

EDO CORPORATION

ANNUAL REPORT 1980



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

EDO divisions and subsidiaries are located in New York, Connecticut, New Jersey, Kansas, Texas and Utah. EDO markets are world-wide.

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Highlights

Operations:	1980	1979
Net Sales.	\$ 97,344,918	\$ 88,921,906
Earnings Before Federal Income Taxes.	\$ 4,028,356	\$ 5,207,659
Net Earnings.	\$ 2,548,300	\$ 3,254,226
Shareholders' Equity.	\$ 33,749,059	\$ 31,590,607
Return on Shareholders' Equity.	7.6%	10.3%
Working Capital.	\$ 31,159,449	\$ 28,759,799
Depreciation and Amortization	\$ 1,697,066	\$ 1,372,028
Plant and Equipment Expenditures.	\$ 2,784,851	\$ 2,785,212
Research and Development Expenditures.	\$ 3,058,103	\$ 2,410,298
Backlog of Unfilled Orders.	\$125,458,000	\$113,813,000
Number of Employees.	1,916	2,161
Floor Space (sq. ft.).	840,000	785,000
Common Shares:		
Weighted Average Shares Outstanding:		
Primary.	2,363,683	1,949,551
Fully Diluted.	—	2,059,329
Net Earnings Per Share:		
Primary.	\$ 1.08	\$ 1.67
Fully Diluted.	—	\$ 1.60
Book Value Per Share.	\$ 14.44	\$ 13.61
Shareholders of Record.	3,744	3,229
(Brokers and nominees counted as one each)		

All EDO shareholders are invited to attend the Annual Meeting which will be held Tuesday, April 28, 1981 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 10, 1981.



EDO Corporation
College Point, N.Y. 11356 (212) 445-6000

MESSAGE TO SHAREHOLDERS

1980 proved both a satisfying and frustrating year. The Military Systems and Marine and Specialized Products segments significantly exceeded our expectations, but these gains were offset by the results of our aviation products segment which suffered from the depth and duration of the recession in the general aviation industry. The net effect was a 22% reduction in earnings despite a 9% increase in total sales.

Sales for the year were \$97,345,000 compared to \$88,922,000 a year ago. Net earnings were \$2,548,000 or \$1.08 per share against \$3,254,000 or \$1.67 per share in 1979. The per share figures reflect the 21% increase in average shares outstanding resulting from the stock offering in the 4th quarter of 1979. The backlog of unfilled orders, some of whose deliveries extend into the mid-eighties, was \$125,458,000 at year end — 10% over the \$113,813,000 backlog at the end of 1979.

Early last year we were hopeful that a decline in the prime rate would encourage an increase in production by some of the larger general aviation aircraft manufacturers. Unfortunately, interest rates continued high during 1980 and we believe this had a negative impact upon the recovery of the general aviation market — especially the light and medium size aircraft markets where our product penetration is the greatest. Recognizing that market conditions alone did not account for the reduced sales and earnings of the general aviation portion of our aviation products segment, we have instituted a program to improve the operating, marketing and product areas within the EDO-AIRE Group. Although we believe that 1981 will be essentially a flat year in aircraft deliveries, we look forward to improved results from our EDO-AIRE Group because of the operating changes introduced during the past year and the improved market penetration we hope to achieve from a planned emphasis on products for the higher performance aircraft which are experiencing greater market strength. Our long term outlook for

general aviation remains positive and we are positioning ourselves for an eventual recovery of the industry. To that end, in spite of reduced sales, we substantially increased our research and development expenditures last year.

The remaining portion of our aviation products segment, serving the commercial and military markets, continues to fulfill its growth expectations. The need for weight savings is such a continuing motivation in the aircraft industry, in light of ever increasing energy costs, that our Fiber Science operation, which designs and manufactures filament wound aircraft products utilizing fiberglass, graphite and other high strength materials, is expected to experience significant growth.

We are very excited about the growth and performance of both the military systems and the marine and specialized product segments of our business. We believe that our increased penetration of foreign markets and the new Administration's attitude towards a stronger defense posture will have a positive impact on future defense business. To cope with this anticipated growth we are planning a major three year expansion and facilities improvement program at our Government Products Division.

Much of our growth stems, we believe, from the substantial amount of research and development we undertake, funded from both our own resources and through customer sponsored programs. In 1980 the total R&D expenditure increased 82% over 1979. Of the \$20,200,000 spent in 1980, approximately \$3,000,000 was company sponsored, — a 25% increase over 1979. We believe that efficiently expended R&D funds not only provide sales growth through new and improved products, but earnings growth because of improved profit margins which result from the proprietary nature of the products developed and the market position obtained by anticipation of our customer needs.

