ESTERLINE TECHNOLOGIES CORP
Form 424B5
November 12, 2004

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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-117905

PRELIMINARY PROSPECTUS SUPPLEMENT Subject to Completion November 11, 2004

(To Prospectus dated August 25, 2004)

3,200,000 Shares

Esterline Technologies Corporation

Common Stock

We are offering 3,200,000 shares of our common stock to be sold in this offering.

Our common stock is traded on the New York Stock Exchange under the symbol ESL. On November 10, 2004, the last reported sale price of our common stock on the New York Stock Exchange was $34.91 per share.

Investing in our common stock involves a high degree of risk. Before buying any shares you should carefully read the discussion of material risks of investing in our common stock in Risk Factors beginning on page S-11 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may also purchase from us up to an additional 480,000 shares of our common stock at the public offering price, less the underwriting discounts and commissions, to cover over-allotments, if any, within 30 days from the date of this prospectus supplement. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be $, and our total proceeds, before expenses, will be $.

The underwriters are offering the common stock as set forth under Underwriting. Delivery of the shares will be made on or about November , 2004.

Sole Book-Running Manager

UBS Investment Bank

Wachovia Securities **KeyBanc Capital Markets**

You should rely only on information contained in or incorporated by reference into this prospectus supplement. We have not, and the underwriters have not, authorized anyone to provide you with information that is different from that contained in this prospectus supplement and the accompanying prospectus. We are offering to sell and are seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement is accurate only as of the date of this prospectus supplement, regardless of the time of delivery of this prospectus supplement or of any sale of our common stock.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying base prospectus that is also a part of this document. This prospectus supplement and the accompanying base prospectus are part of a registration statement that we filed with the Securities and Exchange Commission (SEC) using a shelf registration process. The shelf registration statement was declared effective by the SEC on August 25, 2004. Under the shelf registration statement, we may sell any combination of the securities described in the accompanying base prospectus up to an aggregate amount of $300 million of which this offering is a part. In this prospectus supplement, we provide you with specific information about the terms of this offering. Both this prospectus supplement and the

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accompanying base prospectus include important information about us, our common stock and other information you should know before investing in our common stock. This prospectus supplement also adds, updates and changes information contained in the accompanying base prospectus. To the extent that any statement that we make in this prospectus supplement is inconsistent with the statements made in the accompanying base prospectus, the statements made in the accompanying base prospectus are deemed modified or superseded by the statements made in this prospectus supplement. You should read both this prospectus supplement and the accompanying base prospectus as well as the additional information described under the headings Information incorporated by reference on page S-57 and Where you can find more information on page S-57 of this prospectus supplement before investing in our common stock.

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Prospectus supplement summary

This summary highlights selected information contained elsewhere in this prospectus supplement and the accompanying prospectus. This summary may not contain all the information that you should consider before investing in our common stock. You should read the entire prospectus supplement and the accompanying prospectus carefully, including Risk Factors and the consolidated financial statements included, and incorporated by reference, into this prospectus supplement and the accompanying prospectus, before making an investment decision. Except where we state otherwise, the information we present in this prospectus assumes no exercise of the underwriters over-allotment option. Unless the context indicates otherwise, references in this prospectus to Esterline , we , our and us refer to Esterline Technologies Corporation and its subsidiaries.

OVERVIEW

Esterline, a Delaware corporation formed in 1967, is a leading specialized manufacturing company principally serving aerospace and defense customers. Our strategy is to maintain a leadership position in niche markets for the development and manufacture of highly engineered products that are essential to our customers. Our current business and strategic growth plan focuses on the continued development of these products in three key technology segments: avionics and controls, sensors and systems, and specialized high-performance elastomers and other complex materials, principally for aerospace and defense markets. Our products are often mission-critical equipment, which have been designed into particular military and commercial platforms and in certain cases can only be replaced by products of other manufacturers following a formal certification process.

Our products have a long history in the aerospace and defense industry and are found on most military and commercial aircraft, helicopters, and land-based systems. For example, our products are used on the majority of active and in-production U.S. military aircraft and on every Boeing commercial aircraft platform manufactured in the past 65 years. In addition, our products are supplied to Airbus, all of the major regional and business jet manufacturers, and the major aircraft engine manufacturers. We differentiate ourselves through our engineering and manufacturing capabilities and our reputation for quality, reliability, and innovation. We work closely with original equipment manufacturers (OEMs) on new, highly engineered product designs which often results in our products being designed into their platforms; this integration often results in sole-source positions for OEM production and aftermarket business. In fiscal 2003, we estimate that over 30% of our sales to commercial and military aerospace customers were derived from aftermarket business. Our aftermarket sales, including retrofits, spare parts, and repair services, historically carry a higher gross margin and have more stability than sales to OEMs. In many cases, aftermarket sales extend well beyond the OEM production period, supporting the platform during its entire life cycle.

Our sales are diversified across three broad markets: defense, commercial aerospace, and general industrial. In recent years, we estimate that we derived approximately 40% of our sales from the defense market, 40% from the commercial aerospace market and 20% from the general industrial market.

In addition, our sales were balanced across programs and customers, with no program accounting for more than 6% of our fiscal 2003 sales, and our largest direct customer, the U.S. Department of Defense, accounting for approximately 17% of our fiscal 2003 sales. For the nine months ended July 30, 2004, earnings from continuing operations before interest, taxes, depreciation and amortization (EBITDA) was $57.8 million. Our backlog at July 30, 2004 was $331.1 million.

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INDUSTRY OVERVIEW

The aerospace and defense industry is highly fragmented, consisting of a large number of small, specialized companies and a smaller number of large, well-capitalized companies with a broad range of capabilities. The industry has experienced and continues to experience significant consolidation. Aircraft manufacturers and defense prime contractors are increasingly favoring suppliers with the technical skills, experience and product breadth to integrate components and supply complete systems. This trend favoring the most capable suppliers is further supported by customers desire to reduce the number of overall suppliers and steps within the supply chain to improve efficiency. These developments have resulted in significant consolidation among suppliers seeking additional capabilities, product breadth, resources, and expertise to best meet evolving customer needs. We believe we are well positioned to benefit from these consolidation and outsourcing trends, with a solid reputation for performance and a proven ability to identify, execute and integrate strategic acquisitions.

The outlook for U.S. defense spending is positive, driven in large measure by changing strategic and tactical threats, the war on terrorism, and broad political support. The Bush administration s proposed fiscal 2005 U.S. Department of Defense budget of approximately $402 billion reflects the Bush administration s new defense strategy, which calls for a focus on the capabilities needed to counter 21st century threats such as terrorism. The proposed fiscal 2005 budget requests over $74 billion for procurement and over $68 billion for research, development, testing, and evaluation (RDT&E). Procurement and RDT&E, together known as defense investment spending, represent the principal source of fundings for most defense contractors. While it is impossible to predict the effect that defense investment spending will have on our business, we expect to benefit to the extent that spending is allocated to the procurement and upgrade of military aircraft, helicopters and combustible ammunition components.

Our operations that focus on the commercial aerospace industry have two major sources of sales: sales of original equipment to aircraft manufacturers; and aftermarket sales, comprised of sales of replacement and spare parts and repair and overhaul services. According to the Aerospace Industries Association, commercial aerospace sales of aircraft, engines and parts totaled $34 billion in 2003. The attacks of September 11, 2001 and the ongoing concerns of global terrorism have affected the profitability of the commercial aerospace industry and continue to impact our near term outlook for OEM sales and aftermarket business from aircraft operators. We believe, however, that improved security and safety measures over time will restore passenger confidence. Recently, some of the airline operating measures such as available seat miles, revenue passenger miles and active fleet have shown improvement. Longer term, we believe our commercial and regional aircraft business will benefit from increased passenger traffic. In addition, we believe the long term demand for business jets will support a recovery in this market.

BUSINESS SEGMENTS

We organize and manage our operations in the following three business segments: Avionics & Controls; Sensors & Systems; and Advanced Materials.

Avionics & Controls (34.0% of sales for the nine months ended July 30, 2004). The Avionics & Controls segment designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles, secure communications systems, specialized medical equipment, and other industrial applications. Our principal products in this segment focus on the cockpits and control stations found in military and commercial aircraft. We provide lighted push-button and rotary switches, keyboards, lighted indicators, panels and displays, and pilot control wheels and grips to every major commercial, military, regional, and

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business aircraft and helicopter manufacturer. We are a leading manufacturer of pilot control grips for most types of military fighter jets and helicopters. In addition, we are a supplier of custom integrated control components and input devices for specialized medical equipment, communications systems and other military applications outside of the cockpit. For the nine months ended July 30, 2004, some of our largest customers in the Avionics & Controls segment included The Boeing Company, the U.S. Department of Defense, Lockheed Martin, BAE Systems, Smiths Industries and Honeywell.

Sensors & Systems (29.1% of sales for the nine months ended July 30, 2004). The Sensors & Systems segment produces high-precision temperature and pressure sensing devices, fluid control components, micro-motors, motion control sensors, and other related systems, used primarily in aerospace applications. For example, we are the sole-source supplier of temperature probes for use on all versions of the General Electric/ Snecma CFM-56 jet engine. The CFM-56 has an installed base of over 13,000 engines, is standard equipment on new generation Boeing 737 aircraft and has been selected as the engine for approximately 40% of all Airbus aircraft delivered to date. For the nine months ended July 30, 2004, some of our largest customers in the Sensors & Systems segment included Snecma, the British Ministry of Defence, Rolls Royce, Pratt & Whitney, General Electric, BAE Systems, Goodrich, Honeywell, Airbus and Air France.

Advanced Materials (36.9% of sales for the nine months ended July 30, 2004). The Advanced Materials segment develops and manufactures high-performance elastomer products used in a wide range of commercial aerospace and military applications, as well as combustible ordnance and electronic warfare countermeasure devices for military customers. We are a leading U.S. supplier of high-performance elastomer products to the aerospace industry. These products are engineered to address specific customer requirements where superior performance in high temperature, high pressure, caustic, abrasive and other difficult environments is critical. We also manufacture molded fiber cartridge cases, mortar increments, igniter tubing, and other combustible ammunition components primarily for the U.S. Department of Defense. We are currently the sole supplier of combustible casings utilized by the U.S. Armed Forces. In addition, we are currently the only U.S. supplier of radar countermeasure chaff and a principal supplier to the U.S. Army of infrared decoy flares used by aircraft to help protect against radar and infrared guided missiles. For the nine months ended July 30, 2004, some of our largest customers in the Advanced Materials segment included the U.S. Department of Defense, Alliant Techsystems, General Dynamics, The Boeing Company, Honeywell and Goodrich.

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The following tables provide a summary of the principal platforms equipped or to be equipped with products from our three business segments:

Military platforms	Avionics & Controls	Sensors & Systems	Advanced Materials
Fixed-Wing Aircraft			
A-4 Skyhawk, A-10 Thunderbolt, AV-8B Harrier, B-2 Spirit, C-5 Galaxy, C-17 Globemaster III, C-130 Hercules, C-160 Transal, Dassault Electronic Surveillance Aircraft, Eurofighter, F-5 Tiger, F-14 Tomcat, F-15 Eagle, F-35 Joint Strike Force, F-117 Nighthawk, Jas39 Gripen, KC-10 Extender, KC-135 Stratotanker, L-159 Light Attack Aircraft, MIG-21 Fishbed, Mirage 2000, T-45 Goshawk, Taiwan s Indigenous Defense Fighter	X	X	X
F-16 Fighting Falcon, F/A-18 Super Hornet, F/A-22 Raptor	X		X
Rafale		X	
Helicopter/ Tiltrotor			
AH-64 Apache, AS365 Dauphine 2, H-60 Black Hawk, OH-58 Kiowa, SH-60 Sea Hawk	X	X	X
V-22 Osprey	X	X	
CH-47 Chinook, CH-53 Sea Stallion, Puma 330, SH-3 Sea King, UH-1 Huey	X		X
Land Systems			
Bradley Fighting Vehicle, M1-A1/2 Abrams Tank, Stryker, Wolverine Heavy Assault Bridge	X		X
60mm, 81mm, 120mm Mortar Systems; 155mm Modular Artillery Charge Systems			X
Javelin Missile, AS90 Braveheart		X	
Launch			
Delta Launch Vehicle Family, Space Shuttle	X		X
Araine Rocket		X	X
Engines			
Adour, AE-3007, BR-700, EJ-200, RB-199, Tay-406, F110-129, F-414, LM2500+, Pegasus, T-64, T406, TP400M		X	X

Commercial platforms	Avionics & Controls	Sensors & Systems	Advanced Materials
Commercial Aircraft			
Airbus A318, A319, A320, A321, A330, A340, Boeing 717, 737, 747, 757, 767, 777	X	X	X
Airbus A380		X	X
Regional Aircraft			
Bombardier CRJ Family, De Havilland DHC 100/200/300, Embraer ERJ Family	X	X	X
Shorts Brothers SD-330/360	X	X	
Business Aircraft/ General Aviation			
Bombardier Challenger, Global Express; Cessna All Models; Gulfstream I, II, III, IV, V; Hawker Horizon; Israel Aircraft Astra, Galaxy; Jetstream 31, 41; Learjet All Models; Pilatus PC-9; Raytheon King Air, Premier, Starship; Saab 2000; Sikorsky S-76, S-92; Swearingen SJ30	X	X	X
Engines			
CFM International CFM-56; Olympus, Pegasus, RB-211; General Electric CF6-80C, CF34-8C, D & E, LM2500+; Honeywell TFE731; Rolls Royce AE 3007, Trent 700, 800, 900		X	X

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COMPETITIVE STRENGTHS

Leading Positions in Niche Markets with High Barriers to Entry. We are well established and highly regarded in each of our markets, and benefit from decades of experience in our specialized niches. With a long-standing position in our markets, we also benefit from high barriers to entry in our industry. The long-term nature of aircraft manufacturing programs and the extensive U.S. Federal Aviation Administration (FAA), and OEM certification process for manufacturing original equipment and replacement parts make our market niches difficult for new competitors to enter. Similarly, new programs tend to favor suppliers with extensive industry experience.

Broad, Diversified Product Offerings and Customer Base Within Our Markets. We operate in three market segments and offer a wide selection of products for a broad range of platforms to a large customer base. This diversification provides us with reduced exposure to cyclical declines in any one sector or to any one customer or program, allowing for better long-term business planning and more stable short-term results.

Solid Position in Defense Sector. We are a leading supplier of vital military systems, munitions, and aircraft components to U.S. and foreign military customers. We estimate that U.S. government (primarily U.S. Department of Defense) contracts and subcontracts accounted for approximately 29% of our fiscal 2003 sales, while total defense sales were approximately 40%. We have been able to capitalize on our position as a prominent supplier to the U.S. Department of Defense, as defense spending has increased significantly in recent years.

Significant Sole-Source and Aftermarket Sales. We focus on working with our customers on new product designs, which typically result in sole-source positions, both in OEM production and in recurring aftermarket sales. Most of our sales are driven by proprietary designs, preferred supplier positions and industry expertise. The large installed base of our products and our position as a sole-source supplier on many programs typically allow us to capture higher gross margins on aftermarket sales.

