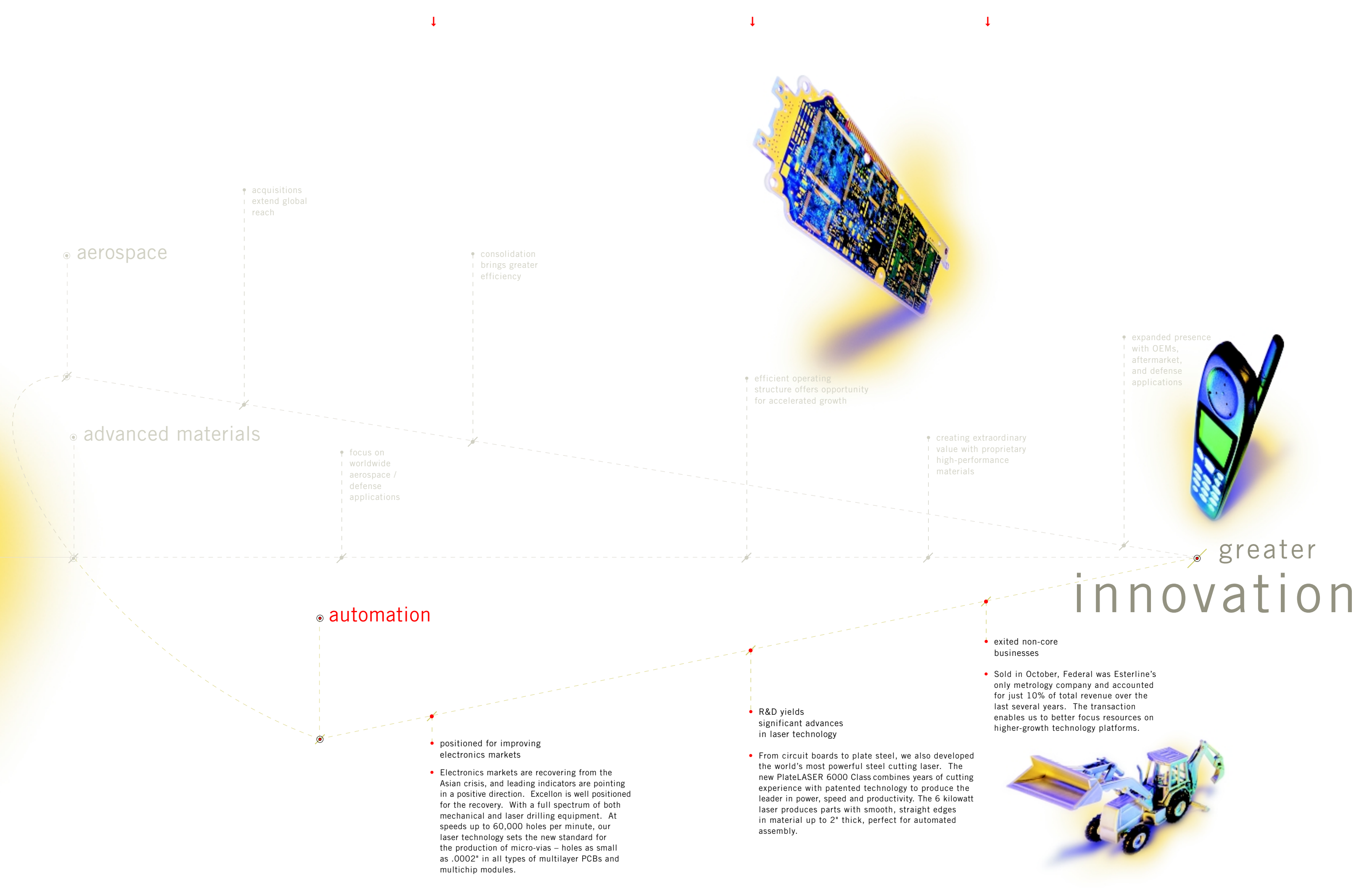
- positioned for improving electronics markets

- R&D yields significant advances in laser technology

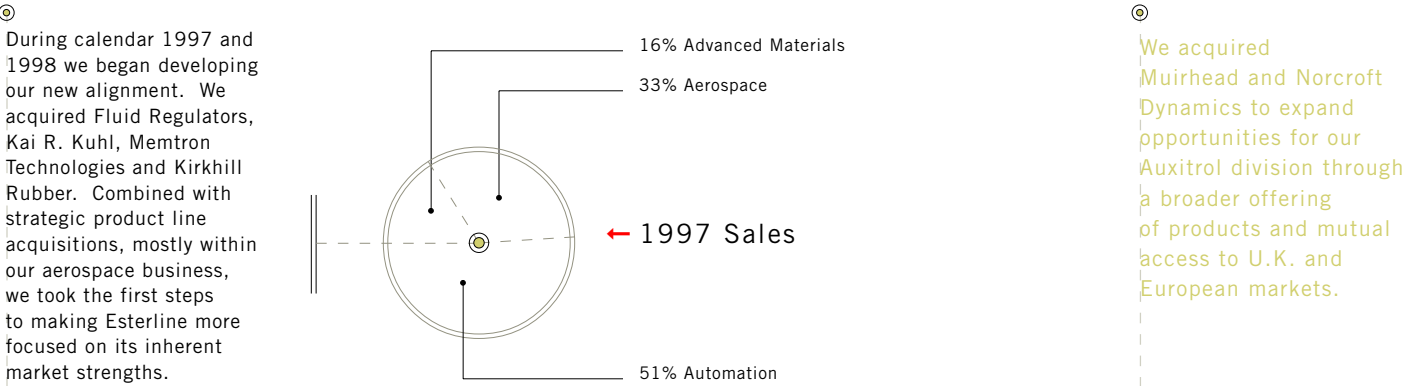
- exited non-core businesses





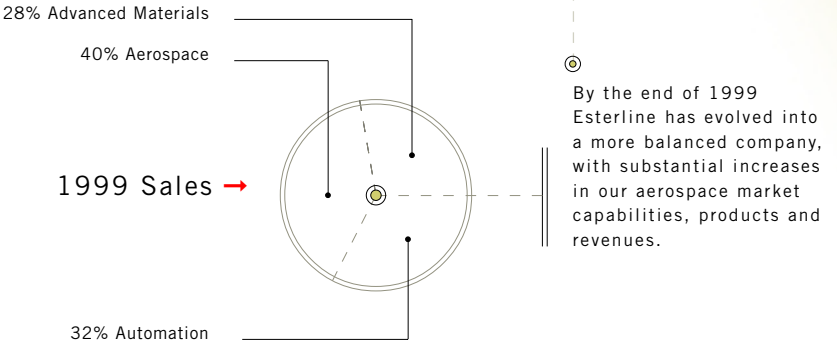


Taken individually, our moves are designed to add capability and revenue. • Taken as a whole, they will accomplish much more. • The moves we’ve made over the past three years were specifically designed to position Esterline as the dominant player in highly specialized market niches, while simultaneously enabling cross-selling, greater geographic reach, deeper market access and clearer business focus. • The result has substantially improved the balance of products and technologies Esterline offers, while positioning the company for significant growth.



To further enhance our dominant position in lighted switch display technologies, we added Advanced Input Devices to our capability and product mix. There is an immediate market and product synergy between A.I.D. and our Korry division.

