Annual Report 1982

EDO CORPORATION

EDO Corporation designs and manufactures advanced electronic and specialized equipment for military, aviation, marine and industrial markets. Principal products include: sonar equipment, mine countermeasure systems and aircraft stores suspension and ejection mechanisms; piezoelectric ceramic components and acoustic and video scanning systems; and fiber reinforced composite components for the aviation industry.

With more than a half century of achievement behind it, EDO Corporation continues to grow and make substantial investments in technology and new product development.

EDO operations are in New York, Connecticut, California, and Utah. EDO markets are world-wide.

Contents

Annual Meeting

All EDO shareholders are invited to attend the Annual Meeting which will be held Tuesday, April 26, 1983 at 11 a.m. in the Meeting Room of the Bankers Trust Company, 280 Park Avenue, New York City. Notice of the meeting, the proxy statement and the proxy are mailed with this report to shareholders of record on March 9, 1983.

The Cover

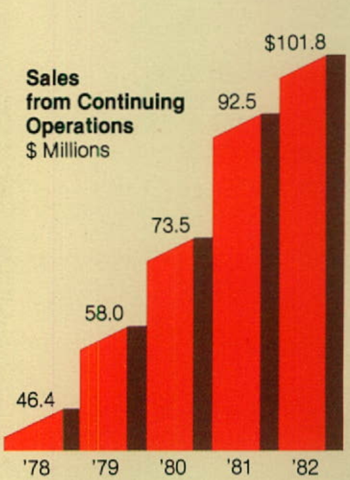
Precision-mounted yaw pins for jettison release mechanisms used on U.S. Navy/Grumman F-14A fighter aircraft.

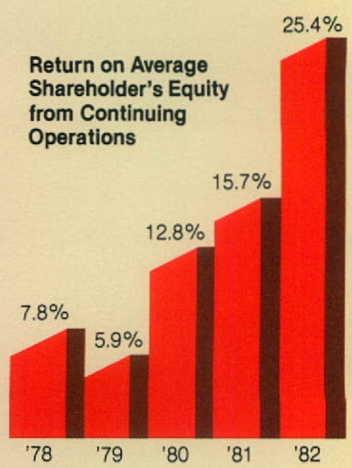
Financial Highlights

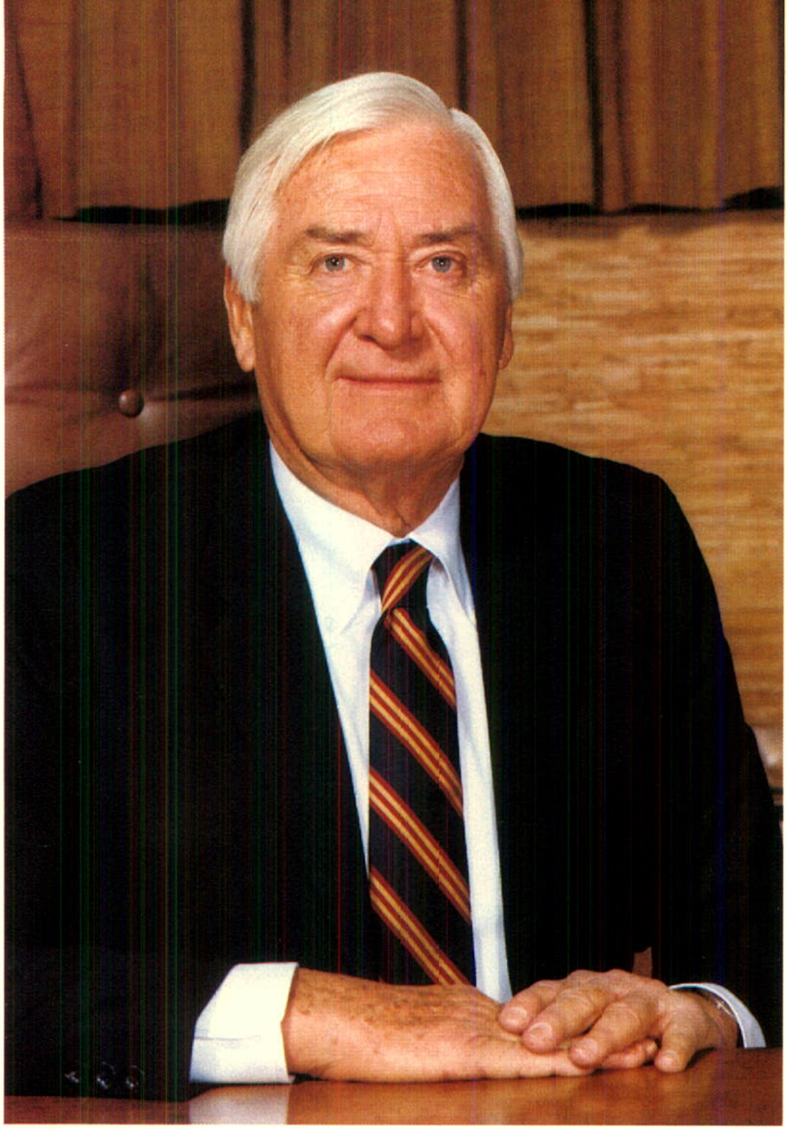
EDO Corporation and Subsidiaries

	1982	1981	Increase (Decrease)
Operations	(in thousands except per share amounts)		
Net Sales, Continuing Operations	$101,794	92,478	10%
Earnings from Continuing Operations	$ 7,420	5,499	35%
Loss from Discontinued Operations	$ (9,098)	(2,207)	—
Net Earnings (Loss)	$ (1,678)	3,292	—
Average Shareholders' Equity	$ 29,233	35,092	(17%)
Return on Average Shareholders' Equity*	25.4%	15.7%	62%
Working Capital*	$ 13,497	22,314	(40%)
Plant and Equipment Expenditures*	$ 8,384	4,039	108%
Research and Development Expenditures*	$ 2,371	1,856	28%
Backlog of Unfilled Orders*	$191,546	107,638	78%
Common Shares			
Average Common Equivalent Shares			
Primary	3,400	3,914	—
Fully Diluted	3,580	—	—
Net Earnings (Loss) Per Share:			
Primary: Continuing Operations	$ 2.18	1.40	56%
Discontinued Operations	$ (2.67)	(.56)	—
Total	$ (.49)	.84	—
Fully Diluted: Continuing Operations	$ 2.08	—	—
Cash Dividends Declared	$ .31	.25	24%
Stock Dividends Declared	50%	10%	—
Shareholders' Equity Per Share	$ 7.36	9.43	(22%)
Shareholders of Record	3,583	3,886	—
(Brokers and nominees counted as one each)			

*From continuing operations.







William R. Ryan, Chairman of the Board

Message to Shareholders

While the recession continued in 1982, earnings increased by 35% and sales increased 10% over last year's record setting level. These figures do not include our general aviation avionics results since we decided in 1982 to withdraw from this business by divesting ourselves of this product line. The estimated loss as a result of this action is set forth in the detailed financial statements and is reported separately from the results of continuing operations.

Sales from continuing operations were $101,794,000 against $92,478,000 in 1981. Earnings from continuing operations were $7,420,000 or $2.18 per share compared to $5,499,000 or $1.40 per share a year ago. Our backlog at the end of 1982 was $191,546,000—up significantly from the $107,638,000 the year before.

1982 will surely be regarded as a very eventful year in the history of our Corporation. We took a series of important actions we believe will strengthen our Company, increase our profitability, and better position ourselves for future growth. We'd like to review some of these actions with you so as to place our 1982 activities in clearer perspective.

- We took the opportunity to purchase from Kidde, Inc., a large block of our stock at an attractive price. The 590,370 shares involved in this transaction, about 23 percent of EDO shares then outstanding, was purchased for cash and included all of Kidde's holdings in EDO Corporation.

- We declared a 50 percent stock dividend payable September 30 to shareholders of record September 9. This action was taken to position our common stock in a more suitable price range and to increase the number of outstanding shares.

- We announced the decision to divest ourselves of our general aviation avionics product line through the sale of our facilities in Mineral Wells, Texas, and Wichita, Kansas. While certainly a difficult decision, it became clear that the results in this segment of our business were not commensurate with the invested resources. Elimination of the substantial operating losses experienced with this product line will significantly improve future earnings. Although final disposition of these operations will take place during 1983, adequate provision for the ultimate loss on disposal has been made in our financial statements for the year 1982.

- In support of our defense-related business, we continued the expansion and modernization program at our Government Systems Division facilities in College Point, New York. When completed, we will have added approximately 63,000 square feet. Our new look combines a modern attractive outer appearance with a much more efficient internal configuration.

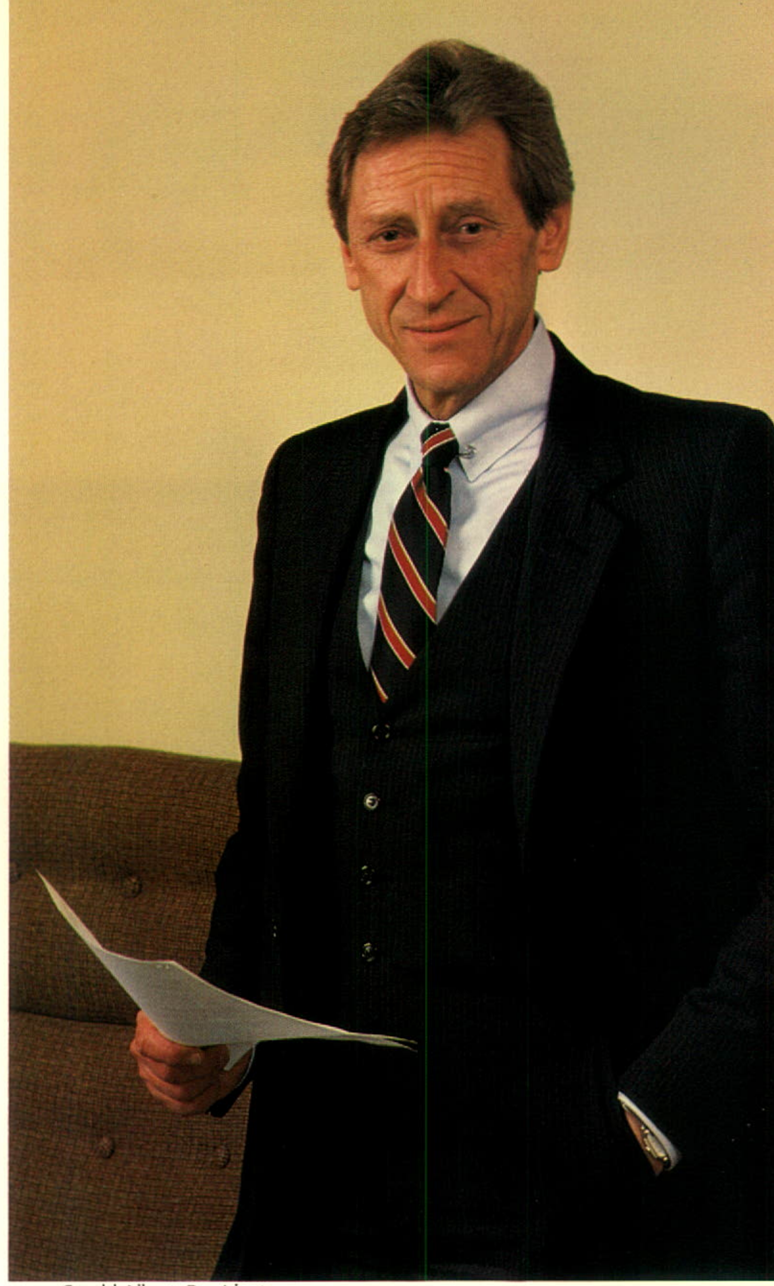
- Early in 1982, we acquired the Piezo Products Division of Gulton Industries, Inc. This facility, located in Fullerton, California, supplies customized piezoelectric ceramic products for anti-submarine warfare systems, energy exploration equipment and other specialized uses. We are pleased to report that the integration of this facility with our Western Division, in Salt Lake City, has been smooth and highly successful.