Product Innovation and Technological Leadership. We have a proven capability to deliver specialized products designed to perform in demanding applications and environments. Our continued focus on our engineering and design capabilities positions us to exploit new and innovative product opportunities. Our investment in research and development is closely aligned with our customers requirements.

Experienced Management Team. Our senior executives have an average of 17 years experience with Esterline and a proven record of accomplishment in the aerospace and defense sectors. The team combines extensive market knowledge with entrepreneurial spirit, making it highly sensitive to new market opportunities and cost savings. Our experienced management team has a proven track record of seeking out, executing, and integrating complementary strategic acquisitions. Management has successfully completed over 25 acquisitions since 1996.

BUSINESS STRATEGY

Focus on niche markets with high barriers to entry. The long-term nature of defense and aerospace manufacturing programs, combined with high product development costs and extensive certification requirements, make our markets difficult to enter. Once a supplier s products have been selected for a particular platform, replacement of that supplier typically involves significant cost and a lengthy testing and certification process. In addition, new programs favor suppliers with extensive industry experience and a reputation for sustained performance.

Focus on manufacturing highly engineered, proprietary products. We have developed specialized, value-added product lines that enable us to capture leading positions in our niche markets. We will

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continue to provide solutions to our customers difficult technical issues through sustained investment in research and new product development, which in the past three fiscal years has ranged from 3 4% of sales. In addition, a substantial portion of our research and development effort is conducted and funded in conjunction with our customers, further solidifying our position as the supplier of choice.

Selectively expand our technologies and products into new markets. We are applying our technical expertise and capabilities gained from work in our core technologies to other closely aligned markets. Examples include the successful application of certain of our aerospace technologies into military land-based systems, such as specialized control panels for the commander s consoles of M1-A1/2 Abrams tanks and Bradley Fighting Vehicles, and into medical equipment, such as specialized input devices for magnetic resonance imaging (MRI) systems.

Continue to grow and capitalize on aftermarket opportunities. Aftermarket sales, including retrofits, are generally more profitable and have more stability than OEM sales. In addition, the safety and regulatory requirements of the commercial and military aerospace sectors generate recurring repair and replacement activity. We therefore aggressively market spare parts and repair services directly to our customers and end-users. To complement our original equipment sales, we are increasing our aftermarket participation by leveraging our relationships with OEMs and end-users. Our reputation for quality and sole-source supplier status for many parts has allowed us to capture a significant portion of aftermarket sales related to our products. Given the large and growing installed base of our products, we anticipate our aftermarket sales will be an increasing portion of our business.

Capitalize on strategic acquisition opportunities. Selective acquisitions enable us to gain manufacturing economies of scale, broaden our customer and product bases, and access complementary technologies. As a part of the continuing consolidation of the aerospace and defense industry, we believe there will continue to be numerous opportunities to achieve our objectives through strategic acquisitions. We typically target companies that are among the leaders in the markets they serve, possess growth potential, offer competitive advantages, and provide attractive rates of return on investment.

OUR ACQUISITION OF LEACH HOLDING CORPORATION

On August 27, 2004, we completed the acquisition of Leach Holding Corporation (Leach) for $145.0 million in cash before acquisition costs and an adjustment for the change in working capital of Leach between December 31, 2003 and the closing of the acquisition, pursuant to an Agreement and Plan of Merger dated as of July 8, 2004. For the twelve-month period ended March 31, 2004, Leach generated $118.7 million in revenues. Proceeds from this offering will be used to repay borrowings under our credit facility which were used to partially finance the acquisition and to replenish our cash position subsequent to the acquisition.

Leach is a manufacturer of electrical power switching, control and data communication devices for the aerospace industry and medical diagnostic, therapeutic and patient monitoring devices, and analytical, optical and biosensor instruments for medical, laboratory and industrial applications. The transaction significantly expands the scale of our existing aerospace operations and fits our strategic acquisition approach of consolidating manufacturers of superior aerospace components.

OUR CORPORATE INFORMATION

We were formed in Delaware in 1967. Our principal executive offices are located at 500 108th Avenue NE, Bellevue, Washington 98004 and our telephone number is (425) 453-9400. Our website address is www.esterline.com. Information contained on our website is not part of this prospectus supplement or the accompanying prospectus.

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The offering

Common stock we are offering	3,200,000 shares
Common stock to be outstanding after this offering	24,496,136 shares
New York Stock Exchange symbol	ESL
Use of proceeds	We intend to use the net proceeds from this offering to repay outstanding debt under our credit facility and for general corporate purposes, including funding potential future acquisitions and repaying or refinancing debt.

The number of shares of common stock to be outstanding after this offering is based on 21,296,136 shares outstanding as of July 30, 2004, excluding:

4 480,000 shares issuable upon exercise of the underwriters over-allotment option;

4 1,481,000 shares of common stock issuable upon exercise of options outstanding as of July 30, 2004, of which 888,250 options were exercisable at a weighted-average exercise price of $16.17 per share;

4 577,250 shares available for future grant under our equity incentive plan; and

4 186,187 shares available for future issuance under our employee stock purchase plan.

Unless otherwise stated, all information contained in this prospectus supplement assumes that the number of shares outstanding is as of July 30, 2004 and that the underwriters do not exercise their over-allotment option. As of October 29, 2004, the number of outstanding shares of the Company s common stock was 21,319,698.

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Summary consolidated financial data

The following summary consolidated financial information for each of the fiscal years ended October 31, 1999, October 27, 2000, October 26, 2001, October 25, 2002 and October 31, 2003 is derived from our audited consolidated financial statements and notes. The summary consolidated financial information as of and for each of the nine-month periods ended July 30, 2004 and August 1, 2003 are derived from our unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of our financial position and the results of operations for these periods. Operating results for the nine-month period ended July 30, 2004 are not necessarily indicative of the results that may be expected for the entire year ending October 29, 2004 or for any other future period. The summary consolidated financial information provided below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Use of Proceeds, the consolidated financial statements, the related notes, and other financial information, included elsewhere in this prospectus supplement.

Statement of operations data(1) in thousands, except per share amounts	For fiscal years					For nine months ended	For nine months ended
	1999	2000	2001	2002	2003	August 1, 2003	July 30, 2004
Net sales	$355,879	$372,551	$430,923	$434,809	$562,454	$402,128	$433,406
Cost of sales	212,062	229,516	269,582	293,236	383,825	277,179	295,955
Gross profit	143,817	143,035	161,341	141,573	178,629	124,949	137,451
Selling, general and administrative	85,150	81,968	81,103	79,086	107,797	77,704	84,318
Research, development and engineering	13,888	12,431	14,232	15,433	19,524	14,342	18,822
Operating earnings from continuing operations	44,779	48,636	66,006	47,054	51,308	32,903	34,311
Other (income) expense						62	(574)
Loss (gain) on sale of business(2)	(7,956)	(2,591)			66	66	
Insurance settlement(3)			(4,631)				
Loss (gain) on derivative financial instruments(4)			(786)	1	(2,676)	(2,622)	
Interest income	(2,859)	(2,205)	(3,307)	(1,814)	(868)	(565)	(1,047)
Interest expense	9,011	8,124	7,663	7,122	11,995	7,388	12,867
Income tax expense	16,342	15,764	24,428	10,461	13,050	8,245	4,924
Income from continuing operations	30,241	29,544	42,639	31,284	29,741	20,329	18,141
Income (loss) from discontinued operations, net of tax	(379)	3,043	(9,780)	(25,039)	(5,808)	(5,808)	1,298
Cumulative effect of a change in accounting principle(5)			(403)	(7,574)			
Net earnings (loss)	$ 29,862	$ 32,587	$ 32,456	$ (1,329)	$ 23,933	$ 14,521	$ 19,439
Earnings (loss) per share diluted:							
Continuing operations	$ 1.71	$ 1.68	$ 2.13	$ 1.49	$ 1.41	$ .97	$ .84
Discontinued operations	(.02)	.17	(.49)	(1.19)	(.28)	(.28)	.06
Cumulative effect of a change in accounting principle			(.02)	(.36)			
Earnings (loss) per share diluted	1.69	1.85	1.62	(.06)	1.13	.69	.90

The consolidated balance sheet data below sets forth certain balance sheet items at July 30, 2004 on (1) an actual basis and (2) an as adjusted basis to give effect to the receipt of the net proceeds by us of the sale of 3,200,000 shares of common stock in this offering, after deducting the estimated underwriting discounts and estimated offering expenses payable by us, and our acquisition of Leach on August 27, 2004 (except as otherwise described in the footnotes).

Consolidated balance sheet data(1) in thousands	As of July 30, 2004	
	Actual	As adjusted
Cash and cash equivalents and short-term investments(6)	$130,847	$ 89,428
Working capital	245,968	273,583
Total assets	796,240	988,668
Pension obligation		20,144
Long-term debt, net of current maturities	246,936	246,936
Retained earnings	286,039	286,039
Shareholders equity	425,274	530,876

Other selected data in thousands	For fiscal years					For nine months ended August 1, 2003	For nine months ended July 30, 2004
	1999	2000	2001	2002	2003		
EBITDA from continuing operations(7)	$61,432	$66,669	$83,562	$61,891	$75,734	$50,446	$57,802
Capital expenditures	$15,641	$15,489	$15,758	$15,709	$17,130	$11,320	$17,603
Interest expense	$ 9,011	$ 8,124	$ 7,663	$ 7,122	$11,995	$ 7,388	$12,867
Depreciation and amortization from continuing operations	$16,653	$18,033	$17,556	$14,837	$24,426	$17,543	$23,491

(1) *Operating results for 1999 through 2004 reflect the segregation of continuing operations from discontinued operations.*

(2) *The gain in fiscal 1999 relates to the sale of Federal Products Company. The gain in fiscal 2000 relates to the curtailment of retirement benefits for certain employees of Federal Products Co. resulting from the October 28, 1999 sale of that operation.*

(3) *The gain in fiscal 2001 relates to the recovery from the settlement of a disputed insurance claim.*

(4) *The gain in fiscal 2003 relates to the June 11, 2003 acquisition of the Weston Group for U.K. £55.0 million in cash (approximately $94.5 million based on the closing exchange rate and including acquisition costs). We hedged the U.K. £55.0 million cash price using foreign currency forward contracts and recorded a foreign currency gain of approximately $2.7 million at closing of the acquisition and settlement of foreign currency forward contracts.*

(5) *Effective at the beginning of fiscal 2002, we adopted Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (Statement No. 142). The new standard requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Due to the adoption of Statement No. 142, as described in Note 2 of our fiscal 2003 audited financial statements included elsewhere in this prospectus, we recorded a goodwill impairment of $7,574,000, net of an income tax benefit of $1,542,000, in fiscal 2002*

(6) *The as adjusted amount reflects the approximately $147.0 million cash acquisition price for Leach, including estimated acquisition costs and the estimated adjustment for working capital of Leach from December 31, 2003 until the closing of the acquisition, which was funded by existing cash and cash equivalents of approximately $124.0 million in cash on hand and approximately $23.0 million from our credit facilities, of which $5.0 million remained outstanding as of October 29, 2004.*

(7) *EBITDA from continuing operations is a measurement not calculated in accordance with GAAP. We define EBITDA from continuing operations as operating earnings from continuing operations plus depreciation and amortization. We do not intend EBITDA from*

continuing operations to represent cash flows from continuing operations or any other items calculated in accordance with U.S. generally accepted accounting principles (GAAP) or as an indicator of Esterline s operating performance. Our definition of EBITDA from continuing operations may not be comparable with EBITDA from continuing operations as defined by other companies. We believe EBITDA is commonly used by financial analysts and others in the aerospace and defense industries and thus provides useful information to investors.

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Our management uses EBITDA as one measure of our leverage capacity and debt servicing ability, and is shown here with respect to Esterline for comparative purposes. EBITDA is not necessarily indicative of the amounts that may be available for discretionary use by us. The following table reconciles operating earnings from continuing operations to EBITDA from continuing operations.

in thousands	For fiscal years 1999	2000	2001	2002	2003	For nine months ended August 1, 2003	For nine months ended July 30, 2004
Operating earnings from continuing operations	$44,779	$48,636	$66,006	$47,054	$51,308	$32,903	$34,311
Depreciation and amortization from continuing operations	16,653	18,033	17,556	14,837	24,426	17,543	23,491
EBITDA from continuing operations	$61,432	$66,669	$83,562	$61,891	$75,734	$50,446	$57,802

Risk factors

You should carefully consider the risks described below before making an investment decision. You should also refer to the other information in this prospectus supplement and the accompanying prospectus, including our financial statements and the related notes included, and incorporated by reference, into this prospectus supplement and the accompanying prospectus. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition would suffer. In that event the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed below also include forward looking statements and our actual results may differ substantially from those discussed in these forward looking statements.

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

Implementing our acquisition strategy involves risks and our failure to successfully implement this strategy could have a material adverse effect on our business.

One of our key strategies is to grow our business by selectively pursuing acquisitions. Since 1996 we have completed over 25 acquisitions, and we are continuing to actively pursue additional acquisition opportunities, some of which may be material to our business and financial performance. Although we have been successful with this strategy in the past, we may not be able to grow our business in the future through acquisitions for a number of reasons, including:

4 Encountering difficulties identifying and executing acquisitions;

4 Increased competition for targets, which may increase acquisition costs;

4 Consolidation in our industry reducing the number of acquisition targets;

4 Acquisition financing not being available on acceptable terms or at all; and

4 Competition laws and regulations preventing us from making certain acquisitions.

In addition, there are potential risks associated with growing our business through acquisitions, including the failure to successfully integrate and realize the expected benefits of an acquisition. For example, with any past or future acquisition, there is the possibility that:

4 The business culture of the acquired business may not match well with our culture;

4 Technological and product synergies, economies of scale and cost reductions may not occur as expected;

4 Management may be distracted from overseeing existing operations by the need to integrate acquired businesses;

4 We may acquire or assume unexpected liabilities;

4 Unforeseen difficulties may arise in integrating operations and systems;

4 We may fail to retain and assimilate employees of the acquired business;

4 We may experience problems in retaining customers and integrating customer bases; and

4 Problems may arise in entering new markets in which we may have little or no experience.

Failure to continue implementing our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

Our future financial results could be adversely impacted by asset impairment charges.

Effective the beginning of fiscal 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (Statement 142). As a result, we are required to test both acquired goodwill and other indefinite-lived intangible assets for impairment on an annual basis based upon a fair value approach, rather than amortizing them over time. We have chosen to perform our annual impairment reviews of goodwill and other indefinite-lived intangible assets during the fourth quarter of each fiscal year. We also are required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity s market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. If the market value is less than the book value of goodwill, we could be required to record an impairment charge. The valuation of reporting units requires 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. As we have grown through acquisitions, we have accumulated $191.8 million of goodwill, and have $7.2 million of indefinite-lived intangible assets, out of total assets of $796.2 million at July 30, 2004. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

We performed our impairment review for fiscal 2004 and believe that no charge will be made. It is possible, however, that as a result of events or circumstances, including completion of the annual audit process for the fiscal year ended October 29, 2004 we may conclude that goodwill of up to approximately $63.2 million at one of our reporting units may be considered impaired and that the entire such amount could be written off to expense.

