FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
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FILER

ESTERLINE TECHNOLOGIES CORP
CIK:**33619**| IRS No.: **132595091** | State of Incorp.:**DE** | Fiscal Year End: **1031**
Type: **10-Q** | Act: **34** | File No.: **001-06357** | Film No.: **99709003**
SIC: **3559** Special industry machinery, nec

Mailing Address
10800 N E 8TH STREET
BELLEVUE WA 98004

Business Address
10800 NE 8TH ST
STE 600
BELLEVUE WA 98004
2064539400

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission file number 1-6357

ESTERLINE TECHNOLOGIES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-2595091
(State or other jurisdiction Of incorporation or organization)	(I.R.S. Employer Identification No.)

10800 NE 8th Street, Bellevue, Washington 98004
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code 425/453-9400

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of September 1, 1999, 17,342,374 shares of the issuer's common stock were outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED BALANCE SHEET
As of July 31, 1999 and October 31, 1998
(In thousands, except share amounts)

<TABLE>
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ASSETS	July 31, 1999 (unaudited)	October 31, 1998
<S>	<C>	<C>
Current Assets		
Cash and equivalents	$ 63,339	$ 8,897
Accounts receivable, net of allowances of $2,154 and $2,987 for doubtful accounts	65,528	77,477
Inventories		
Raw materials and purchased parts	30,104	27,239
Work in process	35,885	33,284
Finished goods	14,296	11,312
	80,285	71,835
Deferred income taxes	13,429	15,693
Prepaid expenses	5,160	4,055
Total Current Assets	227,741	177,957
Property, Plant and Equipment	216,142	206,104
Accumulated depreciation	122,176	112,042
	93,966	94,062
Goodwill and Intangibles, net	96,520	99,344
Other Assets	15,391	15,816
	$433,618	$387,179

</TABLE>

ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED BALANCE SHEET
As of July 31, 1999 and October 31, 1998
(In thousands, except share amounts)

<TABLE>
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LIABILITIES AND SHAREHOLDERS' EQUITY	July 31, 1999 (unaudited)	October 31, 1998
<S>	<C>	<C>
Current Liabilities		
Accounts payable	$ 18,279	$ 23,307
Accrued liabilities	58,969	68,275
Credit facilities	9,090	9,533
Current maturities of long-term debt	6,109	6,358
Federal and foreign income taxes	--	385
Total Current Liabilities	92,447	107,858
Long-Term Liabilities		
Long-term debt, net of current maturities	117,492	74,043
Deferred income taxes	11,084	8,902
Commitments and Contingencies	--	--
Shareholders' Equity		
Common stock, par value $.20 per share, authorized 60,000,000 shares, issued and outstanding 17,342,374 and 17,317,178 shares	3,468	3,463
Capital in excess of par value	46,824	46,793
Retained earnings	167,242	149,091
Cumulative translation adjustment	(4,939)	(2,971)
Total Shareholders' Equity	212,595	196,376
	$433,618	$387,179

</TABLE>

ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
For the Three and Nine Months ended July 31, 1999 and 1998
(Unaudited)
(In thousands, except per share amounts)

<TABLE>

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	Three Months Ended July 31, 1999	Three Months Ended July 31, 1998	Nine Months Ended July 31, 1999	Nine Months Ended July 31, 1998
Net Sales	$112,748	$110,891	$337,567	$321,172
Costs and Expenses				
Cost of sales	69,323	68,840	209,061	198,265
Selling, general and administrative	32,993	29,779	96,122	90,503
Interest income	(712)	(466)	(2,165)	(1,469)
Interest expense	2,266	776	6,704	2,373
	103,870	98,929	309,722	289,672
Earnings Before Income Taxes	8,878	11,962	27,845	31,500
Income Tax Expense	2,926	4,043	9,694	10,833
Net Earnings	$ 5,952	$ 7,919	$ 18,151	$ 20,667
Net Earnings Per Share - Basic	$ .34	$ .46	$ 1.05	$ 1.20
Net Earnings Per Share - Diluted	$ .34	$ .45	$ 1.03	$ 1.17

</TABLE>

ESTERLINE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Nine Months Ended July 31, 1999 and 1998
(Unaudited)
(In thousands)