As a high technology company, we look at 1983 and beyond with anticipation and enthusiasm. We have three major divisions with attractive and unique aerospace and hydrospace products—for both defense and commercial applications. We continue to invest heavily in Research and Development. Our 1982 R&D expenditures, from both our own and customer resources, amounted to approximately $20,000,000, with the Company contributing about $2,400,000 of this amount. We will continue to commit substantial funds to company-sponsored R&D programs in 1983 in order to maintain our position at the forefront of our technologies. Our Government Systems Division and our Western Division each had a record setting year in sales and earnings. The Government Systems Division entered the production phase for the ejection release units for the Tornado multi-role combat aircraft being produced for the Federal Republic of Germany and the Government of Italy. This program is the direct result of company-sponsored R&D done in past years. Current R&D efforts at GSD include ejection release units, advanced sonar systems and mine countermeasures systems which form the backbone of future sales for this Division. During the past year, an increasing portion of the Western Division's business has been derived from defense-related projects. We anticipate the current R&D projects of this Division, relating to anti-submarine warfare targets and military tactical displays, will result in future production business. Significant developments in special purpose and airborne television systems at the Western Division have made it a recognized leader in solid-state, miniature, color camera display systems for tactical aircraft. At our Fiber Science Division, we made a major thrust into the mass transit market by winning the San Francisco Bay Area Rapid Transit car interior liners manufacturing program. We also extended our filament-wound fuel tank capability to military helicopter application.

At mid-year, three Company Officers were elected to our Board of Directors: Michael J. Hegarty, Vice President-Finance and Treasurer of the Corporation; Frank A. Fariello, President of the Government Systems Division; and Robert A. Lapetina, President of the Western Division. With regret, we announce the retirement from our Board of Directors of Archibald M. Brown, who has served with distinction as a director since 1956.

In summary, 1982 was an eventful and successful year for our Corporation. It was also a year of change. We made an effort last year to keep our shareholders and the financial community better informed about the Company's activities. We hope to improve further upon that performance. We enter 1983 stronger in many ways, trimmer and in better condition to confront the technological and marketing challenges that lie ahead.

We appreciate this opportunity to extend special thanks to our employees for their efforts to meet our commitments while at the same time coping with the significant changes taking place. Without their dedication, the results of the past year would not have been possible. We are grateful, too, for the counsel of our directors and for the continued support of our shareholders, customers and suppliers.


Gerald Albert, President

William R. Ryan
Chairman of the Board

Gerald Albert
President

February 28, 1983

Military Systems

70%

Government Systems Division (GSD)

GSD again achieved record sales, earnings and backlog in its three major product categories: ejection release units (ERUs) for high-performance military aircraft; advanced sonar systems, principally for anti-submarine warfare (ASW); and helicopter-towed airborne mine countermeasures systems.

Determined to maintain our leadership position at the forefront of various technological disciplines, GSD continues to focus on long-term growth through intensive Research and Development (R&D), while meeting production contract commitments.

Ejection Release Units (ERUs)

Tornado

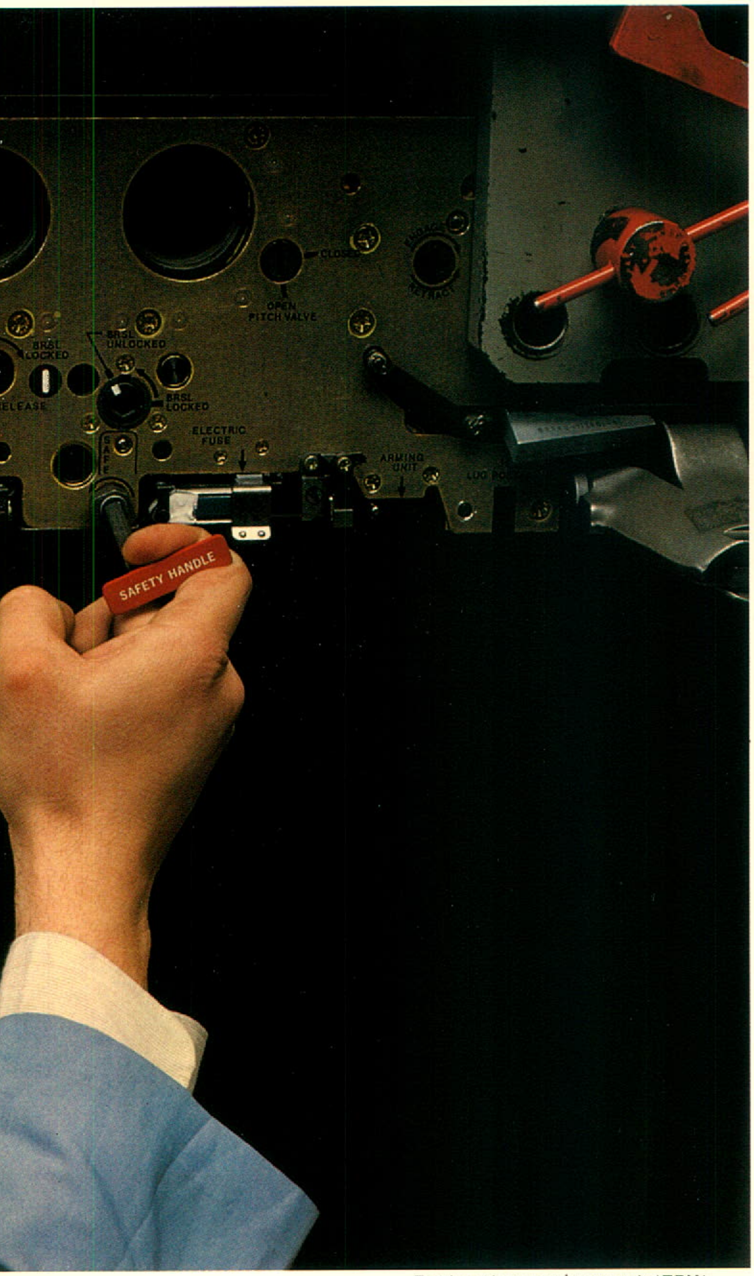
During 1982, the Tornado ERU program progressed from development into production. Prototypes were delivered for flight tests, which are proceeding well. In late 1982, the contract was negotiated in its final form with Messerschmitt-Boelkow-Blohm, GmbH, and their Panavia representative. Ratification is expected in early 1983. Delivery of production units for the Federal Republic of Germany and Italy, started in November 1982, will continue through 1988, with annual price adjustments for inflationary factors. Backlog at year end was approximately $120 million. Panavia is attempting to market the Tornado in several other countries.

F-14A Tomcat

With the U.S. Navy's decision to continue production of the Grumman F-14A Tomcat, additional orders were received for the AN/MXU-611/A jettison release mechanism. Deliveries under this contract will commence in late 1983 and extend through early 1985, with follow-on contracts expected in 1984 and future years.

Other Aircraft Programs

Our experience in ERU design and production—on such programs as Tornado multi-role combat aircraft; F-14A Tomcat Navy fighter; and AH-1Q and YAH-64 attack helicopters—qualifies us for new applications on the F-16D/E fighter, B-52, and B-1 bombers, and various foreign aircraft. Our ERUs, built for the F-16D/E, are scheduled for fly-off flight testing by General Dynamics in mid-1983 and, if successful, will lead to additional markets.



Testing ejector release unit (ERU)


Direct computer controlled, coordinate measurement system

Government Systems Division

Sonar Systems

AN/SQR-18A TACTAS

In 1982, we delivered a significant number of AN/SQR-18A Tactical Towed Array Sonar (TACTAS) systems, now operational in the fleet. The AN/SQR-18A continues to be a major element of the U.S. Navy's ASW capability. Additional contracts were received for production of TACTAS systems for export. Many friendly governments are showing keen interest in this system, and we expect this market to continue to expand over the next few years.

AN/SQR-18A(V)1

Continuing TACTAS development—under Company-sponsored Research and Development (IR&D) and U.S. Government funding—has resulted in the AN/SQR-18A(V)1, which completed sea tests successfully in 1982. We expect approval for production in 1983, with deliveries starting in 1984. The AN/SQR-18A(V)1 utilizes EDO's advanced modular signal processor—a powerful, versatile microcomputer-based distributed processing subsystem which we believe has application to a multiplicity of current and future products.

AN/SQR-18A(V)2

Development of the AN/SQR-18A(V)2, is nearing completion, with sea trials scheduled for mid-1983. The Navy's plans call for the designation of certain Navy and Coast Guard ships as suitable platforms. When successfully tested, the U.S. and foreign Navy market potential for AN/SQR-18 systems will be further expanded to ships not having Variable Depth Systems (VDS).

Model 780 Series

Strong worldwide interest continues for our computer-aided Model 780 Series Sonar Systems. A Model 786 was delivered to another foreign navy for installation starting in 1983. The Model 780 Series modular construction permits configurations for ships of all sizes—from small patrol craft to large ASW frigates. The combination of a Model 780 Series System with a TACTAS enables us, uniquely, to offer the most powerful active/passive sonar systems available today on the world market.

Helicopter-Towed Airborne Mine Countermeasures Systems

AN/ALQ-166

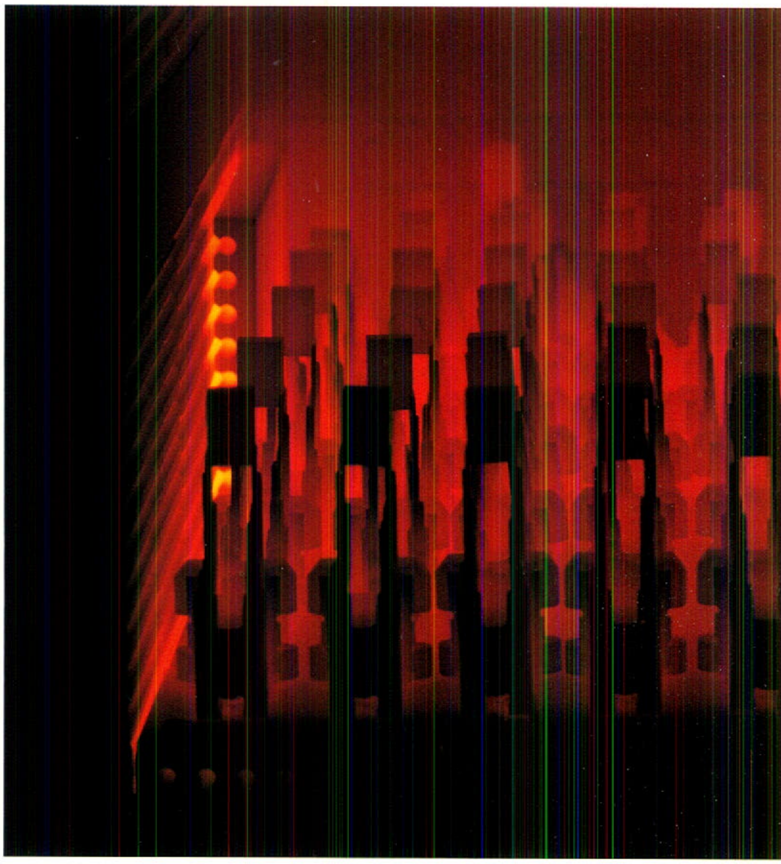
During 1982, we successfully completed initial factory-test of the power pack and control system for the new, advanced AN/ALQ-166 helicopter-towed Magnetic Mine Countermeasures System, which will significantly upgrade the U.S. Navy's minesweeping capabilities. Delivery of engineering development models for Navy evaluation will take place in 1984. Production is scheduled for the mid-1980's.

