2002

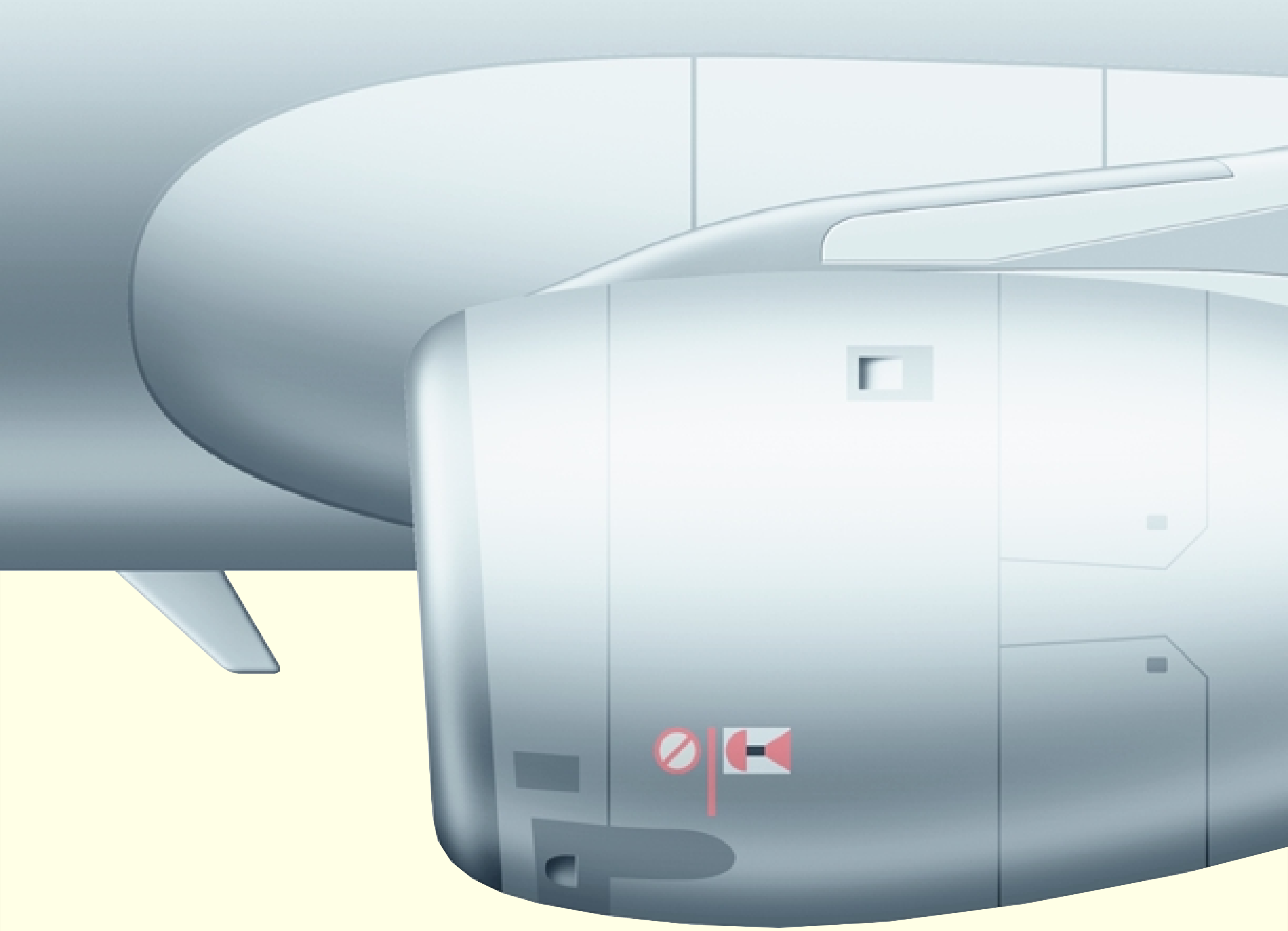
Esterline Annual Report

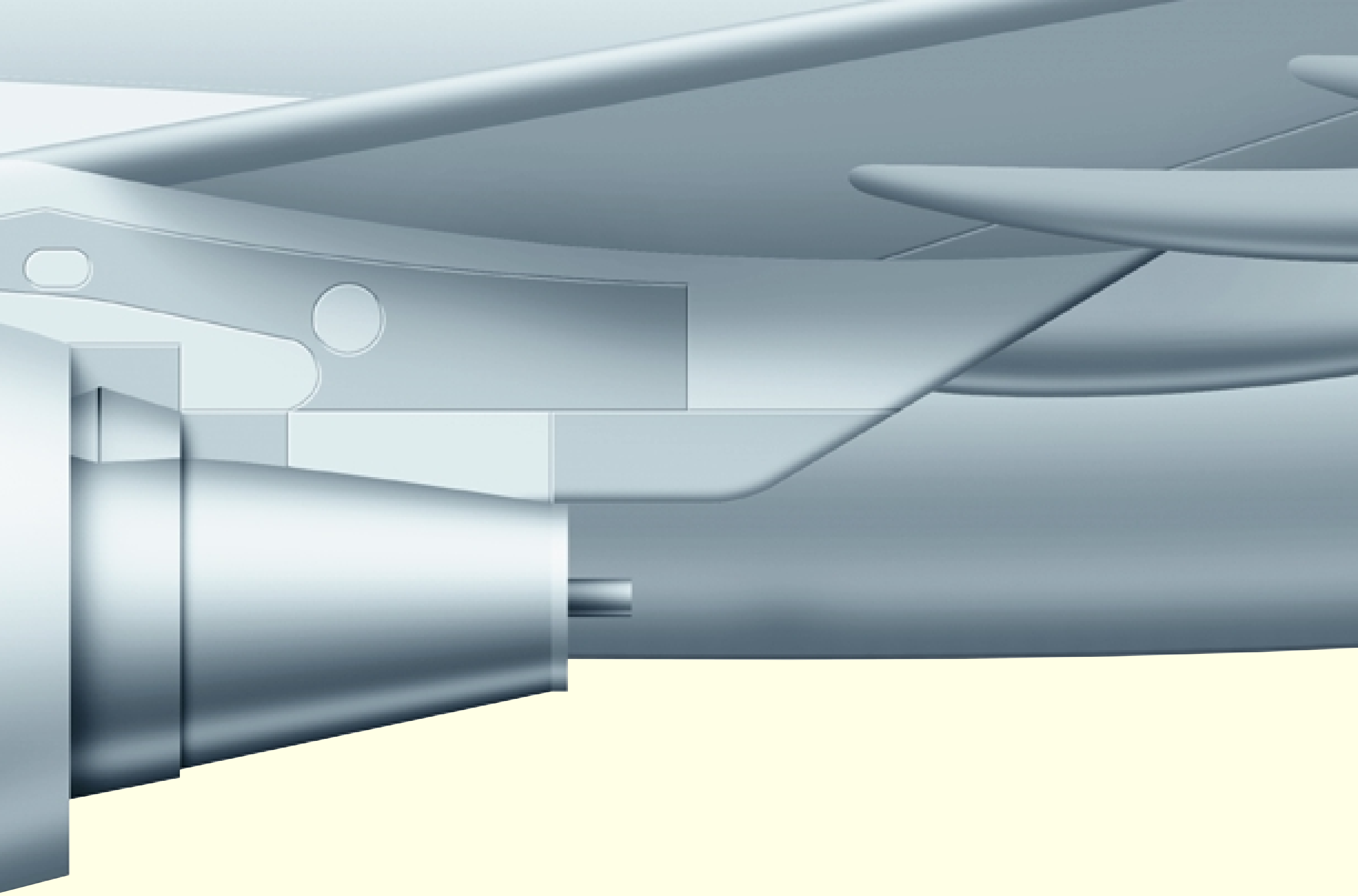
Esterline Technologies is a specialized manufacturing company principally serving aerospace and defense markets. Esterline is headquartered in Bellevue, Washington, and is listed on the New York Stock Exchange with the trading symbol ESL.

ESL

Our company continues to refine its abilities.

In 2002, we took crucial steps to make Esterline more complete, able to offer even more engineered solutions to our aerospace customers. And while our form will continue to evolve, our focus will remain constant.





To our shareholders

I think we'll look back on 2002 as a milestone year for Esterline — a year when we turned a significant corner and set Esterline firmly on the aerospace/defense map. It also was another year that we did what we said we would do. Not only did we take the difficult step to discontinue our Automation segment to better focus our efforts and resources, but we completed $129 million of good-fit acquisitions. These acquisitions solidified our already strong positions in aerospace/defense and clearly identified us as a consolidator of suppliers who can benefit from Esterline's technical and global reach.

The result of these efforts has provided good balance across commercial aerospace and defense markets and also across a wide range of individual programs. From an end-market perspective, Esterline's continuing business is roughly 40-45% defense-related and 35%-40% commercial aerospace. The remaining 20% is the application of these technologies into industrial markets. Further, not one program represents more than 5% of total revenue.

For the year, even in some very difficult aerospace market conditions, Esterline's income from continuing operations exceeded $31 million on sales of nearly $435 million. By the end of the year our run rate annualized at $500 million and company-wide backlog had grown 26% to $282 million.

From a financial reporting perspective, the year was quite complicated. We began fiscal 2002 by early adopting the Financial Accounting Standards Board (FASB) statements on goodwill and intangibles (142), which proved particularly complex in light of our acquisition activity. As I mentioned earlier, we discontinued our Automation segment. And, of course, there was no shortage of new requirements — from Congress, the SEC and the NYSE. We've done our very best to present this information in a form that is straightforward and as easy as possible to comprehend. Also, to reflect the change in the way we view our continuing operations and to enhance understanding, we increased the number of continuing reportable segments from two to three. This presentation will give investors a much better idea of the company's performance over the past several years, and of the transformation that has taken place at Esterline during that time.

As you'll see in the Business Segment Information note on page 49, we have categorized our operations into three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. Operations within the Avionics & Controls segment focus on technology interface systems such as lighted switches and displays for commercial and military aircraft, and similar devices for land- and sea-based military vehicles, secure communications systems, specialized medical equipment and other high-end industrial applications. The Sensors & Systems segment includes operations that produce high-precision temperature and pressure sensors, fluid and motion control components and other related systems principally for aerospace and defense customers. And Advanced Materials focuses on process-related technologies including high-performance elastomer products used for a wide range of military and commercial aerospace purposes, and combustible ordnance and electronic warfare countermeasure products.

For Fiscal Years In Thousands, Except Per Share Amounts	2002	2001
Operating Results		
Net sales	$ 434,809	$ 430,923
a Segment earnings	59,317	79,173
Income from continuing operations	31,284	42,639
Loss from discontinued operations, net of tax	(25,039)	(9,780)
Cumulative effect of change in accounting principle, net	(7,574)	(403)
Net earnings (loss)	(1,329)	32,456
a Earnings (loss) per share – diluted:		
Continuing operations	1.49	2.13
Discontinued operations	(1.19)	(.49)
Cumulative effect of change in accounting principle	(.36)	(.02)
Earnings (loss) per share	(.06)	1.62
Weighted average shares outstanding – diluted	21,021	20,014
Financial Position		
Total assets	$ 570,955	$ 559,808
Property, plant and equipment, net	100,994	88,271
Long-term debt, net	102,133	102,125
Shareholders' equity	354,441	350,295

Financial Highlights

The operating results and the balance sheet items for 2002 presented here reflect the segregation of continuing operations from discontinued operations. a Continuing operations now consist of three segments, Avionics & Controls, Sensors & Systems and Advanced Materials, all focused on our commitment to becoming a leading specialty niche supplier to the aerospace and defense industry. b In July 2002, we announced the planned sale of the two non-aerospace/defense companies that were our Automation segment. These operations produce specialized equipment used in the manufacture of printed circuit boards and the fabrication of heavy plate steel, and are leaders in their respective industries, but no longer fit with our strategic focus on pursuing growth in aerospace/defense.

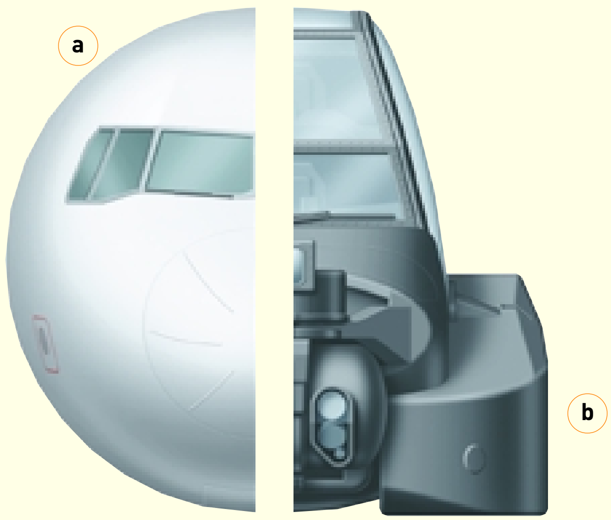
While these three segments address varying market niches, I believe it's important to understand that all our operations have a number of common characteristics. In addition to being broadly aerospace/defense related, they all maintain leading market share positions and also lead their respective markets in technology, focusing their efforts on their customers' critical performance needs. And this is where we really distinguish ourselves: as we continue to expand our capabilities, we increasingly become our customers' "go-to supplier" for their tough problems.