Last year was a disappointment in



Gerald Albert, President, and William R. Ryan, Chairman.

some respects but, on balance, we believe that it was a good year in many of the basics that go into shaping our longer term prospects. We have a strong balance sheet and our foreseeable capital needs are assured. We have a year-end record backlog of unfilled orders. Our products, especially military systems, have penetrated new markets and we are in a position to support these penetrations with continued research and development expenditures.

Within the confines of our ability to see through the maze of economic and political uncertainties, we believe that 1981 will show substantial improvement in earnings over last year and beyond that a resumption of the earnings growth interrupted by 1980 results.

Our special thanks go to our employees for their efforts to help us attain our goals in a difficult economic period. We appreciate also the counsel of our directors and the continued interest and support of our shareholders.

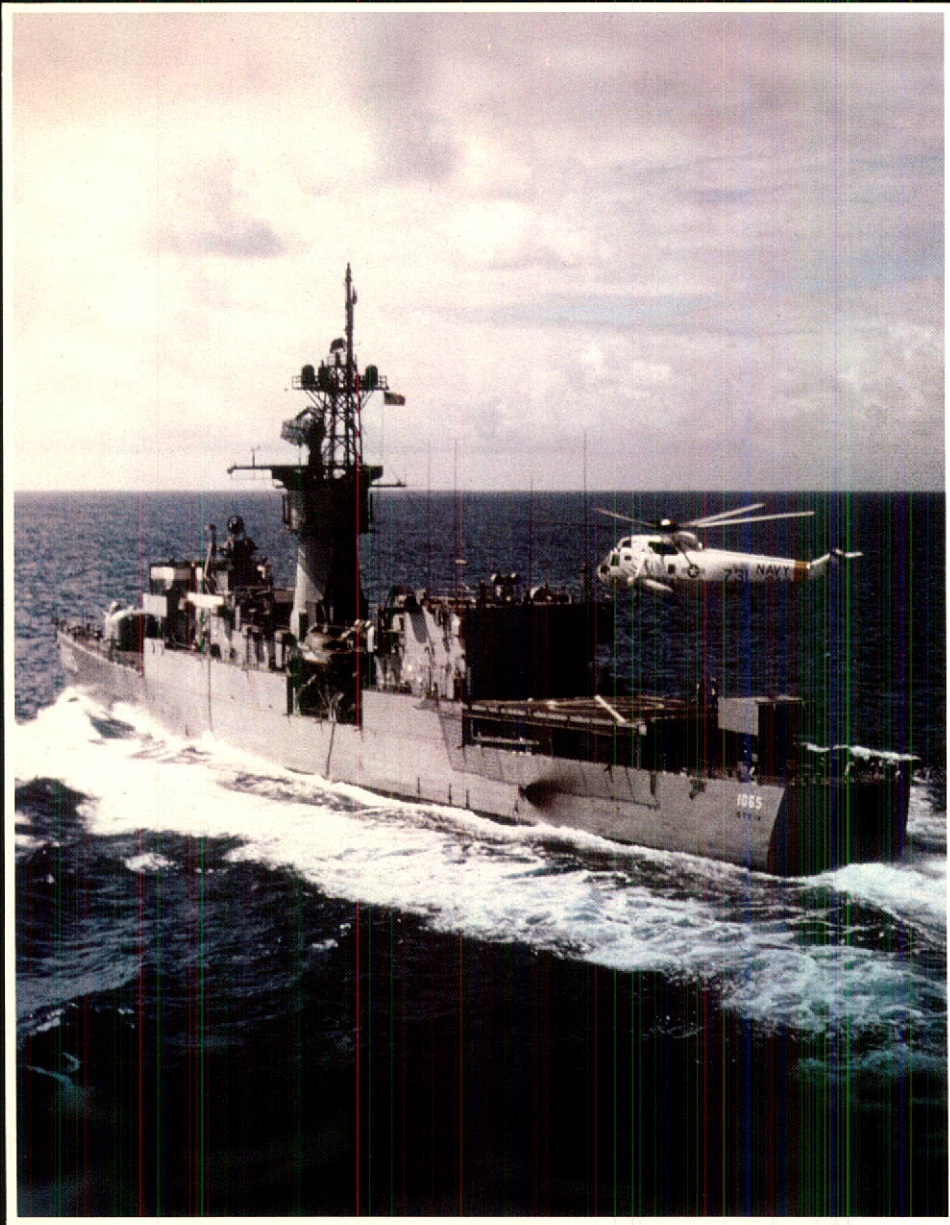
William R. Ryan

William R. Ryan
Chairman of the Board

Gerald Albert

Gerald Albert
President

February 12, 1981



MILITARY SYSTEMS

48%

The Company's military systems consist principally of sophisticated electronic, hydrodynamic and aerodynamic systems for use by U.S. and allied defense forces. Its military business may be divided into three categories of products: sonar systems, airborne mine countermeasures and aircraft stores suspension and ejection devices.