MK-105

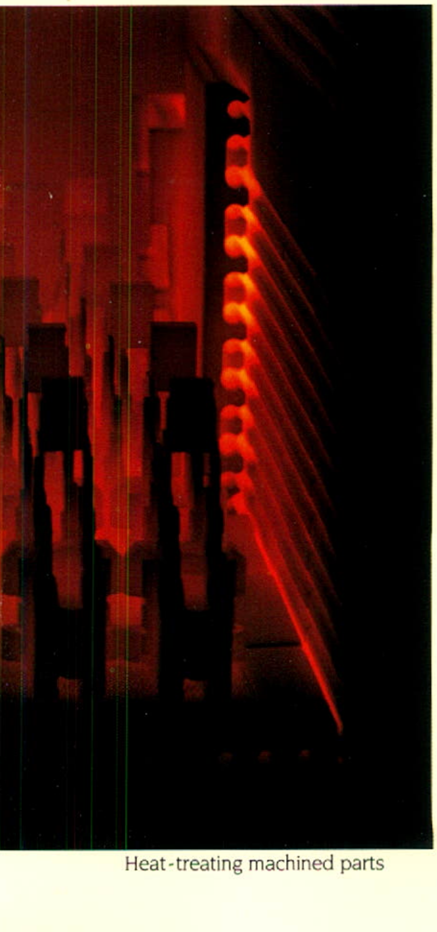
In 1982, EDO participated in successful worldwide fleet readiness test exercises involving the MK-105, and EDO continues to serve as the Navy's designated depot level facility for MK-105 system overhauls. Foreign government interest continues with sales expected in the next few years.

Minesweeping Acoustic Source (MAS)

During 1982, we successfully tested the 1/12-scale model of the MAS at the Naval Underwater Systems Command Facility, Lake Seneca, New York. MAS acoustically augments the magnetic minesweeping capability of the AN/ALQ-166 for multiple-influence mission requirements.



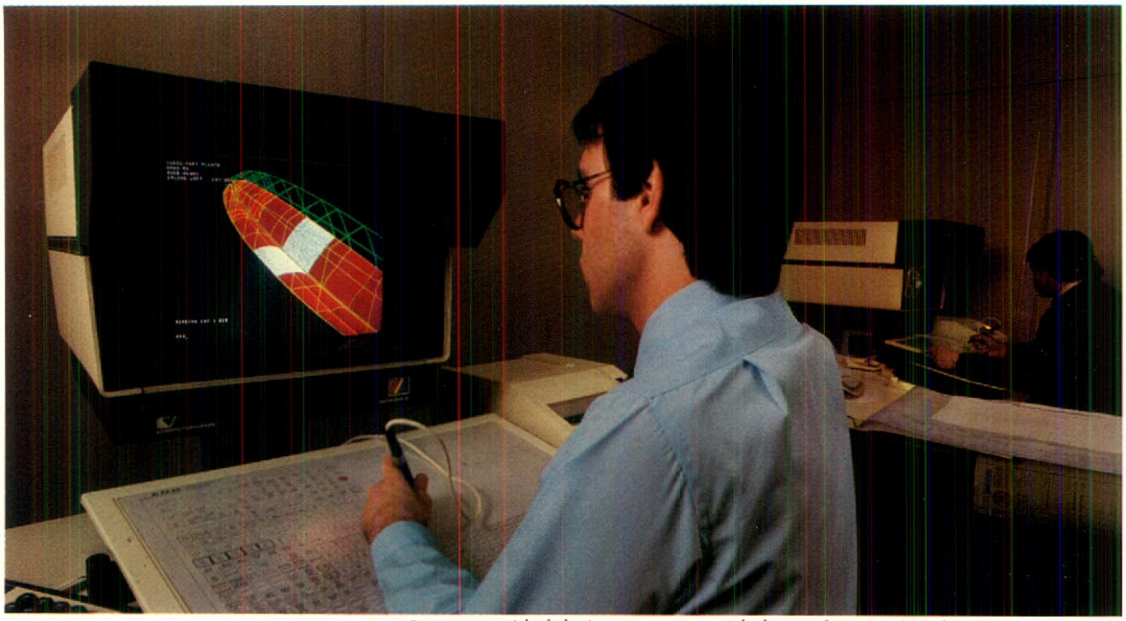
In-process inspection



Heat-treating machined parts

AN/ALQ-166 magnetic mine countermeasures system

Government Systems Division



Computer-aided design, computer-aided manufacture (CAD/CAM) systems

R&D

Active Low Frequency Towed Sonar (ALOFTS)

Under our IR&D program and an unfunded Navy industry cooperative R&D agreement in 1982, GSD completed ALOFTS system design, and started fabrication of a demonstration model. At-sea demonstration tests by the Navy are scheduled for mid-1983, after which we anticipate Navy funding for production during the mid-'80s. ALOFTS has the potential for becoming the next-generation active ASW sensor.

Our Fiber Science Division has a role in this project, developing lightweight composite materials for ALOFTS' launching and handling subsystems.

Dynamic Depressor

Developed through EDO IR&D and Office of Naval Research sponsorship, the soundness of our towed array depressor design was demonstrated in sea trials, in 1982, it set a new speed record when towed by a Navy surface-effect ship. Smaller ships, such as cutters and patrol craft, as well as high-speed hydrofoils and surface-effect ships, can now be equipped for the first time with practical short scope TACTAS systems.

Operator Assist System (OASYS)

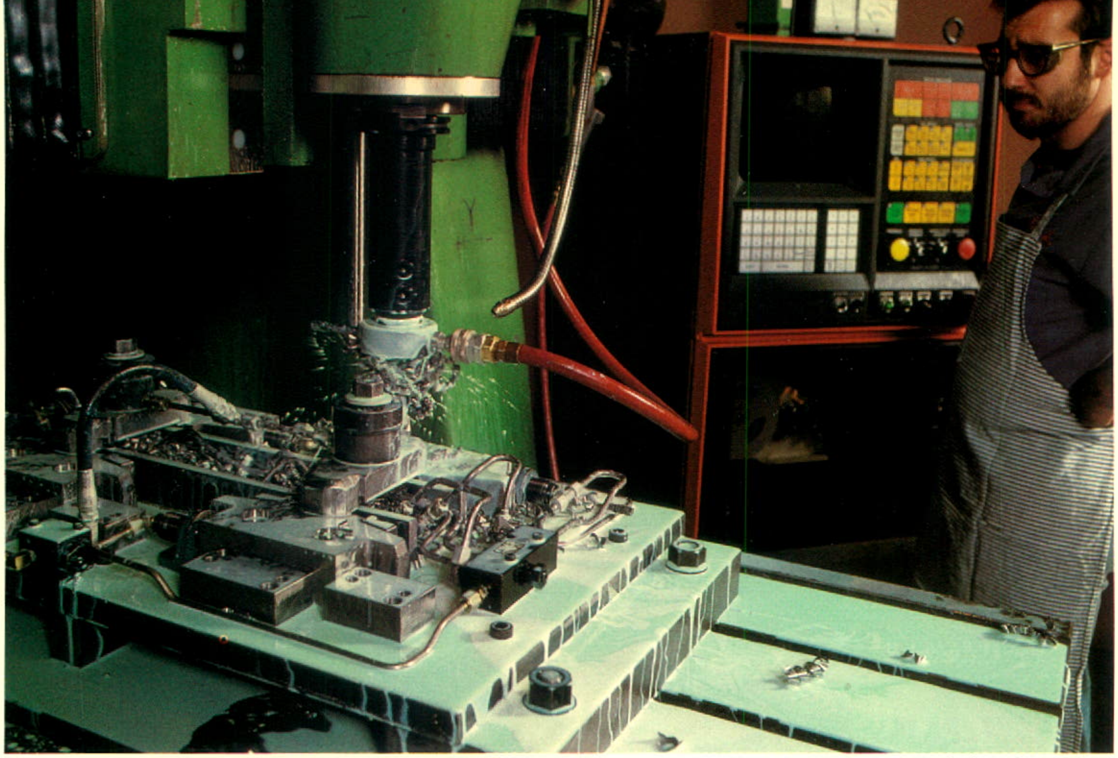
We continued R&D on a Navy-funded program for this major operability improvement to AN/SQR-18A. OASYS is a computer-based system that includes automatic target detection, improved target

Microprocessor laboratory

data presentation, and a situation summary display. An advanced development model will be sea-tested in 1983. After successful evaluation, we expect this to be incorporated into all AN/SQR-18A systems.

Controlled Impulse Generator (CIG)

As part of a National Institute of Health project, we delivered a prototype CIG to Wake Forest University's Bowman Gray School of Medicine to be incorporated in a system for non-surgical, early diagnosis of atherosclerosis. CIG produces precise, repeatable acoustic pulses, for use with a multi-channel transducer/sensor array. A second CIG is now being studied by our R&D staff for other applications, such as non-destructive materials testing.



Computer-controlled machining

Other Contracts

Hangar Deck Cranes

GSD received First Article approval in 1982 from the Naval Engineering Center, Lakehurst, New Jersey, to fabricate 68 hangar deck cranes for aircraft carriers and shore bases. Orders for 200 additional cranes are anticipated over the next several years, plus the establishment of a repair and spare parts facility at College Point.

Electronic Housings

Working closely with Airborne Instruments Laboratory, division of Eaton, GSD anticipates a follow-on contract in early 1983 for electronic housings for 50 AN/ALQ-99 countermeasures systems, used on the Grumman EA-6B aircraft, with a potential for additional follow-on orders through the late '80s.

Components

GSD continues to deliver components for the Boeing 747 and for Sikorsky's CH-53E Super Stallion, UA-60A Blackhawk, SH-60B Sea Hawk, and S-76 Spirit helicopters.

