



2001 ANNUAL REPORT

Financial Highlights

For Fiscal Years	2001	2000
Operating Results		
Net sales	\$ 491,235	\$ 490,966
Segment earnings	62,484	65,374
Net earnings	32,456	32,587
Earnings per share – basic	1.65	1.88
Earnings per share – diluted	1.62	1.85
Weighted average shares outstanding – basic	19,641	17,375
Weighted average shares outstanding – diluted	20,014	17,654
Financial Position		
Total assets	\$ 559,808	\$ 474,339
Property, plant and equipment, net	88,271	87,410
Long-term debt, net	102,125	108,172
Shareholders' equity	350,295	249,695

ABILITY

Esterline Technologies is a specialized manufacturing company principally serving aerospace, defense and electronic markets. Esterline is headquartered in Bellevue, Washington, and is listed on the New York Stock Exchange with the trading symbol ESL.



TO KNOW WHAT'S COMING



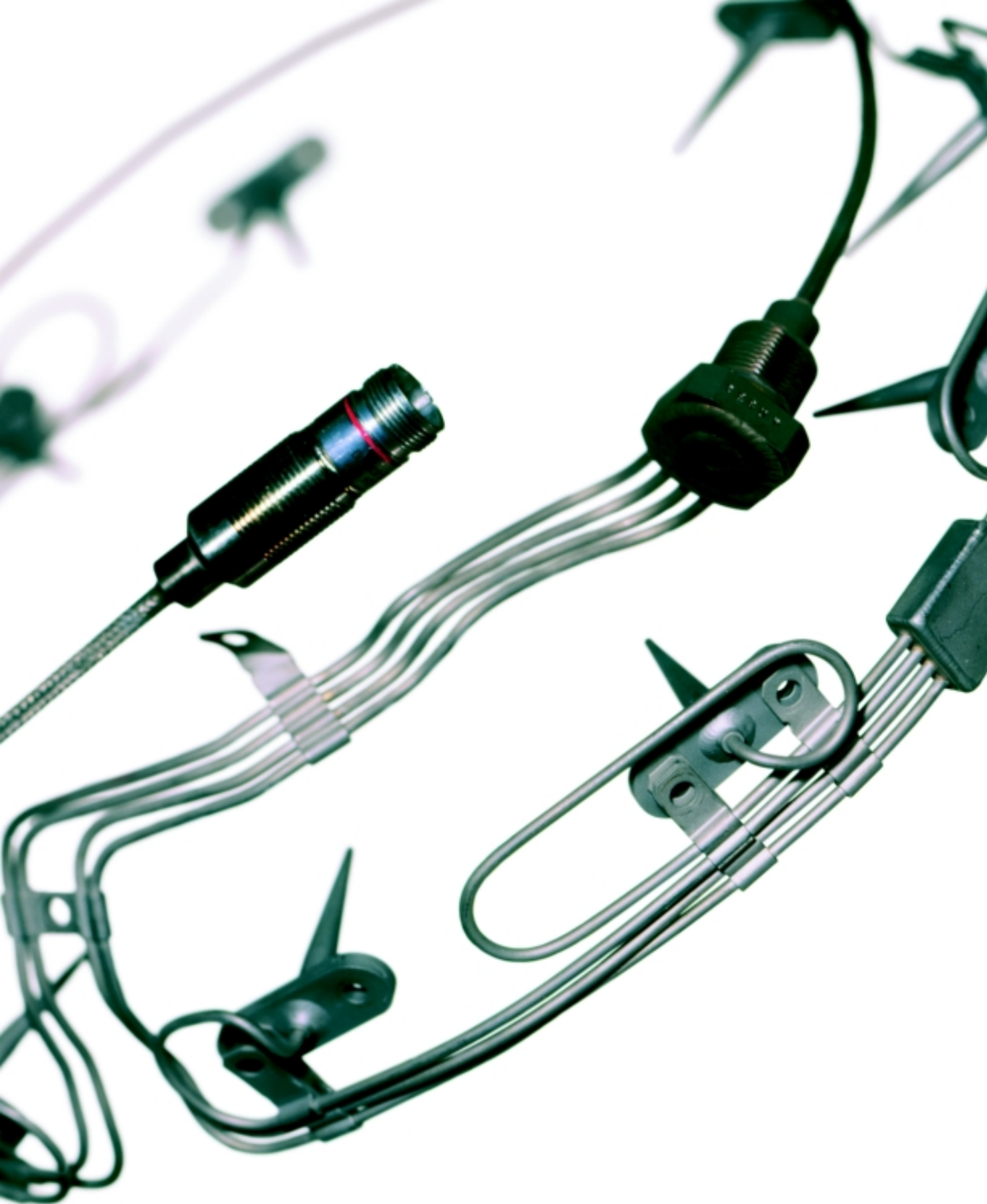
A combat pilot must know where a threat is coming from at all times – in full sunlight or the dark of night. Our fully night vision compatible on-board displays help provide that security. From high-speed digital imaging to more basic forms of switch illumination, Esterline is breaking new ground in high-performance solutions that enhance the performance and capabilities of pilots in virtually any aircraft.

TO FIND THE TARGET



Precise motion control is key to the success and accuracy of a modern missile strike. That control is made possible by micromotors not much bigger than a dime. Found in the fin assemblies of missiles, these motors provide precise, dependable motion and speed control in response to guidance signals under the most demanding conditions.





TO MONITOR PERFORMANCE



To operate a jet engine as efficiently as possible, pilots need precise data. We provide the technologies that deliver critical information for measuring temperatures and pressures inside and surrounding operating jet engines and other flight systems – a flow of accurate, real-time information that is impossible to achieve in any other way.

TO INCREASE ACCURACY



Esterline delivers proprietary munition propulsion solutions that enable longer range and higher precision for mortars, tanks and artillery. These products are lighter weight, easier to handle, and safer to use. Our 155mm modular artillery case system, shown at right, is designed for automated or manual loading in any self-propelled or towed 155mm gun.





TO WITHSTAND EXTREME HEAT



Keeping a damaged aircraft flying just 10 minutes longer can be the difference between life and death. Our advanced materials can be molded into custom shapes or applied like spray paint or putty to provide critical parts with protection from excess heat and fire reaching up to 2500 degrees Fahrenheit. Lighter, lower cost and more effective, FastBlock® is another example of Esterline's ability to constantly innovate.

TO SOLVE THE TOUGH PROBLEMS.

This is our company's greatest asset: a collection of employees and abilities that bring unique skill and insight into solving some of the toughest problems in aerospace and industry, around the world. All focused on a single purpose: to give our customers a technological edge that contributes to their success.



In many ways 2001 was two different years for Esterline. The year began with the strongest first-half performance in company history. In the second half, however, an unprecedented downturn in world electronics and telecommunications markets severely impacted demand for our Automation segment products. Even so, Esterline's performance in 2001 was a success by many measures. Our core Aerospace and Advanced Materials segments hit record levels – combined, the segments' sales and

earnings were up 16% and 35% respectively. Esterline continued to generate cash – EBITDA exceeded \$73 million. We completed four bolt-on product line acquisitions – a point I'll come back to – and we accomplished a successful secondary offering, providing tremendous balance sheet flexibility to further capitalize on our acquisition strategy. As we enter 2002, I'm as confident as ever about our prospects – both short- and long-term – and believe our fundamental strategy will afford solid growth for years to come.

One reason for my bullishness is our balance. Balance is one of Esterline's fundamental and often overlooked strengths. It is reflected in our overall market coverage with approximately one third of our total revenues generated from the commercial aircraft industry, another third from defense aerospace and other military applications, and a final third from a wide range of general industrial applications of Esterline's manufacturing technologies.

Balance extends within each of these markets as well. In the commercial aircraft businesses, our customers are airframe manufacturers – including Boeing,



OUR CORE

**AEROSPACE +
ADVANCED MATERIALS**

SEGMENTS HIT

RECORD
LEVELS.



OUR
BALANCED
MARKET COVERAGE
ENABLES US TO REACH
NEW CUSTOMERS.

Airbus and such regional and business jet manufacturers as Bombardier, Embraer, Raytheon and Gulfstream – and all major jet engine manufacturers. And aftermarket sales and service to the world's airlines generate nearly a third of our total commercial aerospace revenues.

Defense markets are an equally important and growing part of our strategy. Here too, balance is a sustaining theme. Not only do we provide advanced components and materials for virtually every military aircraft in the U.S., we also have solid positions on many of Europe's most advanced jets. We maintain preferred supplier ratings with the major U.S. original equipment manufacturers as well as second-tier suppliers, and work closely with a number of European partners. In addition to military aircraft, our products and know-how extend across an array of command and control functions, missiles and conventional weapons ranging from advanced munitions for artillery and tank gun systems to specialized materials that help protect battlefield personnel and equipment from nuclear, biological and chemical hazards.