Government Products Division, College Point, N.Y.

In 1980, the Government Products Division (GPD), continued its pattern of strong growth with record sales, earnings and backlog. Three major product lines — Sonar, Airborne Mine Countermeasures, and Aircraft/Marine Systems — accounted for most of this growth. We anticipate continued growth in 1981.

Aircraft Systems

Significant technical and business progress was made during 1980 on the Company's Ejector Release Units (ERU). Testing is underway on the Tornado aircraft for the Federal Republic of Germany and the initial loading demonstration was completed successfully. The production phase of this program is scheduled to begin this year.

GPD has been notified that the Italian Government will equip their Tornado aircraft with EDO ERU's. These units will be furnished out of the present contract quantity.

Based on our experience with this advanced technology, we have started a program of recommending improvements to existing Stores Release Units of the USN, USAF and foreign services. Both the Navy and Air Force have expressed considerable interest, and initial development is underway. Domestically, there is a market for over seventy thousand modification kits and a significant international market has also been identified.

GPD is competing for a number of new aircraft armament programs and we are confident that this segment of our business will grow significantly.

Sonar Systems

GPD continues to be a major supplier of sonar equipment to the navies of the free world. Our AN/SQR-18A Tactical Towed Array Sonar system (TACTAS) is reaching

the U.S. fleet in increasing numbers and is proving invaluable in anti-submarine warfare (ASW) operations throughout the world. Two allied navies placed orders for TACTAS systems during the year and increasing interest is being expressed by other navies. Orders received for the AN/SQR-18A totalled \$90-million through 1980 and we believe future orders will substantially add to this figure.

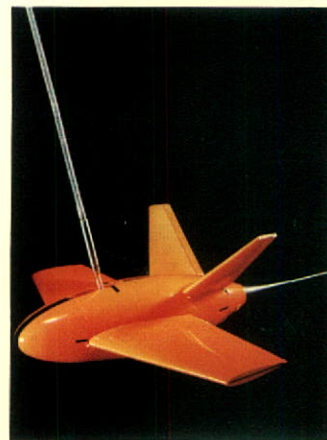
The U.S. Navy increased its funding for the AN/SQR-18A improvement program, which was begun on a small scale last year. Resulting improvements will enhance the operational capabilities of the system and insure that the AN/SQR-18A will be an ASW mainstay of free world navies throughout the decade.

As a result of an intense engineering and marketing effort, and in the face of worldwide competition, GPD was awarded a contract from a Far Eastern navy for 780 Series Sonar systems. A major factor in the selection process was the 780's outstanding at-sea performance for another allied navy. We believe the system's remarkable performance, its flexibility and modular design will result in additional sales in 1981 and beyond.

Based on market analyses, initial steps were taken in 1980 to enter such sonar-related areas as simulators and trainers, new systems for foreign navies, and future submarine sonar developments for the U.S. Navy. These areas are being supported by company sponsored research and development programs.