Facility Improvement

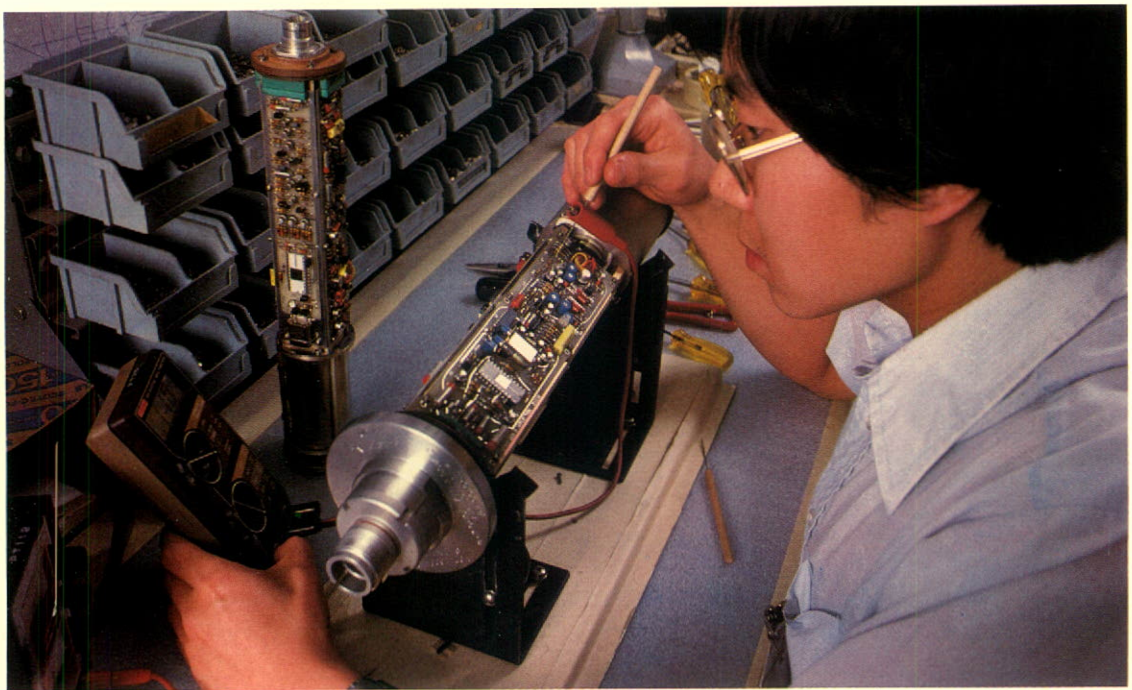
The first phase of the College Point facility improvement program—providing an additional 63,000 square feet of plant, plus modernization of existing areas—was started in 1982, and is now being completed. We also purchased a previously-rented 72,000 square foot building on 3.1 acres. GSD now has 338,000 square feet of engineering, manufacturing and office space on 13 acres. When completed, the new facility will not only improve appearance and production capabilities, but together with a new fuel efficient power plant, will effect significant energy savings.

International Division

During 1982, the International Division's marketing efforts throughout Western Europe, the Far East and South America, resulted in a follow-on contract for AN/SQR-18A tactical towed array systems and interface modification kits from a foreign navy; a contract for an additional Model 1102 passive submarine sonar system from a South American navy; and several orders for spare parts and services. In 1983, we will continue to promote the Model 780 Series Sonar and TACTAS. We also vigorously promote EDO's military aircraft products, several of which have now reached maturity. Prospects for these products in several countries are encouraging, and are expected to result in increased sales in the near future.

Western Division

TV monitoring system for subsea drilling operations



Assembling high resolution ruggedized subsea TV camera

The Division ended 1982 with a record backlog which makes us optimistic for the future. Our strength derives from our intensive R&D program—improving existing products and developing new technologies to meet the demands of the offshore and military markets.

Special-Purpose and Airborne-Television Systems

These systems, which are becoming a significant factor in world military and aerospace markets, are operating on numerous tactical aircraft and are scheduled to be on upcoming space shuttle flights. We are a recognized leader in solid-state, miniature, color camera, head-up display systems for tactical aircraft. Flight demonstrations of our newest system are scheduled for early 1983. We anticipate that solid-state color camera systems will replace virtually all other cockpit cameras in tactical aircraft in the next two to five years.

Acoustic Transducers

In 1982, we continued to be successful in obtaining Navy contracts. Teaming with Sippican Ocean Systems, we won the award for the development of an expendable mobile ASW training target (EMATT) —a training target for Navy air and surface ASW forces. We are to build the heart of the system, a transducer and signal processor that creates the appearance of a submarine to detecting forces. The contract calls for a three-year program of design and pre-production testing of 100 units, with a possible follow-on of several thousand units per year.

Kiln treating piezoelectric ceramic components

Side scan sonar mapping system

Subsea survey system tow vehicle

Offshore Oil and Gas Exploration

As the search continues in deep waters off the continental shelf, demands for technological innovation increase. Our 706 side scan sonar mapping system, a sophisticated data gathering system, was a developmental outgrowth of our expertise in acoustic systems and state-of-the-art microprocessors. Its initial application, as part of the 4075 deep ocean survey system, provided unprecedented detail of the North Atlantic continental slope's steep-walled canyons and gullies. The Coast Guard and private oil companies will use this data to evaluate the feasibility of further oil exploration efforts. EDO's 4051B television system, a multiple down hole and inspection camera system, has been installed on Sonat Offshore Drilling's *Discoverer Seven Seas* drillship, which holds the world record for deep water drilling. This highly-sophisticated integrated system monitors all aspects of subsea drilling operations, including wellhead re-entry, stack monitoring and external wellhead inspection.

The acquisition in 1982 of the Fullerton, California operation of Gulton Industries' Piezo Product Division and its subsequent integration with our own facilities and staff has been rewarding. We are now better equipped than ever to serve the expanding piezoelectric products market.

ELINCO Division

Copper-wound motor armatures

ELINCO manufactures specialized AC and DC motors and generators used in such diverse applications as computer peripherals; medical and scientific instruments; military surveillance systems; video X-ray systems; and synthetic fiber spinning equipment. Although 1982 was a difficult year, our rapid response to customer requirements enabled us to maintain our level of business.

Brushless DC Motors

This year, we won our first pre-production order for our new brushless DC motor from a major manufacturer of video X-ray equipment. Our expanded line now includes many sizes and torques. Among the applications for which we produced prototypes in 1982 are: 14-inch rigid disk drives; silicone wafer processing machines; and scanner motors for point of sale machines.

We have also been applying samarium cobalt magnets to our line, which more than doubles the torque capability in any given frame size.

Ceramic Magnet DC Motors

We developed specially-designed prototypes as submersible pump drives for military vehicles.

Laser-Based Hysteresis Motors

In 1982, we enjoyed increased sales in laser-based technology drives which utilize the hysteresis motor. We have expanded this motor line to meet demand.

Inspecting motor stator

Custom Designs

Our engineers continue to work with customers, modifying our products to meet their unique requirements. Custom designs continue to be a major source of ELINCO business.

R&D

Looking toward the future, our R&D efforts include the application of encoder technology to DC brushless drive control systems; attaining lighter weights for battery-powered applications; and continuing refinement of submersibles, and use of samarium cobalt magnets.

Fiber Science Division (FSD)

FSD, which designs, develops and manufactures lightweight, structural composite components using fiber-reinforced plastics, has one of the largest, most sophisticated filament-winding, laminating and geoforming capabilities in the U.S. This technological capability has resulted in our developing components for many diverse applications. We are progressing well in the transition from R&D to a high-volume manufacturing operation.

Mass Transit

In 1982, we made a major thrust into the mass transit market by winning the San Francisco BART contract to manufacture car interior liners. We anticipate that this contract will continue to contribute to sales through 1983 and 1984. We hope to expand this foothold, and are exploring the worldwide potential in train liners and lavatories.

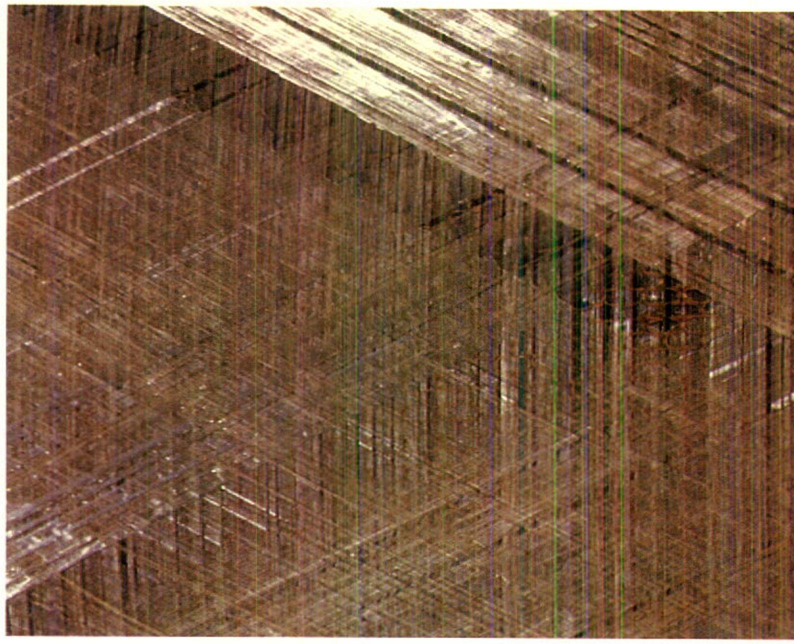
The BART car interior liner project has also led to significant technological breakthroughs with fire-hardened materials capable of withstanding severe fire without emitting toxic fumes. We are utilizing special resin systems for the first time in high-volume manufacturing.

Offshore Drilling

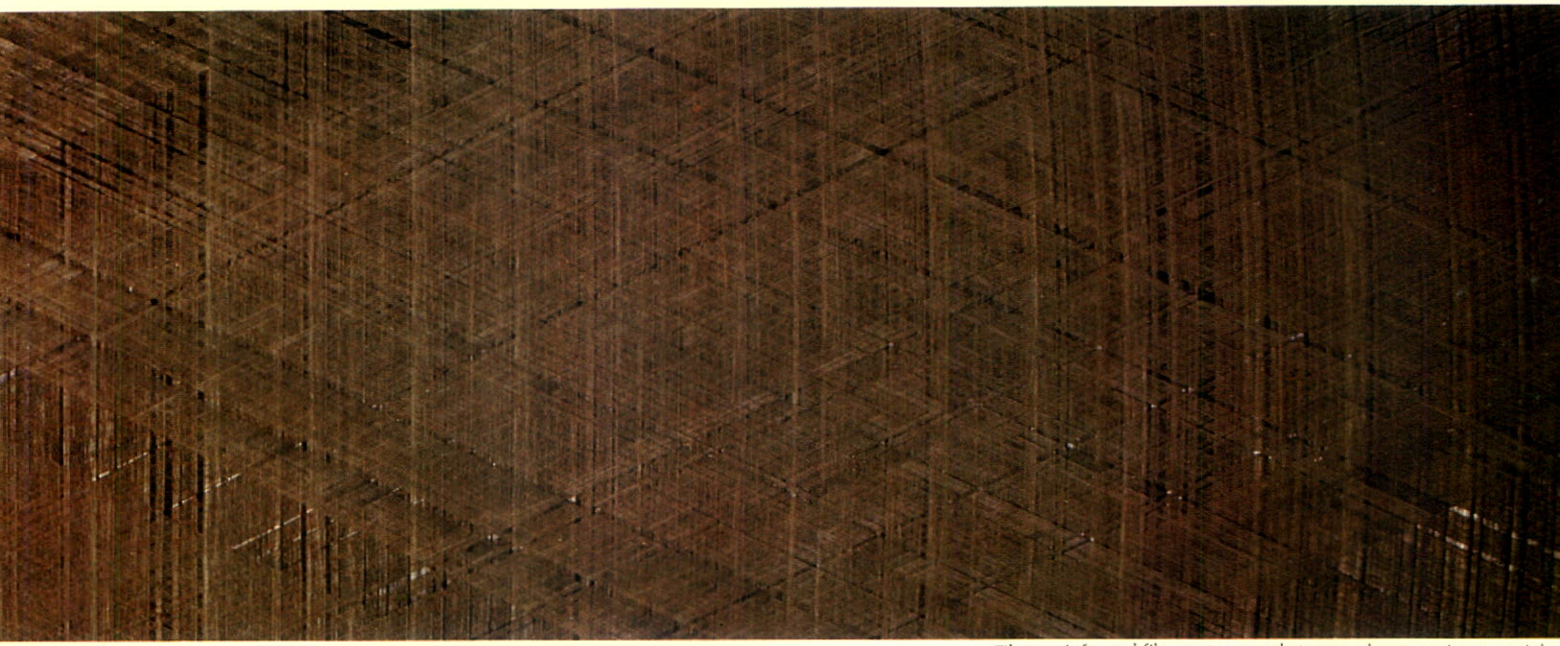
We have increased IR&D efforts related to offshore drilling rig components, where exploration at increased depths creates requirements for significant rig weight reduction. We plan to have several major new components developed, tested and ready for production in 1984.