We also may be required to record an earnings charge or incur unanticipated expenses if, due to a change in strategy or other reason, we determine that the value of other assets has been impaired.

The loss of a significant customer or defense program could have a material adverse effect on our operating results.

Some of our operations are dependent on a relatively small number of customers and defense programs, which change from time to time. Significant customers for the first nine months of 2004 included the U.S. Department of Defense, The Boeing Company, General Dynamics, Snecma, Honeywell, Lockheed Martin and Smiths Industries. There can be no assurance that our current significant customers will continue to buy our products at current levels. The loss of a significant customer or the cancellation of orders related to a sole source defense program could have a material adverse effect on our operating results if we were unable to replace the related sales.

Our operating results are subject to fluctuations that may cause our revenues to decline.

Our business is susceptible to seasonality and economic cycles, and as a result, our operating results have fluctuated widely in the past and are likely to continue to do so. Our revenue tends to fluctuate based on a number of factors, including domestic and foreign economic conditions and developments affecting the specific industries and customers we serve. For example, the events of September 11, 2001 and the downturn in commercial aviation, due to, among other things, the conflict in Iraq, have impacted our operations. It is possible that in the future our operating results in a particular quarter or quarters will not meet the expectations of securities analysts or investors, causing the market price of our common stock to decline. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance and should not be relied upon to predict our future performance.

Political and economic instability in foreign countries and markets may have a material adverse effect on our operating results.

Foreign sales were approximately 33% of our total sales in fiscal 2003, and we have manufacturing facilities in a number of foreign countries. Doing business in foreign countries is subject to numerous risks, including political and economic instability, restrictive trade policies of foreign governments, economic conditions in local markets, health concerns in foreign countries, inconsistent product regulation or unexpected changes in regulatory and other legal requirements by foreign agencies or governments, the imposition of product tariffs and the burdens of complying with a wide variety of international and U.S. export laws and differing regulatory requirements. To the extent that foreign sales are transacted in a foreign currency, we are subject to the risk of losses due to foreign currency fluctuations. In addition, we have substantial assets denominated in foreign currencies, primarily the U.K. pound and euro, that are not offset by liabilities denominated in those foreign currencies. These net foreign currency investments are subject to material changes in the event of fluctuations in foreign currencies against the U.S. dollar.

Among other things, we are subject to the Foreign Corrupt Practices Act (FCPA) which generally prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. In particular, we may be held liable for actions taken by our strategic or local partners even though our partners are not subject to the FCPA. Any determination that we have violated the FCPA could result in sanctions that could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to compete effectively.

Our products and services are affected by varying degrees of competition. We compete with other companies and divisions and units of larger companies in most markets we serve, many of which have greater sales volumes or financial, technological or marketing resources than we do. In fiscal 2003, our principal competitors included: Eaton, ECE and Eastprint in our Avionics & Controls segment; Ametek, MPC Products and Goodrich in our Sensors & Systems segment; and Transdigm, Dunlop Standard Aerospace Group and Meggitt in our Advanced Materials segment. The principal competitive factors in the commercial markets in which we participate are product performance, service and price. Maintaining product performance requires expenditures in research and development that lead to product improvement and new product introduction; companies with more substantial financial resources may have a better ability to make such expenditures. We cannot assure that we will be able to continue to successfully compete in our markets, which could adversely affect our business, financial condition and results of operations.

Our backlog is subject to modification or termination, which may reduce our sales in future periods.

We currently have a backlog of orders based on our contracts with customers. Under many of our contracts, our customers may unilaterally modify or terminate their orders at any time. In addition, the maximum contract value specified under a government contract awarded to us is not necessarily indicative of the sales that we will realize under that contract. For example, we are a sole-source prime contractor for many different military programs with the U.S. Department of Defense. We depend heavily on the government contracts underlying these programs. Over its lifetime, a program may be implemented by the award of many different individual contracts and subcontracts. The funding of government programs is subject to congressional appropriation.

Changes in defense procurement models may make it more difficult for us to successfully bid on projects as a prime contractor and limit sole-source opportunities available to us.

In recent years, the trend in combat system design and development appears to be evolving towards the technological integration of various battlefield components, including combat vehicles, command and control network communications, advanced technology artillery systems and robotics. If the U.S. military procurement approach continues to require this kind of overall battlefield combat system integration, we expect to be subject to increased competition from aerospace and defense companies who have significantly greater resources than we do. This trend could create a role for a prime contractor with broader capabilities that would be responsible for integrating various battlefield component systems and potentially eliminating or reducing the role of sole-source providers or prime contractors of component weapon systems.

The amount of debt we have outstanding, as well as any debt we may incur in the future, could have an adverse effect on our operational and financial flexibility.

As of July 30, 2004, we had $250.1 million of debt outstanding. Our primary U.S. dollar credit facility totals $60.0 million and is made available through a group of banks. The credit agreement is secured by substantially all of our assets. In addition, we have unsecured foreign currency credit facilities that have been extended by foreign banks for up to $6.2 million. Available credit under the above credit facilities was $55.8 million at July 30, 2004, when reduced by outstanding foreign bank borrowings of $2.7 million and letters of credit of $7.7 million. The indenture governing the notes and our other debt agreements limit, but do not prohibit, us from incurring additional debt in the future. Our level of debt could have significant consequences to our business, including the following:

4 Depending on debt maturities, a substantial portion of our cash flow from operations could be dedicated to paying principal and interest on our debt, thereby reducing funds available for our acquisition strategy, capital expenditures or other purposes;

4 A significant amount of debt could make us more vulnerable to changes in economic conditions or increases in prevailing interest rates;

4 Our ability to obtain additional financing for acquisitions, capital expenditures or for other purposes could be impaired;

4 The increase in the amount of debt we have outstanding increases the risk of non-compliance with some of the covenants in our debt agreements which require us to maintain specified financial ratios; and

4 We may be more leveraged than some of our competitors, which may result in a competitive disadvantage.

If we were unable to protect our intellectual property rights adequately, the value of our products could be diminished.

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret and copyright laws, we cannot assure you that the precautionary steps we have taken will completely protect our intellectual property rights. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. In the event a competitor successfully challenges our products, processes, patents or licenses or claims that we have infringed upon their intellectual property, we could incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

In addition to our patent rights, we also rely on unpatented technology, trade secrets and confidential information. Others may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our technology. We may not be able to protect our rights in unpatented technology, trade secrets and confidential information effectively. We require each of our employees and consultants to execute a confidentiality agreement at the commencement of an employment or consulting relationship with us. However, these agreements may not provide effective protection of our information or, in the event of unauthorized use or disclosure, they may not provide adequate remedies.

We may lose money or generate less than expected profits on our fixed-price contracts.

Our customers set demanding specifications for product performance, reliability and cost. Some of our government contracts and subcontracts provide for a predetermined, fixed price for the products we make regardless of the costs we incur. Therefore, we must absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of sales that we may achieve. Our failure to anticipate technical problems, estimate costs inaccurately, integrate technical processes effectively or control costs during performance of a fixed-price contract may reduce the profitability of a fixed-price contract or cause a loss. While we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price contracts, as required under GAAP, we cannot assure you that our contract loss provisions will be adequate to cover all actual future losses.

We depend on the continued contributions of our executive officers and other key management, each of whom would be difficult to replace.

Our future success depends to a significant degree upon the continued contributions of our senior management and our ability to attract and retain other highly qualified management personnel. We face competition for management from other companies and organizations. Therefore, we may not be able to retain our existing management personnel or fill new management positions or vacancies created by expansion or turnover at our existing compensation levels. Although we have entered into change of control agreements with some members of senior management, we do not have employment contracts with our key executives, nor have we purchased key-person insurance on the lives of any of our key officers or management personnel to reduce the impact to our company

that the loss of any of them would cause. Specifically, the loss of any of our executive officers would disrupt our operations and divert the time and attention of our remaining officers. Additionally, failure to attract and retain highly qualified management personnel would damage our business prospects.

A continued downturn in the aircraft market could adversely affect our business.

The aircraft industry is cyclical in nature and affected by many factors beyond our control. The current downturn in the aircraft market, which has been affected by the conflict in Iraq and is still being impacted by the events of September 11, 2001, has resulted in bankruptcy filings, restructurings and downsizing by the major commercial and regional airline carriers. This downturn has had and will likely continue to have an adverse effect on our business, financial condition and operating results.

The principal markets for manufacturers of commercial aircraft are the commercial and regional airlines, which are adversely affected by a number of factors, including fuel and labor costs, intense price competition, outbreak of infectious disease and terrorist attacks, as well as economic cycles, all of which can be unpredictable and are outside our control. Commercial aircraft production may increase or decrease in response to changes in customer demand caused by general economic conditions and the perceived safety and ease of airline travel.

The military aircraft industry is dependent upon the level of equipment expenditures by the armed forces of countries throughout the world, and especially those of the United States. Although the events of September 11, 2001 and the conflict in Iraq have increased the level of equipment expenditures by the U.S. Armed Forces, in the past this industry has been adversely affected by a number of factors, including the reduction in military spending since the end of the Cold War. Decreases in military spending could depress demand for military aircraft.

Any decrease in demand for new aircraft or use of existing aircraft will likely result in a decrease in demand of our products and services, and correspondingly, our revenues, thereby adversely affecting our business, financial condition and results of operations.

The market for our products may be affected by our ability to adapt to technological change.

The rapid change of technology is a key feature of all of the markets in which our businesses operate. To succeed in the future, we will need to design, develop, manufacture, assemble, test, market, and support new products and enhancements to our existing products in a timely and cost-effective manner. Historically, our technology has been developed through internal research and development expenditures, as well as customer-sponsored research and development programs. There is no guarantee that we will continue to maintain, or benefit from, comparable levels of research and development in the future. In addition, our competitors may develop technologies and products that are more effective than those we develop or that render our technology and products obsolete or noncompetitive. Furthermore, our products could become unmarketable if new industry standards emerge. We cannot assure that our existing products will not require significant modifications in the future to remain competitive or that new products we introduce will be accepted by our customers, nor can we assure that we will successfully identify new opportunities and continue to have the needed financial resources to develop new products in a timely or cost-effective manner.

Our business is subject to government contracting regulations, and our failure to comply with such laws and regulations could harm our operating results and prospects.

We estimate that approximately 29% of our sales in fiscal 2003 were attributable to contracts in which we were either the prime contractor to, or a subcontractor to a prime contractor to, the U.S. government. As a contractor and subcontractor to the U.S. government, we must comply with laws and regulations relating to the formation, administration and performance of federal government contracts that affect how we do business with our clients and may impose added costs on our business. For example, these regulations and laws include provisions that contracts we have been awarded are subject to:

4 protest or challenge by unsuccessful bidders; and

4 unilateral termination, reduction or modification in the event of changes in government requirements.

The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. Responding to governmental audits, inquiries or investigations may involve significant expense and divert management attention. Our failure to comply with these or other laws and regulations could result in contract termination, suspension or debarment from contracting with the federal government, civil fines and damages, and criminal prosecution and penalties, any of which could have a material adverse effect on our operating results.

A significant portion of our business depends on U.S. Government contracts, which contracts are often subject to competitive bidding, and a failure to compete effectively or accurately anticipate the success of future projects could adversely affect our business.

We obtain many of our U.S. Government contracts through a competitive bidding process that subjects us to risks associated with:

4 the frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and/or cost overruns;

4 the substantial time and effort, including design, development and marketing activities, required to prepare bids and proposals for contracts that may not be awarded to us; and

4 the design complexity and rapid rate of technological advancement of defense-related products.

In addition, in order to win the award of developmental programs, we must be able to align our research and development and product offerings with the government s changing concepts of national defense and defense systems. The government s termination of, or failure to fully fund, one or more of the contracts for our programs would have a negative impact on our operating results and financial condition. Furthermore, we serve as a subcontractor on several military programs that, in large part, involve the same risks as prime contracts.

Overall, we rely on key contracts with U.S. Government entities for a significant portion of our sales and business. A substantial reduction in these contracts would materially adversely affect our operating results and financial position.

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The airline industry is heavily regulated and if we fail to comply with applicable requirements, our results of operations could suffer.

Governmental agencies throughout the world, including the FAA, prescribe standards and qualification requirements for aircraft components, including virtually all commercial airline and general aviation products, as well as regulations regarding the repair and overhaul of aircraft engines. Specific regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. We include, with the replacement parts that we sell to our customers, documentation certifying that each part complies with applicable regulatory requirements and meets applicable standards of airworthiness established by the FAA or the equivalent regulatory agencies in other countries. In order to sell our products, we and the products we manufacture must also be certified by our individual OEM customers. If any of the material authorizations or approvals qualifying us to supply our products is revoked or suspended, then the sale of the subject product would be prohibited by law, which would have an adverse effect on our business, financial condition and results of operations.

From time to time, the FAA or equivalent regulatory agencies in other countries propose new regulations or changes to existing regulations, which are usually more stringent than existing regulations. If these proposed regulations are adopted and enacted, we may incur significant additional costs to achieve compliance, which could have a material adverse effect on our business, financial condition and results of operations.

Future asbestos claims could harm our business.

We are subject to potential liabilities relating to certain products we manufactured containing asbestos. To date, our insurance has covered claims against us relating to those products. Commencing November 1, 2003, insurance coverage for asbestos claims has been unavailable. However, we continue to have some insurance coverage for exposure to asbestos contained in our products prior to that date.

We continue to manufacture for one customer a product that contains asbestos. We have an agreement with the customer for indemnification for certain losses we may incur as a result of asbestos claims relating to that product, but we cannot assure you that this indemnification agreement will fully protect us from losses arising from asbestos claims.

To the extent we are not insured or indemnified for losses from asbestos claims relating to our products, asbestos claims could adversely affect our operating results and our financial condition.

Environmental laws and regulations may subject us to significant liability.

Our business and our facilities are subject to a number of federal, state, local and foreign laws, regulations and ordinances governing, among other things, the use, manufacture, storage, handling and disposal of hazardous materials and certain waste products. Among these environmental laws are rules by which a current or previous owner or operator of land may be liable for the costs of investigation, removal or remediation of hazardous materials at such property. In addition, these laws typically impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of any hazardous materials. Persons who arrange for the disposal or treatment of hazardous materials may be liable for the costs of investigation, removal or remediation of such substances at the disposal or treatment site, regardless of whether the affected site is owned or operated by them.

Because we own and operate a number of facilities that use, manufacture, store, handle or arrange for the disposal of various hazardous materials, we may incur costs for investigation, removal and

remediation, as well as capital costs, associated with compliance with environmental laws. Additionally, at the time of our asset acquisition of the Electronic Warfare Passive Expendables Division of BAE Systems North America, certain environmental remedial activities were required under a Part B Permit issued to the infrared decoy flare facility by the Arkansas Department of Environmental Quality under the Federal Resource Conservation and Recovery Act. The Part B Permit was transferred to our subsidiary, Armtec, along with the remedial obligations. Under the terms of the asset purchase agreement, BAE Systems agreed to complete all remedial obligations at the infrared decoy flare facility and to indemnify us for all environmental liabilities related to that facility to a maximum amount of $25.0 million. Although environmental costs have not been material in the past, we cannot assure that these matters, or any similar liabilities that arise in the future, will not exceed our resources, nor can we completely eliminate the risk of accidental contamination or injury from these materials.