MORE SOLUTIONS IN THE COCKPIT

Esterline has built a $100 million-plus presence outfitting the cockpits of the world's fleets of commercial and military aircraft — easily more than double the position we had achieved only five years ago. Some of that growth has come from strategic acquisitions of stand-alone operations and bolt-on product lines, as well as proactive research and development of new products. Another important factor in this growth has been the expansion of what I call our "tool kit" of solutions that enables us to answer with an emphatic "yes" when our customers ask us: "Can you do this for us?" And they're asking more and more often. Whether it's for a threat warning system for a fighter jet, or programmable transponder for a commercial airliner, it requires a sophisticated electronic pilot interface on board the aircraft or the ground station — and that's our business.

For the past 65 years, there isn't a Boeing commercial airplane that has flown without our lighted switches in the cockpit. But we've also branched out significantly during that time. On the commercial side of the aerospace market, we now also provide Airbus and the major regional and business jet and helicopter manufacturers with a significant portion of their lighted pushbutton and rotary switches, lighted panels, and pilot control wheels and grips — not to mention the airline aftermarket and retrofit programs, which represent more than a third of our activity.

On the military side, we've developed a much sought-after expertise in illuminated panels and keyboards, programmable switches and active matrix liquid crystal displays (AMLCDs), all capable of full sunlight and night vision readability. We also are the world's leading manufacturer of HOTAS (hands on throttle and stick) for virtually every type of fighter jet; and of cyclic, collective and target acquisition grips for a wide array of military helicopters. And here, too, parts and retrofit programs play an important role in our business model.



Avionics & Controls

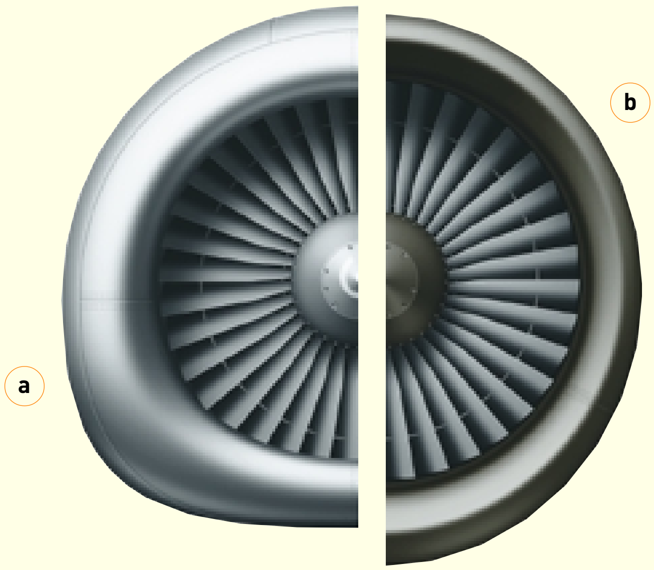
Operations within the Avionics & Controls segment focus on the cockpits of both a commercial and b military aircraft. Our technology interface systems include lighted switches and displays ranging from threat warning systems for fighter jets to programmable transponders for commercial airliners. We also have transferred our aerospace technologies into other high-end applications such as commander's consoles for land- and sea-based military vehicles, and target acquisition controls for missile systems. And most recently, we've branched into specialized input devices for medical equipment such as MRI and X-ray machines, and other high-end industrial applications.

With the building blocks in place, we are moving our aerospace technologies into other high-end applications. We now build the commander's console for the Abrams tank and Bradley fighting vehicle, and target acquisition controls for missile systems. And most recently, we've branched into specialized input devices for medical equipment such as MRI and X-ray machines, and industrial applications as well, fully leveraging our original investments.

SENSORS ARE KEY TO ENGINE EFFICIENCY

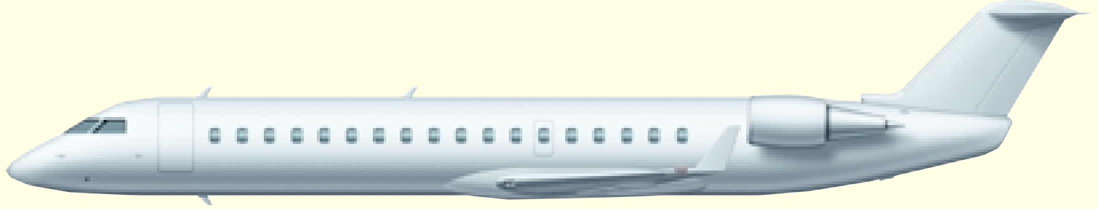
Similar to the cockpit, we have built another $100 million-plus presence in high-performance measurement systems, including fluid control and motion technology components for the aerospace and defense industries. Currently, this segment is predominantly European based, with manufacturing capabilities in five sites worldwide — France, U.K., U.S.A., Spain and Russia. Through this segment we maintain solid positions on virtually every European commercial and military aircraft and spacecraft in production, and are making significant inroads into U.S. platforms. Our products range from airborne optical radiation pyrometers for turbine blade surface temperature measurement and pressure transducers for fuel management systems, to micro-motors used for missile fin actuation or in-flight refueling probes. One particularly notable example is our position as the sole supplier of temperature sensors on the CFM-56 jet engine. This engine, which is manufactured by the joint venture of SNECMA in France and GE Aircraft Engines in the U.S., was chosen to power nearly half of all mainline commercial jets delivered in the past 15 years. With nearly 15,000 engines sold worldwide to date, the CFM-56 is the only engine certified for the entire Boeing 737 family, is used on the majority of Airbus A320s, plus the A340 long-haul quadjet, and a number of military platforms.

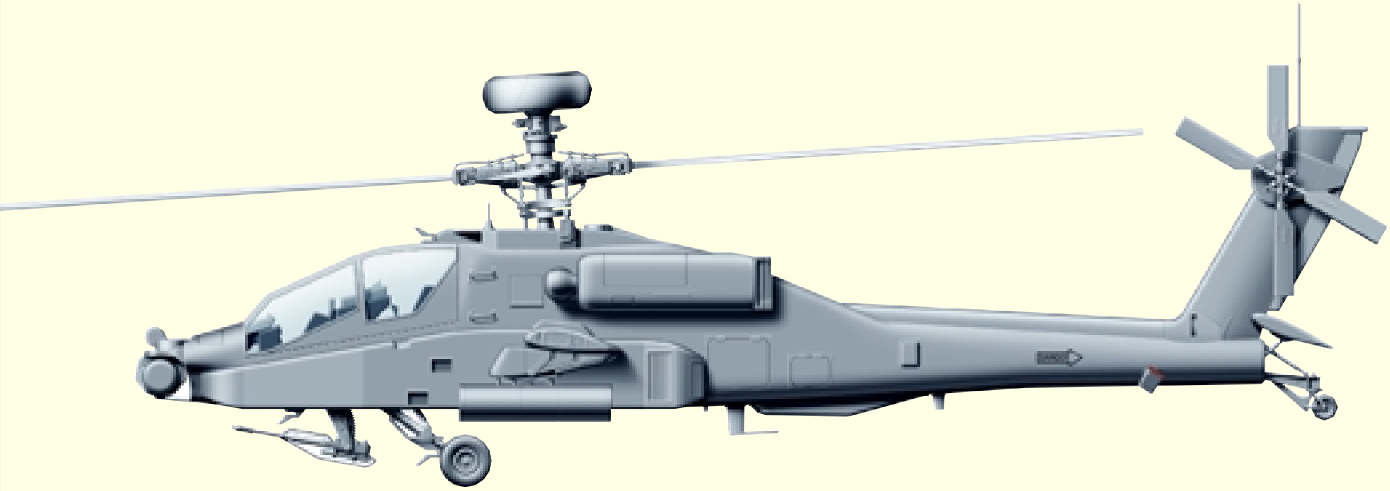
We maintain extensive in-house research and development facilities, with various simulation tools and specialized test equipment, including one of the few icing wind tunnels in Europe. In addition, we actively participate in external research organizations, currently co-managing France's Orléans University regional sensor facility where several product and technology developments in the areas of sensing, monitoring and controls are currently being conducted. Our investments in research and development in this segment are aimed to ensure our participation in future aerospace programs as system efficiencies and environmental friendliness become increasingly important determinants for successful aerospace technologies.

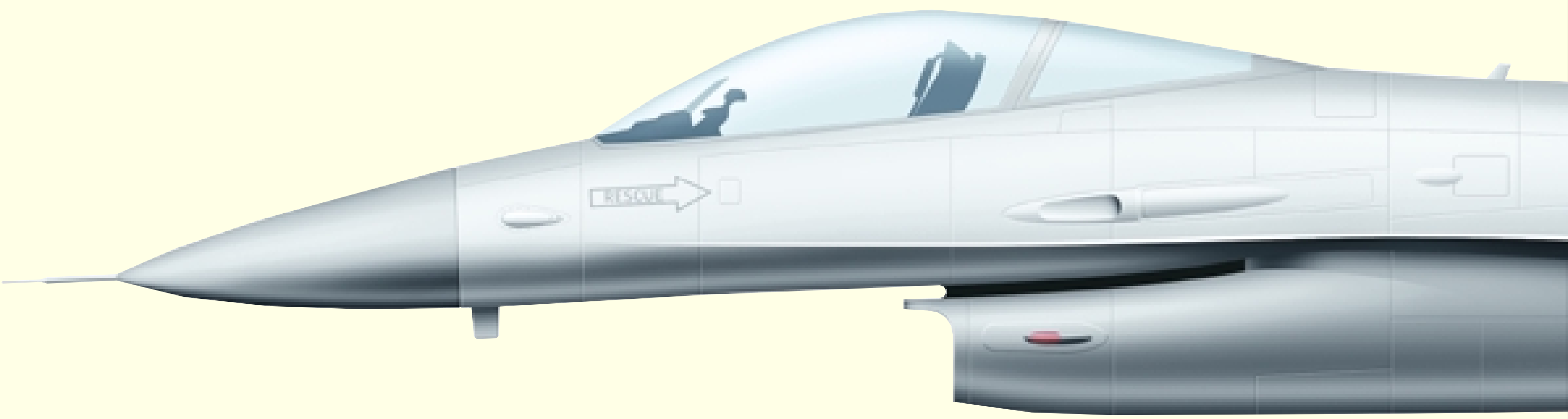


Sensors & Systems

Esterline's Sensors & Systems segment focuses on high-precision temperature and pressure sensors, fluid and motion control components and other related systems principally for a aerospace and b defense customers. Products range from airborne optical radiation pyrometers for turbine blade surface temperature measurement and pressure transducers for fuel management systems, to micro-motors used for missile fin actuation or in-flight refueling probes. This Europe-based segment maintains manufacturing capabilities in five sites worldwide – France, U.K., U.S.A., Spain and Russia – enabling solid positions on virtually every European commercial and military aircraft and spacecraft in production, and growing positions on many U.S. platforms.