Bridge Modules

In 1982, FSD completed development of web modules for the Army's lightweight, Class 60 assault bridge. These modules will be tested by the Army Engineers in 1983. Successful application of composites in bridges can lead to significant future market developments.



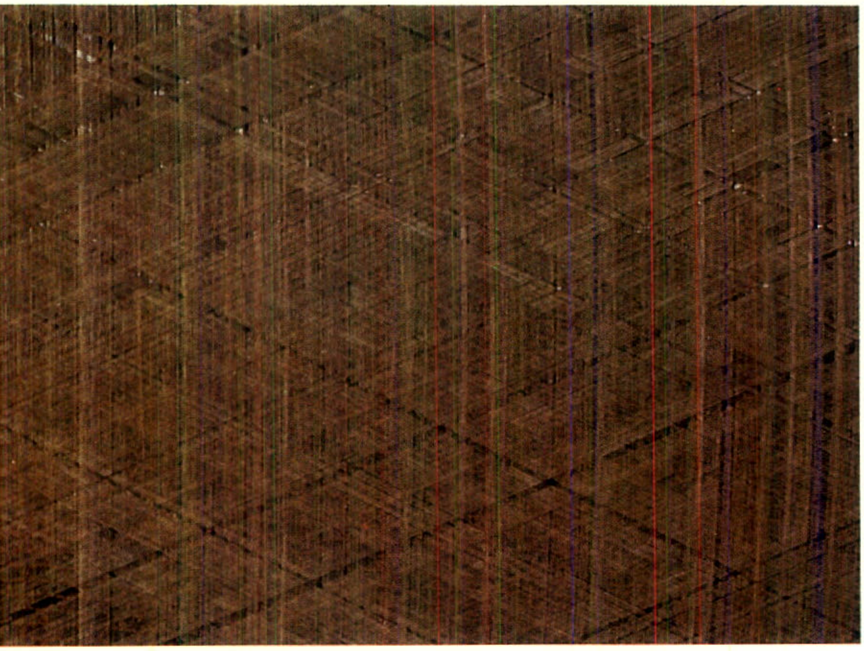
BART car interior liner



Fiber-reinforced filament-wound structural composite material

Aircraft waste tanks

Fiber Science Division



Aerospace

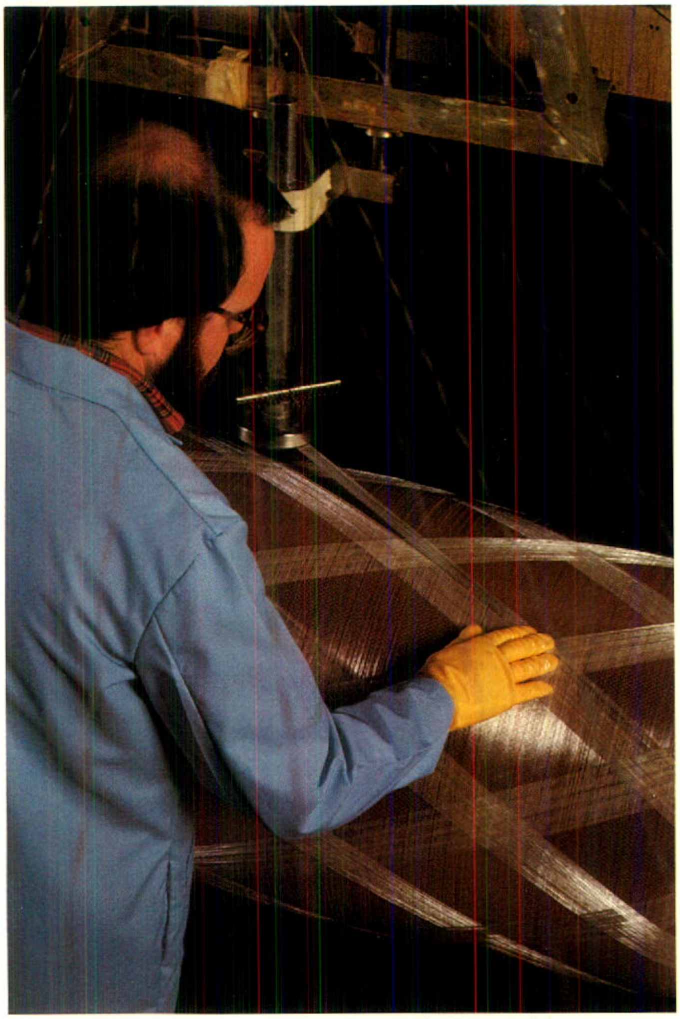
Our primary products for the aerospace market, which accounts for 75% of current business, are filament-wound crashworthy fuel tanks capable of withstanding severe fire, drop and ballistic entry requirements on Army, Navy and Air Force helicopters.

During the year we completed the development and started production of a 450-gallon fuel tank for the Air Force, and completed a 200-gallon tank development program.

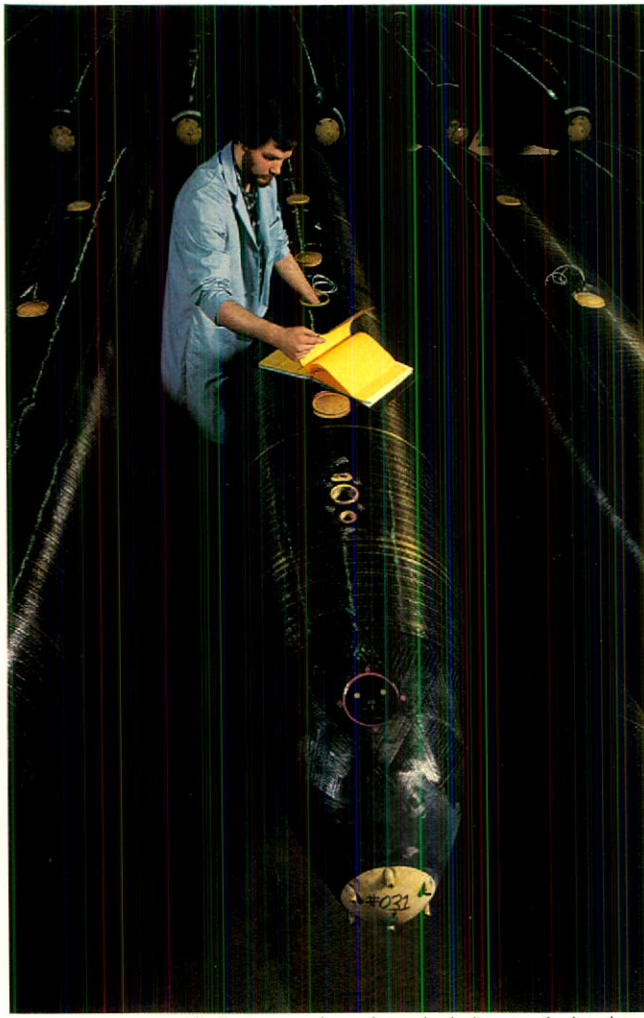
Filament-wound potable water tanks and waste tanks for commercial aircraft are other important products. Aircraft fuselages, engine nacelles and door springs are also in development.

Other Products

Other products developed in 1982 include stator rings for large electrical generators and ship sonar domes.



Filament-winding process



Filament-wound, crashworthy helicopter fuel tanks

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

EDO Corporation and Subsidiaries

Liquidity and Capital Resources

In 1982, the Company restructured its financial condition and operations to enhance its future position. In April, the Company purchased 590,370 common shares from its principal shareholder, for an aggregate price of $12.2-million. The acquired shares were subsequently used as part of the 50 percent stock dividend paid September 30. In October, the Company announced its decision to discontinue its Aviation Products segment, whose operating losses together with a provision for estimated loss on disposal amounted to $9.1-million. Continuing operations produced a $7.4-million profit, resulting in a total net loss for the year of $1.7-million.

Working capital from continuing operations decreased from $22.3-million to $13.5-million. However, a significant improvement occurred in the Company's cash and short-term investments, from $9.2-million to $27.3-million, largely from advances from customers on long-term contracts covering the Company's future commitments under these contracts.

The Company continued to derive cash flow benefits from the "completed contract" method of accounting for long-term contracts, which has three beneficial effects: tax payments on profits generated from these contracts are delayed; income taxes previously paid were recovered; and current income tax payments are not required.

Capital expenditures, amounting to $8.4-million in 1982, 85 percent of which was for the Military Systems segment, are expected to remain at the same level in 1983, primarily to complete the facilities modernization and expansion program at the Government Systems Division in College Point, New York.

As a result of improved liquidity in 1982, the Company was able to finance, through the use of working capital from internally-generated funds, the repurchase of its shares from its principal shareholder. We were also able to fund capital expenditures and reduce long-term debt. We expect to have sufficient funds available in 1983 for capital expenditures and additional working capital. As of December 31, 1982, there were unused lines of credit with banks, including a revolving credit agreement, in the aggregate amount of $10-million. Other financings, as long-term debt or public offering of the Company's common shares, have also raised capital in the past, and would be considered if the need for additional capital arises in the future.

Backlog

Backlog of orders at year-end 1982 amounted to $191.5-million, compared with $107.6-million the year before. A major portion of this backlog is associated with a contract from Messerschmitt-Bolkow-Blohm GmbH for the production of ejector release units (ERUs) for the Tornado multi-role combat aircraft being produced for the Federal Republic of Germany and Italy.

Results of Operations

In October 1982, the Company announced the discontinuance of its Aviation Products segment. The following discussion relates to the Company's continuing operations. Refer to Note 2 of the consolidated financial statements for information relating to the discontinued business.