From 1997 through 1999, we have moved Esterline in a new direction. But it is important to understand that our strategy demands that we remain opportunistic, and we have left the door open to shaping our business on the basis of greatest reward. We define that as whatever offers the best fit with our core competencies: with product line extension; with greater market reach; with synergies in operations; with new technology and customers.





©  
The people  
of Esterline  
have taken the  
initiative in  
developing their  
own distinctive  
approach to  
applying lean  
manufacturing  
techniques.

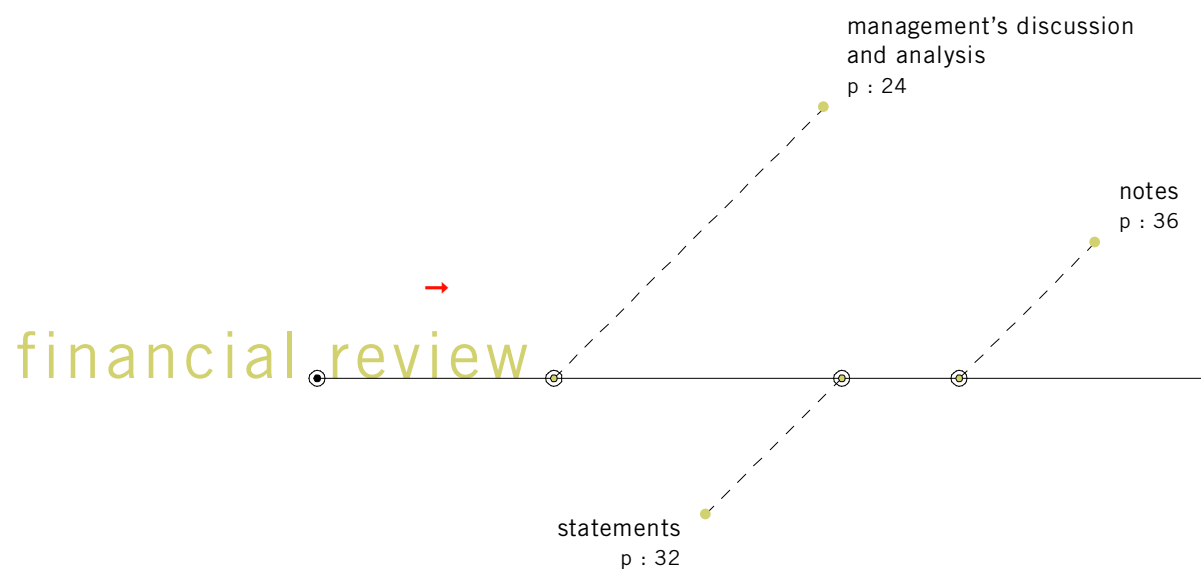
©  
Their drive to make  
process improvements  
started small, and  
spread throughout  
Esterline companies.  
It all began with an  
idea and has become  
a process our people  
own, completely.

This growth will occur thanks to the strength we've gained by strategically combining our acquisitions with our existing companies.

© Add the initiative of our people – who continue to discover ways to be more effective, more efficient and more responsive to our customers – and the value of this well-positioned group of businesses called Esterline becomes increasingly evident. © And we'll continue to evaluate and follow new opportunities that lead us to an even more valuable definition of our company.

©  
We want to thank the  
people of Esterline for  
their commitment and  
initiative. Their contribu-  
tions cannot be under-  
estimated. We all benefit  
from the improvements  
they've made in the way  
they do their jobs, the  
products they produce and  
the relationships they  
build. The results they've  
realized contribute to the  
way we work, and the  
results we all achieve.



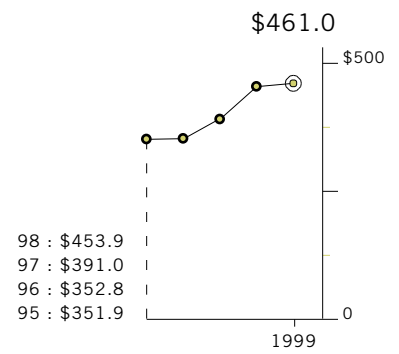


1995 – 1999

in millions,  
except where  
noted

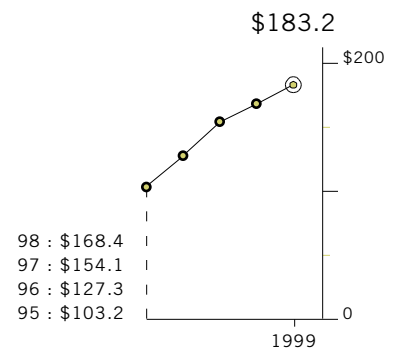


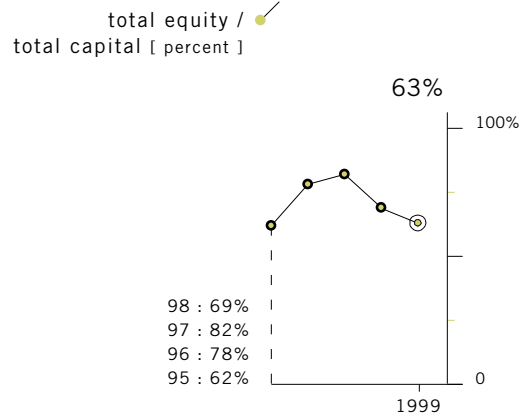
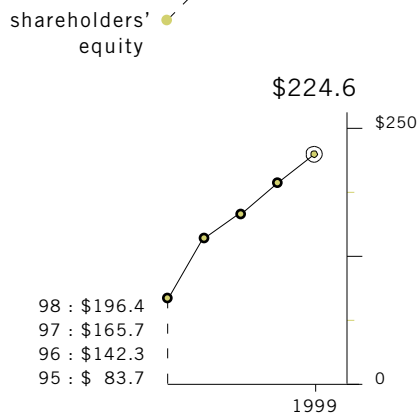
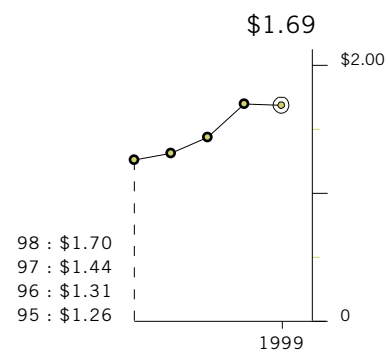
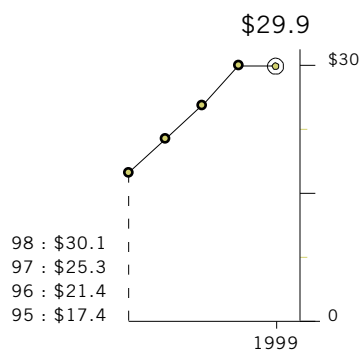
## charts



sales

backlog





## Management's Discussion and Analysis.

### General

Esterline Technologies (the "Company") continued to refine its focus and to implement its growth strategy throughout 1999. This effort led directly to the completion of two significant transactions late in the year. The first was the purchase of the UK-based aerospace group of Muirhead Vactric and Norcroft Dynamics, companies strategic to growth in aerospace; the second was the divestiture of Federal Products Co., an operation not aligned with the Company's core emphasis and one that accounted for less than 10% of revenue.