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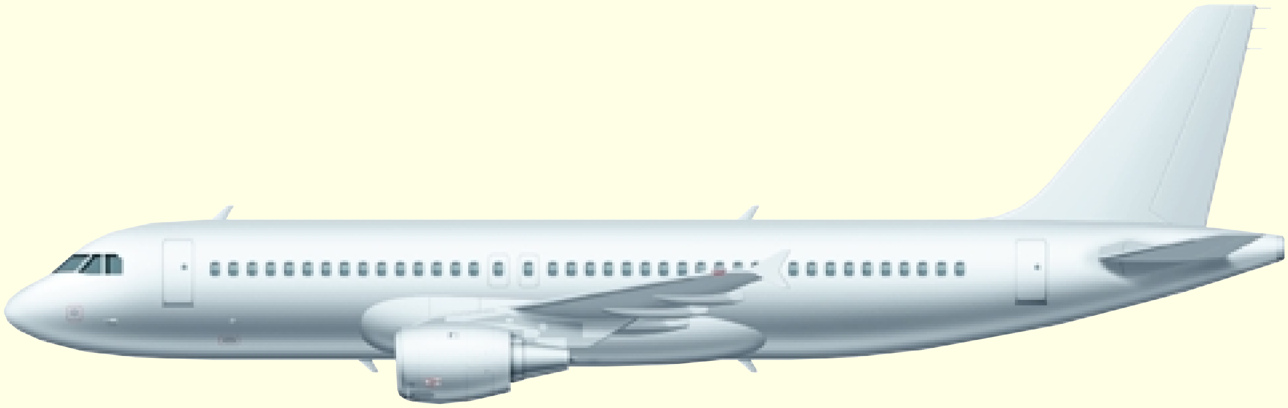
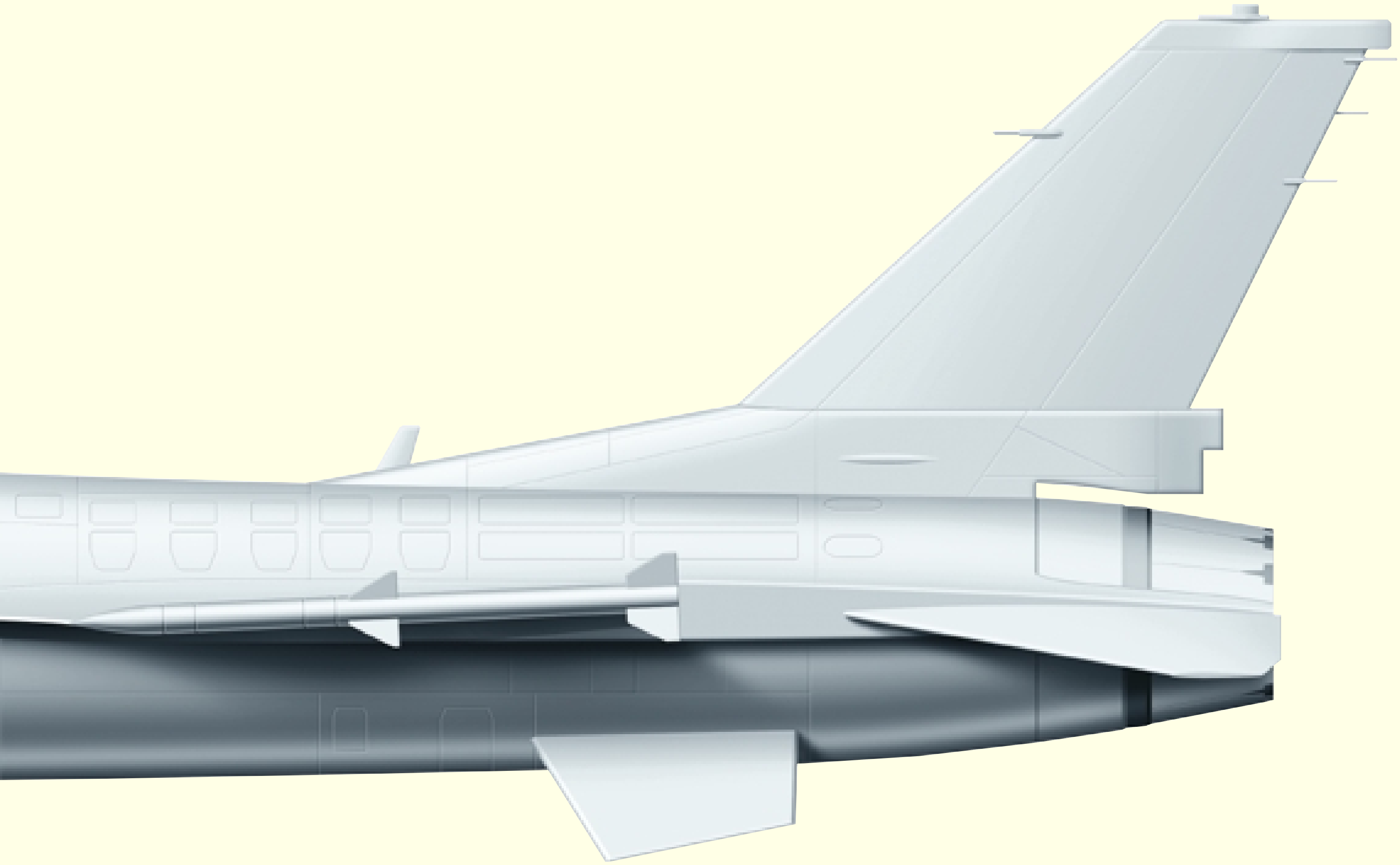




Platform expansion

Esterline's breadth and depth of market coverage is a fundamental strength. No one program represents more than 5% of our total revenue. Furthermore, roughly 40% of our revenues are defense-related, 40% commercial aerospace, with the remaining 20% industrial applications of our primary technologies. We provide advanced components and materials for virtually every military aircraft in the U.S., and also have solid positions on many of Europe's most advanced jets. In addition to military aircraft, our products and know-how extend across an array of defense programs, 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. Our commercial aircraft customers are airframe manufacturers – including Boeing, Airbus and such regional and business jet manufacturers as Bombardier, Embraer, Raytheon and Gulfstream – and all major jet engine manufacturers. Also, aftermarket sales and service generate more than a third of our total revenues. This broad coverage enables us to constantly leverage our core capabilities to reach new customers and expand our market presence.

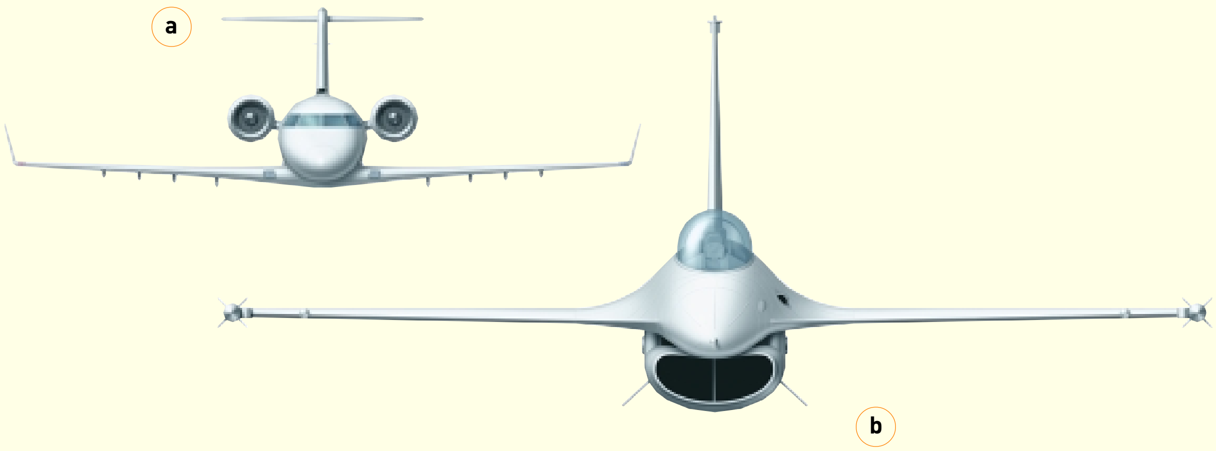
ACQUISITIONS ADD MORE SOLUTIONS

Although the subsidiary components of the Advanced Materials segment remain unchanged from last year, this segment was the beneficiary of the lion's share of our acquisition activity during 2002. The first addition was the advanced aerospace polymers group of Burke Industries. This innovative and promising business is a solid, strategic fit with Esterline's targeted growth strategy. The acquisition is significant to Esterline for several reasons. First, we gain a tremendous amount of cutting-edge technology that adds to what we already do and where we want to go. Burke was successful in its focus on advanced materials for stealth military applications, a growing and important niche. Burke had pointed its efforts to radar absorbing and electrically conductive materials. This tied nicely into our existing advanced elastomer operation's development of stealth products. The acquisition also enables us to introduce our unique advantages in the application of high heat-resistant silicone materials to many new customers.

Secondly, the sheer volume we picked up as part of this deal gave us a nice boost — bringing the number of proprietary formulas to more than 10,000 and basically doubling the number of products we sell in this area. We also were able to expand our geographic reach with this acquisition. In addition to manufacturing locations in California, we acquired a plant in Massachusetts, placing us in the aerospace center of the East Coast. This brings us closer to our existing East Coast and European customers, and allows us to expand on the strong relationships Burke had built over the years.

Finally, we added significantly to our engineering talent base. Finding good people is a challenge for any business, and we're pleased that this acquisition brought us a solid team of experienced engineers. The ultimate result of the acquisition was our undisputed number one position and widest range of elastomer solutions for the aerospace/defense industry. From complex clamps and seals to critical fire barrier products capable of withstanding 2000° Fahrenheit temperatures for sustained periods, to insulation for rocket motors. And as in the other segments, we're maximizing our investments by transferring our technology to such diverse areas as fuel tank liners for space vehicles and low observable materials for the new generation of naval ships.

Also, late in the year, we completed the acquisition of the Electronic Warfare Passive Expendables Division of BAE SYSTEMS North America. This operation will mesh perfectly with our Armtec Defense Products subsidiary, already the sole supplier to the U.S. Army for combustible propellant casings. The new operations produce chaff and flares for the U.S. military, products considered "mission critical" by the Department of Defense and essential on all military aircraft — now and in the future. The manufacture of chaff and flares is a business model that parallels that of combustible propellant casings — its



Advanced Materials

Advanced Materials focuses on process-related technologies for a wide range of a commercial and b military aerospace purposes. Specialized elastomers include seals, ducts, extrusions, molded parts and clamps used extensively on jet engines and other critical systems throughout the airframe. At the high end, we have developed radar absorbing and electrically conductive materials designed for stealth military applications, and elastomers that are effective fire barriers at 2000° Fahrenheit and beyond. We also are the sole supplier to the U.S. Army for combustible propellant casings and a leading producer of electronic warfare countermeasure products for the U.S. military — products considered "mission critical" by the Department of Defense.

large account management with very similar operating procedures. It also entails a very sophisticated product development front-end. For example, we maintain a unique "free stream simulator" that generates sudden high-velocity air flow to determine what happens when an expendable decoy is launched from an aircraft.

All of the acquisitions completed this year — as with the nineteen completed in the past five years — involve technology that is right down our alley, and a perfect fit with our overall strategy. That strategy is to be the leader in niche markets that we know and understand, in businesses with high barriers to entry where we have the opportunity to solve customers' difficult technical issues. And we see plenty of opportunities for additional strategic acquisitions — either in the form of stand-alone companies or bolt-on product lines — fueled by the continued consolidation in the aerospace and defense industry and giant OEMs spinning off non-core operations. And lastly, as I've pointed out throughout this letter, we'll achieve growth through sustained investments in research and new product development.

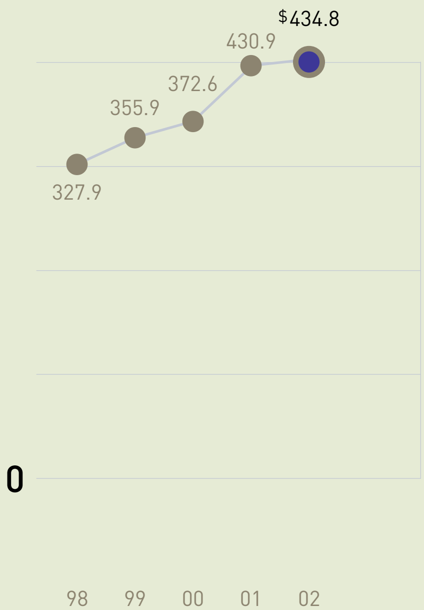
Our operations — current and future — embrace the ideal of small company responsiveness with the muscle of a larger company. What we're doing across Esterline is increasing the opportunity to bring our customers more value through enabling technologies. The more of these technologies we can bring to bear, the more solutions we can develop. The more success we have developing solutions, the more "face time" we get with our customers. And the more face time we get, the more opportunities we have.

I cannot emphasize enough the individual employees — nearly 4,500 of them — who make up Esterline. Given the state of our markets in 2002, Esterline performed remarkably well, and that performance would have been impossible without their efforts. It was this success that prompted us to implement this year's Employee Stock Purchase Plan, which, of course, ties more employees with shareholder interests. I want to take this opportunity to personally thank all of them for their hard work and the way they have embraced our lean manufacturing efforts — or more precisely, taken lean and run with it! With this caliber of people, I'm more confident than ever in our future.

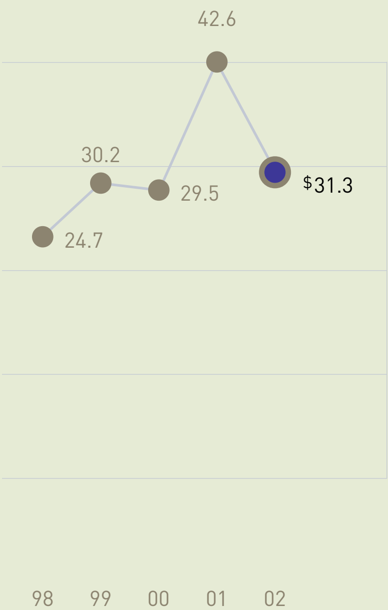
ROBERT W. CREMIN
CHAIRMAN, PRESIDENT AND CEO

Financial Review

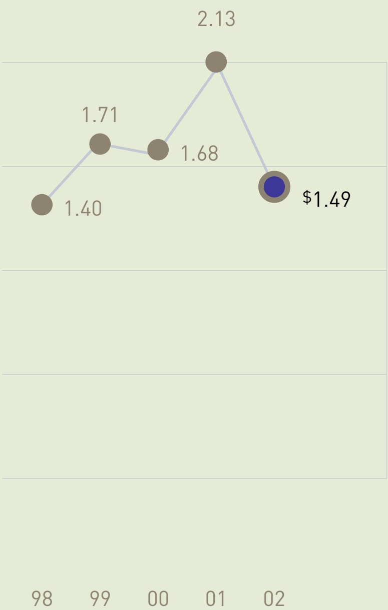
Sales
In Millions



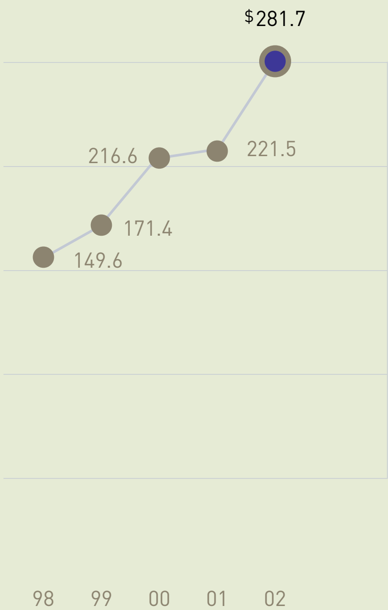
Income from
Continuing Operations
In Millions