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	Nine Months Ended July 31, 1999	Nine Months Ended July 31, 1998
Cash Flows Provided (Used) by Operating Activities		
Net earnings	$ 18,151	$ 20,667
Depreciation and amortization	15,652	12,999
Deferred income taxes	4,446	300
Working capital changes, net of effect of acquisitions		
Accounts receivable	10,372	1,088
Inventories	(9,715)	(11,685)
Prepaid expenses	(1,257)	(109)
Accounts payable	(4,528)	(864)
Accrued liabilities	(8,741)	(770)
Federal and foreign income taxes	(365)	(1,315)
Other, net	(302)	(6,583)

	23,713	13,728
Cash Flows Provided (Used) by Investing Activities		
Capital expenditures	(13,057)	(26,605)
Capital dispositions	38	569
Acquisitions	--	(20,130)
	(13,019)	(46,166)
Cash Flows Provided (Used) by Financing Activities		
Net change in credit facilities	318	7,476
Proceeds from sale of senior notes	100,000	--
Repayment of bridge facility	(50,000)	--
Repayment of long-term obligations	(6,299)	(6,162)
	44,019	1,314
Effect of Exchange Rates	(271)	(478)
Net Increase (Decrease) in Cash and Equivalents	54,442	(31,602)
Cash and Equivalents - Beginning of Period	8,897	56,045
Cash and Equivalents - End of Period	$ 63,339	$ 24,443
Supplemental Cash Flow Information		
Cash paid during the period for		
Interest expense	$ 6,547	$ 3,014
Income taxes	5,604	10,962

</TABLE>

ESTERLINE TECHNOLOGIES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended July 31, 1999 and 1998

1. The consolidated balance sheet as of July 31, 1999, the consolidated statements of operations for the three and nine months ended July 31, 1999 and 1998, and the consolidated statement of cash flows for the nine months ended July 31, 1999 and 1998 are unaudited, but in the opinion of management all of the necessary adjustments have been made to present fairly the financial statements referred to above. The results of operations and cash flows for the interim periods presented are not necessarily indicative of results for the full year.

2. The notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1998 provide a summary of significant accounting policies and additional financial information that should be read in conjunction with this

Form 10-Q.

3. Classifications have been changed for certain amounts in the preceding period to conform to the current period's financial presentation.

4. The Company's comprehensive income is as follows:

<TABLE>
<CAPTION>

<S>	Three Months Ended July 31, 1999 <C>	Three Months Ended July 31, 1998 <C>	Nine Months Ended July 31, 1999 <C>	Nine Months Ended July 31, 1998 <C>
Net Earnings	$5,952	$7,919	$18,151	$20,667
Foreign Currency Translation Adj.	201	83	(1,968)	(1,003)
Comprehensive Income	$6,153	$8,002	$16,183	$19,664

</TABLE>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in the commentary contain forward-looking statements within the meanings of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements involve risks and uncertainties regarding matters that could significantly affect expected results, including information about industry trends, growth, Year 2000, orders, currency fluctuations, backlog, capital expenditures and cash requirements. The Company is susceptible to economic cycles and financial results can vary widely based on a number of factors, including domestic and foreign economic conditions and developments affecting specific industries and customers.

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

Results of Operations

Quarter Ended July 31, 1999 Compared to Quarter Ended July 31, 1998

Net sales by Group for the quarter ended July 31 were as follows:
(In thousands)

	Incr./(Decr.) from prior year	1999	1998
Automation	(22%)	$ 28,122	$ 36,009
Aerospace and Defense	29%	56,305	43,636
Instrumentation	(9%)	28,321	31,246
Total Net Sales		$112,748	$110,891

Net sales for the third quarter of 1999 increased slightly from the same prior year period. Aerospace/Defense Group sales have increased primarily due to revenue from Kirkhill, an acquisition completed in August 1998. This increase was offset by declines in the Automation and Instrumentation Groups. In the third quarter, weakness in the agricultural

market significantly reduced demand for farm equipment and the machinery used to produce it. Quarter-to-quarter comparisons were affected by the sale of Tulon in September 1998. Sales in the Instrumentation Group decreased in the third quarter due to declines in the general manufacturing markets.

Total gross margin as a percentage of net sales was 39% for the third quarter of 1999 compared with 38% for the same period in 1998. Gross margins in the Automation Group continue to be affected by delayed purchasing decisions and pricing pressures. This was accentuated in the third quarter, however, total gross margin was balanced by improvement in other areas. Gross margins among the Groups ranged from 31% to 42% compared with 36% to 39% during the same period in 1998.

Selling, general and administrative expenses increased to 29% of net sales for the third quarter of 1999 compared to 27% during the same period in the prior year. The drop in sales of equipment used to produce farm equipment and machinery was the primary factor. Revenues declined quicker than initially anticipated and the Company deferred a decision to implement additional cost reduction measures in order to more fully evaluate the impact of reduced sales. Expenses totaled $33 million in the current quarter compared with the prior year's total for the same period of $29.8 million.