The non-aerospace/defense portion of our business is equally well balanced. Here we address an array of markets with products ranging from advanced switching components for medical equipment manufacturers, to specialized sensors for the European nuclear power industry, to highly technical automated equipment used in the production of printed circuit boards.

Some important points to note: although all customer programs are important to us, no single program is material to our business, and no single customer represents more than 10% of Esterline's total revenue. In addition, nearly one third of total revenues are generated outside the U.S. This broad coverage enables us to constantly leverage our core capabilities to reach new customers and expand our market presence.

SOLVING THE TOUGH PROBLEMS

Fundamentally, Esterline is an engineering company with a reputation for solving tough problems. Esterline products, though relatively diverse, share important traits: they solve very specific challenges

facing customers; they tend to have properties that deliver performance levels competitors find difficult to match; and they are all highly engineered. Further, the technology behind these products readily “migrates” to related applications, broadening Esterline’s market position and furthering our ability to stay balanced in changing business climates.

Our products are the result of ongoing internal research and development efforts, a commitment we have made to continuing innovation no matter where we are in a given business cycle. In fact, R&D spending increased more than 6% this year. This commitment ensures that we are always well-positioned for the market upturn.

ACQUISITIONS THAT DELIVER

A key part of Esterline’s growth profile is a focused acquisition strategy. As the global aerospace and defense industry consolidates, we believe that there are, and will continue to be, numerous opportunities to add significantly to our technology base.



ESTERLINE IS COMMITTED
TO CONTINUING
INNOVATION
AT ANY POINT
IN A GIVEN BUSINESS CYCLE.

We completed four acquisitions in 2001, bringing the total number to 16 in the past five years. This year the acquisitions were product lines that fit seamlessly into current operations. To our Advanced Materials segment we added Teflon® and braided silicone tapes and ablatives used in the high temperature environments of jet engines and rocket motors. We also increased our presence in aircraft cockpits with the acquisition of a leading line of lighted knobs and indicators. And finally, we expanded our aerospace display technology with a specialized air traffic control line of liquid crystal displays. Though comparatively small, these and other product line acquisitions are particularly attractive because we are able to leave the general and administrative expenses behind, making the contribution margin quite attractive.

Prior to the tragedy of September 11, we were close to completing a significant acquisition in the aerospace arena. Given the uncertainty following the events of that day, all parties agreed to table negotiations. We do, however, maintain a solid pipeline of attractive companies and product lines to add to Esterline, and

our overall acquisition strategy remains in place. By combining acquired technology with technology already in the Esterline portfolio, we create new products and techniques that are of significantly more value to both existing and potential customers. As we expand our range of expertise, Esterline is more frequently the supplier of choice – a single-source supplier for deeper, embedded products in broader applications.

STAYING LEAN, STAYING FOCUSED

As effective as we've been in identifying additional revenue sources from new and existing customers, we also look within our existing businesses to pursue the highest levels of operational and employee performance. We involve a broad cross-section of employees in procedural and process decisions, and encourage them to be the driving force behind improvements, innovation and change. By doing this, we have become more efficient, have developed a more engaged workforce and retain the highly skilled long-term employees that bring stability to operations.



BY COMBINING
ACQUIRED + EXISTING
TECHNOLOGIES, WE CREATE
NEW PRODUCTS
OF SIGNIFICANTLY
MORE VALUE.



**WE LOOK WITHIN
OUR BUSINESS TO PURSUE THE
HIGHEST LEVELS
OF OPERATIONAL AND EMPLOYEE
PERFORMANCE.**

We also have not lost sight of the difficult yet necessary restructuring and resizing decisions essential to long-term performance. Midway through 2001, we announced significant layoffs at our Automation segment manufacturing facilities in California and Illinois. These moves needed to be made to match the decline in financial performance in an extraordinarily difficult business climate.

LOOKING AHEAD

There is no doubt that the first part of the new year is going to be pretty tough. However, I do expect we'll see improvement as the year progresses. Many indicators suggest that electronics and telecommunications markets are beginning to improve from their extraordinary lows. On the commercial aerospace front, we are quite confident that the industry will begin to recover from the aftermath of September 11. And we believe our military is finally receiving the budget support to replace and upgrade aging systems. We will benefit from this.

Our commitment to providing the highest caliber products and service to customers, while paying strict attention to shareholder value, will continue. From new developments in night-vision technology to high-value aftermarket parts, you will find actions that represent our spirit of tenacity and dedication to quality throughout our operations.

The cornerstones to our success – balance, product innovation, acquisitions, and above all, our people – give me great confidence in the distinctive strengths of our company. You can be assured that we will continue to adapt, innovate and execute. And you can rely on, as I do, the employees of each Esterline subsidiary who have brought us this far – I’m very proud of their accomplishments and look forward to a productive 2002 and beyond. We all are focused on operating Esterline for the long-term benefit of everyone involved, and as I’ve said before: I like our prospects.

ROBERT W. CREMIN

A handwritten signature in black ink, reading "Robert W. Cremin". The signature is fluid and cursive, with a large, stylized "R" and "C".

CHAIRMAN, PRESIDENT AND CEO

MANAGEMENT'S
DISCUSSION
AND ANALYSIS

36 ↔ 40

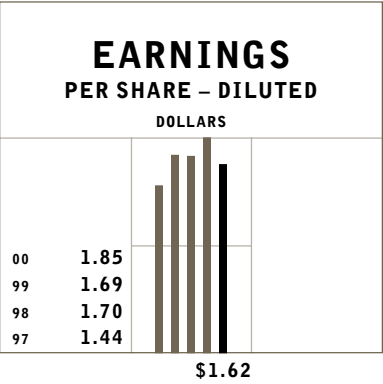
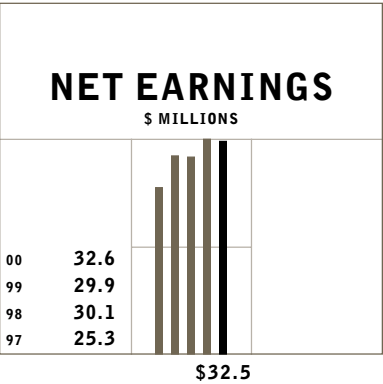
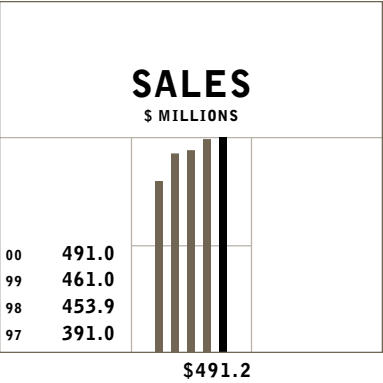
FINANCIAL
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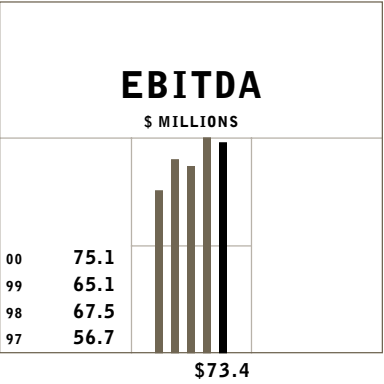
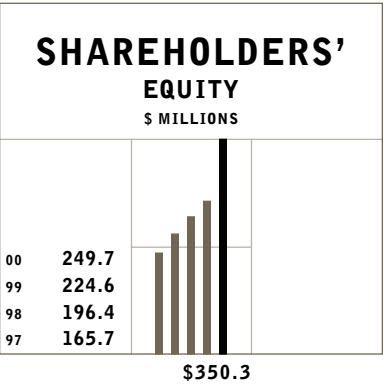
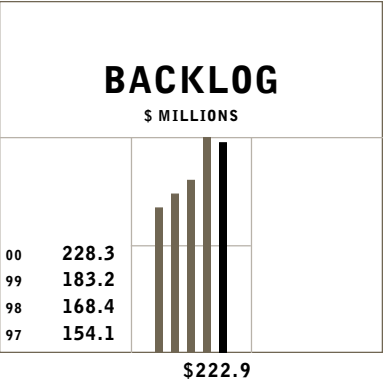
NOTES
TO CONSOLIDATED
FINANCIAL STATEMENTS

49 ↔ 64

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	1997-2001	
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Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We view and operate our business in three segments: Aerospace, Advanced Materials and Automation. We serve primarily aerospace and defense customers with manufactured products such as high-end components for avionics, propulsion and guidance systems, high-performance elastomers and other complex materials in the Aerospace and Advanced Materials segments. The Automation segment serves electronic equipment customers with printed circuit board (PCB) drilling equipment, and heavy equipment manufacturers with automated machine tools for cutting and punching plate metal.