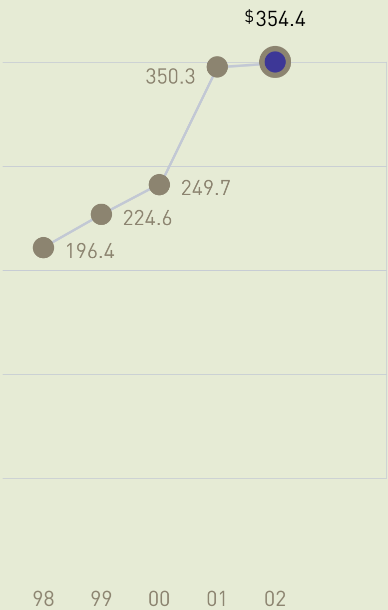
Earnings per Share from
Continuing Operations – Diluted
In Dollars



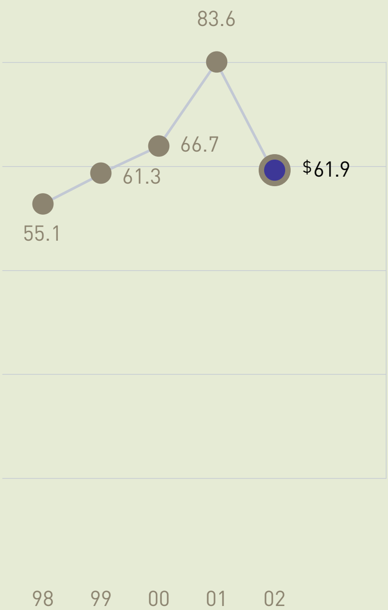
Backlog
In Millions



Equity
In Millions



Ebitda from
Continuing Operations
In Millions



Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations

Overview

In the fourth quarter of fiscal 2002, we redefined the Company's segments to correspond with the way the Company is now organized and managed. Accordingly, this year's annual report includes the segments of Avionics & Controls, Sensors & Systems and Advanced Materials. Operations within our Avionics & Controls segment focus on technology interface systems for commercial and military aircraft, and similar devices for land- and sea-based military vehicles, secure communications systems, specialized medical equipment and other industrial applications. Sensors & Systems includes operations that produce high-precision temperature and pressure sensors, fluid and motion control components and other related systems principally for aerospace and defense customers. Our Advanced Materials segment focuses on process related technologies including high-performance elastomer products used in a wide range of commercial aerospace and military applications, and combustible ordnance and electronic warfare countermeasure devices. Sales in all segments are worldwide and include military, defense and commercial customers.

Our strategic growth plan revolves around the development of three key technologies – illuminated displays, sensors and systems, and specialized high-performance elastomers and other complex materials, principally for aerospace and defense markets. We are concentrating our efforts to expand selectively our capabilities in these markets.

As part of our long-term strategic direction, we strive to anticipate the global needs of our customers and to respond to such needs with comprehensive solutions. This effort has resulted in establishing strategic realignments of operations providing the capability to offer a more extensive product line to each customer through a single contact. In fiscal 2002, we completed four acquisitions in our Avionics & Controls and Advanced Materials segments at an aggregate cost of $128.6 million.

On July 25, 2002, our Board of Directors adopted a formal plan for the sale of the assets and operations of our Automation segment. As a result, the consolidated financial statements present the Automation segment as a discontinued operation. We recorded an after-tax loss from discontinued operations of $25.0 million, including $10.3 million of operating losses through July 25, 2002; $5.6 million for losses incurred from July 26, 2002 to the year ended October 25, 2002 and for losses expected to be incurred until disposal in July 2003; and $9.1 million for the estimated loss on disposal. The $9.1 million estimated loss on disposal includes an additional loss of $2.9 million, net of tax benefit of $1.6 million, which was recorded in the fourth quarter of fiscal 2002, and was principally due to the continued downturn of the telecommunications industry and the delay in its expected recovery from mid 2003 to 2004.

Results of Continuing Operations

Fiscal 2002 Compared with Fiscal 2001

Sales for fiscal 2002 increased 0.9% over the prior year. Sales by segment were as follows:

Dollars in Thousands	Increase (Decrease) From Prior Year	2002	2001
Avionics & Controls	(0.5%)	$ 171,709	$ 172,547
Sensors & Systems	3.0%	104,942	101,916
Advanced Materials	4.0%	157,384	151,352
Other	(84.8%)	774	5,108
Total		$ 434,809	$ 430,923

Avionics & Controls sales were impacted by a continued reduction in new aircraft build rates and a decrease in aftermarket spare sales. Additionally, the decrease in sales reflected the sale of a small unit in 2001. These decreases were partially offset by an increase in components such as cockpit displays and controls, and sales of similar devices to the medical industry. Although Avionics & Controls order rates increased through the third quarter of fiscal 2002, order rates declined 11.7% from the third quarter to the fourth quarter, and fiscal 2002 order rates were down 2.5% over fiscal 2001. The decrease in fiscal 2002 order rates reflected current aerospace market conditions and was partially offset by the acquisition of Janco Corporation and a small product line.

The increase in Sensors & Systems sales reflected new product introductions for aerospace markets and increased volumes for industrial/commercial applications, and was partially offset by reductions in new aircraft build rates. Order rates in the fourth quarter increased over the previous three quarters and were even with the prior year fourth quarter. Fiscal 2002 order rates increased 9.8% over the prior year, due to the timing of receiving orders and increased orders for aerospace and industrial/commercial applications.

The increase in Advanced Materials sales reflected $25.8 million in incremental sales resulting from acquisitions of Burke Industries' Engineered Polymers Group ("Polymers Group") in the third quarter of fiscal 2002 and the acquisition of the Electronic Warfare Passive Expendables Division of BAE SYSTEMS North America ("Countermeasures") in the fourth quarter of fiscal 2002. These sales gains were also partially offset by the decline in aircraft aftermarket spares, the decrease in airframe and jet engine build rates and the general economic slowdown. Advanced Materials order rates declined in the second quarter of fiscal 2002 and increased sequentially in both the third and fourth quarter. The increased order rates reflected the acquisition of the Polymers Group and Countermeasures.

Sales to foreign customers, including export sales by domestic operations, totaled $140.1 million and $134.0 million, and accounted for 32.2% and 31.1% of our sales for fiscal 2002 and 2001, respectively.

Overall, gross margin as a percentage of sales was 32.6% and 37.4% for fiscal 2002 and 2001, respectively. Gross margin by segment ranged from 27.8% to 38.7% in fiscal 2002, compared with 35.3% to 39.7% in the prior year. The decline in gross margin in Avionics & Controls was principally due to product mix and lower sales of aircraft aftermarket spares, and was partially offset by increased medical market margins from improved production efficiencies. The modest decrease in gross margin in Sensors & Systems principally reflected the introduction of new complex products and the consequent manufacturing learning curve. The decline in Advanced Materials gross margin reflected decreased margins in both elastomeric products and combustible ordnance components. The decrease in elastomeric product margins primarily reflected sales mix, pricing pressures and unabsorbed fixed costs. The primary contributors were the decline in aftermarket spares sales, reduced sales to OEM and industrial/commercial customers, and an aircraft retrofit program completed principally in the prior year. The decline in combustible ordnance margins was the result of a price decrease partially offset by effective cost control.

Selling, general and administrative expenses (which include corporate expenses) decreased to $79.1 million in fiscal 2002 compared with $81.1 million in the prior year. As a percentage of sales, selling, general and administrative expenses were 18.2% and 18.8% in fiscal 2002 and 2001, respectively. The decrease in selling, general and administrative expenses primarily reflected a $5.2 million decrease in amortization of goodwill due to the implementation of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement No. 142), and was partially offset by incremental selling and administrative expenses associated with fiscal 2002 acquisitions, higher insurance expense and the $1.0 million reduction in the pension benefit.

Research, development and related engineering spending increased to $15.4 million, or 3.5% of sales, in fiscal 2002 compared with $14.2 million, or 3.3% of sales, in the prior year. This is consistent with our philosophy of continually investing in new products and capabilities regardless of the business cycle.

Segment earnings (which exclude corporate expenses) decreased 25.1% during fiscal 2002 to $59.3 million compared to $79.2 million in the prior year. The 15.4% decrease in Avionics & Controls reflected unfavorable product mix, principally due to the decrease in aircraft aftermarket sales. The 8.0% increase in Sensors & Systems was primarily due to foreign currency exchange gains and improved operating efficiencies. The 37.5% decline in Advanced Materials reflected unfavorable changes in aircraft sales mix, cancelled and delayed shipments, pricing pressures and unabsorbed fixed costs, and was partially offset by earnings of the newly acquired Polymers Group and Countermeasures. Our successful efforts in lean manufacturing across all segments helped to partially offset unfavorable sales mix and pricing pressures on segment earnings.

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

During fiscal 2001, we recorded a $786,000 gain on derivative instruments from hedging against foreign currency exchange fluctuations arising from the sale of certain products in a currency other than its functional currency, which was consistent with our adoption of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement No. 133).

Interest income decreased to $1.8 million during fiscal 2002 compared with $3.3 million in the prior year, reflecting the decrease in cash and cash equivalents due to the acquisitions as well as the decline in prevailing interest rates. Interest expense decreased to $7.1 million during fiscal 2002 compared with $7.7 million in the prior year, mainly due to the repayment of long-term debt.

The effective income tax rate for continuing operations for fiscal 2002 was 25.1% compared with 36.4% in fiscal 2001. The effective tax rate differed from the statutory rate in fiscal 2002 and 2001, as both years benefited from various tax credits. In addition, in fiscal 2002, we recognized a $2.9 million reduction in income taxes associated with the favorable resolution of ongoing income tax audits. Further, the decrease resulted from no longer amortizing goodwill for financial statement purposes pursuant to Statement No. 142. Additionally, the relative effect of the export tax benefits and research and development tax credits increased in fiscal 2002 due to the reduction in income from continuing operations before income taxes.

Income from continuing operations was $31.3 million, or $1.49 per share on a diluted basis, compared with $42.6 million, or $2.13 per share, in the prior year. The Company incurred a net loss in fiscal 2002 of $1.3 million, or ($.06) per share on a diluted basis, compared with net earnings of $32.5 million, or $1.62 per share, in the prior year.

Orders received in fiscal 2002 increased 13.6% to $495.0 million from $435.8 million in the prior year. Backlog at the end of fiscal 2002 was $281.7 million compared with $221.5 million at the end of the prior year. Backlog increased sequentially across all segments from the fourth quarter of fiscal 2001. The acquisitions of the Polymers Group and Countermeasures represented approximately $55 million of the increase in backlog. Approximately $67.8 million is scheduled to be delivered after fiscal 2003. Backlog is subject to cancellation until delivery.

Fiscal 2001 Compared with Fiscal 2000

Sales for fiscal 2001 increased 15.7% over the prior year. Sales by segment were as follows:

Dollars in Thousands	Increase (Decrease) From Prior Year	2001	2000
Avionics & Controls	19.7%	$ 172,547	$ 144,104
Sensors & Systems	10.6%	101,916	92,165
Advanced Materials	17.0%	151,352	129,386
Other	(25.9%)	5,108	6,896
Total		$ 430,923	$ 372,551

Avionics & Controls, Sensors & Systems and Advanced Materials segment sales performance 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. Avionics & Controls and Sensors & Systems 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 by 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.

Sales to foreign customers, including export sales by domestic operations, totaled $134.0 million and $115.9 million in fiscal 2001 and 2000, respectively, and accounted for 31.1% of our sales for both years.

Overall, gross margin as a percentage of sales was 37.4% and 38.4% for fiscal 2001 and 2000, respectively. Gross margin by segment ranged from 35.3% to 39.7% in fiscal 2001, compared with 35.7% to 40.6% in the prior year. Gross margin for Avionics & Controls and Sensors & Systems was slightly lower than the prior year due to product mix. Increased sales volumes and higher margin product mix in Advanced Materials were offset by certain additional energy costs. These additional energy costs were due to the California energy crisis, which caused utility rate increases and shutdowns during prime production times during the first half of fiscal 2001. While Advanced Materials results were up overall, the general economic slowdown affecting industrial/commercial customers had an adverse impact on sales volumes and gross margin.

Selling, general and administrative expenses (which include corporate expenses) decreased to $81.1 million in fiscal 2001 compared with $82.0 million in the prior year. As a percentage of sales, selling, general and administrative expenses were 18.8% and 22.0% in fiscal 2001 and 2000, respectively.

Research, development and related engineering spending increased to $14.2 million, or 3.3% of sales, in fiscal 2001 compared with $12.4 million, or 3.3% of sales, in the prior year.

Segment earnings, which exclude corporate expenses, increased 30.5% during fiscal 2001 to $79.2 million compared to $60.7 million in the prior year. By segment, Avionics & Controls earnings increased 33.3% to $31.3 million for fiscal 2001 compared with $23.5 million in the prior year. Sensors & Systems earnings increased 25.2% to $11.4 million for fiscal 2001 compared with $9.1 million for the prior year. Advanced Materials earnings increased 41.1% to $35.0 million for fiscal 2001 compared with $24.8 million for the prior year. Sales volume increases, product mix and lean initiatives accounted for the improvements in all segments.

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

During fiscal 2001, we recorded a $786,000 gain on derivative instruments from hedging against foreign currency exchange fluctuations arising from the sale of certain products in a currency other than its functional currency, which was consistent with our adoption of Statement No. 133.

Interest income increased to $3.3 million during fiscal 2001 compared with $2.2 million in the prior year, reflecting the increase in cash and cash equivalents from 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 continuing operations for fiscal 2001 was 36.4% compared with fiscal 2000 at 34.8%. Both years benefited from various tax credits.