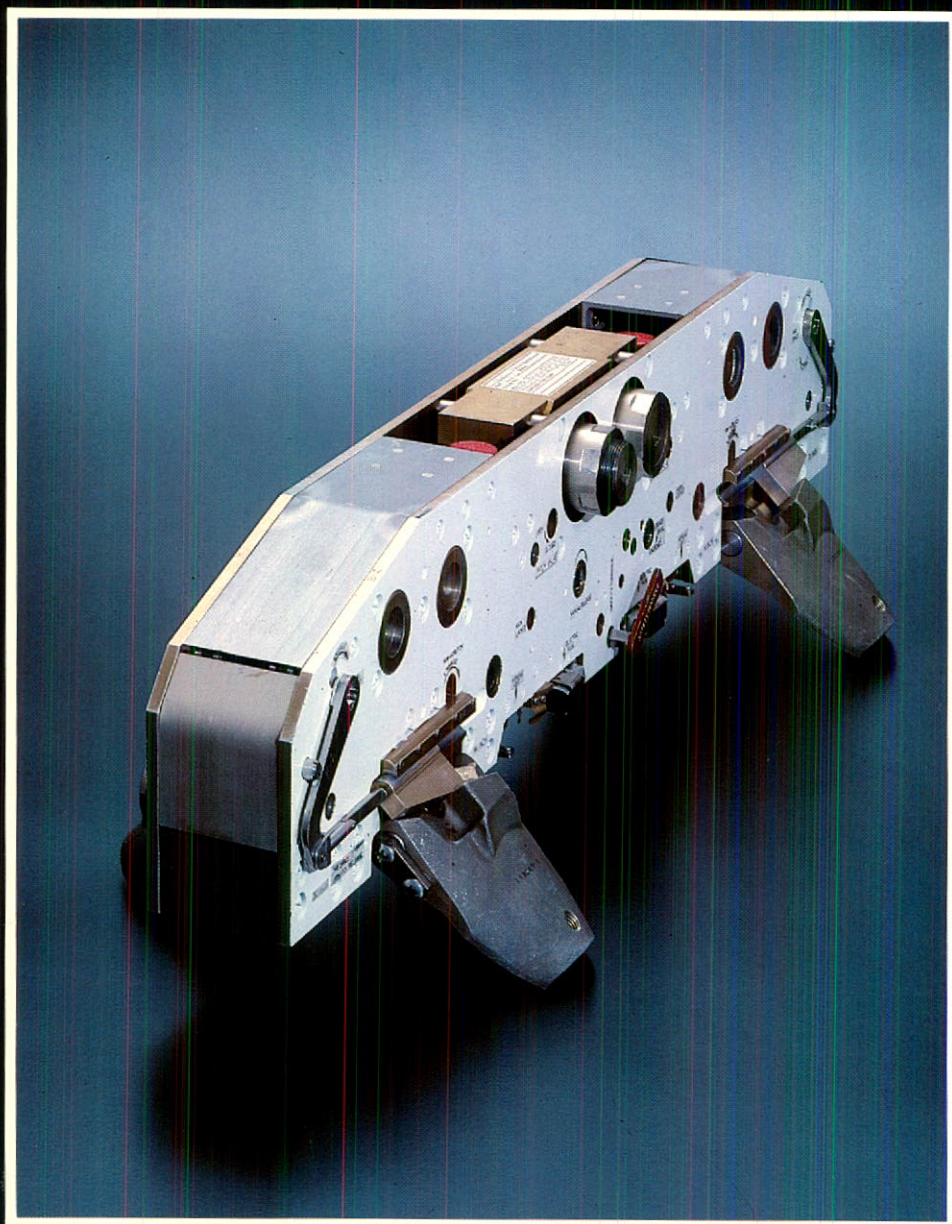
GPD will continue investing in sonar R&D to assure a firm technological base for the development of new products. It is through efforts such as these that EDO has become an acknowledged leader in towed systems. Another product of our research is the design for a hydrodynamic depressor for high speed, short-scope towing of linear towed arrays. This is presently funded by the Office of Naval Research and will commence sea tests this year. The successful outcome of this program will permit sales of the AN/SQR-18A to ships of the U.S. and foreign navies equipped with non-variable depth sonar.

The U.S. Navy continued to upgrade its AN/SQS-26XB and AN/SQS-35 sonar systems throughout 1980. We expect these activities to provide continuing opportunities for future GPD sales.



Above: Dynamic depressor for the Tactical Towed Array Sonar (TACTAS).

Opposite: U.S. Navy warship equipped with EDO's AN/SQR-18A TACTAS system.



Airborne Mine Countermeasures

The design phase of the U.S. Navy's next generation Airborne Magnetic Minesweeping System, AN/ALQ-166, was completed during the year and the program has advanced to the engineering model fabrication phase. It will undergo testing later this year and, when contracted for, production deliveries will begin in the mid nineteen-eighties.

The MK-105 helicopter-towed minesweeping system, which was used with great success during the Haiphong Harbor and Suez Canal operations, is undergoing a planned program of product improvement and system overhaul. Three of these systems were overhauled in 1980 and additional systems are scheduled for 1981. We expect the MK-105 to remain the U.S. Navy's primary Airborne Magnetic Minesweeping System for years to come, and even with the introduction of the AN/ALQ-166, the MK-105 should remain in service as a complementary system. Both programs are expected to make significant contributions to GPD sales over the next decade.

GPD has a continuing Airborne Mine Countermeasures (AMCM) R&D program. In 1980 we started to develop an Advanced Technology Acoustic Sweep System with the aim of further extending our AMCM product line.

Other Contracts

1980 marked the entry of GPD into the medical electronics field with a contract from Wake Forest University for the application of advanced acoustics control techniques to assist in the detection and isolation of plaque deposits on artery walls. Early detection of atherosclerosis, a major cause of heart attacks and strokes, could prove to be a significant advance in the battle against heart disease.

We continued to strengthen our subcontract base in 1980, particularly in the area of airframe components, by receiving a contract from Airborne Instruments Laboratory for electronic housings for the AN/ALQ-99 countermeasures system used on the Grumman EA6B aircraft.

Work is progressing on components for the Boeing 747 aircraft and on special tooling and fixtures for Sikorsky's Blackhawk S-76 and CH-53E helicopters.

Research & Development

The company has an ongoing commitment to growth through its investment in research and development programs. In 1980, GPD embarked on a new series of programs directed toward known and anticipated requirements of our customers. Opportunities derived from these programs will be pursued aggressively by joint engineering and marketing teams.