1982 vs. 1981

Sales from continuing operations were $101.8-million, an increase of 10 percent over the prior year's $92.5-million.

Net earnings from continuing operations increased 35 percent, to a record $7.4-million, compared with $5.5-million in 1981. The increase included both higher income from short-term investments as well as increased operating income.

Earnings from continuing operations, as a return on average shareholders' equity, increased to 25.4 percent, from 15.7 percent the previous year.

Both business segments enjoyed sales gains. Military Systems sales improved 11 percent to $70.9-million, due to the ERU program, which entered the production phase during 1982, and continued success in the AN/SQR-18A Tactical Towed Array Sonar (TACTAS) program. Sales of Marine Systems and Specialized Products increased 8 percent to $30.9-million, due to increased sales of piezoelectric ceramics used in acoustic instruments; military and oceanographic acoustic systems; and development programs for military helicopter composite fuel tanks.

Operating profit in the Military Systems segment was up 15 percent from 1981, helped by increased sales volume and better profit margins from cost efficiencies. Operating profit in Marine Systems and Specialized Products segment was up 25 percent from 1981, due to improved profit margins derived from cost efficiencies, price increases and a higher sales base.

Selling, general and administrative expenses were higher in 1982, principally in support of increased volume.

In 1982, the Company's investment in Internal Research and Development (IR&D) programs also increased.

The Company earned $2.9-million in interest income in 1982. Our improved liquidity position enabled us to take advantage of higher-average, short-term investments.

1981 vs. 1980

Sales from continuing operations were $92.5-million, an increase of 25 percent from 1980. Sales of Military Systems increased 33 percent due primarily to the TACTAS and ERU programs. Sales of Marine Systems and Specialized Products increased 12 percent, due principally to improved sales of piezoelectric ceramics.

Operating profit in Military Systems was up 33 percent from 1980, due to increased volume of sales. Operating profit in Marine Systems and Specialized Products declined 13 percent, from reduced profits on our composite products attributable to production cutbacks in commercial aircraft.

Selling, general and administrative expenses increased to support the higher sales volume. IR&D investment increased in support of the Company's high-technology products. Interest income of $1.4-million was earned in 1981 from short-term investments.

Selected Financial Data (a)

(Not covered by Independent Accountants' Report)

EDO Corporation and Subsidiaries

	1982	1981	1980	1979	1978
		(in thousands except per share amounts)			
Summary of Continuing Operations					
Net Sales:					
Military Systems	$ 70,883	63,882	47,977	37,354	31,077
Marine Systems & Specialized Products	30,911	28,596	25,564	20,665	15,312
	$101,794	92,478	73,541	58,019	46,389
Operating Profit					
Military Systems	$ 10,335	8,954	6,731	4,677	3,178
Marine Systems & Specialized Products	3,252	2,607	2,983	1,817	1,387
	$ 13,587	11,561	9,714	6,494	4,565
Earnings from Continuing Operations	$ 7,420	5,499	4,176	2,585	1,647
Earnings (Loss) from Discontinued Operations	(9,098)	(2,207)	(1,628)	669	996
Net Earnings (Loss)	$ (1,678)	3,292	2,548	3,254	2,643
Per Share Data (b)					
Net Earnings (Loss)					
Primary:					
Continuing Operations	$ 2.18	1.40	1.07	.80	.53
Discontinued Operations	(2.67)	(.56)	(.42)	.21	.32
Total	$ (.49)	.84	.65	1.01	.85
Fully Diluted from Continuing Operations	$ 2.08	—	—	.76	—
Average Number of Shares Outstanding					
Primary	3,400	3,914	3,900	3,218	3,096
Fully Diluted	3,580	—	—	3,398	—
Cash Dividends Declared	$ .31	.25	.24	.23	.19
Stock Dividends Declared	50%	10%	—	50%	—
Shareholders' Equity	$ 7.36	9.43	8.75	8.25	7.55
Other Information					
Working Capital	$ 13,497	22,314	19,696	16,220	9,705
Depreciation	$ 2,112	1,703	1,281	1,006	856
Plant and Equipment Expenditures	$ 8,384	4,039	2,447	2,263	1,441
Total Assets	$ 75,577	72,932	63,451	51,629	46,237
Long-Term Debt	$ 5,533	8,067	8,911	9,905	10,750
Shareholders' Equity	$ 22,031	36,435	33,749	31,591	23,394
Backlog of Unfilled Orders	$191,546	107,638	117,379	104,045	45,219

(a) Reclassified for discontinued operations.
(b) Adjusted to give retroactive effect to a 50% stock dividend paid on September 30, 1982, a 10% stock dividend paid on June 30, 1981, and a 50% stock dividend paid on October 18, 1979.

Statements of Consolidated Operations

EDO Corporation and Subsidiaries — Years ended December 31

Continuing Operations:	1982	1981*	1980*
Income:	(in thousands except per share amounts)		
Net sales	$101,794	$92,478	$73,541
Interest	2,936	1,412	—
Other income	519	140	259
	105,249	94,030	73,800
Costs and expenses:			
Cost of sales	79,127	72,594	56,628
Selling, general and administrative	7,989	7,533	6,678
Research and development	2,371	1,856	1,333
Employee retirement plans	2,171	1,701	1,508
Interest	727	839	556
	92,385	84,523	66,703
Earnings before Federal income taxes	12,864	9,507	7,097
Provision for Federal income taxes	5,444	4,008	2,921
Earnings from continuing operations	7,420	5,499	4,176
Discontinued Operations:			
Loss from operations (less Federal income tax benefits)	(1,951)	(2,207)	(1,628)
Loss on disposal (less Federal income tax benefits of $6,108,000)	(7,147)	—	—
Loss from discontinued operations	(9,098)	(2,207)	(1,628)
Net earnings (loss)	$ (1,678)	$ 3,292	$ 2,548
Earnings (loss) per share:			
Primary			
Continuing operations	$ 2.18	$ 1.40	$ 1.07
Discontinued operations	(2.67)	(.56)	(.42)
	$ (.49)	$ .84	$ .65
Fully Diluted			
Continuing operations	$ 2.08		
Discontinued operations	**		

*Reclassified for discontinued operations (see Note 2).
**Amount is anti-dilutive.

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

EDO Corporation and Subsidiaries

	December 31	
	1982	**1981***
Assets	(in thousands)	
Current assets:		
Cash and short-term cash investments	$27,341	$ 9,189
Recoverable Federal income taxes	—	3,661
Accounts receivable, including amounts due from the United States Government of $8,153,000 in 1982 and $5,878,000 in 1981	16,893	17,849
Inventory:		
Finished goods	1,944	1,319
Work in process	8,906	10,897
Raw materials and supplies	3,014	2,983
Total inventory	13,864	15,199
Prepayments	163	388
Total current assets	58,261	46,286
Net assets of discontinued operations	988	16,750
Property, plant and equipment, at cost	28,626	22,821
Less accumulated depreciation and amortization	12,676	13,143
Net property, plant and equipment	15,950	9,678
Deferred charges and other assets	378	218
	$75,577	$72,932
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ 900	$ 450
Accounts payable and accrued liabilities	12,351	8,875
Contract advances and deposits	27,427	9,295
Deferred Federal income taxes	4,086	5,352
Total current liabilities	44,764	23,972
Deferred Federal income taxes	3,249	4,458
Long-term debt, less current installments	5,533	7,767
Employee Stock Ownership Trust obligation	—	300
Shareholders' equity:		
Preferred shares, par value $1 per share, Authorized 500,000 shares (none issued)	—	—
Common shares, par value $1 per share, Authorized 6,000,000 shares; issued and outstanding 2,991,666 in 1982 and 3,865,169 in 1981	2,992	2,577
Additional paid-in capital	6,249	18,699
Retained earnings	12,790	15,459
	22,031	36,735
Less Employee Stock Ownership Trust obligation	—	300
Total shareholders' equity	22,031	36,435
	$75,577	$72,932

*Reclassified for discontinued operations (see Note 2).

See accompanying notes to consolidated financial statements.

Statements of Changes in Consolidated Shareholders' Equity

EDO Corporation and Subsidiaries — Years ended December 31

	1982				1981	1980
	(in thousands except shares & per share amounts)					
	Common Shares at $1.00 Par Value	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity		
Balance at beginning of year	$2,577	$18,699	$15,459	$36,735	$34,349	$32,491
Net earnings (loss)	—	—	(1,678)	(1,678)	3,292	2,548
Cash dividends—$.31 per share 1982; $.25 per share 1981; and $.24 per share in 1980	—	—	(991)	(991)	(1,005)	(933)
Purchase of 590,370 shares subsequently used for 50% stock dividend	(590)	(11,572)	—	(12,162)	—	—
50% stock dividend (992,779 shares issued)	992	(992)	—	—	—	—
Shares issued upon conversion of debentures (10,941 shares in 1982; 23,342 shares in 1981)	11	98	—	109	94	243
Stock options exercised (2,062 shares in 1982 and 5,980 shares in 1981)	2	16	—	18	5	—
	2,992	6,249	12,790	22,031	36,735	34,349
Less Employee Stock Ownership Trust obligation	—	—	—	—	300	600
Balance at end of year	$2,992	$ 6,249	$12,790	$22,031	$36,435	$33,749

See accompanying notes to consolidated financial statements.

Statements of Changes in Consolidated Financial Position

EDO Corporation and Subsidiaries

Years ended December 31

	1982	1981*	1980*
		(in thousands)	
Sources (uses) of working capital:			
Earnings from continuing operations	$ 7,420	$5,499	$4,176
Depreciation and amortization	2,112	1,703	1,281
Deferred income taxes	4,091	2,255	2,203
Funds provided from continuing operations	13,623	9,457	7,660
Other sources (uses) of working capital:			
Purchase of treasury shares	(12,162)	—	—
Plant and equipment expenditures	(8,384)	(4,039)	(2,447)
Reduction of long-term debt	(2,234)	(544)	(694)
Payment of cash dividends	(991)	(1,005)	(933)
Other, net	1,331	(1,251)	1,681
Increase (decrease) in working capital from continuing operations	$ (8,817)	$2,618	$5,267
Changes in working capital:			
Increase (decrease) in current assets:			
Cash and short-term cash investments	$18,152	$6,791	$2,135
Recoverable Federal income taxes	(3,661)	913	2,748
Accounts receivable	(956)	2,392	3,754
Inventory	(1,335)	(2,329)	3,335
Prepayments	(225)	235	(40)
	11,975	8,002	11,932
Increase (decrease) in current liabilities:			
Current installments of long-term debt	450	—	—
Accounts payable and accrued liabilities	3,476	1,297	789
Contract advances and deposits	18,132	694	5,098
Deferred Federal income taxes	(1,266)	3,393	778
	20,792	5,384	6,665
Increase (decrease) in working capital from continuing operations	$ (8,817)	$2,618	$5,267

*Reclassified for discontinued operations (see Note 2).

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Reference is made to Note (2) for the classification of accounts relating to the Company's discontinued operations.

(b) Inventory

Inventory under long-term contracts and programs reflect all accumulated production costs including factory overhead, initial tooling and other related costs, less the portion of such costs charged to cost of sales. Inventory costs in excess of amounts recoverable under contracts are charged to cost of sales when they become known. All other inventory is stated at the lower of cost (principally first-in, first-out method) or market.