Income from continuing operations was $42.6 million, or $2.13 per share on a diluted basis, compared with $29.5 million, or $1.68 per share, in the prior year.

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 increased 4.3% to $435.8 million from $417.8 million in the prior year. Backlog at the end of fiscal 2001 was $221.5 million compared with $216.6 million at the end of the prior year. Backlog increased during the first half of fiscal 2001 despite softness in industrial markets served by Advanced Materials. 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.

Liquidity and Capital Resources

Cash and cash equivalents at the end of fiscal 2002 totaled $22.5 million, a decrease of $97.4 million from the prior year, largely the result of utilizing cash for acquisitions completed during the year. Net working capital decreased to $121.2 million at the end of fiscal 2002 from $219.2 million at the end of the prior year, also largely due to acquisitions.

Net accounts receivable were $79.5 million at the end of fiscal 2002 compared with $82.8 million at the end of the prior year. The change in accounts receivable was principally due to cash collections. Inventories were $71.3 million at the end of fiscal 2002 compared to $88.3 million at the end of the prior year. The change in inventories was primarily due to acquisitions and discontinued operations accounting. Accounts payable were $28.0 million at the end of fiscal 2002 compared with $22.1 million at the end of the prior year. The change in accounts payable was primarily the result of the timing of cash payments.

Net property, plant and equipment was $101.0 million at the end of fiscal 2002 compared with $88.3 million at the end of the prior year. Capital expenditures for fiscal 2002 were $15.1 million (excluding acquisitions) and included machinery and equipment and enhancements to information technology systems. Capital expenditures are anticipated to approximate $17.5 million for fiscal 2003. We will continue to support expansion through investments in infrastructure including machinery, equipment, buildings and information systems.

Total debt decreased $7.7 million from the prior year to $103.0 million at the end of fiscal 2002, principally due to repayment of debt according to terms. Total debt outstanding at the end of fiscal 2002 consisted of $100.0 million under our 1999 Senior Notes and $3.0 million under various foreign currency debt agreements, including capital lease obligations. The 1999 Senior Notes have maturities ranging from 5 to 10 years and interest rates from 6.00% to 6.77%. We believe cash on hand, funds generated from operations and other available debt facilities are sufficient to fund operating cash requirements and capital expenditures through fiscal 2003. In addition, we believe we have adequate access to capital markets to fund future acquisitions.

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. Although we own a significant operation in France, historically we have not experienced material gains or losses due to interest rate or foreign exchange fluctuations. In fiscal 2002, the foreign exchange rate for the Euro increased 8.4% relative to the U.S. dollar.

Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from estimates under different assumptions or conditions. These estimates and assumptions are affected by our application of accounting policies. Our critical accounting policies include revenue recognition, accounting for the valuation of accounts receivable balances, accounting for inventories at the lower of cost or market, accounting for tangible and intangible assets in business combinations, impairment of goodwill and long-lived assets, accounting for legal contingencies, and accounting for income taxes.

We record sales when title transfers to the buyer, which generally coincides with the shipment of products, or upon performance of services rendered.

We establish an allowance for doubtful accounts for losses expected to be incurred on accounts receivable balances. Judgment is required in estimation of the allowance and is based upon collection history and creditworthiness of the debtor.

We account for inventories on a first-in, first-out method of accounting at the lower of its cost or market as required under Accounting Research Bulletin No. 43 (ARB No. 43). The application of ARB No. 43 requires judgment in estimating the valuation of inventories. Such valuations require judgment in estimating future demand, selling prices and cost of disposal.

We account for business combinations, goodwill and intangible assets in accordance with Financial Accounting Standards No. 141, "Business Combinations" (Statement No. 141), and Statement No. 142. In addition, we account for the impairment of long-lived assets to be held and used in accordance with Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (Statement No. 121). Statement No. 141 specifies the types of acquired intangible assets that are required to be recognized and reported separate from goodwill. Statement No. 142 requires goodwill and certain intangible assets to be no longer amortized, but instead be tested for impairment at least annually. Statement No. 121 requires that a long-lived asset to be disposed of be reported at the lower of its carrying amount or fair value less cost to sell. The application of these statements requires judgment in estimating the valuation of assets and liabilities acquired in business combinations and current reporting units' tangible and intangible assets. Such valuations require judgment in estimating future cash flows, discount rates and estimated product life cycles. In making these judgments, we evaluate the financial health of the business, including such factors as industry performance, changes in technology and operating cash flows.

We account for discontinued operations in accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB No. 30). APB No. 30 requires that if a loss is expected, it should be recorded at the measurement date when management commits to a plan to dispose a segment of a business. The loss from discontinuance is based upon estimates of net realizable value and estimated losses from the measurement date to the expected disposal date. Judgment is required to estimate the selling price, selling expenses and future losses of the segment.

We are party to various lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business. We are covered by insurance for general liability, product liability, workers' compensation and certain environmental exposures, subject to certain deductible limits. We are self-insured for amounts less than our deductible and where no insurance is available. Financial Accounting Standards No. 5, "Accounting for Contingencies," requires that an estimated loss from a contingency should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

We account for income tax in accordance with Financial Accounting Standards No. 109, "Accounting for Income Taxes." The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position and results of operations.

Recent Accounting Pronouncements

In October 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (Statement No. 146), effective for exit or disposal activities initiated after December 31, 2002. Under Statement No. 146, a commitment to a plan to exit or dispose of a business activity no longer creates an obligation that meets the definition of a liability. A liability for a cost associated with an exit or disposal activity will be recognized when the liability is incurred. We will implement Statement No. 146 in the first quarter of fiscal 2003. We do not believe that application of Statement No. 146 will have a material effect on our results of operations or financial position.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (Statement No. 144), effective for fiscal years beginning after December 15, 2002. The Statement supersedes Financial Accounting Standards Board Statement No. 121; however, it retains the fundamental provisions of Statement No. 121. Statement No. 144 also supersedes APB No. 30 and extends the reporting of a discontinued operation to a component of an entity. Also, Statement No. 144 requires operating losses from a component of an entity to be recognized in the period(s) in which they occur rather than as of the measurement date as previously required under APB No. 30. We will implement Statement No. 144 in the first quarter of fiscal 2003. We do not believe that application of Statement No. 144 will have a material effect on our results of operation or financial position.

Effective at the beginning of fiscal 2002, we adopted Statement No. 142. Under the new Statement, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are subject to annual impairment tests in accordance with the Statement. We conducted our initial impairment tests and determined that goodwill associated with a reporting unit in the Avionics & Controls segment was impaired as a result of applying Statement No. 142. Due to increased competition in the electronic input industry, principally from companies headquartered in Asia, operating profits and cash flows were lower in the past fiscal year for this reporting unit. Based upon this trend, the earnings forecast for the next five years was lowered. A goodwill impairment loss of $7,574,000, net of an income tax benefit of $1,542,000, or $.36 per diluted share, was recognized and reported as a cumulative effect of a change in accounting principle upon the adoption of Statement No. 142 in the first quarter of fiscal 2002. The fair value of the affected reporting unit was estimated using a combination of the present value of expected cash flows and a market approach.

Effective at the beginning of fiscal 2001, we adopted Statement No. 133, as amended. The cumulative effect of the change in accounting principle was a charge of $403,000 (net of tax), or $.02 per share on a diluted basis.

Selected Financial Data

In Thousands, Except Per Share Amounts

For Fiscal Years	2002	2001	2000	1999	1998
Operating Results[1]					
Net sales	$ 434,809	$ 430,923	$ 372,551	$ 355,879	$ 327,898
Cost of sales	293,236	269,582	229,516	212,062	193,507
Selling, general and administrative	79,086	81,103	81,968	85,150	81,430
Research, development and engineering	15,433	14,232	12,431	13,888	12,091
Gain on sale of business	–	–	(2,591)	(7,956)	–
Insurance settlement	–	(4,631)	–	–	–
Loss (gain) on derivative financial instruments	1	(786)	–	–	–
Interest income	(1,814)	(3,307)	(2,205)	(2,859)	(1,594)
Interest expense	7,122	7,663	8,124	9,011	3,803
Income tax expense	10,461	24,428	15,764	16,342	13,954
Income from continuing operations	31,284	42,639	29,544	30,241	24,707
Income (loss) from discontinued operations, net of tax	(25,039)	(9,780)	3,043	(379)	5,377
Cumulative effect of a change in accounting principle	(7,574)	(403)	–	–	–
Net earnings (loss)	(1,329)	32,456	32,587	29,862	30,084
Earnings (loss) per share – diluted:					
Continuing operations	$ 1.49	$ 2.13	$ 1.68	$ 1.71	$ 1.40
Discontinued operations	(1.19)	(.49)	.17	(.02)	.30
Cumulative effect of a change in accounting principle	(.36)	(.02)	–	–	–
Earnings (loss) per share – diluted	(.06)	1.62	1.85	1.69	1.70
Financial Structure					
Total assets	$ 570,955	$ 559,808	$ 474,339	$ 453,082	$ 387,179
Long-term debt, net	102,133	102,125	108,172	116,966	74,043
Shareholders' equity	354,441	350,295	249,695	224,620	196,376
Weighted average shares outstanding – diluted	21,021	20,014	17,654	17,658	17,718

1 Operating results for 1998 through 2002 and balance sheet items for 2002 reflect the segregation of continuing operations from discontinued operations. See Note 3 to the Consolidated Financial Statements.

Market Price of Esterline Common Stock

In Dollars

For Fiscal Years	2002		2001	
	High	Low	High	Low
Quarter				
First	$ 17.23	$ 13.10	$ 28.38	$ 19.38
Second	23.70	16.40	27.47	16.10
Third	24.00	17.51	23.55	18.60
Fourth	20.60	15.55	21.67	11.25

Principal Market - New York Stock Exchange

At the end of fiscal 2002, there were approximately 630 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 25, 2002	2002	2001	2000
Net Sales	$ 434,809	$ 430,923	$ 372,551
Cost of Sales	293,236	269,582	229,516
	141,573	161,341	143,035
Expenses			
Selling, general and administrative	79,086	81,103	81,968
Research, development and engineering	15,433	14,232	12,431
Total Expenses	94,519	95,335	94,399
Operating Earnings From Continuing Operations	47,054	66,006	48,636
Gain on sale of business	–	–	(2,591)
Insurance settlement	–	(4,631)	–
Loss (gain) on derivative financial instruments	1	(786)	–
Interest income	(1,814)	(3,307)	(2,205)
Interest expense	7,122	7,663	8,124
Other (Income) Expense, Net	5,309	(1,061)	3,328
Income From Continuing Operations Before Income Taxes	41,745	67,067	45,308
Income Tax Expense	10,461	24,428	15,764
Income From Continuing Operations	31,284	42,639	29,544
Income (Loss) From Discontinued Operations, Net of Tax	(25,039)	(9,780)	3,043
Earnings Before Cumulative Effect of a Change in Accounting Principle	6,245	32,859	32,587
Cumulative Effect of a Change in Accounting Principle, Net of Tax	(7,574)	(403)	–
Net Earnings (Loss)	$ (1,329)	$ 32,456	$ 32,587
Earnings (Loss) Per Share – Basic:			
Continuing operations	$ 1.51	$ 2.17	$ 1.70
Discontinued operations	(1.21)	(.50)	.18
Earnings per share before cumulative effect of a change in accounting principle	.30	1.67	1.88
Cumulative effect of a change in accounting principle	(.37)	(.02)	–
Earnings (Loss) Per Share – Basic	$ (.07)	$ 1.65	$ 1.88
Earnings (Loss) Per Share – Diluted:			
Continuing operations	$ 1.49	$ 2.13	$ 1.68
Discontinued operations	(1.19)	(.49)	.17
Earnings per share before cumulative effect of a change in accounting principle	.30	1.64	1.85
Cumulative effect of a change in accounting principle	(.36)	(.02)	–
Earnings (Loss) Per Share – Diluted	$ (.06)	$ 1.62	$ 1.85

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In Thousands, Except Share and Per Share Amounts

As of October 25, 2002 and October 26, 2001	2002	2001
Assets		
Current Assets		
Cash and cash equivalents	$ 22,511	$ 119,940
Cash in escrow	3,500	–
Accounts receivable, net of allowances of $2,700 and $2,447	79,474	82,844
Inventories	71,305	88,268
Income tax refundable	6,180	–
Deferred income tax benefits	25,069	17,005
Prepaid expenses	6,193	5,683
Total Current Assets	214,232	313,740
Property, Plant and Equipment		
Land	14,732	13,092
Buildings	52,644	64,811
Machinery and equipment	127,942	127,717
	195,318	205,620
Accumulated depreciation	94,324	117,349
	100,994	88,271
Net Assets of Discontinued Operations	13,576	–
Other Non-Current Assets		
Goodwill	158,006	135,369
Intangibles, net	61,497	174
Other assets	22,650	22,254
Total Assets	$ 570,955	$ 559,808

See Notes to Consolidated Financial Statements.