Long range plans to develop new expertise were initiated during the year and R&D funding for 1981 will be the highest in GPD history. A substantial portion of these funds will be devoted to such new technologies as advanced signal processing, towed arrays, microprocessor technology and advanced aircraft systems.

International Sales

EDO International Division, on behalf of our Government Products Division, continued the worldwide marketing of EDO's military systems.

In 1980, particular emphasis was placed on marketing efforts for the sale of the AN/SQR-18A (TACTAS) and the EDO Model 780 series sonars to friendly foreign navies. The six million dollar contract announced last November for equipment in the 780 series is a result of that effort. We look forward to additional markets for these sonars.

It is the Company's policy to price all foreign contracts in U.S. Dollars and to incur no significant costs in connection with long-term foreign contracts until it has received advance payments or letters of credit. The nature of the Company's foreign business, including products, profits and risks, is not significantly different from that of the Company's domestic business.



Above: AN/ALQ-166 Airborne Magnetic Minesweeping System.

Opposite: Ejector Release Unit designed for the Tornado Multi-Role Combat Aircraft.



AVIATION PRODUCTS

32%

The Company manufactures, markets and services a broad line of aviation products. Flight control systems, instruments and communications equipment are manufactured for general aviation aircraft. The Company's most important general aviation products are automatic flight control systems, gyroscopic flight instruments, navigation and communications systems, radio control panels and seaplane floats.

The Company designs and manufactures filament-wound aircraft products utilizing fiberglass, graphite and other high-strength filament materials bonded by epoxy, polyester and other resins for the commercial and military markets.

EDO-AIRE Group

EDO-AIRE products are marketed almost entirely to the general aviation community, that is, all aviation except military and airline. This market, as reported by the General Aviation Manufacturers Association (GAMA), had sales of aircraft and associated installed equipment of \$2.49 billion in 1980.

While the dollar volume increased in 1980, the actual number of aircraft delivered decreased from 17,048 to 11,877, a substantial decline that reflects the economic slowdown. Single-engine and multi-engine piston aircraft delivered decreased by thirty-five and twenty-five percent respectively. This portion of the market is important to EDO-AIRE and our sales declined significantly as a consequence — the first time in ten years that EDO-AIRE sales did not increase over the prior year. The industry attributes the reduction in the number of aircraft manufactured to the recession and high interest rates. GAMA anticipates that the number of aircraft delivered in 1981 will be close to the 1980 level, approximately 12,000.

EDO-AIRE is responding to these market trends by developing products suitable for high-performance single-engine, multi-engine piston and turboprop aircraft, where the market is stronger.

To extend the usefulness of general aviation, the highest priority must be assigned to the planning and development of airports and to the upgrading of existing facilities. The 96th Congress failed to renew the Airport and Airway Improvement Authorization in 1980 but it is anticipated that the 97th Congress will pass this legislation.

EDO-AIRE, Mineral Wells

EDO's well-known Century I, II, III and IV Series Flight Control Systems have been joined by the next generation...Century 21 and 41. These units were installed by one major airframe manufacturer in its 1979 and 1980 model year aircraft and are being installed by other major manufacturers in 1981. The Century 31, a new autopilot priced between the 21 and 41, will be introduced this year. Most of the large general aviation manufacturers of piston and turboprop aircraft in the United States and abroad are EDO-AIRE customers.

An important function at our Mineral Wells facility is to test and certify our autopilots in new aircraft models. This flight test engineering department obtains certification for the Century autopilots most appropriate to each aircraft type — from light singles to turboprop twins. Most general aviation aircraft manufactured today, as well as many older ones, can be equipped with EDO-AIRE autopilots.

To support airframe manufacturers, distributors and dealers, EDO-AIRE operates service centers on the West and East Coasts in addition to the service provided at EDO-AIRE plants. Service is also provided by authorized EDO-AIRE dealers abroad.

EDO-AIRE, Wichita

A wide range of products are manufactured in our Wichita plant, including engine instruments, airspeed indicators, vacuum and air pumps, propeller governors and gyroscopic flight instruments — the largest dollar-volume product.

EDO-AIRE is the industry leader in the gyro portion of the instrument business, with much of this line comprised of products based on proprietary designs. We intend to solidify our position by continually expanding our line of gyro instruments. Our engineering department is developing a new generation of instruments, many of which will be used with the microprocessor-based navigation equipment being developed by our avionics division. Preproduction units are now flying in a company aircraft and production units will be available to the market this year. Reduced sales of gyroscopic instruments in 1980, a result of the reduced number of aircraft delivered, was partially offset by increased penetration in other markets with products



Above: Vacuum pump and gyros manufactured by EDO-AIRE Wichita.