Interest expense increased $1.5 million to $2.3 million in the third quarter primarily due to the higher level of long-term debt outstanding.

New orders for the third quarter of 1999 were $110 million compared with $102.8 million for the same period in 1998, primarily due to new orders received by the Aerospace/Defense Group.

Overall, the depressed market for printed circuit board manufacturing equipment, delayed purchasing decisions for capital goods equipment and declines in general manufacturing have resulted in downturns in both the Automation and Instrumentation Groups. During fiscal 1998, the Company acquired several businesses serving aerospace markets. The new acquisitions combined with the current businesses have balanced the declines experienced, both in sales and gross margin.

Nine Months Ended July 31, 1999 Compared to Nine Months Ended July 31, 1998

Net sales by Group for the nine months ended July 31 were as follows:
(In thousands)

<TABLE>
<CAPTION>

<S>	Incr./(Decr.) from prior year <C>	1999 <C>	1998 <C>
Automation	(27%)	$ 81,458	$111,259
Aerospace and Defense	39%	168,424	120,947
Instrumentation	(1%)	87,685	88,966
Total Net Sales		$337,567	$321,172

</TABLE>

Net sales for the first nine months of 1999 were up 5% compared with the same period in the prior year, primarily due to increased Aerospace/Defense sales reflecting the addition of Kirkhill revenue. This was partially offset by sales declines experienced by the other Groups. Automation Group sales have been under pressure since the third quarter of 1998 due to poor worldwide market conditions for printed circuit board manufacturing equipment, and the Automation Group began to experience the effects of a significant decline in sales of equipment to agriculture-related businesses. The sale of Tulon in late 1998 has impacted Automation Group sales as well.

Total gross margin as a percentage of net sales was 38% for the first nine months of both 1999 and 1998. Gross margins among the Groups ranged from 31% to 41% compared with 36% to 40% during the same period in 1998.

Selling, general and administrative expenses remained at 28% of net sales for the first nine months of 1999. Actual selling, general and administrative expenses increased to $96.1 million compared with $90.5 million during the same period in 1998.

Interest income increased to $2.2 million for the first nine months of 1999 due to the $54.4 million increase in available cash from October 31, 1998. Cash has been invested in tax exempt notes and other short-term instruments. Interest expense increased $4.3 million for the first nine months of 1999 primarily due to the higher level of long-term debt outstanding.

New orders for the first nine months of 1999 were $349.7 million compared with $339.1 million for the same period in 1998. Company-wide backlog at July 31, 1999 was $180.5 million compared with $172 million at July 31, 1998. The increase in backlog was primarily attributable to orders received for aerospace products. Approximately $107.7 million in backlog is scheduled for delivery after fiscal 1999. Most orders in backlog are subject to cancellation until delivery.

The Company has assessed the risk from failure of internal systems and those of vendors and suppliers from year 2000 ("Y2K") related issues as low.

Since 1997, the Company has been monitoring Y2K issues. The management team at each of its units has been involved in supervising efforts at that level. The Company's risk assessment is based on the fact that its businesses are decentralized with separate, non-integrated computer systems. This decentralized structure minimizes reliance on single product vendors, and the Company believes that most of its third party relationships are replaceable. Therefore, a Y2K related failure from an internal or external source is not expected to permeate the Company's operations as a whole.

Based on information currently available from the Company's software providers combined with internal evaluations, the Company believes that its most critical systems are Y2K compliant. Compliance efforts and testing will continue, further minimizing issues that may arise on less critical systems. Most of the Company's businesses have identified critical areas and have prepared manual contingency procedures in the event that a failure does occur. These procedures are designed to enable continued operations and include such items as printing forms (e.g., customer workorders, invoices and inventory management), printing lists of information allowing lookups outside of the computer system, and critical phone lists.

Few of the Company's products contain software coding. For products identified as containing software, testing has been completed and updates are available. The Company has sought to identify customers that require upgrades. The Company's businesses have posted information on their websites and on each invoice sent to customers. In the event that a customer experiences a failure after December 31, 1999, staff and upgrade kits will be available to resolve issues.

The Company has also focused efforts on assessing the Y2K readiness of suppliers. Most have indicated they have materially compliant systems. The Company has identified alternative sources for more critical materials and is conducting site visits for sole-source suppliers. In addition, tactical decisions regarding appropriate stockpiling are being evaluated.