We may be required to defend lawsuits or pay damages in connection with the alleged or actual harm caused by our products.

We face an inherent business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in harm to others or to property. For example, our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that has been designed, manufactured or serviced by us. We may incur significant liability if product liability lawsuits against us are successful. While we believe our current general liability and product liability insurance is adequate to protect us from future product liability claims, we cannot assure that coverage will be adequate to cover all claims that may arise. Additionally, we may not be able to maintain insurance coverage in the future at an acceptable cost. Any liability not covered by insurance or for which third-party indemnification is not available could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO THIS OFFERING

Lower trading volume and lower public ownership of our common stock may contribute to its price volatility.

The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In addition, the market price of our common stock, like that of our competitors, has been and may continue to be highly volatile. In particular, the volatility of our shares is influenced by lower trading volume and lower public ownership relative to other publicly held competitors. For example, our closing stock price has ranged from $34.91 per share to $21.80 per share since October 31, 2003. Our average weekly dollar trading volume for the nine months ended July 30, 2004 was approximately $12.7 million. Having a relatively significant percentage of our shares owned by long-term institutional holders means that our stock is relatively less liquid and thus more susceptible to large price fluctuations.

The following factors, among others, may have a significant impact on the market price of our common stock:

4 the sale or attempted sale of a large amount of our common stock into the market;

4 announcements of technological innovations or new commercial products by us or our competitors;

- announcements of acquisitions by us or our competitors; and
- publicity regarding actual or potential marketed products, or to products under development by us or our competitors.

Sales of a substantial number of our shares of common stock in the public market following this offering could adversely affect the market price of our common stock.

Upon completion of this offering, we will have 24,496,136 shares of common stock outstanding (based upon shares outstanding as of July 30, 2004), or 24,976,136 if the underwriters exercise their over-allotment option in full. All of these shares, including the 3,200,000 shares offered hereby (or approximately 3,680,000 shares if the underwriters over-allotment option is exercised in full) will be freely tradable without restriction or further registration under the Securities Act.

Our executive officers and directors, who together held 28,141 shares of common stock as of July 30, 2004 (all of which are eligible for sale under Rule 144 on the date of this offering), have entered into lock-up agreements with the Underwriters pursuant to which the holders have agreed not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, directly or indirectly, any of their shares of common stock, or any shares that they may acquire through the exercise of stock options or warrants, or to exercise any of their registration rights in respect of their shares of common stock, for a period of 90 days beginning on the date of this offering without the prior written consent of UBS Securities LLC on behalf of each of the Underwriters. See Underwriting.

As of July 30, 2004, options to purchase a total of 1,481,000 shares of common stock were outstanding under our equity plans, of which options for a total of 888,250 shares were then exercisable. Of the total options exercisable, options for 739,875 shares were held by executive officers and directors subject to the lock-up agreements described above.

We have a Shareholder Rights Plan providing for the distribution of one preferred stock purchase right for each share of common stock held. Each such right entitles the holder to purchase one one-hundredth of a share of our Series B Serial Preferred Stock at an exercise price of $161. These rights are exercisable and transferable apart from the common stock only if a person or group acquires beneficial ownership of 15.0% or more of our common stock or commences a tender offer or exchange offer which would result in a person or group beneficially owning 15.0% or more of our common stock. We can redeem the rights for $0.01 each at any time prior to the tenth day after an announcement that a person or group beneficially owns 15.0% or more of our common stock. When certain events occur, the holder of such a right can purchase, for the then current exercise price of the right, shares of our common stock (or under certain circumstances, as determined by our board of directors, cash, other securities or property) having a value of twice the exercise price of the right. When certain other events occur, the holder of each right would be entitled to purchase, at the exercise price of the right, shares of common stock of a corporation or other entity acquiring us or engaging in certain transactions with us, having a market value of twice the exercise price of the right.

In the future, we may sell additional shares of our common stock in subsequent public offerings. We may also issue additional shares of our common stock to finance future acquisitions. Additionally, a number of shares of our common stock are available for future sale pursuant to stock options that we granted to our employees to purchase shares of our common stock. We cannot predict the size of future issuances of our common stock or the effect, if any, that future sales and issuances of shares of our common stock would have on the market price of our

common stock. Sales of substantial amounts of our common stock (including shares issued upon the exercise of stock options or acquisition financing), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Forward-Looking Statements

This prospectus supplement and the accompanying prospectus contain forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, predict, should or will, or the negative of such ter terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under Risk Factors, that may cause our or our industry s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You should not place undue reliance on these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements.

Use of proceeds

We expect to receive approximately $105.6 million in net proceeds from the sale of the 3,200,000 shares of common stock offered by us in this offering, assuming a public offering price of $34.91 per share ($121.5 million if the underwriters exercise their over-allotment option in full), after deducting estimated underwriting discounts and commissions and offering expenses payable by us.

We intend to use the net proceeds from this offering (1) to repay $5.0 million of outstanding debt under our credit facility, which has an interest rate of 3.46% and a maturity date of November 29, 2004, and (2) for general corporate purposes, including funding potential future acquisitions and repaying or refinancing debt. Pending use of the net proceeds of this offering, we intend to invest the net proceeds in short-term interest-bearing investment grade instruments.

Price range of common stock

Our common stock trades on the New York Stock Exchange under the symbol ESL. The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on the New York Stock Exchange.

	High	Low
Fiscal year ended October 30, 2003		
First quarter	$19.90	$15.58
Second quarter	18.10	14.70
Third quarter	19.35	15.80
Fourth quarter	22.79	17.40
Fiscal year ended October 29, 2004		
First quarter	$29.55	$21.71
Second quarter	29.80	23.00
Third quarter	31.70	22.52
Fourth quarter	34.19	27.83
Fiscal year ending October 28, 2005		
First quarter (through November 10, 2004)	$35.27	$31.41

On November 10, 2004, the last reported sale price of our common stock on the New York Stock Exchange was $34.91 per share. As of October 29, 2004, there were approximately 600 holders of record of our common stock.

Dividend policy

We did not declare or pay any cash dividends on our capital stock during the 2002 and 2003 fiscal years or during the first three fiscal quarters of 2004. We currently intend to retain all future earnings for use to expand our business or retire debt obligations. We are restricted from paying dividends under our current credit facility and do not anticipate paying any dividends in the foreseeable future.

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Capitalization

The following table sets forth our capitalization as of July 30, 2004:

- on an actual basis; and
- on an as adjusted basis to reflect (1) the sale of the 3,200,000 shares of common stock offered by us at an assumed public offering price of $34.91 per share, less estimated underwriting discounts and commissions and offering expenses payable by us, and the application of these proceeds as set forth in the Use of Proceeds section, and (2) the acquisition of Leach on August 27, 2004.

The information set forth below should be read in conjunction with our consolidated financial statements and related notes included, and incorporated by reference, into this prospectus.

	As of July 30, 2004	
	Actual	**As Adjusted**
Cash and cash equivalents and short-term investments(1)	$130,847	$ 89,428
Credit facilities	2,727	4,919
Current portion of long-term debt	432	432
Long-term debt, net of current maturities	246,936	246,936
Total debt	250,095	252,287
Shareholders equity:		
Common stock, par value $0.20 per share; 60,000,000 shares authorized; 21,296,136 shares issued and outstanding, actual; 24,496,136 shares issued and outstanding, as adjusted	4,259	4,899
Additional paid in capital	120,265	225,227
Retained earnings	286,039	286,039
Accumulated other comprehensive loss	14,711	14,711
Total shareholders equity	425,274	530,876
Total capitalization	$675,369	$783,163

(1) The as adjusted amount reflects the approximately $147.0 million cash acquisition price for Leach, including estimated acquisition costs and the estimated adjustment for working capital of Leach from December 31, 2003 until the closing of the acquisition, which was funded by existing cash and cash equivalents of approximately $124.0 million in cash on hand and $23.0 million from our credit facilities, of which $5.0 million remained outstanding as of October 29, 2004.

This information does not include 1,481,000 shares reserved for issuance as of July 30, 2004 upon exercise of stock options outstanding under our equity plans, of which 888,250 options are exercisable at a weighted-average exercise price of $16.17 per share.

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Selected consolidated financial data

The following summary consolidated financial information for each of the fiscal years ended October 31, 1999, October 27, 2000, October 26, 2001, October 25, 2002 and October 31, 2003 is derived from our audited consolidated financial statements and notes. The summary consolidated financial information as of and for each of the nine-month periods ended July 30, 2004 and August 1, 2003 are derived from our unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of our financial position and the results of operations for these periods. Operating results for the nine-month period ended July 30, 2004 are not necessarily indicative of the results that may be expected for the entire year ending October 29, 2004 or for any other future period. The summary consolidated financial information provided below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Use of Proceeds, the consolidated financial statements, the related notes, and other financial information, included elsewhere in this prospectus supplement.

Statement of operations data(1) in thousands, except per share amounts	For fiscal years					For nine months ended	For nine months ended
	1999	2000	2001	2002	2003	August 1, 2003	July 30, 2004
Net sales	$355,879	$372,551	$430,923	$434,809	$562,454	$402,128	$433,406
Cost of sales	212,062	229,516	269,582	293,236	383,825	277,179	295,955
Gross profit	143,817	143,035	161,341	141,573	178,629	124,949	137,451
Selling, general and administrative	85,150	81,968	81,103	79,086	107,797	77,704	84,318
Research, development and engineering	13,888	12,431	14,232	15,433	19,524	14,342	18,822
Operating earnings from continuing operations	44,779	48,636	66,006	47,054	51,308	32,903	34,311
Other (income) expense						62	(574)
Loss (gain) on sale of business(2)	(7,956)	(2,591)			66	66	
Insurance settlement(3)			(4,631)				
Loss (gain) on derivative financial instruments(4)			(786)	1	(2,676)	(2,622)	
Interest income	(2,859)	(2,205)	(3,307)	(1,814)	(868)	(565)	(1,047)
Interest expense	9,011	8,124	7,663	7,122	11,995	7,388	12,867
Income tax expense	16,342	15,764	24,428	10,461	13,050	8,245	4,924
Income from continuing operations	30,241	29,544	42,639	31,284	29,741	20,329	18,141
Income (loss) from discontinued operations, net of tax	(379)	3,043	(9,780)	(25,039)	(5,808)	(5,808)	1,298
Cumulative effect of a change in accounting principle(5)			(403)	(7,574)			
Net earnings (loss)	$ 29,862	$ 32,587	$ 32,456	$ (1,329)	$ 23,933	$ 14,521	$ 19,439

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Selected consolidated financial data

Statement of operations data(1) in thousands, except per share amounts	For fiscal years					For nine months ended	For nine months ended
	1999	2000	2001	2002	2003	August 1, 2003	July 30, 2004
Earnings (loss) per share diluted:							
Continuing operations	$1.71	$1.68	$2.13	$ 1.49	$1.41	$ .97	$.84
Discontinued operations	(.02)	.17	(.49)	(1.19)	(.28)	(.28)	.06
Cumulative effect of a change in accounting principle			(.02)	(.36)			
Earnings (loss) per share diluted	1.69	1.85	1.62	(.06)	1.13	.69	.90

Consolidated balance sheet data(1) in thousands	As of Fiscal Year-End					As of July 30,
	1999	2000	2001	2002	2003	2004
Cash and cash equivalents and short-term investments	$ 80,980	$ 50,888	$119,940	$ 22,511	$144,160	$130,847
Working capital	140,908	121,621	219,206	121,237	222,439	245,968
Total assets	453,082	474,339	559,808	570,955	800,630	796,240
Long-term debt, net of current maturities	116,966	108,172	102,125	102,133	246,792	246,936
Retained earnings	178,953	211,540	243,996	242,667	266,600	286,039
Shareholders equity	224,620	249,695	350,295	354,441	393,872	425,274

Other selected data in thousands	For fiscal years					For nine months ended	For nine months ended
	1999	2000	2001	2002	2003	August 1, 2003	July 30, 2004
EBITDA from continuing operations(6)	$61,432	$66,669	$83,562	$61,891	$75,734	$50,446	$57,802
Capital expenditures	$15,641	$15,489	$15,758	$15,709	$17,130	$11,320	$17,603
Interest expense	$ 9,011	$ 8,124	$ 7,663	$ 7,122	$11,995	$ 7,388	$12,867
Depreciation and amortization from continuing operations	$16,653	$18,033	$17,556	$14,837	$24,426	$17,543	$23,491

(1) Operating results for 1999 through 2004 reflect the segregation of continuing operations from discontinued operations.

(2) The gain in fiscal 1999 relates to the sale of Federal Products Company. The gain in fiscal 2000 relates to the curtailment of retirement benefits for certain employees of Federal Products Co. resulting from the October 28, 1999 sale of that operation.

(3) The gain in fiscal 2001 relates to the recovery from the settlement of a disputed insurance claim.

(4) The gain in fiscal 2003 relates to the June 11, 2003 acquisition of the Weston Group for U.K. £55.0 million in cash (approximately $94.5 million based on the closing exchange rate and including acquisition costs). We hedged the U.K. £55.0 million cash price using foreign currency forward contracts and recorded a foreign currency gain of approximately $2.7 million at closing of the acquisition and settlement of foreign currency forward contracts.

(5)

Effective at the beginning of fiscal 2002, we adopted Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (Statement No. 142). The new standard requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Due to the adoption of Statement No. 142, as described in Note 2 of our fiscal 2003 audited financial statements included elsewhere in this prospectus, we recorded a goodwill impairment of $7,574,000, net of an income tax benefit of $1,542,000, in fiscal 2002.

Selected consolidated financial data

(6) *EBITDA from continuing operations is a measurement not calculated in accordance with GAAP. We define EBITDA from continuing operations as operating earnings from continuing operations plus depreciation and amortization. We do not intend EBITDA from continuing operations to represent cash flows from continuing operations or any other items calculated in accordance with GAAP, or as an indicator of Esterline s operating performance. Our definition of EBITDA from continuing operations may not be comparable with EBITDA from continuing operations as defined by other companies. We believe EBITDA is commonly used by financial analysts and others in the aerospace and defense industries and thus provides useful information to investors. Our management uses EBITDA as one measure of our leverage capacity and debt servicing ability, and is shown here with respect to Esterline for comparative purposes. EBITDA is not necessarily indicative of the amounts that may be available for discretionary use by us. The following table reconciles operating earnings from continuing operations to EBITDA from continuing operations.*

	For fiscal years					For nine months ended	For nine months ended
in thousands	1999	2000	2001	2002	2003	August 1, 2003	July 30, 2004
Operating earnings from continuing operations	$44,779	$48,636	$66,006	$47,054	$51,308	$32,903	$34,311
Depreciation and amortization for continuing operations	16,653	18,033	17,556	14,837	24,426	17,543	23,491
EBITDA from continuing operations	$61,432	$66,669	$83,562	$61,891	$75,734	$50,446	$57,802

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Management s discussion and analysis of financial condition and results of operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in and incorporated by reference into this prospectus supplement.