Our strategic growth plan revolves around the development of three key technologies – sensors and controls, specialized high-performance materials and illuminated displays, principally for aerospace and defense markets. We are concentrating our efforts to expand selectively our capabilities in these markets. Our goal is to meet the evolving needs of our customers by providing solutions to complex problems. We plan to accomplish this through internal development and strategic acquisitions. Internally, we are increasing our market presence by uniting sales forces, combining marketing opportunities, and blending manufacturing knowledge and technological expertise.

Over the past several years we have focused on a selective acquisition and divestiture program supporting our long-term strategy to be a leading supplier to aerospace and defense customers throughout the world. To provide additional financing flexibility, in February 2001, we raised approximately \$66.7 million from a common stock offering. During the year we completed strategic product line acquisitions in our Aerospace and Advanced Materials segments for \$6.9 million. In the fourth quarter of fiscal 2001, we divested a small unit in our Aerospace segment not core to our other operations. After the events of September 11, we suspended advanced stage discussions relating to a significant acquisition in our Aerospace segment. Although the aftermath of September 11 is currently having an impact on our industry, we will continue to pursue our acquisition strategy.

Results of Operations

Fiscal 2001 Compared with Fiscal 2000

Sales for fiscal 2001 increased slightly over the prior year. Sales by segment were as follows:

Dollars In Thousands	Increase (Decrease) From Prior Year	2001	2000
Aerospace	16.2%	\$ 274,463	\$ 236,269
Advanced Materials	17.0%	151,352	129,386
Automation	(47.8%)	65,420	125,311
		<u>\$ 491,235</u>	<u>\$ 490,966</u>

While consolidated sales were essentially flat compared to last year, sales by segment changed dramatically. Aerospace and Advanced Materials were key growth drivers in fiscal 2001. Sales performance in those segments reflected new product introductions and strength in the aerospace and defense industry. New product sales including cockpit lighting components, engine performance monitoring and sensing

equipment, and advanced materials for high temperature applications enhanced existing product lines. The order rate for businesses serving aerospace and defense markets remained strong through the third quarter of fiscal 2001, bolstered by new product introductions which expanded the scope and capabilities of these operations. The tragic events of September 11 impacted the global aviation industry, including our operations. Aerospace fourth quarter orders dropped 7.8% from the third quarter of fiscal 2001, principally reflecting the decline in aircraft spares orders. Advanced Materials fourth quarter orders decreased 14.4% from the third quarter of fiscal 2001, mainly due to the timing of receiving orders. Additionally, Advanced Materials sales and orders were impacted by the drop in aftermarket aircraft spares orders and the continued weakness in industrial/commercial demand due to the general economic slowdown.

Automation sales declined rapidly in fiscal 2001 as electronics, telecommunications, and heavy equipment customers cut back sharply on capital expenditures for automated manufacturing equipment. At several points during fiscal 2001, including the fourth quarter, our Automation units reduced their work force to recognize current business conditions.

Sales to foreign customers, including export sales by domestic operations, totaled \$153.9 million and \$156.2 million, and accounted for 31.3% and 31.8% of our sales for fiscal 2001 and 2000, respectively.

Overall, gross margin as a percentage of sales was 35.6% and 36.6% for fiscal 2001 and 2000, respectively. Gross margin by segment ranged from 28.4% to 36.9% in fiscal 2001, compared with 35.0% to 37.6% in the prior year. Aerospace and Advanced Materials strong performance offset significant decreases in Automation. Advanced Materials had increased sales volumes and higher margin product mix. However, the segment incurred additional costs due to the California energy crisis, which caused utility rate increases and shutdowns during the first half of fiscal 2001. While Advanced Materials results were up overall, the general economic slowdown affecting industrial/commercial customers had an impact on sales volumes and gross margin.

Selling, general and administrative expenses (which include corporate expenses) decreased to \$103.4 million in fiscal 2001 compared with \$105.5 million in the prior year. As a percentage of sales, selling, general and administrative expenses were 21.0% and 21.5% in fiscal 2001 and 2000, respectively. The decrease in selling, general and administrative expenses from fiscal 2000 was due in large part to work force reductions and other restructuring measures taken by Automation in response to the severe market declines.

Research, development and related engineering spending increased to \$22.1 million or 4.5% in fiscal 2001 compared with \$20.8 million or 4.2% of sales in the prior year. This spending is consistent with our philosophy of continually investing in new products and capabilities.

Segment earnings (excluding corporate expenses) decreased 4.4% during fiscal 2001 to \$62.5 million compared to \$65.4 million in the prior year. By segment, Aerospace earnings increased 30.8% to \$42.7 million for fiscal 2001 compared with \$32.7 million in the prior year. Advanced Materials earnings increased 40.6% to \$34.9 million for fiscal 2001 compared with \$24.8 million for the prior year. Sales volume increases, product mix and lean initiatives account for the improvements in both Aerospace and Advanced Materials. Automation reported a loss of \$15.1 million in fiscal 2001 compared with earnings of \$7.9 million for the prior year. This reversal is directly related to the nearly 50% drop in sales experienced by this segment. Due to continued poor operating results and future prospects for the Automation segment, we wrote off the \$2.9 million of goodwill and intangible assets related to that segment in the fourth quarter of fiscal 2001.

In February 2001, an agreement was reached with several insurance companies settling an outstanding lawsuit that we brought to recover expenses associated with a disputed claim. A total recovery of \$4.6 million of such expenses was recorded; \$3.0 million in the second quarter of fiscal 2001 and the final \$1.6 million in the third quarter of fiscal 2001.

During fiscal 2001, \$786 thousand in gains on derivative instruments were recorded from hedging foreign currency.

Interest income increased to \$3.3 million during fiscal 2001 compared with \$2.2 million in the prior year, reflecting the increase in available cash and cash equivalents as a result of the public offering completed in February 2001. Interest expense decreased to \$7.7 million during fiscal 2001 compared with \$8.1 million in the prior year.

The effective income tax rate for fiscal 2001 was 34.8% compared with fiscal 2000 at 34.9%. Both years benefited from various tax credits.

Net earnings in fiscal 2001 were \$32.5 million, or \$1.62 per share on a diluted basis, compared with \$32.6 million, or \$1.85 per share, in the prior year. The decline in earnings per share on similar earnings reflects the issuance of 3.22 million new shares in February 2001.

Orders received in fiscal 2001 decreased 9.4% to \$485.8 million from \$536.1 million in the prior year. The decrease was related to the Automation segment. Backlog at the end of fiscal 2001 was \$222.9 million compared with \$228.3 million at the end of the prior year. Backlog increased during the first half of fiscal 2001 despite difficulties in Automation and softness in industrial markets served by Aerospace and Advanced Materials operations. In our third fiscal quarter, backlog leveled off and in the fourth quarter backlog decreased across all segments, primarily reflecting the events of September 11 and the continued difficulties in Automation. Approximately \$60.1 million of backlog is scheduled to be delivered after fiscal 2002. Backlog is subject to cancellation until delivery.

Fiscal 2000 Compared with Fiscal 1999

Sales for fiscal 2000 grew 6.5% when compared with the prior year. Sales by segment were as follows:

Dollars In Thousands	Increase (Decrease) From Prior Year	2000	1999
Aerospace	28.6%	\$ 236,269	\$ 183,783
Advanced Materials	1.1%	129,386	127,920
Automation	(16.0%)	125,311	149,266
		<u>\$ 490,966</u>	<u>\$ 460,969</u>

Aerospace provided our key area of sales growth in fiscal 2000. Substantially all of this growth was attributable to the acquisitions of Muirhead and Advanced Input Devices (A.I.D.). Muirhead was included for a full year in fiscal 2000 and only three months in the prior year. In addition, the timing of the A.I.D. acquisition resulted in the inclusion of approximately three quarters of its sales in fiscal 2000. Sales growth in Advanced Materials was affected by customer programs designed to rebalance inventory levels. Order placement activity improved over the last two quarters of fiscal 2000.

The decrease in Automation sales was primarily a result of our October 1999 divestiture of Federal Products. Excluding Federal Products on a comparative basis, Automation sales increased 15.6% due to improved PCB manufacturing equipment business, driven largely by strong performance in the second half of the year. In addition, equipment sales to the heavy equipment markets remained weak throughout fiscal 2000.