The Company also redefined its segments to correspond with the way the Company is organized and managed. This year's annual report includes the segments of Aerospace, Advanced Materials and Automation. The Aerospace Segment includes operations that produce high-precision components, primarily for aerospace and defense markets. The Advanced Materials Segment includes operations that formulate specialized materials such as high-temperature elastomers, molded-fiber compounds and certain finishings and coatings, also principally for aerospace and defense markets. The Automation Segment includes operations that manufacture products that enhance the fabrication efficiency and quality control of manufactured goods. All prior year information has been restated to reflect this change.

### Results of Operations

#### Year Ended October 31, 1999 Compared with Year Ended October 31, 1998

Sales for 1999 grew 2% when compared with the prior period. Sales by Segment were as follows:

dollars in thousands	increase (decrease) from prior year	1999	1998
Aerospace	7%	\$ 183,783	\$ 171,028
Advanced Materials	40%	127,920	91,498
Automation	(22%)	149,266	191,376
		<u>\$ 460,969</u>	<u>\$ 453,902</u>

Sales in Advanced Materials grew substantially in 1999. This growth was primarily attributable to Kirkhill, which was included in the Segment for a full year during 1999 and three months in 1998. Aerospace continued to see improvements although at a slower rate than in the previous year. Sales in Aerospace were positively impacted by the acquisition of Muirhead and Norcroft. Revenues for these entities were included for the last quarter of the year. The Company expects growth in both Aerospace and Advanced Materials to continue, although at a slower rate due to current commercial aircraft delivery schedules and short-term inventory reduction programs by certain customers. In the short-term, the Company expects these Segments to continue to benefit from aircraft retrofit programs and the spare parts and repair business for existing fleets, as well as from growth in the commuter and business aircraft markets. The Company is also well positioned to take advantage of anticipated long-term growth in the overall commercial and military aircraft markets.

Sales in Automation declined due to a variety of unfavorable market conditions during the year. These included continuing poor worldwide demand for printed circuit board ("PCB") manufacturing equipment as well as soft agriculture and automotive markets. The sale of Tulon in late 1998 also impacted Automation in the year-over-year comparison.

Sales to foreign customers, including export sales by domestic operations, totaled \$137.3 million and \$120.2 million, and accounted for 30% and 26% of the Company's sales for 1999 and 1998, respectively.

Gross margin as a percentage of sales was 38% for both 1999 and 1998. On a comparative basis, gross margin in Aerospace decreased slightly due to volumes that were lower than expected. Gross margin for Advanced Materials decreased during the year due to volume decreases and new business included for a full year, primarily Kirkhill. An increase in Automation margin was related primarily to improvements at Federal Products relative to the prior year, and the divestiture of Tulon late in 1998. Gross margins by Segment ranged from 34% to 40% in 1999, compared with 33% to 42% in the prior year.

Selling, general and administrative expenses (which include corporate expenses) increased to \$106.2 million in 1999 compared with \$102.4 million in the prior year. As a percentage of sales, selling, general and administrative expenses were 23% in both 1999 and 1998. Research, development and related engineering spending increased to \$24 million in 1999 from \$20.8 million in 1998, and remained constant as a percentage of sales when compared with the prior year. Developments continued in laser technology for Automation; switches and sensors for Aerospace; and fireproofing elastomer for Advanced Materials during 1999.

Segment earnings (excluding corporate expenses) decreased 5% to \$56.9 million compared with \$60.1 million in the prior year. Aerospace earnings were essentially flat with last year. Advanced Materials posted earnings of \$29.2 million in 1999 compared with \$24.7 million in 1998. The improvement was primarily due to Kirkhill's full year of earnings. Automation earnings decreased to \$2.9 million in 1999 compared with \$10.7 million in the prior year. This reduction was primarily due to the continued effects of a depressed worldwide PCB equipment market and was compounded in the second half of the year by a significant decline in the agriculture sector.

Prior to the close of the year, the Company completed the sale of Federal Products to Mahr GmbH. Federal Products was the Company's only metrology business and accounted for less than 10% of the Company's sales during 1999. The Company recognized an \$8 million gain on the sale for 1999.

Interest income increased to \$2.9 million compared with \$1.6 million in the prior year. Interest expense increased to \$9 million during 1999 compared with \$3.8 million in the prior year. In November 1998, the Company completed a \$100 million private placement of senior notes ("1999 Senior Notes"). The proceeds of this placement were used to retire an outstanding bridge facility arising from the Kirkhill acquisition. The remainder has been invested and is being utilized to fund other internal expansion and acquisition activities.

The effective income tax rate decreased to 35% in 1999 from 36% in 1998, primarily due to a one-time benefit related to state taxes.

Net earnings in 1999 were \$29.9 million, or \$1.69 per share on a diluted basis, compared with \$30.1 million, or \$1.70 per share, in the prior year.

Orders received in 1999 increased 6% to \$475.7 million from \$448.5 million in the prior year. Backlog at October 31, 1999 was \$183.2 million compared with \$168.4 million at the end of the prior year. Approximately \$32.5 million of backlog is scheduled to be delivered after 2000. Backlog is subject to cancellation until delivery.

### Year Ended October 31, 1998 Compared with Year Ended October 31, 1997

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

dollars in thousands	increase (decrease) from prior year	1998	1997
Aerospace	32%	\$ 171,028	\$ 129,354
Advanced Materials	46%	91,498	62,760
Automation	(4%)	191,376	198,844
		<u>\$ 453,902</u>	<u>\$ 390,958</u>

Sales in Aerospace and Advanced Materials grew substantially in 1998. The growth was primarily attributable to continued strong aerospace market demand and acquisitions. During this period, both Segments benefited from the increased production of new aircraft. Automation experienced a downturn during the last half of the year primarily due to sluggish worldwide market demand for 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, Aerospace gross margin improved due to favorable commercial aerospace market conditions, while decreases were experienced in Advanced Materials and Automation. The Advanced Materials gross margin decrease included the impact of costs related to occupying new facilities. Key factors in the Automation gross margin decrease were the fourth quarter weakness in the market for quality control instrumentation products related to a strike at General Motors, and economic instability in Asia which directly affected pricing and demand for PCB manufacturing equipment. In addition, consolidation of the customer base resulted in larger but fewer buyers in the PCB manufacturing markets. Gross margins by Segment ranged from 33% to 42% in 1998, compared with 35% to 46% in the prior year.

Selling, general and administrative expenses (which include corporate expenses) increased to \$102.4 million in 1998 compared with \$90.9 million in the prior year. As a percentage of sales, selling, general and administrative expenses were 23% in both 1998 and 1997. Research, development and related engineering spending increased to \$20.8 million in 1998 from \$17.6 million in 1997, and remained constant as a percentage of sales. 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.

Segment earnings (excluding corporate expenses) increased 26% to \$60.1 million compared with \$47.6 million in the prior year. Aerospace and Advanced Materials posted earnings of \$24.8 million and \$24.7 million in 1998 compared with \$16.0 million and \$15.9 million in 1997. Strong aerospace and defense markets were the primary factors for improved earnings in both Segments. Automation earnings decreased 32% for the year to \$10.7 million from \$15.8 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 36% in 1998 from 34% 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.

The Company has not experienced any significant year 2000 ("Y2K") issues, however, it does expect that immaterial Y2K related issues may occur. To that extent, the Company is engaged in ongoing efforts to ensure all Y2K issues are identified and resolved as early as possible.

Few of the Company's products contain software coding. For products identified as containing software, testing was completed and updates have been available for some time. The Company has sought to identify customers that require upgrades. The Company's businesses have posted information on their websites and on each invoice sent to customers. In the event that a customer experiences a Y2K failure, staff and upgrade kits are available to resolve issues.