OVERVIEW

We view and operate our businesses in three segments: Avionics & Controls, Sensors & Systems and Advanced Materials. The Avionics & Controls segment designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles, secure communications systems, specialized medical equipment, and other industrial applications. The Sensors & Systems segment produces high-precision temperature and pressure sensors, fluid control components, micro-motors, motion control sensors, and other related systems, principally for aerospace and defense customers. The Advanced Materials segment develops and manufactures high-performance elastomer products used in a wide range of commercial aerospace and military applications and combustible ordnance components and electronic warfare countermeasure devices for military customers. Sales in all segments are both domestic and international and include defense and commercial customers.

Our current business and strategic plan focuses on the continued development of our products in three key technology segments avionics and controls, 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 and strive to anticipate the global needs of our customers and respond to such needs with comprehensive solutions. These efforts focus on continual research and new product development, acquisitions and establishing strategic realignments of operations to expand our capability to become a one-stop-shop supplier to our customers across our entire product offering. In fiscal year 2003, we completed four acquisitions at an aggregate cost of $111.7 million. So far in fiscal year 2004, we have completed an acquisition in our Avionics & Controls segment and an acquisition affecting both our Avionics & Controls and Sensors & Systems segments, at an aggregate cost of approximately $154 million, including the acquisition of Leach on August 27, 2004.

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. In fiscal year 2002, we recorded an after-tax loss from discontinued operations of $25.0 million. An additional charge of $5.8 million, net of a $3.5 million tax benefit, was recorded in fiscal year 2003 for losses in our discontinued operations. This additional charge was precipitated by prolonged weakness in electronics, telecommunications and heavy equipment markets, which led to higher operating losses and longer-than-expected holding periods for the discontinued operations. On July 23, 2003, we sold the assets of our Excellon Automation subsidiary and on August 31, 2004, we sold the remainder of our discontinued operations, W.A. Whitney, for $10.0 million. The gain on sale relating to the Whitney disposition will be recorded in the fourth quarter of fiscal 2004 and is expected to be approximately $11 million, including the reversal of estimated reserves, which are recognizable upon the sale of the business.

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Management s discussion and analysis of financial condition and results of operations

Our operations that focus on the commercial aerospace industry have two major sources of sales: sales of original equipment to aircraft manufacturers; and aftermarket sales, comprised of sales of replacement and spare parts and repair and overhaul services. The attacks of September 11, 2001 and the ongoing concerns of global terrorism have affected the profitability of the commercial aerospace industry and continue to impact our near term outlook for OEM sales and aftermarket business from aircraft operators. We believe, however, that improved security and safety measures over time will restore passenger confidence. Recently, some of the airline operating measures such as available seat miles, revenue passenger miles and active fleet have shown improvement. Longer term, we believe our commercial and regional aircraft business will benefit from increased passenger traffic. In addition, we believe the long term demand for business jets will support a recovery in this market.

RESULTS OF CONTINUING OPERATIONS

Nine month period ended July 30, 2004 compared with nine month period ended August 1, 2003

Year-to-date sales increased 7.8% when compared with the prior year period. Sales by segment were as follows:

dollars in thousands	Nine months ended August 1, 2003	Nine months ended July 30, 2004	Increase (decrease) from prior year
Avionics & Controls	$147,729	$147,313	(0.3)%
Sensors & Systems	102,465	125,967	22.9%
Advanced Materials	151,525	159,739	5.4%
Other	409	387	(5.4)%
Total	$402,128	$433,406	

Avionics & Controls sales were about equal with the prior year period. Incremental sales from the AVISTA acquisition in December 2003 of $6.7 million, increased sales of technology interface systems for land-based military vehicles, higher sales of cockpit grips and controls, and increased sales volumes of aftermarket cockpit switches were offset by lower sales volumes of specialized medical equipment and cockpit switch sales, which last year benefited from a defense retrofit program.

The 22.9% increase in sales of Sensors & Systems principally reflected $38.5 million in incremental sales from the Weston Group acquisition, and was partially offset by a reduction in distribution sales to the British MoD and the sale of a small product line in the second quarter of fiscal 2003. The increase also reflected a stronger Euro relative to the U.S. dollar, as the average exchange rate from the Euro to the U.S. dollar increased from 1.09 in the first nine months of fiscal 2003 to 1.22 in the first nine months of fiscal 2004.

The 5.4% increase in Advanced Materials reflected higher sales of countermeasure devices. These higher sales were partially offset by lower sales of combustible ordnance components due to reduced U.S. Army program requirements. Additionally, elastomer material sales to aerospace and defense customers decreased due to delinquencies and the postponement of space shuttle launches.

Overall, gross margin as a percentage of sales was 31.7% for the first nine months of fiscal 2004 compared with 31.1% for the first nine months of fiscal 2003. Segment gross margins ranged from 25.0% to 37.7% for the first nine months of fiscal 2004 compared with 27.1% to 33.8% during the same period in fiscal 2003. Avionics & Controls gross margin increased from the prior year period due to lower engineering expense, particularly in cockpit control products and incremental gross margin from the AVISTA acquisition. Sensors & Systems gross margin increased from the prior year period, reflecting improved sales mix of higher margin sales from the Weston acquisition and greater aftermarket spares sales. Advanced Materials gross margin declined when compared with the prior year period, reflecting higher sales volumes of lower margin flare countermeasure devices, decreased sales volume of elastomer material to aerospace and defense customers, acquisition integration expenses, production inefficiencies and higher workers compensation in elastomer material operations.

Selling, general and administrative expenses (which include corporate expenses) totaled $84.3 million and $77.7 million for the first nine months of fiscal 2004 and 2003, respectively, or 19.5% of sales for the first nine months of fiscal 2004 compared with 19.3% for the prior year period. The increase in selling, general and administrative expenses primarily reflected $4.5 million in severance expense in Sensors & Systems, increased amortization of intangible assets and incremental selling, general and administrative expenses due to fiscal 2003 and 2004 acquisitions.

Research, development and engineering expenses were $18.8 million, or 4.3% of sales, for the first nine months of fiscal 2004 compared with $14.3 million, or 3.6% of sales, for the first nine months of fiscal 2003. The increase in research, development and engineering expense principally reflected the acquisition of the Weston Group in the third quarter of fiscal 2003.

Segment earnings (operating earnings excluding corporate expenses) for the first nine months of fiscal 2004 totaled $46.6 million compared with $45.2 million for the prior year period. Avionics & Controls earnings were $22.7 million for the first nine months of fiscal 2004 compared with $20.9 million in the prior year period and principally reflected increased earnings from higher sales to defense original equipment manufacturer (OEM) customers, incremental earnings from the AVISTA acquisition and lower scrap and engineering costs. Sensors & Systems earnings were $5.2 million for the first nine months of fiscal 2004 compared with $6.7 million for the prior year period and primarily reflected $4.5 million in severance expense, including legal expenses covering 35 employees in engineering, production, quality, research and development and administration functions. In addition, nearly 20 employees elected early retirement or voluntarily resigned. Sensors & Systems earnings were also impacted by a decline in temperature and pressure sensors sales and sales to the British MoD for which we act as a distributor, as well as higher selling and engineering development expenses for motion control products. Furthermore, Sensors & Systems earnings also reflected the impact of a weaker U.S. dollar relative to the Euro on U.S. dollar-denominated sales and Euro-based operating expenses. Sensors & Systems earnings were favorably impacted by incremental earnings from the Weston Group acquisition and higher aftermarket spares sales. Advanced Materials earnings were $19.2 million for the first nine months of fiscal 2004 compared with $18.3 million for the prior year period. Advanced Materials earnings reflected increased earnings from higher sales volumes of chaff countermeasure devices. Additionally, Advanced Materials earnings were impacted by acquisition integration expenses, production inefficiencies and higher workers compensation in the elastomer material operations.

On June 11, 2003, we acquired a group of companies referred to as the Weston Group for U.K. £55.0 million in cash (approximately $94.5 million based on the closing exchange rate and including acquisition costs). We hedged the U.K. £55.0 million cash price using foreign currency

forward contracts and recorded a foreign currency gain of approximately $2.7 million at closing of the acquisition and settlement of foreign currency forward contracts.

Interest expense for the first nine months of fiscal 2004 was $12.9 million compared with $7.4 million for the prior year period, reflecting the additional interest expense on the $175.0 million of Senior Subordinated Notes issued in the third quarter of fiscal 2003.

The effective income tax rate for the first nine months of fiscal 2004 was 29.6% (before a $1.9 million reduction of previously estimated tax liabilities) compared with 28.9% for the prior year period. The effective tax rate differed from the statutory rate, as both years benefited from various tax credits. On February 4, 2004, we received a Notice of Proposed Adjustment (NOPA) from the Internal Revenue Service covering the audit of research and development tax credits for fiscal years 1997 through 1999. As a result of the NOPA and the expectation of a similar result for fiscal years 2000 through 2003, we revised our estimated liability for income taxes as of January 30, 2004. The revision resulted in a $1.9 million reduction of previously estimated tax liabilities.

During the first fiscal quarter of 2004, we sold land in Coachella, California, for cash and recorded a gain on sale of $577,000, which is included in other income.

New orders for the first nine months of fiscal 2004 were $463.7 million compared with $441.5 million for the same period in fiscal 2003. Avionics & Controls orders for the first nine months of fiscal 2004 increased 15.6% from the prior year period and reflected the acquisition of AVISTA and a $6.5 million cockpit panel retrofit order. Sensors & Systems orders for the first nine months of fiscal 2004 increased 27.5% from the prior year period and reflected higher order volumes and the timing of receiving orders. Advanced Materials orders for the first nine months of fiscal 2004 decreased 16.8% from the prior year period and reflected the timing of receiving countermeasure orders. Backlog at July 30, 2004 was $331.1 million compared with $321.2 million at August 1, 2003.

Fiscal 2003 compared with fiscal 2002

Sales for fiscal 2003 increased 29.4% over the prior year. Sales by segment were as follows:

dollars in thousands	2002	2003	Increase (decrease) from prior year
Avionics & Controls	$171,709	$198,249	15.5%
Sensors & Systems	104,942	146,976	40.1%
Advanced Materials	157,384	216,655	37.7%
Other	774	574	(25.8)%
Total	$434,809	$562,454	

The 15.5% increase in Avionics & Controls principally reflected improved sales volumes of specialized medical equipment, technology interface systems for land-based military vehicles and cockpit switches for a defense retrofit program. Shipments under the retrofit program were substantially completed in November 2003. The increase also reflected sales of $10.6 million from acquisitions of Janco Corporation (Janco) and a small product line in the third and fourth quarters of fiscal 2002, respectively. Airline spare sales were comparable to fiscal 2002 but were lower than

historical levels. After remaining stable through the first three quarters of fiscal 2003, orders declined 20.4% in the fourth quarter from the third quarter, primarily reflecting delays in orders for commercial aircraft cockpit displays and panels and multi-year orders received in the fourth quarter of fiscal year 2002. Full year order rates declined 1.2% compared with fiscal 2002. The decrease in full year orders reflected strong orders for specialized medical equipment offset by weak orders for commercial aircraft cockpit switches, displays and panels due to the airlines decision to defer the acquisition of certain retrofit equipment.

The 40.1% increase in Sensors & Systems principally reflected $25.5 million in incremental sales from the Weston Group and BVR Aero Precision Corporation (BVR) acquisitions in the third and first quarters of fiscal 2003, respectively. The increase also reflects a stronger euro relative to the U.S. dollar, as the average exchange rate from the euro to the U.S. dollar increased from 0.92 in fiscal 2002 to 1.09 in fiscal 2003. Sales were also bolstered by increased sales volumes of a product line for which we act as a distributor to the British Ministry of Defence (British MOD). These shipments to the British MOD were completed in May 2003. The increase in Sensors & Systems sales was partially offset by lower aftermarket spares sales. Although fourth quarter order volume was down 13.1% from the third quarter, order volume for fiscal 2003 increased 38.8% over fiscal 2002, primarily reflecting the acquisition of the Weston Group and its backlog in the third quarter of fiscal 2003 and the stronger euro relative to the U.S. dollar.

The 37.7% increase in Advanced Materials reflected incremental sales totaling $55.6 million from the acquisition of Burke Industries Engineered Polymers Group (Polymers Group) in the third quarter of fiscal 2002 and the Electronic Warfare Passive Expendables Division of BAE SYSTEMS North America (Countermeasures) in the fourth quarter of fiscal 2002. Sales were also enhanced by increased sales of combustible ordnance components. These sales increases were partially offset by lower sales of elastomer material to commercial aerospace and industrial/ commercial customers, principally reflecting the downturn in both markets as well as the suspension of NASA s shuttle flights.

Sales to foreign customers, including export sales by domestic operations, totaled $184.5 million and $140.1 million, and accounted for 32.8% and 32.2% of our sales for fiscal 2003 and 2002, respectively.

Overall, gross margin as a percentage of sales was 31.8% and 32.6% for fiscal 2003 and 2002, respectively. Gross margin by segment ranged from 28.3% to 34.0% in fiscal 2003, compared with 27.8% to 38.7% in the prior year. Avionics & Controls gross margin increased from fiscal 2002 due to solid sales to military OEMs, higher sales of input devices to medical and defense customers and improved cost control. Sensors & Systems gross margin declined from fiscal 2002 largely due to the effect of a weaker U.S. dollar compared to the euro on U.S. dollar-denominated sales and euro-based cost of sales and the increased sales of a product line for which we acted as a distributor and realized lower margins. In addition, Sensors & Systems gross margin was impacted by the shipment of acquired inventories of the Weston Group, which were valued at fair market value at acquisition in accordance with generally accepted accounting principles. The increase in Advanced Materials gross margin reflected higher sales volumes as well as improved product mix, and was partially offset by decreased recovery of fixed costs at our specialized metal finishing unit.

Selling, general and administrative expenses (which include corporate expenses) increased to $107.8 million in fiscal 2003 compared with $79.1 million in the prior year. As a percentage of sales, selling, general and administrative expenses were 19.2% and 18.2% in fiscal 2003 and 2002, respectively. The increase in selling, general and administrative expenses primarily reflected

increased amortization of intangible assets, incremental expenses from acquisitions completed in fiscal 2002 and 2003, the effect of a stronger euro relative to the U.S. dollar on selling, general and administrative expenses of our Sensors & Systems business, and increased pension and medical expenses.

Research, development and related engineering spending increased to $19.5 million, or 3.5% of sales, in fiscal 2003 compared with $15.4 million, or 3.5% 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) increased 15.0% during fiscal 2003 to $68.2 million compared to $59.3 million in the prior year. The 12.4% increase in Avionics & Controls reflected earnings from increased sales of specialized medical equipment, technology interface systems for land-based military vehicles, and cockpit switches to military OEMs, and was partially offset by higher selling, general and administrative expenses. The 18.3% decrease in Sensors & Systems was primarily due to the effect of a weaker U.S. dollar relative to the euro on U.S. dollar-denominated sales and euro-based operating expenses, integration expenses and the impact of the shipment of acquired inventories of the Weston Group, which were valued at fair market value at acquisition in accordance with generally accepted accounting principles. Advanced Materials earnings growth of 33.1% was principally from acquisitions and was partially offset by a three-week shutdown of a countermeasure facility in the second quarter of fiscal 2003. In addition, Advanced Materials earnings were impacted by lower sales of elastomer products to aerospace and industrial commercial customers, integration expenses and operating losses at our specialized metal finishing unit.