Sales to foreign customers, including export sales by domestic operations, totaled \$156.2 million and \$137.3 million, and accounted for 31.8% and 29.8% of our sales for fiscal 2000 and 1999, respectively.

Overall, gross margin as a percentage of sales was 36.6% and 37.9% for fiscal 2000 and 1999, respectively. Gross margin by segment ranged from 35.0% to 37.6% in fiscal 2000, compared with 33.7% to 40.4% in the prior year. Gross margin ranges for fiscal 2000 were lower when compared to fiscal 1999 due to a combination of factors, including lower margins on some recent acquisitions in the Aerospace segment; customer-related inventory rebalancing during the first part of fiscal 2000 in Advanced Materials; and a non-recurring inventory charge in Advanced Materials.

Automation gross margin improved when compared with the prior year primarily due to the PCB equipment revenue increases and cost cutting measures that were implemented in the operations serving the heavy equipment markets.

Selling, general and administrative expenses (which include corporate expenses) decreased to \$105.5 million in fiscal 2000 compared with \$106.2 million in the prior year. As a percentage of sales, selling, general and administrative expenses were 21.5% and 23.0% in fiscal 2000 and 1999, respectively. Overall sales volume was weak throughout fiscal 1999 into the first quarter of fiscal 2000 and we focused on tightening selling, general and administrative expenses. In the second quarter of fiscal 2000, sales nearly matched the highest quarter in the prior year and continued to improve throughout the rest of the year. We believe our efficiency improvements have facilitated the absorption of business without significant increases in expenses.

Research, development and related engineering spending was \$20.8 million, or 4.2% of sales, in fiscal 2000 compared with \$24.0 million, or 5.2% of sales, in the prior year. During the year, several projects transitioned from prototype to production and accounted for the lower level of spending in fiscal year 2000.

Segment earnings (excluding corporate expenses) increased 14.8% during fiscal year 2000 to \$65.4 million compared with \$56.9 million in the prior year. By segment, Aerospace earnings increased 31.6% to \$32.7 million for fiscal 2000 compared with \$24.8 million in the prior year, primarily due to acquisitions. Advanced Materials earnings were \$24.8 million for fiscal 2000 compared with \$29.2 million for the prior year. The decrease in earnings for Advanced Materials was attributable to the customer-related inventory rebalancing and the write-down of inventory. Automation earnings improved to \$7.9 million for fiscal 2000 compared with \$2.9 million for the prior year. For fiscal 1999, Automation earnings were attributable to Federal Products, which was sold at the end of that fiscal year. Excluding Federal Products in a year-over-year comparison, the increase in Automation earnings primarily reflected improvements in business related to PCB markets.

The \$2.6 million gain on sale of business relates to the curtailment of retirement benefits for certain Federal Products employees resulting from the October 28, 1999 sale of that operation. This gain was reported during the third quarter when it was first estimable. For purposes of the benefit calculations, credited service under the plan was frozen as of the date of sale.

Interest income decreased to \$2.2 million during fiscal 2000 compared with \$2.9 million in the prior year. Interest expense decreased to \$8.1 million during fiscal 2000 compared with \$9.0 million in the prior year.

The effective income tax rate for fiscal 2000 was 34.9% compared with fiscal 1999 at 35.2%. Both years benefited from various tax credits.

Net earnings in fiscal 2000 were \$32.6 million, or \$1.85 per share on a diluted basis, compared with \$29.9 million, or \$1.69 per share, in the prior year.

Orders received in fiscal 2000 increased 12.7% to \$536.1 million from \$475.7 million in the prior year. The increase is primarily attributable to Aerospace and Advanced Materials. Backlog at the end of fiscal 2000 was \$228.3 million compared with \$183.2 million at the end of the prior year.

Liquidity and Capital Resources

Cash and cash equivalents at the end of fiscal 2001 totaled \$119.9 million, an increase of \$69.1 million from the prior year. Net working capital increased to \$219.2 million at the end of fiscal 2001 from \$121.6 million at the end of the prior year. These increases were primarily attributable to the common stock offering completed on February 21, 2001. We issued 3.22 million shares of common stock, including shares sold under the underwriters' over-allotment option, priced at \$22 per share, generating net proceeds of approximately \$66.7 million. These funds will provide additional financial resources for general corporate purposes, including the possible acquisition of other companies and/or product lines.

Net accounts receivable were \$82.8 million at the end of fiscal 2001 compared with \$83.3 million at the end of the prior year. Inventories were \$88.3 million at the end of fiscal 2001 compared to \$74.0 at the end of the prior year. Aerospace and Advanced Materials sales increased \$60.2 million when compared with the prior year, resulting in a significant increase in inventory. The increase in inventory also reflects certain product line acquisitions completed in fiscal 2001. Accounts payable were \$22.1 million at the end of fiscal 2001 compared with \$25.0 million at the end of the prior year. The decrease was primarily due to the timing of payments in the Automation segment. Federal and foreign income taxes payable were \$2.3 million at the end of fiscal 2001 compared with \$5.5 million at the end of fiscal 2000.

Net property, plant and equipment was \$88.3 million at the end of fiscal 2001 compared with \$87.4 million at the end of the prior year.

Capital expenditures for fiscal 2001 were \$15.8 million (excluding acquisitions) and included machinery and equipment and enhancements to information technology systems. Capital expenditures are anticipated to approximate \$15.0 million for fiscal 2002. We will continue to support expansion through investments in infrastructure including machinery, equipment, buildings and information systems.

Total debt decreased \$6.7 million from the prior year to \$110.7 million at the end of fiscal 2001, principally due to repayment of debt according to terms. Total debt outstanding at the end of fiscal 2001 consisted of \$100.0 million under our 1999 Senior Notes, \$5.7 million under our 8.75% Senior Notes, and \$5.0 million under various foreign currency debt agreements, including capital lease obligations. The 8.75% Senior Notes will be repaid at maturity on July 30, 2002. The 1999 Senior Notes have maturities ranging from 5 to 10 years and interest rates from 6.00% 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 fiscal 2002.

Seasonality

The timing of our revenues is impacted by the purchasing patterns of our customers and as a result we do not generate revenues evenly throughout the year. Moreover, our first fiscal quarter, November through January, includes significant holiday vacation periods in both Europe and North America. This leads to decreased order and shipment activity; consequently, first quarter results are typically weaker than other quarters and not necessarily indicative of our performance in subsequent quarters.

Market Risk Exposure

We have financial instruments that are subject to interest rate risk, principally debt obligations issued at a fixed rate. To the extent that sales are transacted in a foreign currency, we are also subject to foreign currency fluctuation risk. Furthermore, we have assets denominated in foreign currencies that are not offset by liabilities in such foreign currencies. Historically, we have not experienced material gains or losses due to interest rate or foreign exchange fluctuations. In fiscal 2001, the foreign exchange rate for our significant operation in France increased moderately relative to the U.S. dollar.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized, but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives.

We will adopt the new statements beginning in the first quarter of fiscal 2002. Application of the non-amortization provisions of the statement is expected to result in an increase in net income for fiscal 2002 of approximately \$3.5 million, or \$.17 per share. Management is currently assessing any additional impact of adopting these statements, including potential impairment.

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	2001	2000	1999	1998	1997
Operating Results					
Net sales	\$ 491,235	\$ 490,966	\$ 460,969	\$ 453,902	\$ 390,958
Cost of sales	316,401	311,242	286,410	281,539	243,197
Selling, general and administrative	103,369	105,532	106,239	102,361	90,918
Research, development and engineering	22,148	20,839	24,022	20,846	17,556
Gain on sale of business	—	(2,591)	(7,956)	—	—
Insurance settlement	(4,631)	—	—	—	—
Gain on derivative financial instruments	(786)	—	—	—	—
Interest income	(3,307)	(2,205)	(2,859)	(1,594)	(2,397)
Interest expense	7,663	8,124	9,011	3,803	3,603
Income tax expense	17,519	17,438	16,240	16,863	12,760
Cumulative effect of a change in accounting (loss)	(403)	—	—	—	—
Net earnings	32,456	32,587	29,862	30,084	25,321
Earnings per share – diluted	\$ 1.62	\$ 1.85	\$ 1.69	\$ 1.70	\$ 1.44
Financial Structure					
Total assets	\$ 559,808	\$ 474,339	\$ 453,082	\$ 387,179	\$ 289,847
Long-term debt, net	102,125	108,172	116,966	74,043	27,218
Shareholders' equity	350,295	249,695	224,620	196,376	165,718
Weighted average shares					
outstanding – diluted	20,014	17,654	17,658	17,718	17,608

Market Price of Esterline Common Stock
In Dollars

For Fiscal Years	2001		2000	
	High	Low	High	Low
Quarter				
First	\$ 28.38	\$ 19.38	\$ 14.00	\$ 10.25
Second	27.47	16.10	13.19	9.25
Third	23.55	18.60	16.13	12.06
Fourth	21.67	11.25	22.50	14.75

Principal Market – New York Stock Exchange

At the end of fiscal 2001, there were approximately 712 holders of record of the Company's common stock.