Opposite: The new Century 31 autopilot system.



such as panel controls, audio systems and related accessories. These units control the electronic navigation and communications equipment used in larger aircraft — a segment of the aviation market that has experienced continued growth. 1980 also saw deliveries commence on a multi-year contract for control panels for a major foreign manufacturer of transport aircraft.

EDO-AIRE, Fairfield

EDO-AIRE, Fairfield produces and markets communication, navigation, ADF, transponder and other equipment for the general aviation market, LORAN (long range navigation) for airlines, and ground navigation aids. Sales at this facility increased five percent, in spite of the recession in the general aviation market, particularly in the lighter aircraft segment which resulted in a decline in our general aviation avionics products produced at Fairfield.

Our new line of general aviation navigation and communication equipment, employing microprocessor technology, is scheduled for introduction in 1981. This equipment, marketed under the "Century" label and designed to interface with our autopilots and other systems, is directed to high performance single and multi-engine aircraft.

EDO-AIRE experienced increased activity and sales in our ground navigation product line during the year and prospects for additional sales are good.

EDO-AIRE, Seaplane Division

EDO floats were first produced over half a century ago and EDO-AIRE continues to be the world's largest supplier of floats.

In spite of a significant reduction in the sale of single engine aircraft, EDO-AIRE float sales have declined only fourteen percent. Our new facility on Republic Airport, East Farmingdale, New York, has made it possible to improve manufacturing efficiency and, because of its integral hangar, permits factory installation of floats as a service to our customers.

Fiber Science, Inc., Salt Lake City, Utah.

The need for weight reduction to counteract the increasing cost of fuel is ac-

celerating the demand for structures fabricated from composite materials, and our growing capability as a production facility as well as a research and development organization, is providing more marketing opportunities for Fiber Science than ever before.

Our research and development work for Boeing on the filament wound graphite aileron and cowl for the 747 is progressing satisfactorily and has demonstrated the technical feasibility of the concept. Word of our technical success on the Boeing program has led to inquiries from other major aerospace manufacturers. The acceptance of composites for primary as well as secondary structures by the regulatory agencies and airlines has provided a significant business stimulus and proposals have been made on such structural items as aircraft floor beams and engine mounting structures. Fiber Science continues to produce water and waste tanks for commercial aircraft manufactured by Lockheed, McDonnell Douglas, and Boeing.

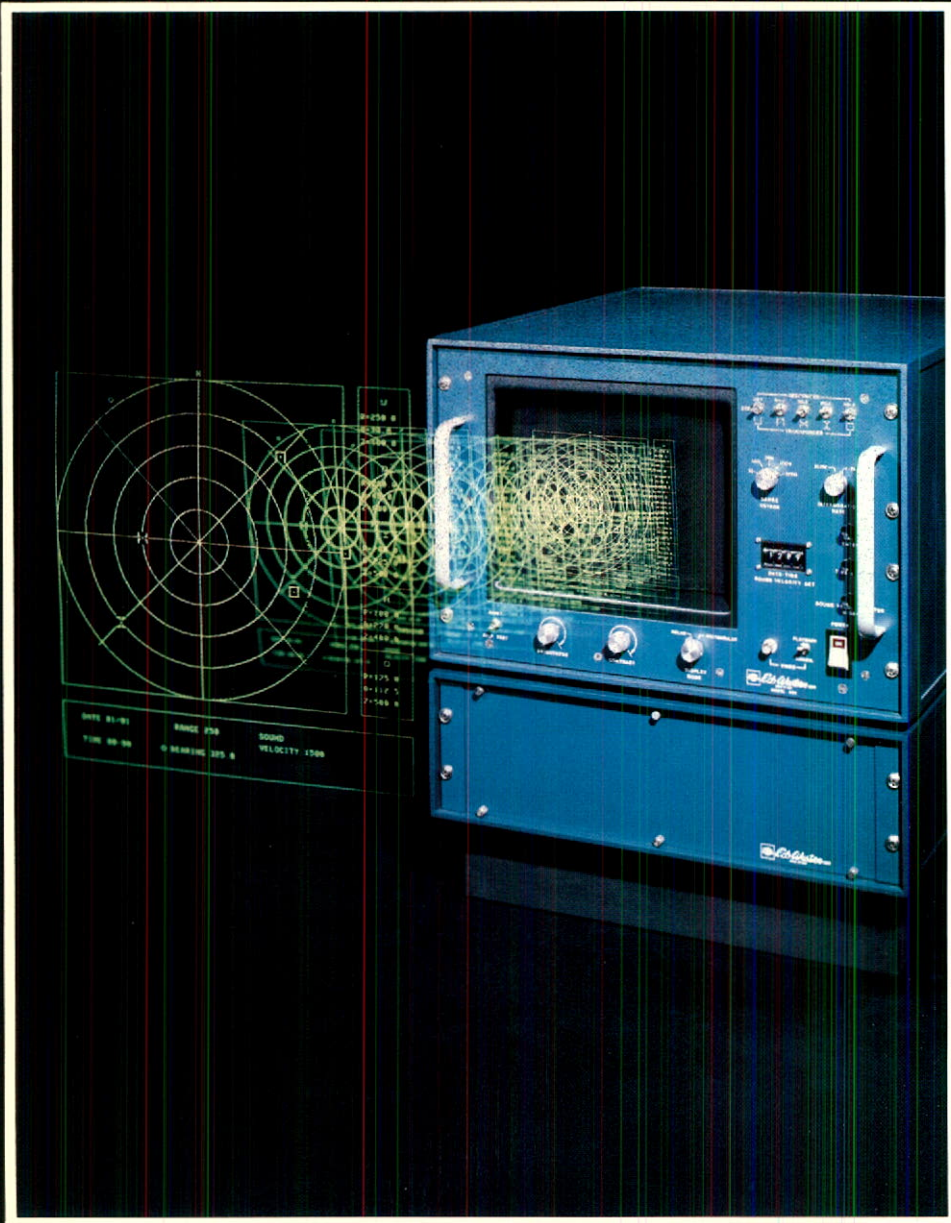
Our business in survivable external fuel tanks for the military has taken on increased importance as a product line — the significant breakthrough being the development of a low cost, lightweight non-metallic liner. This liner permits the production of wet filament wound composite fuel tanks that are both lighter and less expensive than their metallic counterparts. The 650-gallon fuel tank, filament wound on a metal liner, is now being produced at a rate of one per day and we anticipate a significant follow-on order in 1981. The first 450-gallon fuel tank with a plastic liner, produced under contract for the U.S. Air Force, was delivered to Hill Air Force Base for functional testing. Fiber Science has also signed a contract with the Air Force for a 230-gallon version.