On June 11, 2003, we acquired a group of companies referred to as the Weston Group for U.K. £55.0 million in cash (approximately $94.5 million based on the closing exchange rate and including acquisition costs). We hedged the U.K. £55.0 million cash price using foreign currency forward contracts and recorded a foreign currency gain of approximately $2.7 million at closing of the acquisition and settlement of foreign currency forward contracts.

Interest income decreased to $0.9 million during fiscal 2003 compared with $1.8 million in the prior year, reflecting the use of cash and cash equivalents for acquisitions and a decline in prevailing interest rates. Interest expense increased to $12.0 million during fiscal 2003 compared with $7.1 million in the prior year, due to the issuance of $175.0 million in 7.75% Senior Subordinated Notes due June 15, 2013. In September 2003, we entered into an interest rate swap agreement on $75.0 million of our Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed interest rate for a variable interest rate on $75.0 million of the $175.0 million principal amount outstanding.

The effective income tax rate for continuing operations for fiscal 2003 was 30.5% compared with 25.1% in fiscal 2002. The effective tax rate differed from the statutory rate in fiscal 2003 and 2002, 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. Additionally, the relative effect of the export tax benefits and research and development tax credits was higher in fiscal 2002 due to the reduction in income from continuing operations before income taxes.

Income from continuing operations was $29.7 million, or $1.41 per share on a diluted basis, compared with $31.3 million, or $1.49 per share, in the prior year. Net earnings were $23.9 million, or $1.13 per share on a diluted basis in fiscal 2003, compared with a net loss of

$1.3 million, or ($.06) per share, in the prior year. Net earnings in fiscal 2003 included a loss of $5.8 million, or ($.28) per diluted share, from discontinued operations. The net loss in fiscal 2002 included a loss from discontinued operations of $25.0 million, or ($1.19) per diluted share and a $7.6 million charge, or ($.36) per diluted share, for the cumulative effect of an accounting change as a result of the adoption of Financial Accounting Standards Board No. 142, Goodwill and Other Intangible Assets (Statement No. 142).

Orders received in fiscal 2003 increased 17.5% to $581.6 million from $495.0 million in the prior year. Backlog at the end of fiscal 2003 was $300.9 million compared with $281.7 million at the end of the prior year. Backlog increased sequentially from the fourth quarter of fiscal 2002 to the third quarter of fiscal 2003, principally reflecting the increase in combustible ordnance component orders and the acquisition of the Weston Group on June 11, 2003. The acquisition of the Weston Group represented approximately $15.4 million of the increase in backlog from fiscal 2002. Avionics & Controls backlog declined sequentially from the end of the fourth quarter of fiscal 2002 to October 31, 2003, reflecting lower orders for cockpit switches, panels and displays.

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	2001	2002	Increase (decrease) from prior year
Avionics & Controls	$ 172,547	$ 171,709	(0.5)%
Sensors & Systems	101,916	104,942	3.0%
Advanced Materials	151,352	157,384	4.0%
Other	5,108	774	(84.8)%
Total	$ 430,923	$ 434,809	

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 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 the Polymers Group in the third quarter of fiscal 2002 and the acquisition of 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 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.

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 was approximately equal to the statutory rate in fiscal 2001. The decrease in the effective tax rate from fiscal 2001 reflected 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.

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 fiscal 2001 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.

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. We 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.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and short-term investments at July 30, 2004 totaled $130.8 million, a decrease of $13.4 million from October 31, 2003. Net working capital increased to $246.0 million at July 30, 2004 from $222.4 million at October 31, 2003. Sources of cash flows from operating activities principally consist of cash received from the sale of products offset by cash payments for material, labor and operating expenses. Cash flows from operating activities were $38.3 million and $36.8 million in the first nine months of fiscal 2004 and 2003, respectively. The increase

principally reflected higher net earnings and cash receipts from accounts receivable collections, substantially offset by a $10.2 million increase in cash paid for interest and increased purchases of inventories. The additional interest expense paid principally related to the $175.0 million of Senior Subordinated Notes, which require semi-annual interest payments in December and June. The decrease in cash flows used by investing activities primarily reflected the acquisition of the Weston Group in the third fiscal quarter of 2003. The decrease in cash provided by financing activities principally reflected the issuance of $175.0 million of Senior Subordinated Notes in the prior year s third fiscal quarter and the repayment of $30.0 million of the 1999 Senior Notes in accordance with their terms in the first nine months of fiscal 2004.

Capital expenditures, consisting of machinery, equipment and computers, are anticipated to be approximately $25.0 million during fiscal 2004, compared with $17.1 million expended in fiscal 2003. Capital expenditures for the first nine months of 2004 totaled $17.6 million, primarily for machinery and equipment and enhancements to information systems.

Total debt at July 30, 2004 was $250.1 million and consisted of $175.0 million of Senior Subordinated Notes, $70.0 million of 1999 Senior Notes and $5.1 million of various foreign currency debt agreements, including capital lease obligations. The Senior Subordinated Notes mature June 15, 2013, bear interest at 7.75% and contain covenants, including restrictions on incurrence of additional debt in certain circumstances, repurchase of our common stock, declaration of dividends, retirement or redemption of subordinated debt, creation of liens and certain asset dispositions. We are in compliance with these covenants and do not view the restrictions as limiting our planned activities. In September 2003 we entered into an interest rate swap agreement on $75.0 million of our Senior Subordinated Notes due in 2013. The swap agreement exchanged the fixed rate for a variable interest rate on $75.0 million of the $175.0 million principal amount outstanding, which is subject to interest rate risk. The 1999 Senior Notes have maturities ranging from November 2005 to 2008 and interest rates from 6.4% to 6.77%. We have a credit facility totaling up to $60.0 million of borrowing capacity. An additional $6.2 million of unsecured foreign currency credit facilities have been extended by foreign banks for a total of $66.2 million available companywide. Available credit under the above credit facilities was $55.8 million at July 30, 2004, when reduced by outstanding borrowings of $2.7 million and letters of credit of $7.7 million. The facility is secured by substantially all of our assets. The credit agreement for the facility contains covenants, including but not limited to, restrictions on liens, making certain investments in third parties, capital expenditures, incurrence of additional indebtedness, repurchase of our common stock, declaration of dividends and certain asset dispositions. In addition, the credit agreement requires that we comply with certain financial covenants, including a maximum leverage ratio, a fixed charge coverage ratio, a total debt to capitalization ratio and a minimum tangible net worth. As of July 30, 2004, we were in compliance with these covenants under the credit facility. We believe cash on hand and funds generated from operations are adequate to service operating cash requirements and capital expenditures through July 2005. In addition, we believe that we have adequate access to capital markets to fund future acquisitions.

On August 3, 2004, we filed a shelf registration statement on Form S-3 registering $300.0 million of equity and debt securities, which was declared effective on August 25, 2004. The shelf registration statement enables us to issue equity and debt securities in response to market conditions.

On August 27, 2004, we acquired all of the outstanding capital stock of Leach Holding Corporation (Leach), a $119 million (sales) manufacturer of electrical power switching, control

and data communication devices for the aerospace industry for approximately $145.0 million in cash before acquisition costs and an adjustment for the change in working capital from December 31, 2003 to closing, pursuant to an Agreement and Plan of Merger dated as of July 8, 2004. Leach also manufactures medical diagnostic, therapeutic and patient monitoring devices, and analytical, optical and biosensor instruments for medical, laboratory and industrial applications. The acquisition will expand our capabilities in providing solutions to its customers complex engineering requirements. The aerospace business will be included in the Sensors & Systems segment and the medical business will be included in the Avionics & Controls segment. We used existing cash and our credit facilities to finance the acquisition.

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 significant operations in France, Germany and the United Kingdom, historically we have not experienced material gains or losses due to interest rate or foreign exchange fluctuations. In fiscal 2004, the foreign exchange rate for the Euro increased 11.5% 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 allowance for doubtful accounts receivable, 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 recognize revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collectibility is reasonably assured. We generally recognize revenues at the point of shipment based upon the terms of sale. Sales are net of returns and allowances. Returns and allowances are not significant because products are manufactured to customer specification and are covered by the terms of the product warranty.

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 specific identification, collection history and creditworthiness of the debtor.

We account for inventories on a first-in, first-out or average cost 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. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement No. 144). 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. 144 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.

For business segments disposed of prior to the implementation of Statement No. 144 in fiscal 2003, namely the Automation segment, we accounted 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 of 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 December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (Statement No. 148). This Statement amends the transition alternatives for companies choosing to adopt the fair value method of accounting for the compensation cost of options issued to employees and requires additional disclosure on all stock-based compensation plans. We adopted the disclosure provisions in the first quarter of fiscal 2003.

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. Adoption of Statement No. 146 in the first quarter of fiscal 2003 did not have a material effect on our financial statements.

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. Adoption of Statement No. 144 in the first quarter of fiscal 2003 did not have a material effect on our financial statements.

Business

OVERVIEW

We are a leading specialized manufacturing company principally serving aerospace and defense customers. Our strategy is to maintain a leadership position in niche markets for the development and manufacture of highly engineered products that are essential to our customers. Our current business and strategic growth plan focuses on the continued development of these products in three key technology segments avionics and controls, 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 and strive to anticipate the global needs of our customers and to respond to such needs with comprehensive solutions. Our products are often mission-critical equipment, which have been designed into particular military and commercial platforms and in certain cases can only be replaced by products of other manufacturers following a formal certification process.

Our products have a long history in the aerospace and defense industry and are found on most military and commercial aircraft, helicopters, and land-based systems. For example, our products are used on the majority of active and in-production U.S. military aircraft and every Boeing commercial aircraft platform manufactured in the past 65 years. In addition, our products are supplied to Airbus, all of the major regional and business jet manufacturers, and the major aircraft engine manufacturers. We differentiate ourselves through our engineering and manufacturing capabilities and our reputation for quality, reliability, and innovation. We work closely with OEMs on new, highly engineered product designs, which often results in our products being designed into their platforms; this integration often results in sole-source positions for OEM production and aftermarket business.

In the fourth quarter of fiscal 2002, we redefined our business segments to correspond with the way we are now organized and managed. Accordingly, we now view our business in the segments of Avionics & Controls, Sensors & Systems and Advanced Materials. The Avionics & Controls segment designs and manufactures technology interface systems for military and commercial aircraft and land- and sea-based military vehicles, secure communications systems, specialized medical equipment, and other industrial applications. The Sensors & Systems segment produces high-precision temperature and pressure sensors, fluid control components, micro-motors, motion control sensors, and other related systems, principally for aerospace and defense customers. The Advanced Materials segment develops and manufactures high-performance elastomer products used in a wide range of commercial aerospace and military applications, and combustible ordnance and military applications for military customers. Sales in all segments are both domestic and international.

Our sales are diversified across three broad markets: defense, commercial aerospace, and general industrial. In recent years, we estimate that we derived approximately 40% of our sales from the defense market, 40% from the commercial aerospace market and 20% from the general industrial market.

INDUSTRY OVERVIEW

The aerospace and defense industry is highly fragmented, consisting of a large number of small, specialized companies and a smaller number of large, well-capitalized companies with a broad

range of capabilities. The industry has experienced and continues to experience significant consolidation. Aircraft manufacturers and defense prime contractors are increasingly favoring suppliers with the technical skills, experience and product breadth to integrate components and supply complete systems. This trend favoring the most capable suppliers is further supported by customers desire to reduce the number of overall suppliers and steps within the supply chain to improve efficiency. These developments have resulted in significant consolidation among suppliers seeking additional capabilities, product breadth, resources, and expertise to best meet evolving customer needs. We believe we are well positioned to benefit from these consolidation and outsourcing trends, with a solid reputation for performance and a proven ability to identify, execute and integrate strategic acquisitions.

The outlook for U.S. defense spending is positive, driven in large measure by changing strategic and tactical threats, the war on terrorism, and broad political support. The Bush administration s proposed fiscal 2005 U.S. Department of Defense budget of approximately $402 billion reflects the Bush administration s new defense strategy, which calls for a focus on the capabilities needed to counter 21st century threats such as terrorism. The proposed fiscal 2005 budget requests over $74 billion for procurement and over $68 billion for RDT&E. Procurement and RDT&E, together known as defense investment spending, represent the principal source of fundings for most defense contractors. While it is impossible to predict the effect that defense investment spending will have on our business, we expect to benefit to the extent that spending is allocated to the procurement and upgrade of military aircraft, helicopters and combustible ammunition components.

Our operations that focus on the commercial aerospace industry have two major sources of sales: sales of original equipment to aircraft manufacturers; and aftermarket sales, comprised of sales of replacement and spare parts and repair and overhaul services. According to the Aerospace Industries Association, commercial aerospace sales of aircraft, engines and parts totaled $34 billion in 2003. The attacks of September 11, 2001 and the ongoing concerns of global terrorism have affected the profitability of the commercial aerospace industry and continue to impact our near term outlook for OEM sales and aftermarket business from aircraft operators. We believe, however, that improved security and safety measures over time will restore passenger confidence. Recently, some of the airline operating measures such as available seat miles, revenue passenger miles and active fleet have shown improvement. Longer term, we believe our commercial and regional aircraft business will benefit from increased passenger traffic. In addition, we believe the long term demand for business jets will support a recovery in this market.

OUR BUSINESS SEGMENTS

Avionics & Controls

Principal operations for our Avionics & Controls business segment are conducted through Korry Electronics Co., which focuses on technology interface systems for commercial and military aircraft and land- and sea-based military vehicles, and Advanced Input Devices, Inc., which focuses on comparable devices for secure communications systems, specialized medical equipment, and other industrial applications.

We are a market leader in the development, manufacturing and marketing of sophisticated high reliability technology interface systems for commercial and military aircraft. These products include lighted push-button and rotary switches, keyboards, lighted indicators, panels and displays that are used in a broad variety of control and display applications. They have been integrated into many existing aircraft designs, including every Boeing commercial aircraft platform currently in

production. This large installed base provides us with a significant spare parts and retrofit business. In addition, we manufacture control sticks, grips and wheels, as well as specialized switching systems. In this area, we primarily serve commercial and military aviation, and airborne and ground-based military equipment manufacturing customers. For example, we are a leading manufacturer of pilot control grips for most types of military fighter jets and helicopters.

Our proprietary products meet critical operational requirements and provide customers with significant technological advantages in such areas as night vision compatibility (a technology enabling display screens to be read using night vision equipment), and backlighting for active-matrix liquid-crystal displays (a technology enabling pilots to read display screens in a variety of light conditions as well as from extreme angles). Our products are incorporated in a wide variety of programs including the AH-64 Apache and H-60 Black Hawk helicopters; the F-117 Nighthawk, C-17 Globemaster III, F-14 Tomcat, F-15 Eagle, F-16 Fighting Falcon, and F/A-18 Super Hornet fixed-wing military aircraft; Canadair regional jets; and Cessna, Gulfstream and Saab business jets. For the nine months ended July 30, 2004, some of our largest customers for these products included The Boeing Company, the U.S. Department of Defense, Smiths Industries, BAE Systems, Honeywell, Lockheed Martin and General Dynamics.