Consolidated Statement of Operations

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years in
the Period Ended October 26, 2001

	2001	2000	1999
Net Sales	\$ 491,235	\$ 490,966	\$ 460,969
Cost of Sales	316,401	311,242	286,410
	174,834	179,724	174,559
Expenses			
Selling, general and administrative	103,369	105,532	106,239
Research, development and engineering	22,148	20,839	24,022
Total Expenses	125,517	126,371	130,261
Operating Earnings	49,317	53,353	44,298
Gain on sale of business	–	(2,591)	(7,956)
Insurance settlement	(4,631)	–	–
Gain on derivative financial instruments	(786)	–	–
Interest income	(3,307)	(2,205)	(2,859)
Interest expense	7,663	8,124	9,011
Other (Income) Expense, Net	(1,061)	3,328	(1,804)
Earnings Before Income Taxes and Cumulative Effect of a Change in Accounting	50,378	50,025	46,102
Income Tax Expense	17,519	17,438	16,240
Earnings Before Cumulative Effect of a Change in Accounting	32,859	32,587	29,862
Cumulative Effect of a Change in Accounting for Derivative Financial Instruments, Net of Tax of \$223	(403)	–	–
Net Earnings	\$ 32,456	\$ 32,587	\$ 29,862
Earnings Per Share Before Cumulative Effect of a Change in Accounting – Basic	\$ 1.67	\$ 1.88	\$ 1.72
Cumulative Effect of a Change in Accounting – Basic	(.02)	–	–
Earnings Per Share – Basic	\$ 1.65	\$ 1.88	\$ 1.72
Earnings Per Share Before Cumulative Effect of a Change in Accounting – Diluted	\$ 1.64	\$ 1.85	\$ 1.69
Cumulative Effect of a Change in Accounting – Diluted	(.02)	–	–
Earnings Per Share – Diluted	\$ 1.62	\$ 1.85	\$ 1.69

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In Thousands, Except Share and Per Share Amounts

As of October 26, 2001 and October 27, 2000

2001

2000

Assets**Current Assets**

Cash and cash equivalents	\$ 119,940	\$ 50,888
Accounts receivable, net of allowances of \$2,447 and \$2,423	82,844	83,336
Inventories	88,268	73,984
Deferred income tax benefits	17,005	16,053
Prepaid expenses	5,683	4,282
Total Current Assets	313,740	228,543

Property, Plant and Equipment

Land	13,092	12,950
Buildings	64,811	64,007
Machinery and equipment	127,717	123,611
	205,620	200,568
Accumulated depreciation	117,349	113,158
	88,271	87,410

Other Non-Current Assets

Goodwill, net	135,369	137,952
Intangibles, net and other assets	22,428	20,434
Total Assets	\$ 559,808	\$ 474,339

See Notes to Consolidated Financial Statements.

As of October 26, 2001 and October 27, 2000

2001

2000

Liabilities and Shareholders' Equity

Current Liabilities

Accounts payable	\$ 22,111	\$ 25,014
Accrued liabilities	61,606	67,211
Credit facilities	2,173	2,654
Current maturities of long-term debt	6,358	6,525
Federal and foreign income taxes	2,286	5,518
Total Current Liabilities	94,534	106,922

Long-Term Liabilities

Long-term debt, net of current maturities	102,125	108,172
Deferred income taxes	12,854	9,550

Commitments and contingencies

—

—

Shareholders' Equity

Common stock, par value \$.20 per share,
authorized 60,000,000 shares, issued and
outstanding 20,716,056 and 17,424,853 shares

4,143

3,485

Additional paid-in capital

113,284

46,952

Retained earnings

243,996

211,540

Accumulated other comprehensive loss

(11,128)

(12,282)

Total Shareholders' Equity

350,295

249,695

Total Liabilities and Shareholders' Equity

\$ 559,808

\$ 474,339

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In Thousands

For Each of the Three Fiscal Years
in the Period Ended October 26, 2001

	2001	2000	1999
Cash Flows Provided (Used) by Operating Activities			
Net earnings	\$ 32,456	\$ 32,587	\$ 29,862
Gain on sale of business	–	(2,591)	(7,956)
Depreciation and amortization	24,109	21,709	20,796
Deferred income taxes	2,352	112	497
Working capital changes, net of effect of acquisitions			
Accounts receivable	1,715	(12,377)	4,778
Inventories	(12,848)	(1,394)	(2,640)
Prepaid expenses	(1,301)	(472)	98
Accounts payable	(3,076)	6,773	(7,805)
Accrued liabilities	(5,985)	275	(5,795)
Federal and foreign income taxes	(3,271)	(701)	5,643
Other, net	(3,853)	(3,114)	1,684
	<u>30,298</u>	<u>40,807</u>	<u>39,162</u>
Cash Flows Provided (Used) by Investing Activities			
Purchases of capital assets	(15,758)	(15,489)	(15,641)
Capital dispositions	277	1,618	28,995
Sales (Purchases) of short-term investments	–	25,933	(25,933)
Acquisitions of businesses, net of cash acquired	(6,885)	(45,998)	(20,860)
	<u>(22,366)</u>	<u>(33,936)</u>	<u>(33,439)</u>

For Each of the Three Fiscal Years
in the Period Ended October 26, 2001

2001 2000 1999

Cash Flows Provided (Used) by Financing Activities

Net proceeds provided by sale of common stock	\$ 66,736	\$ -	\$ -
Net change in credit facilities	(575)	(1,922)	(3,649)
Repayment of long-term obligations	(6,389)	(8,655)	(6,287)
Proceeds from sale of senior notes	-	-	100,000
Repayment of bridge facility	-	-	(50,000)
	<u>59,772</u>	<u>(10,577)</u>	<u>40,064</u>

Effect of foreign exchange rates on cash and cash equivalents	1,348	(453)	363
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Net increase (decrease) in cash and cash equivalents	69,052	(4,159)	46,150
Cash and cash equivalents – beginning of year	50,888	55,047	8,897
Cash and cash equivalents – end of year	<u>\$ 119,940</u>	<u>\$ 50,888</u>	<u>\$ 55,047</u>

Supplemental Cash Flow Information

Cash paid during the fiscal year for

Interest	\$ 7,792	\$ 8,366	\$ 6,805
Income taxes	18,652	17,521	8,779

See Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity and Comprehensive Income

In Thousands, Except Per Share Amounts

For Each of the Three Fiscal Years
in the Period Ended October 26, 2001

	2001	2000	1999
Common Stock, Par Value \$.20 Per Share			
Beginning of year	\$ 3,485	\$ 3,468	\$ 3,463
3,220,000 shares issued	644	—	—
Shares issued under stock option plans	14	17	5
End of year	4,143	3,485	3,468
Additional Paid-in Capital			
Beginning of year	46,952	46,824	46,793
3,220,000 shares issued	66,092	—	—
Shares issued under stock option plans	240	128	31
End of year	113,284	46,952	46,824
Retained Earnings			
Beginning of year	211,540	178,953	149,091
Net earnings	32,456	32,587	29,862
End of year	243,996	211,540	178,953
Accumulated Other Comprehensive Gain (Loss)			
Beginning of year	(12,282)	(4,625)	(2,971)
Change in fair value of derivative financial instruments	87	—	—
Foreign currency translation adjustment	1,067	(7,657)	(1,654)
End of year	(11,128)	(12,282)	(4,625)
Total Shareholders' Equity	\$ 350,295	\$ 249,695	\$ 224,620
Comprehensive Income			
Net earnings	\$ 32,456	\$ 32,587	\$ 29,862
Change in fair value of derivative financial instruments	87	—	—
Foreign currency translation adjustment	1,067	(7,657)	(1,654)
Comprehensive Income	\$ 33,610	\$ 24,930	\$ 28,208

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Accounting Policies

Nature of Operations

Esterline Technologies Corporation (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, primarily in the United States and Europe.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated. Classifications have been changed for certain amounts in prior periods to conform with the current year’s presentation. The Company’s fiscal year ends on the last Friday of October.