Hughes Helicopter has selected Fiber Science as a major subcontractor for the development of a composite tailboom, and horizontal and vertical stabilizers for the U.S. Army's new Advanced Attack Helicopter. If successful, there is a production potential for this program in 1982.



Above: Cessna seaplane on EDO-AIRE floats.

Opposite: EDO-AIRE's new Century avionics that include Navs, Coms, ADF, transponder, DME and audio amplifier.



MARINE SYSTEMS AND SPECIALIZED PRODUCTS

		20%
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The Company designs, manufactures, markets and services a variety of acoustic, electronic and television equipment for deep-water oil and gas exploration and oceanography. The equipment includes deep-towed side scan and bottom sonars, well-head re-entry tools (combined sonar and television), and fiber optic recorders. In addition, the Company produces miniature television cameras for use in military aircraft.

The Company is also a leading producer of piezoelectric ceramic components for use in various types of transducers, which have applications in sonar systems, medical instruments and ultrasonic cleaning equipment. Piezoelectric materials transform acoustic or other mechanical energy into electrical energy and vice versa.

Other products include a line of high quality rotating components for the computer peripheral, medical, tape recorder and instrumentation markets. These components include fractional horsepower synchronous, induction and torque motors, servos, tachometer-generators and motor-generators.

EDO Western

Edo Western entered the new decade following a year of record sales, and orders continued at record levels throughout 1980. Orders consisted of a healthy mix of sonar systems, piezoelectric ceramics, television systems and acoustic transducers.

Our strategy during 1981 and beyond is to take advantage of market opportunities by providing the high technology products our customers need. The search for off-shore oil, for instance, moves into deeper and deeper water and there is increasing interest in the deep tow survey system developed and perfected by Edo Western. This system, the 4055 Deep Tow Side Scan/Subbottom System, operates at depths up to 3,000 meters to provide accurate maps and seismic information. It is designed to work with our new 706 Mapping System, soon to be introduced, that will produce topographic charts of the ocean floor using automatically corrected side scan data.

Another product directed to the offshore oil industry is our 4068 NAVTRAK® III Positioning System. This extremely accurate, short baseline system can track up to five transponders simultaneously, providing the

exact depth and location of tethered vehicles and other subsea equipment to which the transponders are attached. Using this information, equipment can be guided to the work area avoiding underwater obstacles. It can also be used to track tow vehicles such as the 4055 Tow System.

Our 1633 Night Sight™ camera, which has passed all its NASA requirements, was selected by the European Space Agency during 1980 for use in the Space Shuttle program. This low light level camera will function as a viewfinder for a large dual-ray space telescope that will provide vastly improved images and data on the size, shape and location of interstellar x-band radiation sources.

Capitalizing on its strength in transducer technology, Edo Western entered a new market in 1980 with the award of two major development programs and the establishment of a towed array manufacturing facility. The first program, designated ADMATT for Advanced Mobile Acoustic Torpedo Target, calls for the development and production of a line array of transducers to be towed behind a torpedo-like tow body. This system, simulating the acoustic and dynamic characteristics of a hostile submarine, will be used during the test and evaluation of the U.S. Navy's new Advanced Lightweight Torpedo.