Sales on long-term, fixed price contracts, including pro-rata profits, are recorded: (a) as progress billings are made, (b) as deliveries are made, or (c) based on the relationship of total costs incurred to date to total projected final costs. Sales under cost reimbursement contracts are recorded as costs are incurred. Sales on other than long-term contract orders (principally commercial products) are recorded as shipments are made.

(c) Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation and amortization have been computed using the declining balance and straight-line methods over the assets' estimated useful lives.

(d) Income Taxes

Deferred income taxes are recognized for timing differences that arise in the recording of transactions for financial and tax reporting purposes.

Investment and other tax credits are accounted for under the flow-through method and are recognized in the year in which the property is placed in service.

(e) Earnings Per Share

Primary earnings per share amounts are determined by using the weighted average number of shares and common stock equivalents (warrants and stock options) outstanding during the year. Per share amounts for 1981 and 1980 have been retroactively adjusted to reflect the 50% stock dividend paid on September 30, 1982 and the 10% stock dividend paid on June 30, 1981. Primary earnings per share amounts are based on 3,399,795; 3,914,213; and 3,900,077 shares outstanding for 1982, 1981 and 1980, respectively. Fully diluted earnings per share for 1982 is based on 3,579,694 shares outstanding, and includes the dilutive effect of the assumed conversion of the Company's 5.25% convertible debentures. The fully diluted loss per share for discontinued operations has not been presented as amounts would be anti-dilutive in 1982. There was minimal dilution in 1981 and 1980.

(2) Discontinued Operations

In October 1982, the Company announced its decision to discontinue the operations of its Aviation Products segment due to the continuing decline in the general aviation business and recurring losses sustained by the segment. Accordingly, the Company estimated a provision for loss of $13,255,000 consisting of $1,755,000 in operating losses incurred for the three month period ended December 31, 1982 and $11,500,000 for reductions of asset values and provisions for estimated future disposal costs. Such provision, less tax benefits of $6,108,000, has been set forth separately in the accompanying statement of consolidated operations with the results of operations of this business (less related tax benefits) as "Discontinued Operations."

The Company's investment, at estimated net realizable value in the net assets of the discontinued operations shown in the accompanying consolidated balance sheets is summarized as follows:

	1982	1981
	(in thousands)	
Current assets		
Accounts receivable	$1,623	$ 3,181
Inventory	1,194	8,951
Total	2,817	12,132
Current liabilities		
Accounts payable	239	1,334
Accrued liabilities	362	202
Estimated future disposal costs	2,750	—
Other	532	184
Total	3,883	1,720
Excess (deficiency) current assets less current liabilities	(1,066)	10,412
Non-current assets		
Property and equipment	2,054	2,997
Other (principally excess cost of net assets acquired)	—	3,741
Total	2,054	6,738
Non-current liabilities	—	400
Total net assets of discontinued operations at estimated net realizable value	$ 988	$16,750

The results of operations for the periods presented are summarized as follows:

	Nine months ended Sept. 25	Year ended Dec. 31	
	1982	1981	1980
	(in thousands)		
Net sales	$ 9,315	$20,167	$23,804
Loss before Federal income tax benefit	(3,655)	(4,248)	(3,069)
Net loss	(1,951)	(2,207)	(1,628)

The financial statements for 1981 and 1980 have been reclassified from amounts previously reported to conform with the presentation of the Discontinued Operations for 1982.

(3) Short-Term Cash Investments

Short-term cash investments of the Company are carried at cost, which approximates market. At December 31, 1982 and 1981, short-term cash investments consisted of $26,500,000 and $8,331,000, respectively, in bank time deposits, Euro dollar investments and a repurchase agreement.

(4) Long-Term Contract Receivables and Inventory

Accounts receivable include $2,976,000 and $1,895,000 at December 31, 1982 and 1981, respectively, representing unbilled revenues on long-term contracts.

Work-in-process inventory includes $5,747,000 and $8,092,000 at December 31, 1982 and 1981, respectively, applicable to long-term contracts.

Raw materials inventory in the amount of $8,096,000 and $1,300,000 has been reduced by contract advances and deposits in the accompanying consolidated balance sheets as of December 31, 1982 and 1981, respectively.

(5) Property, Plant and Equipment

The Company's property, plant and equipment at December 31, 1982 and 1981 and their related useful lives are summarized as follows:

	1982	1981	Range in Years
	(in thousands)		
Land and land improvements	$ 1,439	$ 902	8-30
Buildings and building improvements	8,220	3,241	8-45
Machinery and equipment	15,703	15,460	5-10
Automotive and flight equipment	1,119	1,149	3-8
Leasehold improvements	2,145	2,069	lease terms
	$28,626	$22,821	

(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at December 31, 1982 and 1981:

	1982	1981
	(in thousands)	
Trade payables	$ 3,472	$1,743
Salaries, wages and vacations	3,153	2,459
Employee retirement plans	2,022	1,709
Stock option compensation	763	231
Taxes other than Federal income taxes	1,719	1,071
Other	1,222	1,662
	$12,351	$8,875

(7) Long-Term Debt, Revolving Credit Agreement, and Other Notes Payable

Long-term debt of the Company consists of the following at December 31, 1982 and 1981:

	1982	1981
	(in thousands)	
9.65% Senior promissory notes due 1991	$5,625	$7,300
5.25% convertible subordinated debentures due 1987	808	917
Total long-term debt	6,433	8,217
Less current installments	900	450
Long-term debt, excluding current installments	$5,533	$7,767

The 9.65% senior promissory notes were issued in September 1978 together with warrants now exercisable to purchase common shares at $8.09 per share. The warrants expire June 30, 1993. Required annual principal payments under this agreement are as follows: $900,000 in 1983, $625,000 from 1984 to 1990 and $350,000 in 1991.

The 5.25% convertible subordinated debentures require annual sinking fund payments of $129,000 to 1986. The debentures are convertible at the rate of 105.30 common shares for each $1,000 principal amount, which is equivalent to approximately $9.50 per share. At its option, the Company may credit against sinking fund payments debentures purchased, converted or redeemed. The Company intends to apply against future sinking fund requirements $255,000 of debentures converted during 1982 and prior years. At any time prior to maturity, the debentures are redeemable (other than by sinking fund provisions) at the option of the Company, at annual redemption prices descending from 101% currently to 100% at April 1, 1984.

The Company has a Revolving Credit Agreement with two banks. Under the terms of the Agreement, the Company is permitted to borrow up to a maximum of $6,000,000 with interest at the prime commercial rate. The Agreement expires on December 31, 1983, at which time the outstanding loans are payable in sixteen equal quarterly installments commencing the end of March, 1984. At December 31, 1982, the Company had available additional unsecured short-term lines of credit aggregating $4,000,000. Although there are no formal agreements for compensating balances under the Company's short-term loan agreements, the Company attempts to maintain cash compensating balances equal to approximately 5% of its total lines of credit plus 10% of its outstanding borrowings. The Company had no outstanding balances under the Revolving Credit Agreement or the unsecured short-term lines of credit as of December 31, 1982 and 1981.

The terms of the aforementioned agreements, among other things, require the maintenance of minimum consolidated working capital and tangible net worth, prohibit additional long-term borrowings, and restrict retained earnings available for the repurchase of stock and the payment of cash dividends unless the lender otherwise consents. At December 31, 1982 under the most restrictive of the agreements, cash dividends are limited to $311,000 plus 50% of future net earnings.

The required principal payments on long-term debt over the next five years are as follows:
1983—$900,000; 1984—$628,000; 1985—$754,000;
1986—$754,000; 1987—$1,172,000.

(8) Federal Income Taxes

The 1982, 1981 and 1980 provisions (recovery) for Federal income taxes are comprised of the following amounts:

	1982	1981	1980
	(in thousands)		
Current	$ —	$(3,800)	$(1,837)
Deferred	(2,368)	5,767	3,317
Total	$(2,368)	$ 1,967	$ 1,480

The provision for (recovery of) income taxes is summarized as follows:

	1982	1981	1980
	(in thousands)		
Continuing Operations	$ 5,444	$ 4,008	$ 2,921
Discontinued Operations	(7,812)	(2,041)	(1,441)
Total	$(2,368)	$ 1,967	$ 1,480

In 1980 the Company changed its method of revenue recognition on long-term contracts for tax reporting purposes from the percentage of completion method to the completed contract method. The Company reported a loss from operations for tax purposes in 1981 and 1980 and recognized a recovery of income taxes previously paid and provided for the related deferred income taxes. The income taxes otherwise currently payable in 1982 have been offset by the effect of tax loss carryovers from 1981. The Company has available for tax purposes only investment and other tax credit carryovers of $920,000 that expire in 1996 and 1997.

The sources of the deferred tax provision and the related tax effect in each of the years are as follows:

	1982	1981	1980
	(in thousands)		
Loss on disposal	$(5,300)	$ —	$ —
Completed contract method for tax purposes	1,193	6,067	3,253
Restoration of deferred taxes due to utilization of tax net operating loss carryover	2,123	—	—
Inventory costs deductible for tax purposes	(19)	(238)	150
Other	(365)	(62)	(86)
Total	$(2,368)	$5,767	$3,317

The effective income tax rate for continuing operations differs from the statutory Federal income tax rate for the following reasons:

	Percent of Pre-tax Earnings 1982	1981	1980
Tax at statutory rate	46.0%	46.0%	46.0%
Investment and other tax credits	(3.7%)	(3.8%)	(3.4%)
Other	—	—	(1.4%)
Effective income tax rate	42.3%	42.2%	41.2%

The effective income tax benefit rates for the discontinued Aviation Products segment approximated the statutory rate of 46% in each of the years presented.

No provision for taxes has been made for undistributed Domestic International Sales Corporation earnings of $2,013,000 since it is the Company's intention not to distribute such earnings.

(9) Shareholders' Equity

Common shares outstanding have been retroactively adjusted to reflect the declaration of a 50% stock dividend paid September 30, 1982 which has been accounted for as a stock split. A 10% stock dividend aggregating 349,443 shares, as adjusted for this 50% stock dividend, was paid on June 30, 1981. This has been accounted for as a stock dividend.

The Company purchased for cash in April 1982, 590,370 shares of its outstanding common shares from a principal shareholder, Kidde, Inc. for an amount of $12,162,000. These shares were accounted for as treasury shares and were subsequently used as part of the 50% stock dividend paid September 30, 1982.

At December 31, 1982, the Company has reserved, authorized and unissued common shares for the following purposes:

Conversion of 5.25% convertible debentures	85,082
Exercise of warrants	206,204
Stock option plan	156,957
	448,243

(10) Stock Options

The Company has granted stock options to officers and key employees, under a plan approved by the shareholders in 1980, for the purchase of its common shares along with certain stock appreciation rights at the fair market value of the shares on the date of grant. The options become exercisable in four substantially equal installments beginning one year after the date of grant. Compensation expense associated with stock appreciation rights for 1982, 1981, and 1980 was $542,205, $177,736, and $63,648 respectively. Certain executives of the Company have agreed not to exercise their stock appreciation rights and correspondingly no compensation expense has been accrued for the options held by those executives.