As of October 25, 2002 and October 26, 2001	2002	2001
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 28,018	$ 22,111
Accrued liabilities	64,026	61,606
Credit facilities	424	2,173
Current maturities of long-term debt	435	6,358
Federal and foreign income taxes	92	2,286
Total Current Liabilities	92,995	94,534
Long-Term Liabilities		
Long-term debt, net of current maturities	102,133	102,125
Deferred income taxes	21,386	12,854
Commitments and contingencies	–	–
Shareholders' Equity		
Common stock, par value $.20 per share, authorized 60,000,000 shares, issued and outstanding 20,783,068 and 20,716,056 shares	4,157	4,143
Additional paid-in capital	113,537	113,284
Retained earnings	242,667	243,996
Accumulated other comprehensive loss	(5,920)	(11,128)
Total Shareholders' Equity	354,441	350,295
Total Liabilities and Shareholders' Equity	$ 570,955	$ 559,808

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 25, 2002	2002	2001	2000
Cash Flows Provided (Used) by Operating Activities			
Income from continuing operations, before income taxes	$ 41,745	$ 67,067	$ 45,308
Adjustments to reconcile pretax income from continuing operations to net cash provided by continuing operations:			
Gain on sale of business	–	–	(2,591)
Depreciation and amortization	14,837	17,556	18,033
Working capital changes, net of effect of acquisitions			
Accounts receivable	5,544	(7,728)	(9,972)
Inventories	6,094	(8,000)	(2,222)
Prepaid expenses	(457)	(1,219)	(686)
Accounts payable	4,011	2,873	3,740
Accrued liabilities	(2,405)	(3,983)	(808)
Other, net	(3,677)	(2,563)	(2,953)
	65,692	64,003	47,849
Income (loss) from discontinued operations, before income taxes	(39,061)	(16,689)	4,717
Adjustments to reconcile pretax income from discontinued operations to net cash provided by discontinued operations:			
Loss on disposal and holding period loss	18,552	–	–
Depreciation and amortization	2,726	6,553	3,676
Working capital changes			
Accounts receivable	3,200	9,443	(2,405)
Inventories	7,990	(4,848)	828
Prepaid expenses	88	(82)	214
Accounts payable	(294)	(5,949)	3,033
Accrued liabilities	1,127	(2,002)	1,083
Other, net	361	(1,290)	(161)
	(5,311)	(14,864)	10,985
Federal and foreign income taxes paid	(7,191)	(18,841)	(18,027)
	53,190	30,298	40,807

For Each of the Three Fiscal Years in the Period Ended October 25, 2002	2002	2001	2000
Cash Flows Provided (Used) by Investing Activities			
Purchases of capital assets	$ (15,709)	$ (15,758)	$ (15,489)
Capital dispositions	325	277	1,618
Escrow deposit	(3,500)	–	–
Sale of short-term investments	–	–	25,933
Acquisitions of businesses, net of cash acquired	(124,649)	(6,885)	(45,998)
	(143,533)	(22,366)	(33,936)
Cash Flows Provided (Used) by Financing Activities			
Net proceeds provided by sale of common stock	–	66,736	–
Net change in credit facilities	(1,960)	(575)	(1,922)
Repayment of long-term obligations	(6,346)	(6,389)	(8,655)
	(8,306)	59,772	(10,577)
Effect of foreign exchange rates on cash	1,220	1,348	(453)
Net increase (decrease) in cash and cash equivalents	(97,429)	69,052	(4,159)
Cash and cash equivalents – beginning of year	119,940	50,888	55,047
Cash and cash equivalents – end of year	$ 22,511	$ 119,940	$ 50,888
Supplemental Cash Flow Information			
Cash paid for interest	$ 7,247	$ 7,792	$ 8,366

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 25, 2002	2002	2001	2000
Common Stock, Par Value $.20 Per Share			
Beginning of year	$ 4,143	$ 3,485	$ 3,468
3,220,000 shares issued	–	644	–
Shares issued under stock option plans	14	14	17
End of year	4,157	4,143	3,485
Additional Paid-in Capital			
Beginning of year	113,284	46,952	46,824
3,220,000 shares issued	–	66,092	–
Shares issued under stock option plans	253	240	128
End of year	113,537	113,284	46,952
Retained Earnings			
Beginning of year	243,996	211,540	178,953
Net earnings (loss)	(1,329)	32,456	32,587
End of year	242,667	243,996	211,540
Accumulated Other Comprehensive Gain (Loss)			
Beginning of year	(11,128)	(12,282)	(4,625)
Change in fair value of derivative financial instruments, net of tax	(67)	87	–
Foreign currency translation adjustment	5,275	1,067	(7,657)
End of year	(5,920)	(11,128)	(12,282)
Total Shareholders' Equity	$ 354,441	$ 350,295	$ 249,695
Comprehensive Income			
Net earnings (loss)	$ (1,329)	$ 32,456	$ 32,587
Change in fair value of derivative financial instruments, net of tax	(67)	87	–
Foreign currency translation adjustment	5,275	1,067	(7,657)
Comprehensive Income	$ 3,879	$ 33,610	$ 24,930

See Notes to Consolidated Financial Statements.

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 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 other comprehensive income 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.

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 as a component of comprehensive income. Foreign currency transaction gains and losses are included in results of operations and have not been significant in amount in the three fiscal years ended October 25, 2002.

Cash Equivalents and Cash in Escrow
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. Cash in escrow represents amounts held in escrow pending finalization of a purchase transaction.

Inventories
Inventories are stated at the lower of cost or market using 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 $13,106,000, $12,108,000, and $12,497,000 for fiscal 2002, 2001 and 2000, respectively.

Long-lived Assets

The carrying amount of long-lived assets, including goodwill attributable to those assets, is reviewed periodically for impairment. An asset (other than goodwill) 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

Beginning in fiscal 2002 with the adoption of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement No. 142), goodwill is no longer amortized, but instead tested for impairment at least annually. Prior to fiscal 2002, goodwill was amortized on a straight-line basis over the period of expected benefit which ranged from 10 to 40 years. 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.

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from 2 to 20 years. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. Accumulated amortization of intangibles was $16,741,000 and $15,490,000, respectively, at the end of fiscal 2002 and 2001.

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 20,751,000, 19,641,000, and 17,375,000 for the fiscal years 2002, 2001 and 2000 respectively. The weighted average number of shares outstanding used to compute diluted earnings per share was 21,021,000, 20,014,000, and 17,654,000 for the fiscal years 2002, 2001 and 2000 respectively.

Recent Accounting Pronouncements

In October 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (Statement No. 146), effective for exit or disposal activities initiated after December 31, 2002. Under Statement No. 146, a commitment to a plan to exit or dispose of a business activity no longer creates an obligation that meets the definition of a liability. A liability for a cost associated with an exit or disposal activity will be recognized when the liability is incurred. The Company will implement Statement No. 146 in the first quarter of fiscal 2003. Management does not believe that application of Statement No. 146 will have a material effect on the results of operations or financial position of the Company.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (Statement No. 144), effective for fiscal years beginning after December 15, 2002. The Statement supersedes Financial Accounting Standards Board Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets to be Disposed Of" (Statement No. 121); however, it retains the fundamental provisions of Statement No. 121. Statement No. 144 also supersedes Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB No. 30), and extends the reporting of a discontinued operation to a component of an entity. Also, Statement No. 144 requires operating losses from a component of an entity to be recognized in the period(s) in which they occur rather than as of the measurement date as previously required under APB No. 30. The Company will implement Statement No. 144 in the first quarter of fiscal 2003. Management does not believe that application of Statement No. 144 will have a material effect on the results of operation or financial position of the Company.

2. Accounting Changes

Effective at the beginning of fiscal 2002, the Company adopted Statement No. 142. Under the new Statement, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are subject to annual impairment tests in accordance with the Statement. The Company conducted its initial impairment tests and determined that goodwill associated with a reporting unit in the Avionics & Controls segment was impaired as a result of applying Statement No. 142. Due to increased competition in the electronic input industry, principally from companies headquartered in Asia, operating profits and cash flows were lower in the past fiscal year for this reporting unit. Based upon this trend, the earnings forecast for the next five years was lowered. A goodwill impairment loss of $7,574,000, net of an income tax benefit of $1,542,000, or $.36 per diluted share, was recognized and reported as a cumulative effect of a change in accounting principle upon the adoption of Statement No. 142 in the first quarter of fiscal 2002. The fair value of the affected reporting unit was estimated using a combination of the present value of expected cash flows and a market approach.

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

The following comparative table sets forth reported net earnings and earnings per share for fiscal 2002, 2001 and 2000, exclusive of amortization expense related to goodwill that is no longer being amortized as a result of the adoption of Statement No. 142.

In Thousands, Except Per Share Amounts	2002	2001	2000
Net Earnings (Loss):			
Continuing operations			
As reported	$ 31,284	$ 42,639	$ 29,544
Add back: goodwill amortization	–	3,351	3,518
Adjusted	31,284	45,990	33,062
Discontinued operations			
As reported	(25,039)	(9,780)	3,043
Add back: goodwill amortization	–	1,814	163
Adjusted	(25,039)	(7,966)	3,206
Adjusted earnings before cumulative effect of change in accounting principle	6,245	38,024	36,268
Cumulative effect of change in accounting principle	(7,574)	(403)	–
Adjusted net earnings (loss)	$ (1,329)	$ 37,621	$ 36,268
Earnings (Loss) Per Share – Basic:			
Continuing operations			
As reported	$ 1.51	$ 2.17	$ 1.70
Add back: goodwill amortization	–	.18	.20
Adjusted	1.51	2.35	1.90
Discontinued operations			
As reported	(1.21)	(.50)	.18
Add back: goodwill amortization	–	.09	.01
Adjusted	(1.21)	(.41)	.19
Adjusted earnings before cumulative effect of change in accounting principle	.30	1.94	2.09
Cumulative effect of change in accounting principle	(.37)	(.02)	–
Adjusted earnings (loss) per share	$ (.07)	$ 1.92	$ 2.09
Earnings (Loss) Per Share – Diluted:			
Continuing operations			
As reported	$ 1.49	$ 2.13	$ 1.68
Add back: goodwill amortization	–	.17	.19
Adjusted	1.49	2.30	1.87
Discontinued operations			
As reported	(1.19)	(.49)	.17
Add back: goodwill amortization	–	.09	.01
Adjusted	(1.19)	(.40)	.18
Adjusted earnings before cumulative effect of change in accounting principle	.30	1.90	2.05
Cumulative effect of change in accounting principle	(.36)	(.02)	–
Adjusted earnings (loss) per share	$ (.06)	$ 1.88	$ 2.05

3. Discontinued Operations

On July 25, 2002, the Board of Directors adopted a formal plan for the sale of the assets and operations of the Company's Automation segment. As a result, the consolidated financial statements present the Automation segment as a discontinued operation. The Company recorded an after-tax loss from discontinued operations of $25.0 million. The operating results of the discontinued segment for fiscal 2002, 2001 and 2000 consist of the following:

In Thousands	2002	2001	2000
Income (loss) before taxes	$ (16,343)	$ (16,689)	$ 4,717
Tax expense (benefit)	(6,071)	(6,909)	1,674
Net income (loss)	(10,272)	(9,780)	3,043
Operating losses from July 26, 2002 to October 25, 2002, including tax benefit of $1,414	(2,626)	–	–
Estimated operating losses from October 26, 2002 to anticipated disposal date, including tax benefit of $1,633	(3,033)	–	–
Estimated loss on disposal, including tax benefit of $4,904	(9,108)	–	–
Income (loss) from discontinued operations	$ (25,039)	$ (9,780)	$ 3,043

The $9.1 million estimated loss on disposal includes an additional loss of $2.9 million, net of tax benefit of $1.6 million, which was recorded in the fourth quarter of fiscal 2002, and was principally due to the continued downturn of the telecommunications industry and the delay in its expected recovery from mid 2003 to 2004.

Sales of the Automation segment were $32,896,000, $60,312,000, and $118,415,000 in fiscal 2002, 2001 and 2000, respectively. Assets and liabilities of the segment at October 25, 2002, as adjusted to reflect management's estimate of their net realizable value, are as follows:

In Thousands	
Assets	
Cash	$ 976
Accounts receivable	5,442
Inventories	10,867
Property, plant and equipment	3,476
Other	159
Total assets	20,920
Liabilities	
Accounts payable	715
Accrued liabilities	1,963
Estimated losses during phase-out period	4,666
Total liabilities	7,344
Net assets of discontinued operations	$ 13,576

4. Inventories

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

In Thousands	2002	2001
Raw materials and purchased parts	$ 36,152	$ 41,332
Work in process	24,931	30,464
Finished goods	10,222	16,472
	$ 71,305	$ 88,268

5. Goodwill

The following table summarizes the changes in goodwill for the fiscal year ended October 25, 2002:

In Thousands	Avionics & Controls	Sensors & Systems	Advanced Materials	Total
Beginning balance	$ 57,514	$ 17,537	$ 60,318	$ 135,369
Goodwill acquired during the year	8,313	–	22,601	30,914
Currency translation adjustment	–	839	–	839
Impairment loss	(9,116)	–	–	(9,116)
Ending balance	$ 56,711	$ 18,376	$ 82,919	$ 158,006

As explained in Note 2, effective at the beginning of fiscal 2002, the Company adopted Statement No. 142, and recognized an impairment loss of $9,116,000. In addition, in fiscal 2002, the Company acquired $30,914,000 in goodwill.

6. Intangible Assets

Intangible assets at the end of fiscal 2002 were as follows:

In Thousands	Weighted Average Years Useful Life	Gross Carrying Amount	Accumulated Amortization
Programs	18	$ 52,154	$ 976
Core technology	17	8,703	272
Patents and other	12	17,381	15,493
Total		$ 78,238	$ 16,741

Amortization of intangible assets was $1,522,000, $84,000, and $85,000 in fiscal 2002, 2001 and 2000, respectively.