Based on currently available information, the Company estimates total costs to be expended for outside consultants, software and hardware applications to be less than \$1 million. The Company does not track internal costs such as payroll related to Y2K projects.

### **Liquidity and Capital Resources**

Cash and equivalents at October 31, 1999 totaled \$55 million, an increase of \$46.2 million from October 31, 1998. Short-term investments at October 31, 1999 were \$25.9 million compared with no short-term investments at October 31, 1998. Net working capital increased to \$140.9 million at October 31, 1999 from \$70.1 million at October 31, 1998. Increases in both cash and net working capital are primarily related to the 1999 Senior Notes. Proceeds from the placement were used to retire a bridge facility for the Kirkhill acquisition. The remainder has been invested and is being utilized to fund other internal expansion and acquisition activities.

Net accounts receivable were \$69.6 million at October 31, 1999, compared to \$77.5 million at October 31, 1998. Accounts payable decreased \$6.4 million to \$16.9 million at October 31, 1999. Federal and foreign income taxes payable increased \$5.9 million to \$6.3 million at October 31, 1999. These variances were primarily in Automation, largely due to the sale of Federal Products in October, and also the depression in both the PCB and agriculture related businesses. Net property, plant and equipment was \$89.3 million at October 31, 1999, compared with \$94.1 million at the end of the prior year primarily due to the sale of Federal Products. The reduction was partially offset by the purchase of Muirhead/Norcroft. Goodwill also increased to \$105.4 million at October 31, 1999 compared with \$99.3 million at October 31, 1998, due to the acquisition.

Capital expenditures for 1999 were \$15.6 million (excluding acquisitions) and included machinery and equipment, some minor facility expansions and enhancements to information technology systems in order to support growth and operational effectiveness. Capital expenditures are anticipated to approximate \$21.5 million for 2000 as the Company continues to support expansion through investments in infrastructure.

Total debt increased \$39.4 million from October 31, 1998 to \$129.4 million at October 31, 1999, principally due to the 1999 Senior Notes placement. Total debt outstanding at October 31, 1999 consisted of \$100 million under the Company's 1999 Senior Notes, \$17.1 million under the Company's 8.75% Senior Notes, \$1.6 million for revenue bonds and \$10.7 million under various foreign currency debt agreements, including capital lease obligations. The 8.75% Senior Notes have a scheduled annual payment of \$5.7 million, which will continue until maturity on July 30, 2002. The 1999 Senior Notes have maturities ranging from 5 to 10 years and interest rates from 6% to 6.77%. Management believes cash on hand, funds generated from operations and other available debt facilities are sufficient to fund operating cash requirements and capital expenditures through 2000.

#### **Market Risk Exposure**

The Company has financial instruments that are subject to interest rate risk, principally short-term investments and debt obligations issued at a fixed rate. To the extent that sales are transacted in a foreign currency, the Company is also subject to foreign currency fluctuation risk. Furthermore, the Company has assets denominated in foreign currencies that are not offset by liabilities in such foreign currencies. Historically, the Company has not experienced material gains or losses due to interest rate or foreign exchange fluctuations.

#### **Subsequent Events**

On December 21, 1999, the Company purchased Advanced Input Devices ("A.I.D."). A.I.D. is a privately held company with annual sales of approximately \$40 million, located in Coeur d'Alene, Idaho. It is the world's leading independent manufacturer of custom keyboards and other multifunction data input subsystems. A.I.D. is a strategic purchase for the Company's growth platform around high-end illuminated displays and custom panels and will be included in Aerospace. The transaction was accounted for under the purchase method and funded with available cash.



### **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 the Company's businesses is derived from aerospace, defense, computer, electronics, telecommunications, medical and agriculture equipment 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**

In June 1998, the Financial Accounting Standards Board ("FASB") 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 FASB delayed implementation of this standard, therefore, it will now be effective for the Company beginning in fiscal 2001. The Company is studying this pronouncement to determine its effect, including additional disclosure requirements that may be necessary.

in thousands,  
except per share  
amounts

for the years ended  
October 31,

1999

1998

1997

1996

1995

## Selected Financial Data.

### Operating Results

Sales	\$ 460,969	\$ 453,902	\$ 390,958	\$ 352,843	\$ 351,897
Cost of sales	286,410	281,539	243,197	215,015	215,934
Selling, general and administrative	106,239	102,361	90,918	88,042	90,475
Research, development and engineering	24,022	20,846	17,556	15,373	16,638
Gain on sale of business	(7,956)				
Restructuring credit					(2,067)
Interest income	(2,859)	(1,594)	(2,397)	(1,989)	(1,156)
Interest expense	9,011	3,803	3,603	4,328	5,598
Income tax expense	16,240	16,863	12,760	10,720	9,094
Net earnings	29,862	30,084	25,321	21,354	17,381
Net earnings per share – diluted	\$ 1.69	\$ 1.70	\$ 1.44	\$ 1.31	\$ 1.26

### Financial Structure

Total assets	\$ 453,082	\$ 387,179	\$ 289,847	\$ 276,646	\$ 225,714
Long-term debt, net	116,966	74,043	27,218	29,007	35,543
Shareholders' equity	224,620	196,376	165,718	142,304	83,706
Weighted average shares outstanding – diluted	17,658	17,718	17,608	16,334	13,740

		for the years ended October 31,				1998		
in dollars		High	Low	High	Low	High	Low	
<b>Market Price of Esterline Common Stock.</b>								
<b>Principal Market – New York Stock Exchange</b>								
<b>Quarter</b>								
First	\$	24.13	\$	18.25	\$	19.13	\$	15.81
Second		19.63		12.13		23.13		16.50
Third		16.75		12.38		24.50		17.63
Fourth		16.63		13.25		21.88		15.50
At October 31, 1999 there were approximately 839 holders of record of the Company's common stock.								

in thousands,  
except per  
share amounts

for the years ended October 31,

1999

1998

1997

## Consolidated Statement of Operations.

Sales	\$ 460,969	\$ 453,902	\$ 390,958
Cost of Sales	286,410	281,539	243,197
	174,559	172,363	147,761
Expenses			
Selling, general and administrative	106,239	102,361	90,918
Research, development and engineering	24,022	20,846	17,556
Total Expenses	130,261	123,207	108,474
Operating Earnings	44,298	49,156	39,287
Gain on sale of business	(7,956)	—	—
Interest income	(2,859)	(1,594)	(2,397)
Interest expense	9,011	3,803	3,603
Net Other (Income) Expense	(1,804)	2,209	1,206
Earnings Before Income Taxes	46,102	46,947	38,081
Income Tax Expense	16,240	16,863	12,760
Net Earnings	\$ 29,862	\$ 30,084	\$ 25,321
Net Earnings Per Share – Basic	\$ 1.72	\$ 1.74	\$ 1.48
Net Earnings Per Share – Diluted	\$ 1.69	\$ 1.70	\$ 1.44

see notes to  
consolidated  
financial  
statements

in thousands,  
except share  
and per share  
amounts

October 31,

1999

1998

## Consolidated Balance Sheet.

### Assets

#### Current Assets

Cash and equivalents	\$ 55,047	\$ 8,897
Short-term investments	25,933	—
Accounts receivable, net of allowances of \$2,233 and \$2,987	69,613	77,477
Inventories	71,430	71,835
Deferred income taxes	16,212	15,693
Prepaid expenses	4,251	4,055
Total Current Assets	242,486	177,957