We are also a supplier in custom input integration with a full line of keyboard switch and input technologies for specialized medical equipment, communications systems and comparable equipment for military applications. These products include custom keyboards, keypads, and input devices that integrate cursor control devices, bar-code scanners, displays, laser pointers, and voice activation. We have developed a wide variety of technologies, including plastic and vinyl membranes that protect high-use switches and fully depressible buttons, and backlighted elastomer switch coverings that are resistant to exposure from harsh chemicals. These technologies now serve as the foundation for a small but growing portion of our product line. For the nine months ended July 30, 2004, some of our largest customers for these products included the U.S. Department of Defense, General Electric, Lockheed Martin, Siemens, Phillips and Dictaphone.

Sensors & Systems

Principal operations for our Sensors & Systems business segment are conducted through Weston Aerospace and Auxitrol S.A., which specializes in the development and manufacture of sensors and controls. We are a market leader in continental Europe with growing positions in the United States and United Kingdom in the manufacture of high-precision temperature and pressure sensing devices, fluid control components, micro-motors, motion control sensors, and other related systems used primarily in aerospace applications. For example, we are the sole-source supplier of temperature probes for use on all versions of the General Electric/ Snecma CFM-56 jet engine. The CFM-56 has an installed base of over 13,000 engines, is standard equipment on new generation Boeing 737 aircraft and has been selected as the engine for approximately 40% of all Airbus aircraft delivered to date. The principal customers for these products are jet engine manufacturers, airframe manufacturers, petroleum companies and electric utilities. For the nine months ended July 30, 2004, some of our largest customers for these products included Snecma, the British Ministry of Defence, Rolls Royce, Pratt & Whitney, General Electric, BAE Systems, Goodrich, Honeywell, Airbus and Air France.

Advanced Materials

Our Advanced Materials business segment focuses on process-related technologies. Our operations are primarily conducted through Kirkhill-TA Co., which specializes in the design and manufacture of high-performance elastomer products, and Armtec Defense Products Co., which specializes in

the manufacture of molded fiber cartridge cases, mortar increments, igniter tubing, other combustible ammunition components and electronic warfare countermeasure devices.

Specialized High-Performance Applications. We specialize in the development of proprietary formulations for silicone rubber and other elastomer products. Our elastomer products are engineered to address specific customer requirements where superior performance in high temperature, high pressure, caustic, abrasive and other difficult environments is critical. These products include thermal fire barrier insulation products and precision metal components, seals, tubing and coverings designed in custom-molded shapes. Some of the products include proprietary elastomers that are specifically designed for use on or near a jet engine. We are a leading U.S. supplier of high-performance elastomer products to the aerospace industry, with our primary customers for these products being jet and rocket engine manufacturers, commercial and military airframe manufacturers, as well as commercial airlines. For the nine months ended July 30, 2004, some of the largest customers for these products included Goodrich, The Boeing Company, Bombardier, the U.S. Department of Defense, Honeywell, Pratt & Whitney, KAPCO, Northrop Grumman and Alliant Techsystems.

Other Defense Applications. We develop combustible ordnance and electronic warfare countermeasure devices for military customers. We manufacture molded fiber cartridge cases, mortar increments, igniter tubing and other combustible ammunition components primarily for the U.S. Department of Defense. We are currently the sole supplier of combustible casings utilized by the U.S. Armed Forces. Sales are made either directly to the U.S. Department of Defense or through prime contractors, Alliant Techsystems and General Dynamics. These products include the combustible case for the U.S. Army s new generation 155mm Modular Artillery Charge System, the 120mm combustible case used with the main armament system on U.S. Army and Marine Corps M1-A1/2 tanks, and the 60mm, 81mm and 120mm combustible mortar increments. We are also currently the only U.S. supplier of radar countermeasure chaff and one of three suppliers to the U.S. Army of infrared decoy flares used by aircraft to help protect against radar and infrared guided missiles.

COMPETITIVE STRENGTHS

Leading Positions in Niche Markets with High Barriers to Entry. We are well established and highly regarded in each of our markets, and benefit from decades of experience in our specialized niches. With a long-standing position in our markets, we also benefit from high barriers to entry in our industry. The long-term nature of aircraft manufacturing programs and the extensive FAA and OEM certification process for manufacturing original equipment and replacement parts make our market niches difficult for new competitors to enter. Similarly, new programs tend to favor suppliers with extensive industry experience.

Broad, Diversified Product Offerings and Customer Base Within Our Markets. We operate in three market segments and offer a wide selection of products for a broad range of platforms to a large customer base. This diversification provides us with reduced exposure to cyclical declines in any one sector or to any one customer or program, allowing for better long-term business planning and more stable short-term results.

Solid Position in Defense Sector. We are a leading supplier of vital military systems, munitions, and aircraft components to U.S. and foreign military customers. We estimate that U.S. government (primarily U.S. Department of Defense) contracts and subcontracts accounted for approximately 29% of our fiscal 2003 sales, while total military sales were approximately 40%. We have been

able to capitalize on our position as a prominent supplier to the U.S. Department of Defense, as defense spending has increased significantly in recent years.

Significant Sole-Source and Aftermarket Sales. We focus on working with our customers on new product designs, which typically result in sole-source positions, both in OEM production and in recurring aftermarket sales. Most of our sales are driven by proprietary designs, preferred supplier positions and industry expertise. The large installed base of our products and our position as a sole-source supplier on many programs typically allow us to capture higher gross margins on aftermarket sales.

Product Innovation and Technological Leadership. We have a proven capability to deliver specialized products designed to perform in demanding applications and environments. Our continued focus on our engineering and design capabilities positions us to exploit new and innovative product opportunities. Our investment in research and development is closely aligned with our customers requirements.

Experienced Management Team. Our senior executives have an average of 17 years experience with Esterline and a proven record of accomplishment in the aerospace and defense sectors. The team combines extensive market knowledge with entrepreneurial spirit, making it highly sensitive to new market opportunities and cost savings. Our experienced management team has a proven track record of seeking out, executing, and integrating complementary strategic acquisitions. Management has successfully completed over 25 acquisitions since 1996.

BUSINESS STRATEGY

Focus on niche markets with high barriers to entry. The long-term nature of defense and aerospace manufacturing programs, combined with high product development costs and extensive certification requirements, make our markets difficult to enter. Once a supplier s products have been selected for a particular platform, replacement of that supplier typically involves significant cost and a lengthy testing and certification process. In addition, new programs favor suppliers with extensive industry experience and a reputation for sustained performance.

Focus on manufacturing highly engineered, proprietary products. We have developed specialized, value-added product lines that enable us to capture leading positions in our niche markets. We will continue to provide solutions to our customers difficult technical issues through sustained investment in research and new product development, which in the past three fiscal years has ranged from 3-4% of sales. In addition, a substantial portion of our research and development effort is conducted and funded in conjunction with our customers, further solidifying our position as the supplier of choice.

Selectively expand our technologies and products into new markets. We are applying our technical expertise and capabilities gained from work in our core technologies to other closely aligned markets. Examples include the successful application of certain of our aerospace technologies into military land-based systems, such as specialized control panels for the commander s consoles of M1-A1/2 Abrams tanks and Bradley Fighting Vehicles, and into medical equipment, such as specialized input devices for MRI systems.

Continue to grow and capitalize on aftermarket opportunities. Aftermarket sales, including retrofits, are generally more profitable and have more stability than OEM sales. In addition, the safety and regulatory requirements of the commercial and military aerospace sectors generate recurring repair and replacement activity. We therefore aggressively market spare parts and repair

services directly to our customers and end-users. To complement our original equipment sales, we are increasing our aftermarket participation by leveraging our relationships with OEMs and end-users. Our reputation for quality and sole-source supplier status for many parts has allowed us to capture a significant portion of aftermarket sales related to our products. Given the large and growing installed base of our products, we anticipate our aftermarket sales will be an increasing portion of our business.

Capitalize on strategic acquisition opportunities. Selective acquisitions enable us to gain manufacturing economies of scale, broaden our customer and product bases, and access complementary technologies. As a part of the continuing consolidation of the aerospace and defense industry, we believe there will continue to be numerous opportunities to achieve our objectives through strategic acquisitions. We typically target companies that are among the leaders in the markets they serve, possess growth potential, offer competitive advantages, and provide attractive rates of return on investment.

Consistent with our deliberate and focused strategy of selectively making business acquisitions that promote our long-term growth objectives, we have completed over 25 acquisitions since 1996, including the following:

Acquired company	Product line	Segment	Date of acquisition
Leach Holding Corporation	Manufacturer of electrical power switching, control and data communication devices for aerospace and medical diagnostic, therapeutic and patient monitoring devices, and analytical, optical and biosensor instruments for medical, laboratory and industrial applications	Sensors & Systems and Avionics & Controls	August 2004
AVISTA, Incorporated	Developer and tester of mission critical software for aerospace, medical and industrial applications	Avionics & Controls	December 2003
Weston Aerospace	Supplier of sensors for measurement of temperature, rotational speed, torque and density	Sensors & Systems	June 2003
BVR Aero Precision, Inc.	Manufacturer of precision gears and electronic data concentrators	Sensors & Systems	January 2003
Electronic Warfare Passive Expendables Division of BAE Systems North America	Manufacturer of chaff and infrared decoy flares	Advanced Materials	August 2002
Janco Corporation	Manufacturer of aircraft rotary switches, potentiometers and sophisticated modular control systems	Avionics & Controls	June 2002
Engineered Polymers Group of Burke Industries	Manufacturer of aerospace seals and other high- performance products	Advanced Materials	April 2002
Aerospace knobs and indicator product lines of Dupree, Inc.	Manufacturer of lighted control knobs and indicators, night vision filters and lamps	Avionics & Controls	January 2001
Surftech Finishes Co.	Metal-finishing company specializing in aerospace aluminum products	Advanced Materials	April 2000
Advanced Input Devices Co.	Manufacturer of custom-made keyboard and other multi-function data input subsystems	Avionics & Controls	December 1999
Muirhead Aerospace (Norcroft Dynamics and Muirhead Vactric)	Manufacturers of micro-motors and motion controls	Sensors & Systems	October 1999

Acquired company	Product line	Segment	Date of acquisition
Kirkhill Rubber Co.	Manufacturer of specialty rubber and elastomer products	Advanced Materials	August 1998
Memtron Technologies Co.	Manufacturer of membrane switches	Avionics & Controls	May 1998
Kai R. Kuhl Co.	Manufacturer of high-performance seals for aerospace	Advanced Materials	January 1998
Aerospace switch operations of Illinois Tool Works	Manufacturer of Boeing 777 cockpit switch	Avionics & Controls	November 1997
Pressure Sensor Division of Sagem S.A.	Manufacturer of pressure sensors	Sensors & Systems	November 1997
Fluid Regulators Co.	Manufacturer of hydraulic controls for aerospace markets	Sensors & Systems	November 1997
Mason Electric Co.	Manufacturer of flight controls and specialized switching products	Avionics & Controls	August 1996

MARKETING AND DISTRIBUTION

We believe that a key to continued success is our ability to meet customer requirements both domestically and internationally. We have and will continue to improve our sales and distribution channels in order to provide a wider variety of products and to improve the effectiveness of our customers supply chain. For example, we recently opened in Shanghai, China a medical device assembly operation to better service our global medical customers. In addition, we opened a service center in Shanghai for our temperature sensor customers. Other enhancements include combining sales and marketing forces of our operating units where appropriate, cross-training our sales representatives on multiple product lines, and cross-stocking our spare parts and components.

In the technical and highly engineered product segments in which we compete, relationship selling is particularly appropriate in targeted marketing segments where customer and supplier design and engineering inputs need to be tightly integrated. Participation in industry trade shows is an effective method of meeting customers, introducing new products, and exchanging technical specifications. In addition to technical and industry conferences, our products are supported through direct internal international sales efforts, as well as through manufacturer representatives and selected distributors. As of July 30, 2004, 137 sales people, 149 representatives, and 103 distributors supported our operations internationally.

BACKLOG

Backlog at September 24, 2004 was $431.4 million, compared with $321.2 million at August 1, 2003. We estimate that approximately $332.3 million of backlog is scheduled to be shipped after fiscal 2004.

Backlog is subject to cancellation until delivered, and therefore, we cannot assure that our backlog will be converted into revenue in any particular period or at all. Backlog does not include the total contract value of cost-plus reimbursable contracts, which are funded as we incur the costs. Except for the released portion, backlog also does not include fixed-price multi-year contracts.

COMPETITION

Our products and services are affected by varying degrees of competition. We compete with other companies in most markets we serve, many of which have far greater sales volumes and financial

resources. The principal competitive factors in the commercial markets in which we participate are product performance, service and price. Part of product performance requires expenditures in research and development that lead to product improvement. The market for many of our products may be affected by rapid and significant technological changes and new product introduction. Our principal competitors include Eaton, ECE and Eastprint in our Avionics & Controls segment; Ametek, MPC Products and Goodrich in our Sensors & Systems segment; and Transdigm, Dunlop Standard Aerospace Group and Meggitt in our Advanced Materials segment.

RESEARCH AND DEVELOPMENT

Currently, our product development and design programs utilize an extensive base of professional engineers, technicians and support personnel, supplemented by outside engineering and consulting firms when needed. In fiscal 2003, approximately $19.5 million was expended for research, development and engineering, compared with $15.4 million in fiscal 2002 and $14.2 million in fiscal 2001. We believe continued product development is key to our long-term growth, and consequently, we consistently invest in research and development. Examples include research and development projects relating to thermal fire barrier insulation products for the Boeing Delta IV rocket motor, as well as ice detectors and smoke and pollution concentration measurement devices. In addition, we actively participate in customer funded research and development programs, including flight controls and instrumentation on the Joint Strike Fighter and Eurofighter, Gulfstream V flight controls, deicing probes for next generation General Electric/ Snecma CFM-56 jet engines and LED lighted cockpit switches for Airbus.

GOVERNMENT CONTRACTS AND SUBCONTRACTS

As a contractor and subcontractor to the U.S. government (primarily the U.S. Department of Defense), we are subject to various laws and regulations that are more restrictive than those applicable to private sector contractors. Approximately 17% of our sales were made directly to the U.S. government in fiscal 2003. In addition, we estimate that our subcontracting activities to contractors for the U.S. government accounted for approximately 12% of sales during fiscal 2003. Therefore, we estimate that approximately 29% of our sales during the fiscal year were subject to government contracting regulations. Such contracts may be subject to termination, reduction or modification in the event of changes in government requirements, reductions in federal spending, and other factors.

Historically, our U.S. government contracts and subcontracts have been predominately fixed-price contracts. Generally, fixed-price contracts offer higher margins than cost-plus contracts in return for accepting the risk that increased or unexpected costs may reduce anticipated profits or cause us to sustain losses on the contracts. The accuracy and appropriateness of certain costs and expenses used to substantiate our direct and indirect costs for the U.S. government under both cost-plus and fixed-price contracts are subject to extensive regulation and audit by the Defense Contract Audit Agency, an arm of the U.S. Department of Defense. The contracts and subcontracts to which we are a party are also subject to profit and cost controls and standard provisions for termination at the convenience of the U.S. government. Upon termination, other than for our default, we will normally be entitled to reimbursement for allowable costs and to an allowance for profit. To date, none of our significant fixed-price contracts have been terminated.