Estimated amortization expense related to intangible assets for each of the next five fiscal years is as follows:

In Thousands	
2003	$ 4,338
2004	4,104
2005	4,036
2006	3,983
2007	3,983

7. Accrued Liabilities

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

In Thousands	2002	2001
Payroll and other compensation	$ 24,669	$ 25,957
Casualty and medical	9,579	6,331
Interest	2,950	3,075
Warranties	5,110	7,563
State and other tax accruals	6,081	8,885
Other	15,637	9,795
	$ 64,026	$ 61,606

8. 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 6.75%, 7.0%, and 7.5% for fiscal 2002, 2001 and 2000, respectively, and annual compensation increases of 5%. The expected long-term rate of return on plan assets was 8.5% for fiscal 2002, 2001 and 2000. 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.

The Company amended its defined benefit plan to add a cash balance formula effective January 1, 2003. Participants will elect to either continue to earn benefits under the current plan formula or the cash balance formula. Effective January 1, 2003, all new participants will be enrolled in the cash balance formula.

Total pension expense (benefit) for all benefit plans, including defined benefit plans, was $1,528,000, ($347,000), and ($3,334,000) for fiscal 2002, 2001 and 2000, respectively. In fiscal 2000, the Company recorded a curtailment gain resulting from the sale of Federal Products Co., and the curtailment gain was reported as a gain on sale of business. Net periodic pension cost (benefit) for the Company's defined benefit plans at the end of the fiscal year consisted of the following:

In Thousands	2002	2001	2000
Components of Net Periodic Benefit Cost			
Service cost	$ 2,744	$ 2,465	$ 2,268
Interest cost	6,822	6,803	6,463
Expected return on plan assets	(9,819)	(10,576)	(10,069)
Amortization of transition asset	81	81	(401)
Amortization of prior service cost	68	88	92
Amortization of actuarial loss (gain)	122	(305)	(116)
Recognition of gain due to curtailment	–	(141)	(2,591)
Net periodic cost (benefit)	$ 18	$ (1,585)	$ (4,354)

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

In Thousands	2002	2001
Benefit Obligation		
Beginning balance	$ 102,251	$ 92,361
Service cost	2,744	2,465
Interest cost	6,822	6,803
Curtailment gain	–	(154)
Actuarial loss	1,229	6,575
Benefits paid	(5,709)	(5,799)
Ending balance	$ 107,337	$ 102,251
Plan Assets – Fair Value		
Beginning balance	$ 118,352	$ 127,145
Actual loss on plan assets	(10,572)	(3,024)
Company contributions	36	30
Benefits paid	(5,709)	(5,799)
Ending balance	$ 102,107	$ 118,352
Reconciliation of Funded Status to Net Amount Recognized		
Funded status – plan assets relative to benefit obligation	$ (5,230)	$ 16,101
Unrecognized net actuarial loss	25,343	3,845
Unrecognized prior service costs	511	579
Unrecognized net transition obligations	77	158
Net amount recognized	$ 20,701	$ 20,683
Amount Recognized in the Consolidated Balance Sheet		
Prepaid benefit cost	$ 22,146	$ 21,554
Accrued benefit liability	(1,445)	(871)
Net amount recognized	$ 20,701	$ 20,683

9. Income Taxes

Income tax expense from continuing operations for each of the fiscal years consisted of:

In Thousands	2002	2001	2000
Current			
U.S. Federal	$ 7,851	$ 17,043	$ 12,841
State	(123)	1,500	600
Foreign	3,423	3,533	2,211
	11,151	22,076	15,652
Deferred			
U.S. Federal	(386)	2,836	(564)
State	22	111	(48)
Foreign	(326)	(595)	724
	(690)	2,352	112
Income tax expense	$ 10,461	$ 24,428	$ 15,764

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

In Thousands	2002	2001	2000
U.S.	$ 31,890	$ 55,670	$ 38,423
Foreign	9,855	11,397	6,885
Income from continuing operations, before income taxes	$ 41,745	$ 67,067	$ 45,308

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	2002	2001
Reserves and liabilities	$ 16,657	$ 15,957
Employee benefits	6,800	6,007
Total deferred tax assets	23,457	21,964
Depreciation and amortization	(12,212)	(9,801)
Retirement benefits	(7,555)	(7,024)
Other	(7)	(988)
Total deferred tax liabilities	(19,774)	(17,813)
Net deferred tax assets	$ 3,683	$ 4,151

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:

In Thousands	2002	2001	2000
U.S. statutory income tax rate	35.0%	35.0%	35.0%
State income taxes	(0.2)	1.5	0.9
Foreign taxes	0.5	0.3	0.3
Export sales benefit	(2.4)	(0.5)	(0.7)
Tax exempt interest	(0.7)	(0.9)	(0.6)
Non-deductible goodwill	–	1.7	2.7
Research & development credits	(4.3)	(1.8)	(3.5)
Tax accrual adjustment	(3.1)	–	–
Other, net	0.3	1.1	0.7
Effective income tax rate	25.1%	36.4%	34.8%

The effective tax rate differed from the statutory rate in fiscal 2002, 2001 and 2000, as all years benefited from various tax credits. In addition, in fiscal 2002, the Company recognized a $2.9 million reduction in income taxes associated with the favorable resolution of ongoing income tax audits. Also, the relative effect of the export tax benefits and research and development tax credits increased in fiscal 2002 due to the reduction in income from continuing operations before income taxes.

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.

10. Debt

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

In Thousands	2002	2001
6.77% Senior Notes, due 2009	$ 40,000	$ 40,000
6.40% Senior Notes, due 2006	30,000	30,000
6.00% Senior Notes, due 2004	30,000	30,000
8.75% Senior Notes, due 2002	–	5,714
Other	2,568	2,769
	102,568	108,483
Less current maturities	435	6,358
	$ 102,133	$ 102,125

The Senior Notes due in fiscal years 2004, 2006 and 2009 require semi-annual interest payments in November and May of each year. The Senior Notes are unsecured.

Maturities of long-term debt at October 25, 2002, were as follows:

In Thousands

2003	$ 435
2004	30,444
2005	403
2006	30,346
2007	295
2008 and thereafter	40,645
	$ 102,568

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

In Thousands	2002		2001	
	Outstanding Borrowings	Interest Rate	Outstanding Borrowings	Interest Rate
Foreign	$ 424	3.89%	$ 2,173	4.82%
	$ 424		$ 2,173	

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 $5,000,000 of unsecured foreign currency credit facilities have been extended by foreign banks for a total of $55,000,000 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 October 25, 2002. Available credit under the above credit facilities was $49,445,000 at fiscal 2002 year-end, when reduced by outstanding borrowings of $424,000 and letters of credit of $5,131,000.

The fair market value of the Company's long-term debt and short-term borrowings was estimated at $106,742,000 and $112,000,000 at fiscal year-end 2002 and 2001, 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.

11. Commitments and Contingencies

Rental expense for continuing operating leases totaled $6,493,000, $6,106,000, and $5,871,000 in fiscal 2002, 2001 and 2000, respectively.

At October 25, 2002, the Company's rental commitments for noncancelable operating leases with a duration in excess of one year were as follows:

In Thousands

2003	$ 7,145
2004	5,896
2005	5,335
2006	4,898
2007	4,502
2008 and thereafter	13,636
	$ 41,412

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.

12. Employee Stock Plans

In March 2002, the Company's shareholders approved the establishment of an Employee Stock Purchase Plan (the "ESPP") under which 300,000 shares of the Company's common stock are reserved for issuance to employees. The plan qualifies as a noncompensatory employee stock purchase plan under Section 423 of the Internal Revenue Code. Employees are eligible to participate through payroll deductions subject to certain limitations.

At the end of each offering period, usually six months, shares are purchased by the participants at 85% of the lower of the fair market value on the first day of the offering period or the purchase date. As of October 25, 2002, deductions aggregating $157,000 were accrued for the initial purchase of shares on December 13, 2002.

The Company also provides a nonqualified stock option plan for officers and key employees. At the end of fiscal 2002, the Company had 1,809,750 shares reserved for issuance to officers and key employees, of which 191,625 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 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:

	2002		2001		2000	
	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	1,483,750	$ 13.71	1,481,250	$ 12.08	1,355,250	$ 11.05
Granted	260,000	17.71	180,000	23.48	316,500	13.22
Exercised	(103,750)	4.94	(161,250)	9.54	(185,500)	6.29
Cancelled	(21,875)	18.46	(16,250)	14.75	(5,000)	19.63
Outstanding, end of year	1,618,125	$ 14.85	1,483,750	$ 13.71	1,481,250	$ 12.08
Exercisable, end of year	1,052,500	$ 13.20	964,125	$ 11.44	921,500	$ 10.20

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Additional disclosures as required under Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (Statement No. 123), 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.

As prescribed by Statement No. 123, including compensation cost for the Company's stock option and employee stock purchase plans, pro forma disclosures for fiscal 2002, 2001 and 2000 would have been:

In Thousands, Except Per Share Amounts	2002	2001	2000
Net earnings (loss) as reported	$ (1,329)	$ 32,456	$ 32,587
Pro forma net earnings (loss)	$ (2,896)	$ 30,986	$ 31,573
Basic earnings (loss) per share as reported	$ (.07)	$ 1.65	$ 1.88
Pro forma basic earnings (loss) per share	$ (.14)	$ 1.58	$ 1.82
Diluted earnings (loss) per share as reported	$ (.06)	$ 1.62	$ 1.85
Pro forma diluted earnings (loss) per share	$ (.14)	$ 1.55	$ 1.79

The weighted average Black-Scholes value of options granted during fiscal 2002, 2001 and 2000 was $11.26, $14.99, and $8.52, respectively. The assumptions used in the Black-Scholes option-pricing model for fiscal 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Volatility	65.6%	65.1%	62.3%
Risk-free interest rate	2.79 – 4.03%	3.59 – 4.37%	5.75 – 5.83%
Expected life (years)	5 – 8	5 – 8	5 – 8
Dividends	–	–	–

The following table summarizes information for stock options outstanding at October 25, 2002:

		Options Outstanding			Options Exercisable	
	Range of Exercise Prices	Shares	Weighted Average Remaining Life (years)	Weighted Average Price	Shares	Weighted Average Price
$	3.69 – 11.13	335,000	2.44	$ 7.07	330,000	$ 7.03
	11.38 – 13.25	351,750	5.51	12.06	264,000	12.23
	13.44 – 15.82	306,500	7.48	14.94	119,500	13.96
	16.75 – 19.63	304,750	6.72	18.66	205,000	18.56
	19.88 – 27.19	320,125	7.64	22.33	134,000	21.46

13. Capital Stock

The authorized capital stock of the Company consists of 25,000 shares of preferred stock ($100 par value), 475,000 shares of serial preferred stock ($1.00 par value), each issuable in series, and 60,000,000 shares of common stock ($.20 par value). At the end of fiscal 2002, there were no shares of preferred stock or serial 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 $66.7 million. The funds provide additional financial resources for general corporate purposes, including the acquisition of other companies.

Effective December 5, 2002, the Board of Directors adopted a Shareholder Rights Plan, providing for the distribution of one Series B Serial Preferred Stock Purchase Right ("Right") for each share of common stock held as of December 23, 2002. Each Right entitles the holder to purchase one one-hundredth of a share of Series B Serial Preferred Stock at an exercise price of $161.00, as may be adjusted from time to time. The Rights replaced similar rights to purchase one one-hundredth of a share of Series A Serial Preferred Stock, which were issued pursuant to the Shareholder Rights Plan adopted in 1992, and which expire on December 23, 2002.

The Right to purchase shares of Series B Serial Preferred Stock is triggered once a person or entity (together with such person's or entity's affiliates) beneficially owns 15% or more of the outstanding shares of common stock of the Company (such person or entity, an "Acquiring Person"). When the Right is triggered, the holder may purchase one one-hundredth of a share of Series B Serial Preferred Stock at an exercise price of $161.00 per share. If after the Rights are triggered, (i) the Company is the surviving corporation in a merger or similar transaction with an Acquiring Person, (ii) the Acquiring Person beneficially owns more than 15% of the outstanding shares of common stock or (iii) the Acquiring Person engages in other "self-dealing" transactions, holders of the Rights can elect to purchase shares of common stock of the Company with a market value of twice the exercise price. Similarly, if after the Rights are triggered, the Company is not the surviving corporation of a merger or similar transaction or the Company sells 50% or more of its assets to another person or entity, holders of the Rights may elect to purchase shares of common stock of the surviving corporation or that person or entity who purchased the Company's assets with a market value of twice the exercise price.

14. Acquisitions

On August 29, 2002, the Company's Armtec Defense Products Co. subsidiary ("Armtec") acquired the Electronic Warfare Passive Expendables Division of BAE SYSTEMS North America ("BAE Systems") radar countermeasures chaff and infrared decoy flare operations ("Countermeasures") for approximately $67.5 million in cash, of which $3.5 million is held in an escrow account as of October 25, 2002. An additional $4.0 million is payable to the seller based on the excess of $9,361,000 over the Closing Statement of Assets and Liabilities ("Closing Statement"), subject to review by the buyer as defined in the Asset Purchase Agreement. At the time of the asset acquisition from BAE Systems, certain environmental remedial activities were required under a Part B Permit issued to the infrared decoy flare facility by the State of Arkansas under the Federal Resource Conservation and Recovery Act. The Part B permit was transferred to Armtec, along with the remedial obligations. Under the Asset Purchase Agreement, BAE Systems agreed to complete all remedial obligations at the infrared decoy flare facility and to indemnify Esterline on all environmental liabilities to a maximum amount of $25.0 million.