#### Property, Plant and Equipment

Land	13,159	13,400
Buildings	62,561	66,451
Machinery and equipment	117,555	126,253
	193,275	206,104
Accumulated depreciation	103,936	112,042
	89,339	94,062

#### Other Non-Current Assets

Goodwill, net	105,383	99,344
Intangibles, net and other assets	15,874	15,816
	<u>\$ 453,082</u>	<u>\$ 387,179</u>

### Liabilities and Shareholders' Equity

#### Current Liabilities

Accounts payable	\$ 16,918	\$ 23,307
Accrued liabilities	65,974	68,275
Credit facilities	5,138	9,533
Current maturities of long-term debt	7,249	6,358
Federal and foreign income taxes	6,299	385
Total Current Liabilities	101,578	107,858

#### Long-Term Liabilities

Long-term debt, net of current maturities	116,966	74,043
Deferred income taxes	9,918	8,902

Commitments and contingencies

#### Shareholders' Equity

Common stock, par value \$.20 per share, authorized 60,000,000 shares, issued and outstanding 17,342,374 and 17,317,178 shares	3,468	3,463
Capital in excess of par value	46,824	46,793
Retained earnings	178,953	149,091
Accumulated other comprehensive income	(4,625)	(2,971)
Total Shareholders' Equity	224,620	196,376
	<u>\$ 453,082</u>	<u>\$ 387,179</u>

see notes to  
consolidated  
financial  
statements

in thousands

for the years ended October 31,

1999

1998

1997

**Consolidated Statement of Cash Flows.**see notes to  
consolidated  
financial  
statements**Cash Flows Provided (Used)  
by Operating Activities**

Net earnings	\$ 29,862	\$ 30,084	\$ 25,321
Gain on sale of business	(7,956)	—	—
Depreciation and amortization	20,796	18,316	17,404
Deferred income taxes	497	(447)	4,764
Working capital changes, net of effect of acquisitions			
Accounts receivable	4,778	(2,344)	(436)
Inventories	(2,640)	(4,920)	(8,947)
Prepaid expenses	98	(222)	(862)
Accounts payable	(7,805)	167	447
Accrued liabilities	(5,795)	(1,557)	(3,525)
Federal and foreign income taxes	5,643	(1,542)	(2,611)
Other, net	1,684	(2,420)	(1,099)
	<u>39,162</u>	<u>35,115</u>	<u>30,456</u>

**Cash Flows Provided (Used)  
by Investing Activities**

Capital expenditures	(15,641)	(29,773)	(17,390)
Capital dispositions	28,995	9,421	1,820
Purchases of short-term investments	(25,933)	—	—
Acquisitions, net of cash acquired	(20,860)	(113,304)	—
	<u>(33,439)</u>	<u>(133,656)</u>	<u>(15,570)</u>

**Cash Flows Provided (Used)  
by Financing Activities**

Net change in credit facilities	(3,649)	6,579	(2,417)
Repayment of long-term obligations	(6,287)	(5,079)	(1,922)
Proceeds from sale of senior notes	100,000	—	—
Proceeds from bridge facility	—	50,000	—
Repayment of bridge facility	(50,000)	—	—
	<u>40,064</u>	<u>51,500</u>	<u>(4,339)</u>

Effect of exchange rates	<u>363</u>	<u>(107)</u>	<u>(938)</u>
Net increase (decrease) in cash and equivalents	46,150	(47,148)	9,609

Cash and equivalents – beginning of year	<u>8,897</u>	<u>56,045</u>	<u>46,436</u>
Cash and equivalents – end of year	<u>\$ 55,047</u>	<u>\$ 8,897</u>	<u>\$ 56,045</u>

**Supplemental Cash Flow Information**

Cash paid during the year for			
Interest	\$ 6,805	\$ 3,244	\$ 3,720
Income taxes	8,779	17,517	7,015

in thousands,  
except per  
share amounts

for the years ended October 31,

1999

1998

1997

## Consolidated Statement of Shareholders' Equity and Comprehensive Income.

### Common Stock, Par Value \$.20 Per Share

Beginning of year	\$ 3,463	\$ 3,457	\$ 3,401
Shares issued under stock option plans	5	6	56
End of year	<u>3,468</u>	<u>3,463</u>	<u>3,457</u>

### Capital in Excess of Par Value

Beginning of year	46,793	46,831	46,716
Shares issued under stock option plans	31	(38)	115
End of year	<u>46,824</u>	<u>46,793</u>	<u>46,831</u>

### Retained Earnings

Beginning of year	149,091	119,007	93,686
Net earnings	29,862	30,084	25,321
End of year	<u>178,953</u>	<u>149,091</u>	<u>119,007</u>

### Accumulated Other Comprehensive Income

Beginning of year	(2,971)	(3,577)	(1,499)
Foreign currency translation adjustment	(1,654)	606	(2,078)
End of year	<u>(4,625)</u>	<u>(2,971)</u>	<u>(3,577)</u>
Shareholders' Equity	<u>\$ 224,620</u>	<u>\$ 196,376</u>	<u>\$ 165,718</u>

### Comprehensive Income

Net earnings	\$ 29,862	\$ 30,084	\$ 25,321
Foreign currency translation adjustment	(1,654)	606	(2,078)
Comprehensive Income	<u>\$ 28,208</u>	<u>\$ 30,690</u>	<u>\$ 23,243</u>

see notes to  
consolidated  
financial  
statements

## Notes to Consolidated Financial Statements.

### NOTE

### 1 :

#### Accounting Policies

##### Nature of Operations

Esterline Technologies (the “Company”) designs, manufactures and markets highly engineered products. The Company principally serves the aerospace and defense industry and electronic equipment manufacturers 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 periods 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.

##### 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.

##### Short-Term Investments

Short-term investments, consisting principally of local government obligations, are classified as available-for-sale. These investments are carried at amortized cost which approximates the fair market value.

##### Inventories

Inventories are stated at the lower of cost or market. One subsidiary values its 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.

##### 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 based upon estimated useful lives ranging from 3 to 30 years. Depreciation expense was \$16,297,000, \$15,126,000 and \$14,515,000 for 1999, 1998 and 1997, respectively.



**Asset Valuation**

The carrying amount of long-lived assets, including goodwill attributable to those 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.

**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, 1999 and 1998, was \$33,355,000 and \$28,876,000, respectively.

**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. Costs provided for future expenditures on environmental remediation are not discounted to present value.

**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.

**Revenue Recognition**

Sales are generally recorded at the time of shipment of products or performance of services and are presented net of sales returns and allowances.

**Research, Development and Related Engineering Costs**

Research, development and related engineering costs are generally expensed as incurred.

**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 17,337,000, 17,290,000 and 17,124,000 for the years ended October 31, 1999, 1998 and 1997, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 17,658,000, 17,718,000 and 17,608,000 for the years ended October 31, 1999, 1998 and 1997, respectively.

**Recent Accounting Pronouncements**

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 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 FASB delayed implementation of this standard, therefore, it will now be effective for the Company beginning in fiscal 2001. The Company is studying this pronouncement to determine its effect, including additional disclosure requirements that may be necessary.