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

The Company has assessed the Y2K situation and believes that the worst-case scenario would be a failure of a small area of an internal system that was not identified in the Y2K assessments. A failure of this nature is not expected to interrupt processing, but will require analytical techniques to discern the error. For example, if a Y2K error occurred in an inventory system, the inventory levels might be understated thus creating a shortage at some point in the future. The Company is engaged in ongoing efforts to ensure that unanticipated Y2K issues are identified as early as possible after December 31, 1999.

The Company has made every attempt to address Y2K issues as they are identified. However, the Company is unable to predict the ultimate impact of Y2K non-compliance issues due to all of the uncertainties relating to Y2K, especially with third party suppliers.

Liquidity and Capital Resources

Cash and equivalents on hand at July 31, 1999 totaled $63.3 million, an increase of $54.4 million from October 31, 1998. Net working capital increased to $135.3 million at July 31, 1999 from $70.1 million at October 31, 1998. Increases in both cash and net working capital are primarily related to a $100 million private placement of senior notes ("1999 Senior Notes") completed in November 1998. Proceeds from the placement were used to retire the bridge facility for the Kirkhill acquisition.

Net accounts receivable were $65.5 million at July 31, 1999, compared to $77.5 million from October 31, 1998. The decrease is primarily related to reduced levels of receivables in both the Automation and Aerospace/Defense Groups. Collection of Aerospace/Defense Group receivables from strong fourth quarter sales in 1998, together with sales declines in the Automation Group, have resulted in a lower level of outstanding receivables. Current liabilities decreased to $92.4 million at July 31, 1999 from $107.9 million at October 31, 1998, primarily due to the timing of certain obligations.

Capital expenditures, consisting of machinery, equipment and computers, are anticipated to be approximately $21 million during fiscal 1999, compared with $29.8 million in fiscal 1998. Capital expenditures for the nine months ended July 31, 1999 totaled $13.1 million and were concentrated in the Aerospace/Defense and Instrumentation Groups for machinery and equipment, including enhancements to information technology.

Total debt increased $42.8 million from October 31, 1998 to $132.7 million at July 31, 1999, principally due to the 1999 Senior Notes placement. Total debt outstanding at July 31, 1999 consisted of $100 million under the Company's 1999 Senior Notes, $17.2 million under the Company's 8.75% Senior

Notes, $1.7 million for revenue bonds and $13.8 million under various foreign currency debt agreements, including capital lease obligations. The 8.75% Senior Notes have a scheduled annual payment of $5.7 million, which will continue until maturity on July 30, 2002. The 1999 Senior Notes have maturities ranging from 5 to 10 years and interest rates from 6% to 6.77%. Management believes cash on hand and funds generated from operations will adequately service operating cash requirements and capital expenditures through 1999.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

11. Schedule setting forth computation of basic and diluted earnings per common share for the three and nine months ended July 31, 1999 and 1998.

27. Financial Data Schedule (EDGAR Only).

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Esterline Technologies Corporation
(Registrant)

Dated: September 10, 1999

By: /s/Robert D. George

Robert D. George
Vice President,
Chief Financial Officer, Secretary
and Treasurer
(Principal Financial and
Accounting Officer)

EXHIBIT 11

<TABLE>
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ESTERLINE TECHNOLOGIES CORPORATION
Computation of Basic and Diluted Earnings Per Common Share
For the Three and Nine Months Ended July 31, 1999 and 1998
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Basic				
Net Earnings	$ 5,952	$ 7,919	$18,151	$20,667
Weighted Average Number of Common Shares Outstanding	17,342	17,289	17,336	17,287
Net Earnings per Common Share - Basic	$ .34	$ .46	$ 1.05	$ 1.20
Diluted				
Net Earnings	$ 5,952	$ 7,919	$18,151	$20,667
Weighted Average Number of Common Shares Outstanding	17,342	17,289	17,336	17,287
Net Shares Assumed to be Issued for Stock Options	283	458	332	433
Weighted Average Number of Common Shares and Common Equivalent Shares Outstanding	17,625	17,747	17,668	17,720
Net Earnings per Common Share - Diluted	$ .34	$ .45	$ 1.03	$ .17

</TABLE>

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The Schedule Contains Summary Financial information Extracted From the Esterline Technologies Corporation Consolidated Balance Sheet At July 31, 1999 and the Related consolidated Statements of Operations for the Nine Months then Ended and is Qualified in its Entirety by Reference to Such Financial Statements.
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