Radar countermeasure chaff is used by aircraft to help protect against radar-guided missiles. Aircraft-dispensable flares are designed to protect against infrared-guided missiles. The business will operate as a division of Armtec and will complement Armtec's position as the U.S. Army's sole-source provider of combustible ordnance for tank, artillery, and mortar ammunition.

The following summarizes the estimated fair market values of the assets acquired and liabilities assumed at the date of acquisition. The amount allocated to goodwill is expected to be deductible for income tax purposes. The Closing Statement is subject to review by the Company, and accordingly, the allocation of the purchase price is subject to refinement.

As of August 29, 2002

In Thousands

Current assets	$ 10,722
Property, plant and equipment	9,123
Intangible assets subject to amortization	
Programs (20 year useful life)	39,171
Patents (10 year useful life)	941
	40,112
Goodwill	14,659
Total assets acquired	74,616
Current liabilities assumed	3,191
Net assets acquired	$ 71,425

On April 29, 2002, the Company acquired Burke Industries' Engineered Polymers Group ("Polymers Group") for approximately $37.6 million in cash. The acquired group is a manufacturer of aerospace seals and similar high-performance products. The acquisition adds to the Company's existing technology base and establishes the Company as a global leader in custom aerospace seals and similar high-performance products.

The following summarizes the estimated fair market values of the assets acquired and liabilities assumed at the date of acquisition. The amount allocated to goodwill is expected to be deductible for income tax purposes.

As of April 29, 2002

In Thousands

Current assets	$ 9,442
Property, plant and equipment	5,313
Intangible assets subject to amortization	
Core technology (15 year useful life)	5,949
Programs (9 year weighted-average useful life)	9,855
	15,804
Goodwill	7,942
Total assets acquired	38,501
Current liabilities assumed	864
Net assets acquired	$ 37,637

The following unaudited pro forma financial information for the Company gives effect to the Countermeasures and Polymers Group acquisitions as if they occurred on October 28, 2000. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred on the date indicated, or which may result in the future. The 2002 and 2001 pro forma information includes sales of $46,157,000 and $37,197,000 for Countermeasures and $38,400,000 and $41,323,000 for the Polymers Group, respectively. The pro forma results for fiscal 2002 and 2001 are as follows:

In Thousands, Except Per Share Amounts (Unaudited)

	2002	2001
Net sales	$ 493,518	$ 509,443
Income from continuing operations	35,857	44,559
Net earnings	3,244	34,376
Earnings per share from continuing operations – diluted	$ 1.71	$ 2.23
Earnings per share – diluted	.15	1.72

On June 3, 2002, the Company acquired Janco Corporation ("Janco") for approximately $13.8 million in cash. Janco manufactures aircraft rotary switches, potentiometers, and sophisticated modular control systems. In addition, the Company acquired a small product line for approximately $5.7 million in cash.

In April and June 2001, the Advanced Materials segment acquired certain product lines for $2.6 million, which consist of highly engineered elastomer products principally sold to aerospace customers. In addition, in January 2001 the Avionics & Controls segment purchased certain product lines consisting of high-end components for avionics for $4.3 million. The acquisitions resulted in an excess of cost over tangible assets of approximately $4.2 million, which was accounted for as goodwill.

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.

15. Business Segment Information

In the third quarter of fiscal 2002, the Company's Board of Directors approved a plan providing for the discontinuation of the Automation segment. Subsequent to that decision, management has redefined the Company's segments to correspond with the way the Company is now organized and managed. Accordingly, business segment information includes the segments of Avionics & Controls, Sensors & Systems and Advanced Materials. Operations within the Avionics & Controls segment focus on technology interface systems for commercial and military aircraft, and similar devices for land- and sea-based military vehicles, secure communications systems, specialized medical equipment and other industrial applications. Sensors & Systems includes operations that produce high-precision temperature and pressure sensors, fluid and motion control components and other related systems principally for aerospace and defense customers. The Advanced Materials segment focuses on process related technologies including high-performance elastomer products used in a wide range of commercial aerospace and military applications, and combustible ordnance and electronic warfare countermeasure devices. 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	2002	2001	2000
Sales			
Avionics & Controls	$ 171,709	$ 172,547	$ 144,104
Sensors & Systems	104,942	101,916	92,165
Advanced Materials	157,384	151,352	129,386
Other	774	5,108	6,896
	$ 434,809	$ 430,923	$ 372,551
Income From Continuing Operations			
Avionics & Controls	$ 26,501	$ 31,319	$ 23,498
Sensors & Systems	12,352	11,439	9,139
Advanced Materials	21,884	34,987	24,793
Other	(1,420)	1,428	3,228
Segment Earnings	59,317	79,173	60,658
Corporate expense	(12,263)	(13,167)	(12,022)
Insurance settlement	–	4,631	–
Gain (loss) on derivative financial instruments	(1)	786	–
Gain on sale of business	–	–	2,591
Interest income	1,814	3,307	2,205
Interest expense	(7,122)	(7,663)	(8,124)
	$ 41,745	$ 67,067	$ 45,308
Identifiable Assets			
Avionics & Controls	$ 145,296	$ 121,771	$ 112,129
Sensors & Systems	98,624	91,527	80,367
Advanced Materials	257,408	149,889	140,028
Other	2	5	6
Automation	–	50,444	62,605
Discontinued Operations	13,576	–	–
Corporate[1]	56,049	146,172	79,204
	$ 570,955	$ 559,808	$ 474,339

In Thousands	2002	2001	2000
Capital Expenditures			
Avionics & Controls	$ 1,980	$ 3,580	$ 2,717
Sensors & Systems	4,432	2,954	5,651
Advanced Materials	8,497	7,132	3,822
Other	–	–	–
Automation	–	1,816	2,758
Discontinued Operations	580	–	–
Corporate	220	276	541
	$ 15,709	$ 15,758	$ 15,489
Depreciation and Amortization			
Avionics & Controls	$ 4,060	$ 5,855	$ 5,752
Sensors & Systems	3,083	3,713	4,553
Advanced Materials	7,156	7,266	6,938
Other	4	1	10
Automation	–	–	–
Discontinued Operations	2,726	6,553	3,676
Corporate	534	721	780
	$ 17,563	$ 24,109	$ 21,709

1 Primarily cash, prepaid pension expense (see Note 8) and deferred tax assets (see Note 9).

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

In Thousands	2002	2001	2000
Sales			
Domestic			
Unaffiliated customers – U.S.	$ 294,693	$ 296,920	$ 256,690
Unaffiliated customers – export	51,044	42,779	38,993
Intercompany	1,816	999	265
	347,553	340,698	295,948
France			
Unaffiliated customers	54,944	49,267	44,368
Intercompany	3,652	6,175	6,494
	58,596	55,442	50,862
All Other Foreign			
Unaffiliated customers	34,128	41,957	32,500
Intercompany	417	–	86
	34,545	41,957	32,586
Eliminations	(5,885)	(7,174)	(6,845)
	$ 434,809	$ 430,923	$ 372,551
Segment Earnings[1]			
Domestic	$ 49,120	$ 67,883	$ 52,680
France	7,608	8,587	6,700
All other foreign	2,589	2,703	1,278
	$ 59,317	$ 79,173	$ 60,658
Identifiable Assets[2]			
Domestic	$ 420,895	$ 335,231	$ 328,006
France	46,683	42,834	32,165
All other foreign	47,328	35,571	34,964
	$ 514,906	$ 413,636	$ 395,135

1 Before corporate expense, shown on page 50.

2 Excludes corporate, shown on page 50.

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 Hong Kong and France. Intercompany sales are at prices comparable with sales to unaffiliated customers. U.S. Government sales as a percent of Advanced Materials and Avionics & Controls sales were 23.6% and 5.8%, respectively, in fiscal 2002 and 10.8% of consolidated sales. Sales to any single customer or governmental entity did not exceed 10% of consolidated sales in fiscal 2001 and 2000.

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

	2002	2001	2000
Elastomeric products	15%	15%	17%
Aerospace switches and indicators	17%	15%	12%
Combustible ordnance components	11%	11%	10%

16. Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly financial information:

In Thousands, Except Per Share Amounts Fiscal Year 2002	Fourth	Third	Second	First
Net sales	$ 124,887	$ 112,423	$ 100,681	$ 96,818
Gross margin	40,439	36,353	32,314	32,467
Income from continuing operations	10,505[1]	6,926	7,215	6,638
Loss from discontinued operations, net of tax	(2,925)	(17,529)	(2,292)	(2,293)
Earnings before cumulative effect of a change in accounting principle	7,580[1]	(10,603)	4,923	4,345
Cumulative effect of a change in accounting principle	–	–	–	(7,574)
Net earnings (loss)	$ 7,580[1]	$ (10,603)	$ 4,923	$ (3,229)
Earnings (loss) per share – basic				
Continuing operations	$ .51	$ .33	$ .35	$ .32
Discontinued operations[2]	(.14)	(.84)	(.11)	(.11)
Earnings (loss) per share before cumulative effect of a change in accounting principle – basic[2]	.37	(.51)	.24	.21
Cumulative effect of a change in accounting principle – basic	–	–	–	(.37)
Earnings (loss) per share – basic[2]	$ .37	$ (.51)	$ .24	$ (.16)
Earnings (loss) per share – diluted				
Continuing operations[2]	$ .50	$ .33	$ .34	$ .32
Discontinued operations[2]	(.14)	(.83)	(.11)	(.11)
Earnings (loss) per share before cumulative effect of a change in accounting principle – diluted[2]	.36	(.50)	.23	.21
Cumulative effect of a change in accounting principle – diluted	–	–	–	(.36)
Earnings (loss) per share – diluted[2]	$ .36	$ (.50)	$ .23	$ (.15)

In Thousands, Except Per Share Amounts

Fiscal Year 2001	Fourth	Third	Second	First
Net sales	$ 113,360	$ 111,915	$ 110,316	$ 95,332
Gross margin	40,648	43,246	42,103	35,344
Income from continuing operations	10,611	12,284[4]	12,496[4]	7,248
Loss from discontinued operations, net of tax	(3,227)[3]	(3,055)	(2,919)	(579)
Earnings before cumulative effect of a change in accounting principle	7,384[3]	9,229[4]	9,577[4]	6,669
Cumulative effect of a change in accounting principle	–	–	–	(403)
Net earnings	$ 7,384[3]	$ 9,229[4]	$ 9,577[4]	$ 6,266
Earnings (loss) per share – basic				
Continuing operations[2]	$ .51	$ .59	$ .63	$ .41
Discontinued operations[2]	(.15)	(.14)	(.14)	(.03)
Earnings per share before cumulative effect of a change in accounting principle – basic[2]	.36	.45	.49	.38
Cumulative effect of a change in accounting principle – basic	–	–	–	(.02)
Earnings per share – basic[2]	$ .36	$ .45	$ .49	$ .36
Earnings (loss) per share – diluted				
Continuing operations[2]	$ .50	$ .58	$ .62	$ .40
Discontinued operations[2]	(.15)	(.14)	(.14)	(.03)
Earnings per share before cumulative effect of a change in accounting principle – diluted[2]	.35	.44	.48	.37
Cumulative effect of a change in accounting principle – diluted	–	–	–	(.02)
Earnings per share – diluted[2]	$ .35	$ .44	$ .48	$ .35

1 Included the $2.9 million reduction in income taxes associated with the favorable resolution of ongoing income tax audits.

2 The sum of the 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.

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

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

Report of Ernst & Young LLP, 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 25, 2002 and October 26, 2001 and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three fiscal years in the period ended October 25, 2002. 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Esterline Technologies Corporation and subsidiaries at October 25, 2002 and October 26, 2001, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended October 25, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, effective October 27, 2001, the Company changed its method of accounting for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Ernst & Young LLP

Seattle, Washington
December 4, 2002

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 (Retired)
Milliman USA

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

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

Anthony P. Franceschini
Director, President and
Chief Executive Officer
Stantec Inc.

Robert F. Goldhammer
Chairman
ImClone Systems, Inc.

Wendell P. Hurlbut
Chairman (Retired)
Esterline Technologies

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

Officers

Robert W. Cremin
Chairman, President and
Chief Executive Officer

Stephen E. Barton
Group Vice President

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

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Ridgefield Park, NJ
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Annual Meeting of Shareholders
The 2003 annual meeting of shareholders will be held at the Harbor Club – Bellevue, 777 108th Avenue N.E., Bellevue, WA, on Wednesday, March 5, 2003. 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

Avionics & Controls

Advanced Input Devices
600 West Wilbur Avenue
Coeur d'Alene, ID 83815

Janco Corporation
3111 Winona Avenue
Burbank, CA 91504

Korry Electronics Co.
901 Dexter Avenue North
Seattle, WA 98109

Mason Electric Co.
605 8th Street
San Fernando, CA 91340

Sensors & Systems

Auxitrol Technologies
168 Bureaux de la Colline
92213 Saint-Cloud Cedex
France

Fluid Regulators Co.
313 Gillett Street
Painesville, OH 44077

Muirhead Aerospace
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Penge, London
SE20 8EW, England

Advanced Materials

Armtec Defense Products Co.
85-901 Avenue 53
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Hytek Finishes Co.
8127 South 216th Street
Kent, WA 98032

Kirkhill-TA Co.
300 East Cypress Street
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