Management Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States, 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. Actual results could differ from those estimates.

Derivative Financial Instruments

The Company is subject to risks associated with fluctuations in foreign currency exchange rates from the sale of products in currencies other than its functional currency. The Company’s policy is to hedge a portion of these forecasted transactions using forward exchange contracts, typically with maturities of less than one year. These forward contracts have been designated as cash flow hedges. The portion of the net gain or loss on a derivative instrument that is effective as a hedge is reported as a component of accumulated other comprehensive loss in shareholders’ equity and is reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining net gain or loss on the derivative in excess of the present value of the expected cash flows of the hedged transaction is recorded in earnings immediately. If a derivative does not qualify for hedge accounting, or a portion of the hedge is deemed ineffective, the change in fair value is recorded in earnings. The amount of hedge ineffectiveness was not material. The Company does not enter into any forward contracts for trading purposes.

Effective at the beginning of fiscal 2001, the Company adopted Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended. The cumulative effect of this change in accounting principle was a charge of \$403,000 (net of tax) or \$.02 per share on a diluted basis.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries 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 as a component of accumulated other comprehensive loss. Foreign currency 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.

Inventories

Inventories are stated at the lower of cost or market. One subsidiary determines the cost of 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 \$15,350,000, \$15,763,000, and \$16,297,000 for fiscal 2001, 2000 and 1999, respectively.

Long-lived Assets

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 flows.

Goodwill and Intangibles

Intangible assets and the excess purchase price paid over the fair value of 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 of goodwill and intangibles was \$46,991,000 and \$38,173,000, respectively, at the end of fiscal 2001 and 2000. Due to continued poor operating results and future prospects for the Automation segment, the Company wrote off the \$2.9 million of goodwill and intangible assets related to that segment in the fourth quarter of fiscal 2001.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will adopt the new statements beginning in the first quarter of fiscal 2002. Application of the non-amortization provisions of Statement 142 is expected to result in an increase in net income for fiscal 2002 of approximately \$3.5 million, or \$.17 per share. Management is currently assessing any additional impact of adopting these statements, including potential impairment.

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.

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.

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share also includes the dilutive effect of stock options. The weighted average number of shares outstanding used to compute basic earnings per share was 19,641,000, 17,375,000, and 17,337,000 for the fiscal years 2001, 2000 and 1999, respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 20,014,000, 17,654,000, and 17,658,000 for the fiscal years 2001, 2000 and 1999, respectively.

Note 2. Inventories

Inventories at the end of the fiscal year consisted of the following:

In Thousands	2001	2000
Raw materials and purchased parts	\$ 41,332	\$ 31,693
Work in process	30,464	27,264
Finished goods	16,472	15,027
	<u>\$ 88,268</u>	<u>\$ 73,984</u>

Inventories stated under the last-in, first-out method totaled \$5,646,000 and \$6,666,000 at the end of fiscal 2001 and 2000, respectively. Had the first-in, first-out method been used, these inventories would have been \$358,000 and \$421,000 higher than reported at the end of fiscal 2001 and 2000, respectively.

Note 3. Accrued Liabilities

Accrued liabilities at the end of the fiscal year consisted of the following:

In Thousands	2001	2000
Payroll and other compensation	\$ 25,957	\$ 24,614
Casualty and medical	6,331	6,988
Interest	3,075	3,204
Warranties	7,563	7,946
State and other tax accruals	8,885	9,785
Other	9,795	14,674
	<u>\$ 61,606</u>	<u>\$ 67,211</u>

Note 4. Retirement Benefits

Pension benefits are provided for substantially all U.S. employees under a 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 7.0%, 7.5%, and 7.25% for fiscal 2001, 2000 and 1999, respectively, and annual compensation increases of 5%. The expected long-term rate of return on plan assets was 8.5% for fiscal 2001, 2000 and 1999. 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 (\$347,000), (\$3,334,000), and \$902,000 for fiscal years 2001, 2000 and 1999, respectively. The Company recorded a curtailment gain in fiscal year 2000 resulting from the sale of Federal Products Co., which was reported as a gain on sale of business. Net periodic pension benefit for the Company's defined benefit plans at the end of the fiscal year consisted of the following:

In Thousands	2001	2000	1999
Components of Net Periodic Benefit Cost			
Service cost	\$ 2,465	\$ 2,268	\$ 3,351
Interest cost	6,803	6,463	5,726
Expected return on plan assets	(10,576)	(10,069)	(9,122)
Amortization of transition asset	81	(401)	(400)
Amortization of prior service cost	88	92	105
Amortization of actuarial loss (gain)	(305)	(116)	4
Recognition of gain due to curtailment	(141)	(2,591)	—
Net periodic benefit	<u>\$ (1,585)</u>	<u>\$ (4,354)</u>	<u>\$ (336)</u>

The funded status of the defined benefit pension plan at the end of each fiscal year was as follows:

In Thousands	2001	2000
Benefit Obligation		
Beginning balance	\$ 92,361	\$ 84,161
Service cost	2,465	2,268
Interest cost	6,803	6,463
Curtailment gain	(154)	(2,692)
Actuarial loss	6,575	7,713
Benefits paid	(5,799)	(5,552)
Ending balance	<u>\$ 102,251</u>	<u>\$ 92,361</u>
Plan Assets – Fair Value		
Beginning balance	\$ 127,145	\$ 121,012
Actual (loss) return on plan assets	(3,024)	10,704
Company contributions	30	981
Benefits paid	(5,799)	(5,552)
Ending balance	<u>\$ 118,352</u>	<u>\$ 127,145</u>
Reconciliation of Funded Status to Net Amount Recognized		
Funded status – plan assets in excess of benefit obligation	\$ 16,101	\$ 34,784
Unrecognized net actuarial loss (gain)	3,845	(16,635)
Unrecognized prior service costs	579	680
Unrecognized net transition obligations	158	239
Net amount recognized	<u>\$ 20,683</u>	<u>\$ 19,068</u>
Amount Recognized in the Consolidated Balance Sheet		
Prepaid benefit cost	\$ 21,554	\$ 19,231
Accrued benefit liability	(871)	(163)
Net amount recognized	<u>\$ 20,683</u>	<u>\$ 19,068</u>

Note 5. Income Taxes

Income tax expense for each of the fiscal years consisted of:

In Thousands	2001	2000	1999
Current			
U.S. federal	\$ 10,648	\$ 14,011	\$ 13,530
State	976	650	160
Foreign	3,543	2,665	2,053
	<u>15,167</u>	<u>17,326</u>	<u>15,743</u>
Deferred			
U.S. federal	2,836	(564)	684
State	111	(48)	20
Foreign	(595)	724	(207)
	<u>2,352</u>	<u>112</u>	<u>497</u>
Income tax expense	<u>\$ 17,519</u>	<u>\$ 17,438</u>	<u>\$ 16,240</u>

U.S. and foreign components of earnings before income taxes for each of the fiscal years were:

In Thousands	2001	2000	1999
U.S.	\$ 39,798	\$ 42,794	\$ 42,518
Foreign	10,580	7,231	3,584
Earnings before income taxes	<u>\$ 50,378</u>	<u>\$ 50,025</u>	<u>\$ 46,102</u>

Primary components of the Company's deferred tax assets (liabilities) at the end of the fiscal year resulted from temporary tax differences associated with the following:

In Thousands	2001	2000
Reserves and liabilities	\$ 15,957	\$ 17,054
Employee benefits	6,007	5,494
Total deferred tax assets	<u>21,964</u>	<u>22,548</u>
Depreciation and amortization	(9,801)	(8,378)
Retirement benefits	(7,024)	(6,960)
Other	(988)	(707)
Total deferred tax liabilities	<u>(17,813)</u>	<u>(16,045)</u>
	<u>\$ 4,151</u>	<u>\$ 6,503</u>

No valuation allowance was considered necessary on deferred tax assets.

A reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate for each of the fiscal years was as follows:

	2001	2000	1999
U.S. statutory income tax rate	35.0%	35.0%	35.0%
State income taxes	1.3	0.8	0.2
Foreign taxes	0.4	1.2	1.2
Foreign sales corporation	(0.9)	(1.0)	(1.1)
Tax exempt interest	(1.2)	(0.6)	(0.8)
Non-deductible goodwill	2.4	2.5	1.7
Research & development credits	(2.8)	(3.9)	—
Other, net	0.6	0.9	(1.0)
Effective income tax rate	34.8%	34.9%	35.2%

No provision for federal income taxes has been made on accumulated earnings of foreign subsidiaries, since such earnings are considered indefinitely reinvested or would be substantially offset by foreign tax credits if repatriated.