PATENTS AND LICENSES

Although we hold a number of patents and licenses, we do not believe that our operations are dependent on our patents and licenses. In general, we rely on technical superiority, continual product improvement, exclusive product features, superior lead-time, on-time delivery performance, quality and customer relationships to maintain competitive advantage.

SOURCES AND AVAILABILITY OF RAW MATERIALS AND COMPONENTS

Due to our diversification, the sources and availability of certain raw materials and components are not as critical as they would be for manufacturers of a single product line. However, certain components, supplies and raw materials for our operations are purchased from single sources. In such instances, we strive to develop alternative sources and design modifications to minimize the effect of business interruptions.

ENVIRONMENTAL MATTERS

We are subject to federal, state, local and foreign laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous waste, and (ii) impose liability for the costs of cleaning up, and certain damages resulting from, sites or past spills, disposals or other releases of hazardous substances.

On August 29, 2002, our subsidiary Armtec acquired the radar countermeasures chaff and infrared decoy flare operations of the Electronic Warfare Passive Expendables Division of BAE Systems North America. At the time of our 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 Arkansas Department of Environmental Quality under the Federal Resource Conservation and Recovery Act. The Part B Permit was transferred to Armtec, along with the remedial obligations. Under the terms of the asset purchase agreement, BAE Systems agreed to complete all remedial obligations at the infrared decoy flare facility and to indemnify us for all environmental liabilities to a maximum amount of $25 million.

At various times we have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) and analogous state environmental laws, for the cleanup of contamination resulting from past disposals of hazardous wastes at certain sites to which we, among others, sent wastes in the past. CERCLA requires potentially responsible persons to pay for cleanup of sites from which there has been a release or threatened release of hazardous substances. Courts have interpreted CERCLA to impose strict, joint and several liability on all persons liable for cleanup costs. As a practical matter, however, at sites where there are multiple potentially responsible persons, the costs of cleanup typically are allocated among the parties according to a volumetric or other standard.

We have accrued liabilities for environmental remediation costs expected to be incurred by our operating facilities. 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 that could result from changes in laws or other circumstances we have not currently contemplated.

LEGAL PROCEEDINGS

From time to time we are involved in legal proceedings arising in the ordinary course of our business. We believe we have adequately reserved for these liabilities and that there is no litigation pending that could have a material adverse effect on our results of operations and financial condition.

EMPLOYEES

For our continuing operations, we had approximately 4,700 employees at July 30, 2004, of which 3,700 were based in the United States and 1,000 were in Europe. Approximately 13% of the U.S.-based employees were represented by a labor union. Our European operations are subject to national trade union agreements and to local regulations governing employment. For our discontinued Automation segment we had approximately 78 employees at July 30, 2004, of which approximately 74 were based in the United States.

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Management

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information regarding our executive officers and directors as of November 1, 2004.

Name	Age	Position
Robert W. Cremin(3)	64	Chairman, President and Chief Executive Officer
Stephen E. Barton	58	Group Vice President
Robert D. George	48	Vice President, Chief Financial Officer, Secretary and Treasurer
Marcia J. M. Greenberg	52	Vice President, Human Resources
Larry A. Kring	64	Group Vice President
Stephen R. Larson	60	Vice President, Strategy & Technology
Richard R. Albrecht(2)(3)	72	Lead Independent Director
Lewis E. Burns(2)	66	Director
Ross J. Centanni(2)(4)	59	Director
John F. Clearman(1)	67	Director
Robert S. Cline(1)(4)	67	Director
Anthony P. Franceschini(1)(3)	53	Director
Jerry D. Leitman(2)(3)	62	Director
James L. Pierce(1)(4)	67	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation & Stock Option Committee.

(3) Member of the Executive Committee.

(4) Member of the Nominating & Corporate Governance Committee.

Robert W. Cremin has been Chairman since January 2001. In addition, he has served as Chief Executive Officer and President since January 1999 and September 1997, respectively. Mr. Cremin has an M.B.A. from the Harvard Business School and a B.S. degree in Metallurgical Engineering from Polytechnic Institute of Brooklyn. He has been a director of Esterline since 1998.

Stephen E. Barton has been Group Vice President since July 2002. Previously, he was President and Chief Executive Officer of Kirkhill-TA Co., a subsidiary of Esterline, from October 1998 to June 2002. From February 1998 to September 1998, he served as Group Vice President of AEA Management Group, an automotive component supplier. He was a consultant for Gleason Corporation, a consumer products manufacturer, from July 1997 to February 1998. Mr. Barton has an M.S. degree in Applied Statistics from Villanova University and a B.S. degree in Mathematics from the University of Maine.

Robert D. George has been Vice President, Chief Financial Officer, Secretary and Treasurer since July 1999 and Treasurer and Controller from June 1997 until July 1999. Mr. George has an M.B.A. from the Fuqua School of Business at Duke University and a B.A. degree in Economics from Drew University.

Management

Marcia J. M. Greenberg has been Vice President, Human Resources since March 1993. Ms. Greenberg has a J.D. degree from Northwestern University School of Law and a B.A. degree in Political Science from Portland State University.

Larry A. Kring has been Group Vice President since August 1993. Mr. Kring has an M.B.A. from California State University at Northridge and a B.S. degree in Aeronautical Engineering from Purdue University.

Stephen R. Larson has been Vice President, Strategy & Technology since January 2000. Previously, he was Group Vice President from April 1991 through December 1999. Mr. Larson has an M.B.A. from the University of Chicago and a B.S. degree in Electrical Engineering from Northwestern University.

Richard R. Albrecht has been a director of Esterline since 1997 and lead independent director since December 2003. Prior to August 1997, Mr. Albrecht was Executive Vice President of the Commercial Airplane Group for The Boeing Company (an aerospace company), having held such position since 1984.

Lewis E. Burns has been a director of Esterline since 2003. Mr. Burns is a Director/ Consultant of Dover Industries, Inc. (a diversified manufacturing company), having held such positions since July 2003. Prior to that time, he was President, Chief Executive Officer and Director of Dover Industries, Inc. since 1985.

Ross J. Centanni has been a director of Esterline since 1999. Mr. Centanni has been the Chairman of Gardner Denver, Inc. (a leading manufacturer of reciprocating, rotary and vane compressors and blowers for various industrial applications and pumps used in the petroleum and industrial markets) since November 1998, and the President and Chief Executive Officer since November 1993. He is also a director of Denman Services, Inc. and the Petroleum Equipment Suppliers Association and also serves as a member of the Executive Committee of the International Compressed Air and Allied Machinery Committee.

John F. Clearman has been a director of Esterline since 1989. Prior to January 2003, Mr. Clearman was a Special Advisor to the Board of Milliman USA (an actuarial consulting firm), having held such position since August 2001. From October 1998 through July 2001, he was the Chief Financial Officer of Milliman USA. He is also a director for several other companies including Oberto Sausage, Inc., Washington Federal Savings, Inc., Barclay Dean Interiors, GT Development, Lang Manufacturing, Pacific Northwest Title and West Farm Foods.

Robert S. Cline has been a director of Esterline since 1999. Prior to January 2003, Mr. Cline was the Chairman and Chief Executive Officer of Airborne Freight Corporation (an air express company), having held such positions since 1984. He is also a director of Safeco Corporation.

Anthony P. Franceschini has been a director of Esterline since 2002. Mr. Franceschini has been the Director, President and Chief Executive Officer of Stantec Inc. (a global design firm) since June 1998. Prior to June 1998, he was Senior Vice President and Chief Operating Officer, Consulting Services for Stantec Inc.

Jerry D. Leitman has been a director of Esterline since 1998. Mr. Leitman has been the Chairman, President and Chief Executive Officer of FuelCell Energy, Inc. (a fuel cell company) since June 2002. Previously, he was the President and Chief Executive Officer of FuelCell Energy, Inc. from August 1997.

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Management

James L. Pierce has been a director of Esterline since 2003. Mr. Pierce is the Chairman of ARINC Incorporated (a transportation and systems engineering solutions provider), having held such position since 1994. Mr. Pierce was also the Chief Executive Officer of ARINC Incorporated from 1994 until December 2001.

Underwriting

We are offering the shares of our common stock described in this prospectus through the underwriters named below. UBS Securities LLC, Wachovia Capital Markets, LLC and KeyBanc Capital Markets are the representatives of the underwriters. UBS Securities LLC is the sole book-running manager of this offering. We have entered into an underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, each of the underwriters has severally agreed to purchase, the number of shares of common stock listed next to its name in the following table.

Underwriters	Number of shares
UBS Securities LLC	
Wachovia Capital Markets, LLC	
KeyBanc Capital Markets, a Division of McDonald Investments Inc.	
Total	3,200,000

The underwriting agreement provides that the underwriters must buy all of the shares if they buy any of them. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

Our common stock is offered subject to a number of conditions, including:

4 receipt and acceptance of our common stock by the underwriters, and

4 the underwriters right to reject orders in whole or in part.

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

Sales of shares made outside of the United States may be made by affiliates of the underwriters.

OVER-ALLOTMENT OPTION

We have granted the underwriters an option to buy up to 480,000 additional shares of our common stock. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering. The underwriters have 30 days from the date of this prospectus to exercise this option. If the underwriters exercise this option, they will each purchase additional shares approximately in proportion to the amounts specified in the table above.

COMMISSIONS AND DISCOUNTS

Shares sold by the underwriters to the public will initially be offered at the offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the public offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to $ per share from the public offering price. If all the shares are not sold at the public offering price, the representatives may change the offering price and the other selling terms. Sales of shares made outside of the United States may be made

by affiliates of the underwriters. Upon execution of the underwriting agreement, the underwriters will be obligated to purchase the shares at the prices and upon the terms stated therein, and, as a result, will thereafter bear any risk associated with changing the offering price to the public or other selling terms.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters option to purchase up to an additional 480,000 shares.

	No exercise	Full exercise
Per share	$	$
Total	$	$

We estimate that the total expenses of this offering payable by us, not including the underwriting discounts and commissions, will be approximately $525,000.

NO SALES OF SIMILAR SECURITIES

We, our executive officers and directors have entered into lock-up agreements with the underwriters. Under these agreements, subject to certain exceptions, we and each of these persons may not, without the prior written approval of UBS Securities LLC, offer, sell, contact to sell or otherwise dispose of, directly or indirectly, or hedge our common stock or securities convertible into or exchangeable for our common stock. These restrictions will be in effect for a period of 90 days after the date of this prospectus.

The 90-day lock up period may be extended for up to 17 additional days under certain circumstances where we announce or intend to announce earnings or material news or a material event within 15 days prior to, or after, the termination of the 90-day lock-up period, if UBS Securities LLC notifies us prior to the expiration of such 90-day period that such extension is necessary in order to permit an underwriter to publish a research report in compliance with the New York Stock Exchange Rule 472(f)(4) and NASD Conduct Rule 2711(f)(4). Even under those circumstances, however, the lock up period will not extend if we are actively traded, meaning that our common stock has an average trading volume value of at least $1.0 million per day and the public float of our common stock is at least $150.0 million.

At any time and without public notice, UBS Securities LLC may in their sole discretion, release all or some of the securities from these lock-up agreements.

INDEMNIFICATION

We have agreed to indemnify the underwriters against certain liabilities, including certain liabilities under the Securities Act. If we are unable to provide this indemnification, we will contribute to payments the underwriters may be required to make in respect of those liabilities.

NEW YORK STOCK EXCHANGE LISTING

Our common stock is listed on the New York Stock Exchange under the symbol ESL.

PRICE STABILIZATION, SHORT POSITIONS

In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock including:

4 stabilizing transactions;

4 short sales;

4 purchases to cover positions created by short sales.

4 imposition of penalty bids; and

4 syndicate covering transactions;

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. These transactions may also include making short sales of our common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be covered shorts, which are short positions in an amount not greater than the underwriters over allotment option referred to above, or may be naked shorts, which are short positions in excess of that amount.

The underwriters may close out any covered short position by either exercising their over allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are in excess of the over-allotment option. The underwriters must close out any naked short position, by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchased in this offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. The underwriters may carry out these transactions on the New York Stock Exchange, in the over-the-counter market or otherwise.

AFFILIATIONS

The underwriters and their affiliates have provided and may provide certain commercial banking, financial advisory and investment banking services for us for which they receive customary fees. The underwriters and their affiliates may from time to time in the future engage in transactions with us and perform services for us in the ordinary course of their business.

Legal matters

We are being represented by Perkins Coie LLP, Seattle, Washington, and the underwriters are being represented by Cahill Gordon & Reindel LLP. The validity of the common stock offered by this prospectus will be passed on by Perkins Coie LLP for us. Certain legal matters relating to the offering will be passed upon for the underwriters by Cahill Gordon & Reindel LLP.

Experts

Ernst & Young LLP, independent registered public accounting firm, have audited our consolidated financial statements and schedule included or incorporated by reference in our Annual report on Form 10-K for the year ended October 31, 2003, as set forth in their reports, which are incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements and schedule are incorporated by reference in reliance on Ernst & Young LLP s reports, given on their authority as experts in accounting and auditing.

Where you can find more information

We file annual, quarterly and special reports, as well as registration and proxy statements and other information, with the SEC. These documents may be read and copied at the Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, copies of these reports and other information may be obtained at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. You can get further information about the SEC s Public Reference Room by calling 1-800-SEC-0330. The SEC also maintains a website at http://www.sec.gov that contains reports, registration statements and other information regarding registrants like us that file electronically with the SEC.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933, as amended. This prospectus supplement does not contain all the information in the registration statement. We have omitted parts of the registration statement, as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, as amended, including exhibits, at the SEC s public reference facilities or website. If we have filed any contract or other document as an exhibit to the registration statement or any other document incorporated by reference in the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract or other document is qualified in its entirety by reference to the actual document.

Information incorporated by reference

The SEC allows us to incorporate by reference into this prospectus supplement the information we file with it. This means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered a part of this prospectus supplement, and later information we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future

filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering is completed:

4 our annual report on Form 10-K for the fiscal year ended October 31, 2003, filed on December 17, 2003, File No. 1-6357;

4 our quarterly report on Form 10-Q for the quarter ended January 30, 2004, filed on March 11, 2004, File No. 1-6357;

4 our quarterly report on Form 10-Q for the quarter ended April 30, 2004, filed on June 9, 2004, File No. 1-6357;

4 our quarterly report on Form 10-Q for the quarter ended July 30, 2004, filed on September 10, 2004, File No. 1-6357;

4 our current reports on Form 8-K filed on July 9, 2004, August 31, 2004 and September 2, 2004 (with regard to information disclosed under Item 8.01 of Form 8-K only), File No. 1-6357;

4 the description of the common stock in our current report on Form 8-K filed on January 26, 2001, File No. 1-6357, including any amendments or reports filed for the purpose of updating such description; and