At December 31, 1982, 156,957 common shares were reserved for issuance under the stock option plan.

Options outstanding were as follows: (adjusted for a 50% stock dividend paid in September 1982 and a 10% stock dividend paid in June 1981)

	1982		1981	
	Price Range	Shares Subject to Option	Price Range	Shares Subject to Option
Beginning of year	8.90-10.13	122,100	8.90	132,000
Options granted	16.37	4,000	10.13	14,025
Options exercised	8.90	(2,062)	8.90	(5,980)
Options cancelled	8.90	(1,238)	8.90	(17,945)
End of year	8.90-16.37	122,800	8.90-10.13	122,100
Exercisable at year end		55,893		27,019

(11) Retirement Plans

The Company maintains a non-contributory pension plan covering substantially all of its employees. The total pension expense for 1982, 1981, and 1980 was $2,022,000, 1,709,000 and 1,621,000, respectively, of which $1,747,000, $1,428,000 and $1,210,000 related to continuing operations. The expense includes amortization of past service cost over a period of 30 years. The Company makes annual contributions to the plan equal to the amounts accrued for pension expense, which is determined based on actuarial costs of the plan. A comparison of accumulated plan benefits and plan net assets as of December 31, 1981 and 1980, the dates of the latest valuations available, is presented below:

Actuarial present value of accumulated plan benefits:	1981	1980
	(in thousands)	
Vested	$16,705	$14,184
Non-vested	1,851	1,655
	$18,556	$15,839
Net assets available for benefits	$17,357	$15,409

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% in 1981 and 1980.

The Company's Employee Stock Ownership Plan provides additional retirement benefits to substantially all employees. Contributions to the Plan amounted to $506,000, $368,000 and $418,000 for 1982, 1981 and 1980 respectively, of which $424,000, $273,000 and $298,000 related to continuing operations. The Employee Stock Ownership Trust obligation was paid in 1982.

(12) Commitments

The Company is contingently liable under the terms of letters of credit aggregating approximately $635,000 at December 31, 1982, should it fail to perform in accordance with the terms of contracts with foreign customers.

At December 31, 1982, the Company and its subsidiaries are obligated under building and equipment leases expiring between 1983 and 1994. Rental expense under such leases for the years ended December 31, 1982, 1981 and 1980 amounted to $1,710,000, $1,552,000 and $1,474,000, respectively. Minimum rentals under those obligations with non-cancellable terms in excess of one year are as follows: 1983–$1,149,000; 1984–$1,106,000; 1985–$1,024,000; 1986–$1,033,000; 1987–$899,000; 1988-1994– $1,258,000.

(13) Business Segments

The nature of the products offered by the Company's continuing operations are described elsewhere in this annual report. These products may generally be categorized into two segments: Military Systems; Marine Systems and Specialized Products. Sales between industry segments approximate market price.

Domestic government sales amounted to 47%, 52% and 51% of net sales which was 57%, 66% and 66% of Military Systems sales and 24%, 20% and 21% of Marine Systems and Specialized Products sales for 1982, 1981, and 1980 respectively. Export sales comprised 27%, 23% and 21% of net sales for 1982, 1981 and 1980, respectively. One foreign customer's sales in the Military Systems segment comprised 19%, 11% and 4% of net sales for 1982, 1981, and 1980, respectively.

The distribution of sales, operating profit and identifiable assets of the Company's continuing business segments are identified as follows:

	1982	1981*	1980*
	(in thousands)		
Sales:			
Military systems:			
Unaffiliated customers	$ 70,883	$63,882	$47,977
Intersegment sales	1,059	1,650	1,384
	71,942	65,532	49,361
Marine systems and specialized products:			
Unaffiliated customers	30,911	28,596	25,564
Intersegment sales	564	833	462
	31,475	29,429	26,026
Less intersegment sales	1,623	2,483	1,846
Net sales	$101,794	$92,478	$73,541
Operating profit:			
Military systems	$ 10,335	$8,954	$6,731
Marine systems & specialized products	3,252	2,607	2,983
	13,587	11,561	9,714
Less:			
General corporate expenses	2,932	2,627	2,061
Net interest expense (income)	(2,209)	(573)	556
Earnings before Federal income taxes	$ 12,864	$ 9,507	$ 7,097

	1982	1981*	1980*
	(in thousands)		
Identifiable assets:			
Military systems	$ 30,745	$29,863	$26,054
Marine systems & specialized products	16,050	16,300	17,029
Corporate (cash and investments)	27,794	10,019	3,038
	$ 74,589	$56,182	$46,121
Depreciation expense:			
Military systems	$ 1,375	$ 1,048	$ 811
Marine systems & specialized products	737	655	470
	$ 2,112	$ 1,703	$ 1,281
Capital expenditures:			
Military systems	$ 7,362	$ 2,577	$ 1,263
Marine systems & specialized products	1,022	1,462	1,184
	$ 8,384	$ 4,039	$ 2,447

*Reclassified for discontinued operations (see Note 2).

(14) Quarterly Financial Information (Unaudited)

The following table sets forth unaudited quarterly financial information for 1982 and 1981 (in thousands, except per share amounts) reclassified for discontinued operations (see Note 2):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1982	1981	1982	1981	1982	1981	1982	1981
Net sales	$23,196	$22,702	$25,786	$24,348	$26,501	$24,719	$26,311	$20,709
Gross profit	5,169	4,521	5,814	4,445	4,571	4,549	4,742	4,513
Net earnings (loss)								
Continuing operations	1,527	1,408	1,993	1,490	1,811	1,439	2,089	1,162
Discontinued operations	(467)	(558)	(848)	(593)	(636)	(556)	(7,147)	(500)
Total	1,060	850	1,145	897	1,175	883	(5,058)	662
Earnings (loss) per share								
Continuing operations	.39	.40	.58	.38	.59	.36	.66	.28
Discontinued operations	(.12)	(.16)	(.25)	(.15)	(.21)	.14	(2.25)	(.12)
Total	.27	.24	.33	.23	.38	.22	(1.59)	.16
Cash dividends per share	.07	.06	.08	.06	.08	.06	.08	.07

Accountants' Report

PEAT MARWICK

The Board of Directors and Shareholders:
EDO Corporation

We have examined the consolidated balance sheets of EDO Corporation and subsidiaries as of December 31, 1982 and 1981 and the related statements of consolidated operations, shareholders' equity and changes in financial position for each of the years in the three year period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of EDO Corporation and subsidiaries at December 31, 1982 and 1981 and the results of their operations and changes in their financial position for each of the years in the three year period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
Jericho, New York

February 14, 1983

EDO Common Shares are traded
on the American Stock Exchange

As of February 3, 1983 there were 3,583 shareholders of record (Brokers and nominees counted as one each).

Price range in 1982 and 1981 was as follows:

	1982		1981	
	High	Low	High	Low
1st Quarter	10⅛	7½	11⅝	8⅞
2nd Quarter	13	9⅜	12½	9⅜
3rd Quarter	17⅜	12	12⅝	6⅞
4th Quarter	25	15¼	10⅛	8⅜

Dividends

The Company has paid quarterly cash dividends without interruption since the fourth quarter of 1976. A 50% stock dividend was paid in the third quarter of 1982 and a 10% stock dividend was paid in the second quarter of 1981. While it is the present intention of the Company's Board of Directors to continue to pay regular quarterly dividends, decisions as to the payment of future dividends rest within the discretion of the Board of Directors and will be made in light of the Company's earnings, financial condition and such other factors as the Board of Directors may deem relevant at such time. Loan agreements restrict the amount of funds which the Company may use for the payment of cash dividends. See Note 7 to the Consolidated Financial Statements.

Design:
Bob Sanna
Marilyn Kass
Mad. Ave. East
Photography:
Robert F. Houser
Printing:
Lebanon Valley Offset

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(manufacturers of scientific instruments)

Ralph O. Romaine
Financial Consultant

* Member of Audit and Compensation Committee

Corporation Officers

EDO Corporation
14-04 111th Street
College Point, New York 11356
212 445-6000

William R. Ryan
Chairman

Gerald Albert
President

John H. Meyn
Vice President-Administration and Secretary

Michael J. Hegarty
Vice President-Finance and Treasurer

Charles F. Anderson, Jr.
Assistant Secretary

Legal Counsel
Debevoise & Plimpton
875 Third Avenue, New York, N.Y. 10022

Principal Banks
Irving Trust Company
100 East 42nd Street, New York, N.Y. 10017

First Pennsylvania Bank, N.A.
First Pennsylvania Tower, Centre Square Building
Philadelphia, Pa. 19101

Registrar & Transfer Agent/Stock
Bradford Securities Operations, Inc.
Fort Lee Executive Park, Fort Lee, N.J. 07024

Registrar & Transfer Agent/Debentures
Irving Trust Company
One Wall Street, New York, N.Y. 10015

Certified Public Accountants
Peat, Marwick, Mitchell & Co.
One Jericho Plaza, Jericho, N.Y. 11753

Financial Public Relations Counsel
Robert Francis Kane Associates
50 West 34th Street, New York, N.Y. 10001

Government Systems Division

14-04 111th Street
College Point, New York 11356
212 445-6000

Frank A. Fariello
President

Ira Kaplan
Vice President-Operations

Alex Demers
Director-Quality Assurance

Henry Bandhold
Director-Manufacturing

Robert E. Nitschke
Vice President-Administration

Frank J. Bono
Vice President-Controller

J. Jordan Frey
Vice President-Float Marketing

Jonathan Schere
Vice President-Research and Development

Washington Operations

2001 Jefferson Davis Highway
Arlington, Va. 22202
703 521-5260

Vincent P. Healey
Vice President

International Division

14-04 111th Street
College Point, New York 11356
212 445-6000

Rutger deQuay
Director of Operations

George J. Kostick
Director of Marketing

Russell G. Henrich
Controller

ELINCO Division

272 Main Avenue
Norwalk, Connecticut 06851
203 847-5861

Robert J. Lender
President

Frederick J. Drake
Director of Marketing

Lawrence F. McCall
Executive Vice President
and Treasurer

Alberta C. Stevens
Secretary

Joseph B. Gag
Director of Engineering

Panos G. Yeannakis
Director of Manufacturing

Charles Brown
Quality Control Manager

Fiber Science Division

506 N. Billy Mitchell Rd.
Salt Lake City, Utah 84116
801 539-0747

Robert S. Berrisford
President

Vagn Vernegaard
Vice President-Operations

C.A. Patnode
Director of Contracts

Clarke B. Lium
Director of Marketing

C. Graham
Director of Engineering

Ward Barnett
Director of Manufacturing

Jay Daines
Chief Engineer

Robert Jones
Controller

Western Division

2645 South 300 West, Salt Lake City, Utah 84115
801 486-7481

Robert A. Lapetina
President

William J. Frost
Vice President and Treasurer

Donald Bonnema
Vice President-Piezoelectric Division

Leroy J. Cole
Manager Administrative Operations

Frankie Broadwater
Manager Product Assurance

Herbert Tuttle
Manufacturing Manager

Philip Brooks
Director of Engineering

Howard Jones
Research and Development Manager

Van Forsythe
Operations Manager, California Operations

EDO CORPORATION
14-04 111th Street
College Point, New York 11356
212 445-6000