NOTE

2 :

**Inventories**

Inventories at October 31 consisted of the following:

in thousands	1999	1998
Raw materials and purchased parts	\$ 30,014	\$ 27,239
Work in process	27,803	33,284
Finished goods	13,613	11,312
	<u>\$ 71,430</u>	<u>\$ 71,835</u>

Inventories stated under the last-in, first-out method totaled \$6,267,000 and \$8,845,000 at October 31, 1999 and 1998, respectively. Had the first-in, first-out method been used, these inventories would have been \$524,000 and \$5,621,000 higher than reported at October 31, 1999 and 1998, respectively. Federal Products Co., one of the operating units using the last-in, first-out method, was sold in October 1999.

NOTE

**3 :**

**Accrued Liabilities**

Accrued liabilities at October 31 consisted of the following:

in thousands	1999	1998
Payroll and other compensation	\$ 21,135	\$ 24,762
Self-insurance	5,642	5,137
Interest	3,446	1,240
Warranties	7,440	7,212
State and other tax accruals	9,396	8,077
Other	18,915	21,847
	<u>\$ 65,974</u>	<u>\$ 68,275</u>

## NOTE

## 4 :

**Retirement Benefits**

The Company accounts for pension benefits in accordance with SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits." Pension benefits are provided for substantially all U.S. employees under a non-contributory pension plan, 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 7.25%, 6.5% and 7.5% for 1999, 1998 and 1997, respectively, and annual compensation increases of 5%. The expected long-term rate of return on plan assets was assumed at 8.5% for 1999, 1998 and 1997. Plan assets primarily consist of publicly traded common stocks, bonds and government securities. The Company also has an unfunded supplemental retirement plan for key executives providing for periodic payments upon retirement.

Total pension expense (benefit) for all benefit plans, including defined benefit plans, was \$902,000, (\$971,000) and \$1,758,000 for the years ended October 31, 1999, 1998 and 1997, 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	1999	1998	1997
<b>Components of Net Periodic Benefit Cost</b>			
Service cost	\$ 3,351	\$ 2,639	\$ 3,150
Interest cost	5,726	5,645	5,598
Expected return on plan assets	(9,122)	(8,895)	(7,612)
Amortization of transition asset	(400)	(405)	(404)
Amortization of prior service cost	105	105	34
Amortization of actuarial (gain) loss	4	(1,157)	—
Net periodic (benefit) cost	<u>\$ (336)</u>	<u>\$ (2,068)</u>	<u>\$ 766</u>

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

in thousands	1999	1998
<b>Benefit Obligation</b>		
Beginning balance	\$ 92,509	\$ 81,480
Service cost	3,351	2,639
Interest cost	5,726	5,645
Amendments	—	705
Actuarial (gain) loss	(8,717)	11,131
Acquisition (divestiture)	—	(5,323)
Benefits paid	(8,708)	(3,768)
Ending balance	<u>\$ 84,161</u>	<u>\$ 92,509</u>
<b>Plan Assets – Fair Value</b>		
Beginning balance	\$ 109,663	\$ 113,001
Actual return on plan assets	16,299	5,740
Acquisition (divestiture)	—	(5,323)
Company contributions	3,758	13
Benefits paid	(8,708)	(3,768)
Ending balance	<u>\$ 121,012</u>	<u>\$ 109,663</u>
<b>Reconciliation of Funded Status to Net Amount Recognized</b>		
Funded status – plan assets in excess of (less than) benefit obligation	\$ 36,851	\$ 17,084
Unrecognized net actuarial gain	(23,830)	(7,861)
Unrecognized prior service costs	874	979
Unrecognized net transition obligations (assets)	(162)	(562)
Net amount recognized	<u>\$ 13,733</u>	<u>\$ 9,640</u>
<b>Amount Recognized in the Consolidated Balance Sheet</b>		
Prepaid benefit cost	\$ 14,279	\$ 13,427
Accrued benefit liability	(546)	(3,787)
Net amount recognized	<u>\$ 13,733</u>	<u>\$ 9,640</u>

## NOTE

## 5 :

**Income Taxes**

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

in thousands	1999	1998	1997
<b>Current</b>			
U.S. Federal	\$ 13,530	\$ 14,799	\$ 5,776
State	160	1,295	1,200
Foreign	2,053	1,216	1,020
	<u>15,743</u>	<u>17,310</u>	<u>7,996</u>
<b>Deferred</b>			
U.S. Federal	684	(429)	3,138
State	20	(18)	196
Foreign	(207)	—	1,430
	<u>497</u>	<u>(447)</u>	<u>4,764</u>
	<u>\$ 16,240</u>	<u>\$ 16,863</u>	<u>\$ 12,760</u>

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

in thousands	1999	1998	1997
U.S.	\$ 42,518	\$ 45,608	\$ 34,121
Foreign	3,584	1,339	3,960
	<u>\$ 46,102</u>	<u>\$ 46,947</u>	<u>\$ 38,081</u>

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

in thousands	1999	1998
Reserves and liabilities	\$ 17,339	\$ 17,108
Employee benefits	4,425	4,306
Total deferred tax assets	21,764	21,414
Depreciation and amortization	(9,720)	(10,869)
Retirement benefits	(5,013)	(3,496)
Other	(737)	(258)
Total deferred tax liabilities	(15,470)	(14,623)
	<u>\$ 6,294</u>	<u>\$ 6,791</u>

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:

	1999	1998	1997
U.S. statutory income tax	35.0%	35.0%	35.0%
State income taxes	0.2	1.8	2.0
Foreign taxes	1.2	1.3	0.5
Foreign sales corporation	(1.1)	(1.5)	(1.8)
Tax exempt interest	(0.8)	(0.3)	(0.7)
Non-deductible goodwill	1.7	0.9	—
Other, net	(1.0)	(1.3)	(1.5)
Effective income tax rate	<u>35.2%</u>	<u>35.9%</u>	<u>33.5%</u>

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	1999	1998
Bank of America bridge facility	\$ —	\$ 50,000
6.77% Senior Notes, due 2008	40,000	—
6.40% Senior Notes, due 2005	30,000	—
6.00% Senior Notes, due 2003	30,000	—
8.75% Senior Notes, due 2002	17,143	22,857
Other	7,072	7,544
	<u>124,215</u>	<u>80,401</u>
Less current maturities	<u>7,249</u>	<u>6,358</u>
	<u>\$ 116,966</u>	<u>\$ 74,043</u>

The Company completed a \$100 million private placement of senior notes ("1999 Senior Notes") in November 1998. The 1999 Senior Notes are payable in 2003, 2005 and 2008 with interest payments due semi-annually in November and May of each year. Proceeds from the placement were used to retire a bridge facility used for the Kirkhill acquisition. The Senior Notes due in 2002 are payable in equal annual installments and interest is payable semi-annually in January and July. All Senior Notes are unsecured.

Maturities of long-term debt are as follows:

in thousands	
2000	\$ 7,249
2001	6,909
2002	6,618
2003	30,655
2004	501
2005 and thereafter	72,283
	<u>\$ 124,215</u>

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

in thousands	1999		1998	
	Outstanding Borrowings	Interest Rate	Outstanding Borrowings	Interest Rate
U.S. dollar	\$ —	—	\$ —	—
Foreign	5,138	5.60%	9,533	4.22%
	<u>\$ 5,138</u>		<u>\$ 9,533</u>	



## NOTE

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 \$9,000,000 of unsecured foreign currency credit facilities have been extended by foreign banks for a total of \$44,000,000 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 \$36,741,000 at October 31, 1999, when reduced by outstanding borrowings of \$5,138,000 and letters of credit of \$2,121,000.