Note 6. Debt

Long-term debt at the end of the fiscal year consisted of the following:

In Thousands	2001	2000
6.77% Senior Notes, due 2008	\$ 40,000	\$ 40,000
6.40% Senior Notes, due 2005	30,000	30,000
6.00% Senior Notes, due 2003	30,000	30,000
8.75% Senior Notes, due 2002	5,714	11,428
Other	2,769	3,269
	108,483	114,697
Less current maturities	6,358	6,525
	\$ 102,125	\$ 108,172

The 1999 Senior Notes due in 2003, 2005 and 2008 require semi-annual interest payments in November and May of each year. The 8.75% Senior Notes are due in 2002 and interest is payable in January and July. All Senior Notes are unsecured.

Maturities of long-term debt at the end of the fiscal year were as follows:

In Thousands

Fiscal years	
2002	\$ 6,358
2003	30,371
2004	316
2005	30,304
2006	277
2007 and thereafter	40,857
	<u>\$ 108,483</u>

Short-term credit facilities at the end of the fiscal year consisted of the following:

In Thousands	2001		2000	
	Outstanding Borrowings	Interest Rate	Outstanding Borrowings	Interest Rate
U.S. dollar	\$ -	-	\$ -	-
Foreign	2,173	4.82%	2,654	5.70%
	<u>\$ 2,173</u>		<u>\$ 2,654</u>	

The Company's primary U.S. dollar credit facility totals \$50,000,000 through a group of banks. The credit agreement is unsecured and interest is based on standard inter-bank offering rates. An additional \$7,000,000 of unsecured foreign currency credit facilities have been extended by foreign banks for a total of \$57,000,000 available companywide.

A number of underlying agreements contain various covenant restrictions which include maintenance of net worth, payment of dividends, interest coverage and limitations on additional borrowings. The Company was in compliance with these covenants at the end of the fiscal year. Available credit under the above credit facilities was \$51,911,000 at fiscal 2001 year-end, when reduced by outstanding borrowings of \$2,173,000 and letters of credit of \$2,916,000.

The fair market value of the Company's long-term debt and short-term borrowings was estimated at \$112,000,000 and \$110,000,000 at fiscal year-end 2001 and 2000, 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.

Note 7. Commitments and Contingencies

Rental expense for operating leases totaled \$6,106,000, \$5,871,000, and \$4,647,000 in fiscal 2001, 2000 and 1999, respectively.

At the end of the fiscal year, the Company's rental commitments under noncancelable operating leases with a duration in excess of one year were as follows:

In Thousands

Fiscal years	
2002	\$ 5,552
2003	5,392
2004	4,387
2005	3,572
2006	3,538
2007 and thereafter	13,522
	<u>\$ 35,963</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 appropriate and adequate provisions for contingent liabilities.

Note 8. Stock Option Plans

The Company provides a nonqualified stock option plan for officers and key employees. At the end of fiscal 2001, the Company had 1,913,500 shares reserved for issuance to officers and key employees, of which 429,750 shares were available to be granted in the future.

The Board of Directors has 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 the 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:

	2001		2000		1999	
	Shares Subject to Option	Weighted Average Exercise Price	Shares Subject to Option	Weighted Average Exercise Price	Shares Subject to Option	Weighted Average Exercise Price
Outstanding,						
beginning of year	1,481,250	\$ 12.08	1,355,250	\$ 11.05	1,313,250	\$ 10.13
Granted	180,000	23.48	316,500	13.22	202,000	18.97
Exercised	(161,250)	9.54	(185,500)	6.29	(47,500)	5.02
Cancelled	(16,250)	14.75	(5,000)	19.63	(112,500)	17.07
Outstanding,						
end of year	1,483,750	\$ 13.71	1,481,250	\$ 12.08	1,355,250	\$ 11.05
Exercisable,						
end of year	964,125	\$ 11.44	921,500	\$ 10.20	925,500	\$ 8.41

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Additional disclosures as required under FAS 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 fiscal 1995 were included, as prescribed by FAS No. 123, pro forma net income would have been \$30,986,000, \$31,573,000, and \$28,920,000 for fiscal 2001, 2000 and 1999, respectively. Basic earnings per share for fiscal 2001, 2000 and 1999 would have been \$1.58, \$1.82, and \$1.67, respectively. Diluted earnings per share for fiscal 2001, 2000 and 1999 would have been \$1.55, \$1.79, and \$1.64, respectively.

The pro forma disclosures presented below include the fair value compensation expense for all options that would have been amortized during fiscal 2001, 2000 and 1999:

In Thousands, Except Per Share Amounts	2001	2000	1999
Net earnings as reported	\$ 32,456	\$ 32,587	\$ 29,862
Pro forma net earnings	\$ 30,986	\$ 31,573	\$ 28,915
Basic earnings per share as reported	\$ 1.65	\$ 1.88	\$ 1.72
Pro forma basic earnings per share	\$ 1.58	\$ 1.82	\$ 1.67
Diluted earnings per share as reported	\$ 1.62	\$ 1.85	\$ 1.69
Pro forma diluted earnings per share	\$ 1.55	\$ 1.79	\$ 1.63

The weighted average Black-Scholes value of options granted during fiscal 2001, 2000 and 1999 was \$14.99, \$8.52, and \$12.11, respectively. The assumptions used in the Black-Scholes option-pricing model for fiscal 2001, 2000 and 1999 were as follows:

	2001	2000	1999
Volatility	65.1%	62.3%	60.5%
Risk-free interest rate	3.59 – 4.37%	5.75 – 5.83%	5.99 – 6.23%
Expected life (years)	5 – 8	5 – 8	5 – 8
Dividends	–	–	–

The following table summarizes information for stock options outstanding at the end of the fiscal year:

Options Outstanding				Options Exercisable		
Range of Exercise Prices	Shares	Weighted Average Remaining Life (years)	Weighted Average Price	Shares	Weighted Average Price	
\$ 3.69 – 6.44	300,000	2.11	\$ 4.71	300,000	\$ 4.71	
10.00 – 11.38	303,750	6.76	11.01	169,125	10.78	
11.69 – 13.56	267,250	5.19	12.89	251,250	12.87	
14.75 – 19.63	321,750	7.30	17.52	175,250	18.04	
19.88 – 27.19	291,000	8.40	22.34	68,500	20.38	

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 60,000,000 shares of common stock (\$.20 par value). At the end of fiscal 2001, there were no shares of preferred stock outstanding.

On February 21, 2001 the Company completed a public offering of 3.22 million shares of common stock, including shares sold under the underwriters' over-allotment option, priced at \$22 per share, generating net proceeds of approximately \$66.7 million.

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 an Acquiring Person (as defined in the Shareholders Rights Plan) 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 an Acquiring Person 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 an Acquiring Person 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

In January 2001 the Aerospace segment purchased certain product lines consisting of high-end components for avionics for \$4.3 million. In addition, in April and June 2001, the Advanced Materials segment acquired certain product lines consisting of highly engineered elastomer products principally sold to aerospace customers for \$2.6 million. The acquisitions resulted in an excess of cost over identifiable tangible assets of approximately \$4.2 million. The goodwill is being amortized over a ten to fifteen year period.

In December 1999, the Company purchased Advanced Input Devices Co. ("A.I.D."). A.I.D. is a strategic purchase for the Company's growth platform around high-end illuminated displays and custom panels. The total purchase price, including closing and other direct costs of the acquisition, was approximately \$43.1 million. The acquisition resulted in an excess of cost over identifiable tangible assets of approximately \$37.1 million. This goodwill is being amortized over a 30-year period.

The Company also purchased Surftech Finishes Co., a small metal-finishing operation, in April 2000. This acquisition resulted in an excess of cost over identifiable tangible assets of approximately \$2.1 million.

The above acquisitions were accounted for under the purchase method of accounting and funded with available cash. The results of operations were included from the effective date of each acquisition.

Note 11. Business Segment Information

The Company's businesses are organized and managed in three operating segments: Aerospace, Advanced Materials and Automation. Aerospace operations produce high-precision components for avionics, propulsion and guidance systems. Advanced Materials operations formulate specialized materials such as high-temperature elastomers, molded-fiber compounds and certain finishings and coatings. Both segments principally serve aerospace and defense markets. Automation operations manufacture products that enhance the fabrication efficiency of manufactured goods. Sales in all segments are worldwide and include military, defense and commercial customers.

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 expenses and federal/foreign income taxes.