The fair market value of the Company's long-term debt and short-term borrowings was estimated at \$121,000,000 and \$91,000,000 at October 31, 1999 and 1998, respectively. These estimates were derived using discounted cash flow with interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities.

## 7 :

### Commitments and Contingencies

Net rental expense for operating leases totaled \$4,647,000, \$4,628,000 and \$3,754,000 in 1999, 1998 and 1997, respectively.

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

in thousands

2000	\$ 4,477
2001	4,252
2002	4,135
2003	4,081
2004	3,254
2005 and thereafter	7,692
	<u>\$ 27,891</u>

The Company is a party to various lawsuits and claims, both as plaintiff and defendant, and has 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. The Company believes that it has made adequate provisions for contingent liabilities.

NOTE

8 :

### Stock Option Plans

The Company provides a nonqualified stock option plan for officers and key employees. At October 31, 1999, the Company had 1,760,250 shares reserved for issuance to officers and key employees, of which 405,000 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 market 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:

	1999		1998		1997	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding, beginning of year	1,313,250	\$ 10.125	1,190,000	\$ 8.472	1,516,250	\$ 6.089
Granted	202,000	18.973	187,000	18.644	271,000	14.304
Exercised	(47,500)	5.016	(63,750)	4.261	(589,750)	5.086
Cancelled	(112,500)	17.070	-	-	(7,500)	3.750
Outstanding, end of year	<u>1,355,250</u>	<u>\$ 11.046</u>	<u>1,313,250</u>	<u>\$ 10.125</u>	<u>1,190,000</u>	<u>\$ 8.472</u>
Exercisable, end of year	<u>925,500</u>	<u>\$ 8.413</u>	<u>741,500</u>	<u>\$ 6.893</u>	<u>574,750</u>	<u>\$ 5.511</u>

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Additional disclosures as required under 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 \$28,920,000, \$28,971,000 and \$24,517,000 for 1999, 1998 and 1997, respectively. Basic earnings per share for 1999, 1998 and 1997 would have been \$1.67, \$1.68 and \$1.43, respectively. Diluted earnings per share for 1999, 1998 and

1997 would have been \$1.64, \$1.64 and \$1.40, respectively.

The pro forma disclosures presented below include the fair value compensation expense for all options that would have been amortized during 1999, 1998 and 1997:

in thousands, except per share amounts years ended October 31,	1999	1998	1997
Net earnings as reported	\$ 29,862	\$ 30,084	\$ 25,321
Pro forma net earnings	28,915	28,928	24,400
Basic earnings per share as reported	\$ 1.72	\$ 1.74	\$ 1.48
Pro forma basic earnings per share	\$ 1.67	\$ 1.67	\$ 1.43
Diluted earnings per share as reported	\$ 1.69	\$ 1.70	\$ 1.44
Pro forma diluted earnings per share	\$ 1.63	\$ 1.63	\$ 1.39

The weighted average Black-Scholes value of options granted during 1999, 1998 and 1997 was \$12.109, \$10.870 and \$7.320, respectively. The assumptions used in the Black-Scholes option-pricing model for 1999, 1998, and 1997 were as follows:

	1999	1998	1997
Volatility	60.5%	55.3%	41.6%
Risk-free interest rate	5.99 – 6.23%	4.1 – 4.57%	5.73 – 5.92%
Expected life (years)	5 – 8	5 – 8	5 – 8
Dividends	–	–	–

The following table summarizes information for stock options outstanding at October 31, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Price	Shares	Weighted Average Price
\$ 3.6875 – 4.9375	280,500	3.94	\$ 4.0753	280,500	\$ 4.0753
5.6250 – 8.8750	273,000	4.15	6.3182	273,000	6.3182
10.5000 – 13.2500	388,250	6.94	11.9129	263,500	11.7112
13.4375 – 19.6250	302,500	8.12	17.1971	95,500	16.4773
19.8750 – 20.6875	111,000	8.84	20.4972	13,000	19.8750

**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 60,000,000 shares of common stock (\$.20 par value). At October 31, 1999, there were no shares of preferred stock outstanding.

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.

**10 :****Acquisitions and Divestitures**

Effective August 1, 1999, the Company acquired all of the outstanding shares of Muirhead Vactric Components Limited and Norcroft Dynamics Limited. The total purchase price, including closing and other direct costs of the acquisition, was approximately \$22,000,000 in cash. The acquisition resulted in an excess of cost over identifiable tangible assets of approximately \$12,400,000. The purchase method of accounting was used, with the results of operations included since the effective date of the acquisition.

Effective October 28, 1999, the Company sold all of the outstanding shares of Federal Products Co., a wholly owned subsidiary. The gain on the sale of the subsidiary was \$7,956,000 and the results of its operations were included in the accompanying consolidated financial statements through the date of divestiture.

On December 21, 1999, the Company purchased Advanced Input Devices ("A.I.D."). A.I.D. is a strategic purchase for the Company's growth platform around high-end illuminated displays and custom panels and will be included in Aerospace. The transaction was accounted for under the purchase method and funded with available cash.

**11 :****Business Segment Information**

During 1999, the Company adopted SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." This statement changed the segment requirements from disclosures based on product lines to a focus on how the Company is organized and managed. The Company is organized based on three primary segments: aerospace, advanced materials and automation.

The **Aerospace Segment** includes operations that produce high precision components, primarily for aerospace and defense applications. Sales are worldwide and include both military and commercial customers. The **Advanced Materials Segment** includes operations that formulate specialized materials such as high-temperature elastomers, molded-fiber compounds and certain finishings and coatings. Sales are primarily to domestic military, defense and aerospace customers. The **Automation Segment** includes operations that manufacture products that enhance the fabrication efficiency and quality control of manufactured goods. Sales are worldwide and customers include printed circuit board, original equipment, transportation and general manufacturers.

Geographic sales information is based on product origin. The Company evaluates these segments based on segment profits prior to net interest, other income/expense, corporate

## NOTE

**11 :**  
continued

expenses and income taxes.

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

in thousands	1999	1998	1997
<b>Sales</b>			
Aerospace	\$ 183,783	\$ 171,028	\$ 129,354
Advanced Materials	127,920	91,498	62,760
Automation	149,266	191,376	198,844
	<u>\$ 460,969</u>	<u>\$ 453,902</u>	<u>\$ 390,958</u>
<b>Earnings Before Income Taxes</b>			
Aerospace	\$ 24,822	\$ 24,766	\$ 15,970
Advanced Materials	29,186	24,683	15,864
Automation	2,924	10,694	15,778
Segment Earnings	<u>56,932</u>	<u>60,143</u>	<u>47,612</u>
Corporate expense	(12,634)	(10,987)	(8,325)
Gain on sale of business	7,956	—	—
Interest income	2,859	1,594	2,397
Interest expense	(9,011)	(3,803)	(3,603)
	<u>\$ 46,102</u>	<u>\$ 46,947</u>	<u>\$ 38,081</u>
<b>Identifiable Assets</b>			
Aerospace	\$ 144,836	\$ 123,346	\$ 82,984
Advanced Materials	135,907	142,902	34,337
Automation	62,868	87,227	89,726
Corporate <sup>1</sup>	109,471	33,704	82,800
	<u>\$ 453,082</u>	<u>\$ 387,179</u>	<u>\$ 289,847</u>
<b>Capital Expenditures</b>			
Aerospace	\$ 6,029	\$ 9,103	\$ 10,297
Advanced Materials	3,866	11,997	4,014
Automation	5,518	7,748	6,836
Corporate	228	925	461
	<u>\$ 15,641</u>	<u>\$ 29,773</u>	<u>\$ 21,608</u>
<b>Depreciation and Amortization</b>			
Aerospace	\$ 6,961	\$ 6,065	\$ 5,231
Advanced Materials	6,814	4,579	4,493
Automation	6,270	7,084	7,271
Corporate	751	588	409
	<u>\$ 20,796</u>	<u>\$ 18,316</u>	<u>\$ 17,404</u>