Details of the Company's operations by business segment for the last three fiscal years were as follows:

In Thousands	2001	2000	1999
Net Sales			
Aerospace	\$ 274,463	\$ 236,269	\$ 183,783
Advanced Materials	151,352	129,386	127,920
Automation	65,420	125,311	149,266
	<u>\$ 491,235</u>	<u>\$ 490,966</u>	<u>\$ 460,969</u>
Earnings Before Income Taxes			
Aerospace	\$ 42,716	\$ 32,661	\$ 24,822
Advanced Materials	34,904	24,819	29,186
Automation	(15,136)	7,894	2,924
Segment Earnings	<u>62,484</u>	<u>65,374</u>	<u>56,932</u>
Corporate expense	(13,167)	(12,021)	(12,634)
Gain on sale of business	—	2,591	7,956
Insurance settlement	4,631	—	—
Gain on derivative financial instruments	786	—	—
Interest income	3,307	2,205	2,859
Interest expense	(7,663)	(8,124)	(9,011)
	<u>\$ 50,378</u>	<u>\$ 50,025</u>	<u>\$ 46,102</u>
Identifiable Assets			
Aerospace	\$ 213,298	\$ 192,496	\$ 144,836
Advanced Materials	149,889	140,028	135,907
Automation	50,449	62,611	62,868
Corporate ¹	146,172	79,204	109,471
	<u>\$ 559,808</u>	<u>\$ 474,339</u>	<u>\$ 453,082</u>
Capital Expenditures			
Aerospace	\$ 6,534	\$ 8,368	\$ 6,029
Advanced Materials	7,132	3,822	3,866
Automation	1,816	2,758	5,518
Corporate	276	541	228
	<u>\$ 15,758</u>	<u>\$ 15,489</u>	<u>\$ 15,641</u>
Depreciation and Amortization			
Aerospace	\$ 9,568	\$ 10,305	\$ 6,961
Advanced Materials	7,266	6,938	6,814
Automation	6,554	3,686	6,270
Corporate	721	780	751
	<u>\$ 24,109</u>	<u>\$ 21,709</u>	<u>\$ 20,796</u>

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

The Company's operations by geographic area for the last three fiscal years were as follows:

In Thousands	2001	2000	1999
Net Sales			
Domestic			
Unaffiliated customers – U.S.	\$ 337,358	\$ 334,768	\$ 323,702
Unaffiliated customers – export	54,704	66,205	57,776
Intercompany	4,691	5,591	8,670
	<u>396,753</u>	<u>406,564</u>	<u>390,148</u>
France			
Unaffiliated customers	49,267	44,368	58,871
Intercompany	6,175	6,494	10,694
	<u>55,442</u>	<u>50,862</u>	<u>69,565</u>
All Other Foreign			
Unaffiliated customers	49,906	45,625	20,620
Intercompany	359	194	843
	<u>50,265</u>	<u>45,819</u>	<u>21,463</u>
Eliminations	<u>(11,225)</u>	<u>(12,279)</u>	<u>(20,207)</u>
	<u>\$ 491,235</u>	<u>\$ 490,966</u>	<u>\$ 460,969</u>
Segment Earnings¹			
Domestic	\$ 52,210	\$ 57,119	\$ 52,585
France	8,582	6,701	5,233
All other foreign	1,892	1,263	(625)
Eliminations	(200)	291	(261)
	<u>\$ 62,484</u>	<u>\$ 65,374</u>	<u>\$ 56,932</u>
Identifiable Assets²			
Domestic	\$ 335,231	\$ 328,006	\$ 269,860
France	42,834	32,165	35,758
All other foreign	35,571	34,964	37,993
	<u>\$ 413,636</u>	<u>\$ 395,135</u>	<u>\$ 343,611</u>

¹ Before corporate expense, shown on page 61.

² Excludes corporate, shown on page 61.

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, 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 sales of 10% or more of total sales in any of the last three fiscal years were as follows:

	2001	2000	1999
Elastomeric products	14%	13%	14%
Printed circuit board drilling equipment	8%	16%	12%
Aerospace switches and indicators	13%	9%	10%
Combustible ordnance components	10%	7%	7%

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
Fiscal year 2001				
Net sales	\$ 124,543	\$ 121,623	\$ 127,062	\$ 118,007
Gross margin	43,318	43,940	45,156	42,420
Earnings before cumulative effect of a change in accounting	7,384¹	9,229²	9,577²	6,669
Cumulative effect of a change in accounting	—	—	—	(403)
Net earnings	\$ 7,384¹	\$ 9,229²	\$ 9,577²	\$ 6,266
Earnings per share before cumulative effect of a change in accounting – basic³	\$.36	\$.45	\$.49	\$.38
Cumulative effect of a change in accounting – basic	—	—	—	(.02)
Earnings per share – basic³	\$.36	\$.45	\$.49	\$.36
Earnings per share before cumulative effect of a change in accounting – diluted	\$.35	\$.44	\$.48	\$.37
Cumulative effect of a change in accounting – diluted	—	—	—	(.02)
Earnings per share – diluted	\$.35	\$.44	\$.48	\$.35

Fiscal year 2000

Net sales	\$ 138,539	\$ 126,033	\$ 122,146	\$ 104,248
Gross margin	50,963	45,791	44,962	38,008
Net earnings	11,130	9,694⁴	6,937	4,826
Earnings per share – basic	\$.64	\$.56	\$.40	\$.28
Earnings per share – diluted	\$.63	\$.55	\$.40	\$.27

1 Included the \$2.9 million write off of goodwill and intangible assets in the Automation segment.

2 Included \$3.0 million and \$1.6 million in recoveries from the settlement of a disputed insurance claim, in the second quarter and third quarter of fiscal 2001, respectively.

3 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.

4 Included a \$2.6 million gain on sale of business related to the curtailment of retirement benefits for certain Federal Products employees resulting from the October 28, 1999 sale of that operation.

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 subsidiaries as of October 26, 2001 and October 27, 2000 and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the fiscal years then ended. 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. The consolidated statements of operations, cash flows, and shareholders' equity and comprehensive income of the Company for the fiscal year ended October 31, 1999, were audited by other auditors whose report dated December 9, 1999, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, the 2001 and 2000 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Esterline Technologies Corporation and subsidiaries at October 26, 2001 and October 27, 2000, and the consolidated results of their operations and their cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Seattle, Washington
December 6, 2001

Esterline Technologies Information

Directors

Robert W. Cremin
Chairman, President and
Chief Executive Officer
Esterline Technologies

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

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

John F. Clearman
Special Advisor to the Board
Milliman USA

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

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

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

Wendell P. Hurlbut
Chairman (Retired)
Esterline Technologies

Jerry D. Leitman
President and
Chief Executive Officer
FuelCell Energy, Inc.

Officers

Robert W. Cremin
Chairman, President and
Chief Executive Officer

James J. Cich, Jr.
Group Vice President

Robert D. George
Vice President,
Chief Financial Officer,
Secretary and Treasurer

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 N.E. 8th Street
Bellevue, WA 98004
(425) 453-9400
info@esterline.com

Stock Exchange Listing

New York Stock Exchange
Symbol – ESL

www.esterline.com

Transfer Agent and Registrar

Mellon Investor Services
Shareholder Services L.L.C.
www.mellon-investor.com

Shareholder Relations

(800) 522-6645

Outside of the U.S.

(201) 329-8660

TDD Hearing Impaired

(800) 231-5469

TDD Hearing Impaired

Outside of the U.S.

(201) 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 2002 annual meeting of shareholders will be held at the Hyatt Regency Hotel, 900 Bellevue Way N.E., Bellevue, Washington, on Tuesday, March 5, 2002. 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.

168 Bureaux de la Colline
92213 Saint-Cloud Cedex
France

Fluid Regulators Co.

313 Gillett Street
Painesville, OH 44077

Muirhead Aerospace

Oakfield Road
Penge, London
SE20 8EW
England

Korry Electronics Co.

901 Dexter Avenue North
Seattle, WA 98109

Mason Electric Co.

605 8th Street
San Fernando, CA 91340

Advanced Input Devices

600 West Wilbur Avenue
Coeur d'Alene, ID 83815

Memtron Technologies Co.

530 North Franklin
Frankenmuth, MI 48734

Advanced Materials

Kirkhill Rubber Co.

300 East Cypress Street
Brea, CA 92821

TA Mfg. Co.

28065 Franklin Pkwy.
Valencia, CA 91355-4117

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

W.A. Whitney Co.

650 Race Street
Rockford, IL 61101

Equipment Sales Co.

34 School Street
Suite 209
Foxboro, MA 02035