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

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

in thousands	1999	1998	1997
<b>Sales</b>			
Domestic			
Unaffiliated customers – U.S.	\$ 323,702	\$ 333,678	\$ 261,391
Unaffiliated customers – export	57,776	58,926	67,194
Intercompany	8,670	11,042	10,202
	<u>390,148</u>	<u>403,646</u>	<u>338,787</u>
<b>France</b>			
Unaffiliated customers	58,871	47,056	40,467
Intercompany	10,694	9,552	9,576
	<u>69,565</u>	<u>56,608</u>	<u>50,043</u>
<b>All Other Foreign</b>			
Unaffiliated customers	20,620	14,242	21,906
Intercompany	843	1,761	1,815
	<u>21,463</u>	<u>16,003</u>	<u>23,721</u>
<b>Eliminations</b>	<u>(20,207)</u>	<u>(22,355)</u>	<u>(21,593)</u>
	<u>\$ 460,969</u>	<u>\$ 453,902</u>	<u>\$ 390,958</u>
<b>Segment Earnings<sup>1</sup></b>			
Domestic	\$ 52,585	\$ 58,579	\$ 43,439
France	5,233	2,485	3,587
All other foreign	(625)	(1,025)	(122)
Eliminations	(261)	104	708
	<u>\$ 56,932</u>	<u>\$ 60,143</u>	<u>\$ 47,612</u>
<b>Identifiable Assets<sup>2</sup></b>			
Domestic	\$ 269,860	\$ 302,977	\$ 165,216
France	35,758	39,343	28,986
All other foreign	37,993	11,155	12,845
	<u>\$ 343,611</u>	<u>\$ 353,475</u>	<u>\$ 207,047</u>

1 Before corporate expense, shown on page 50.

2 Excludes corporate, shown on page 50.

## NOTE

**11 :**  
continued

The Company's principal foreign operations consist of manufacturing facilities located in France, the United Kingdom and Spain, and include sales and service operations located in Germany, Italy, Japan, Hong Kong and France. Intercompany sales are at 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:

	1999	1998	1997
Elastomeric products	14%	5%	2%
Printed circuit board drilling equipment	12%	16%	22%
Aerospace switches and indicators	10%	13%	12%
Gauge products	9%	10%	11%

**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
<b>Year ended October 31, 1999</b>				
Sales	\$ 123,402	\$ 112,748	\$ 116,121	\$ 108,698
Gross margin	46,053	43,425	44,957	40,124
Net earnings	11,711	5,952	7,142	5,057
Net earnings per share – basic	\$ 0.68	\$ 0.34	\$ 0.41	\$ 0.29
Net earnings per share – diluted	\$ 0.66	\$ 0.34	\$ 0.40	\$ 0.29
<b>Year ended October 31, 1998</b>				
Sales	\$ 132,730	\$ 110,891	\$ 114,551	\$ 95,730
Gross margin	49,456	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



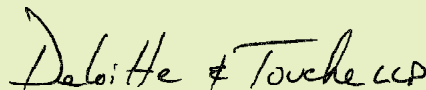
## Report of Independent Auditors.

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 (the "Company") as of October 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended October 31, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1999 in conformity with generally accepted accounting principles.



**Deloitte & Touche LLP**  
Seattle, Washington  
December 9, 1999

## 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

**Ross J. Centanni**  
Chairman, President and  
Chief Executive Officer  
Gardner Denver, Inc.

**John F. Clearman**  
Chief Financial Officer  
Milliman & Robertson

**Robert S. Cline**  
Chairman and  
Chief Executive Officer  
Airborne Freight Corporation

**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  
Fuel Cell Energy, 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

**Robert W. Cremin**  
President and  
Chief Executive Officer

**James J. Cich, Jr.**  
Group Vice President

**Robert D. George**  
Vice President and  
Chief Financial Officer

**Marcia J.M. Greenberg**  
Vice President  
Human Resources

**Larry A. Kring**  
Group Vice President

**Stephen R. Larson**  
Vice President  
Strategy and Technology

**Investor  
Information****Corporate Headquarters**

10800 NE 8th Street  
Bellevue, WA 98004  
(425) 453-9400  
[www.esterline.com](http://www.esterline.com)

**Stock Exchange Listing**

New York Stock Exchange  
Symbol-ESL

**Transfer Agent and Registrar**

ChaseMellon  
Shareholder Services L.L.C.

[www.chasemellon.com](http://www.chasemellon.com)

Shareholder Relations  
(800) 522-6645

Outside of the U.S.  
(800) 329-8660

TDD Hearing Impaired  
(800) 231-5469

TDD Hearing Impaired  
Outside of the U.S.  
(800) 329-8534

Shareholder Correspondence  
P.O. Box 3315  
South Hackensack, NJ 07606

Overnight Delivery  
85 Challenger Road  
Ridgefield Park, NJ 07660

**Annual Meeting of Shareholders**

The 2000 annual meeting of shareholders will be held at the Four Seasons Olympic Hotel, 411 University, Seattle, Washington, on Thursday, March 2, 2000. 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 or through our website.

**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 and Locations.

### Aerospace

#### Auxitrol S.A.

##### office

168 Bureaux de la Colline  
92213 Saint-Cloud Cedex  
France

##### plant

5, allée Charles Pathé  
18941 Bourges Cedex 9  
France

#### Fluid Regulators Co.

313 Gillett Street  
Painesville, OH 44077

#### Muirhead Aerospace

Oakfield Road  
Penge, London  
SE20 8EW  
England

#### Midcon Cables Co.

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

#### Korry Electronics Co.

901 Dexter Avenue North  
Seattle, WA 98109

#### Mason Electric Co.

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

#### Memtron Technologies Co.

530 N. Franklin  
Frankenmuth, MI 48734

#### Advanced Input Devices

600 West Wilbur Avenue  
Coeur d'Alene, ID 83815

### Advanced Materials

#### Kirkhill Rubber Co.

300 East Cypress Street  
Brea, CA 92821

#### TA Mfg. Co.

28065 West Franklin Parkway  
Valencia, CA 91384

#### TA Mfg., Ltd.

39/41 St. Catherine Street  
Gloucester, GL1 2BS  
England

#### Armtec Defense

##### Products Co.

85-901 Avenue 53  
P.O. Box 848  
Coachella, CA 92236

#### Hytek Finishes Co.

8127 South 216th Street  
Kent, WA 98032

### Automation

#### Excellon Automation Co.

24751 Crenshaw Boulevard  
Torrance, CA 90505

#### Amtech

8050 South 1300 West  
West Jordan, UT 84088

#### Excellon Europa GmbH

Justus-von-Liebig-Strasse 19  
63128 Dietzenbach  
Germany

#### W.A. Whitney Co.

650 Race Street  
Rockford, IL 61105

#### Equipment Sales Co.

34 School Street  
Suite 209  
Foxboro, MA 02035