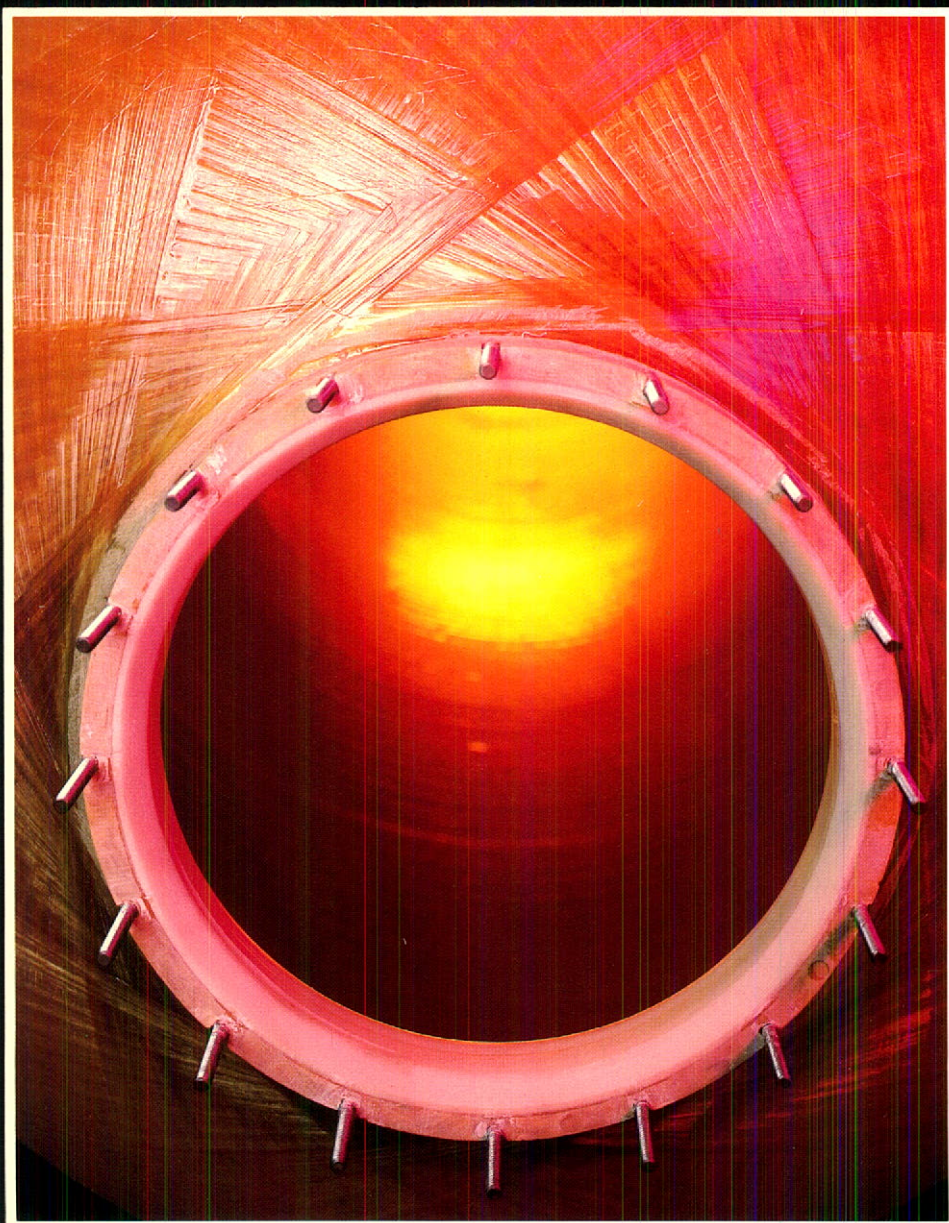
The second program is for the production of the acoustic subsystem on the Mobile Submarine Simulator, or MOSS. The MOSS system is a torpedo decoying device to be used on board U.S. submarines during training and operational exercises. Our contract calls for production of 208 sets of the three-transducer sections.

Edo Western attained record production levels of piezoelectric ceramic products during 1980 and continues to be a leading supplier to military and commercial users. The demand for these products remains high and we are commanding an increasing share of this market. To ensure uninterrupted production, the second phase of a facilities expansion program, initiated in 1979, was completed during 1980.



Above: Segments of the ADMATT towed array to be used in the U.S. Navy's Advanced Lightweight Torpedo Program.

Opposite: EDO Western's 4068 NAVTRAK III display.



MARINE SYSTEMS AND SPECIALIZED PRODUCTS

ELINCO Norwalk, Connecticut

Electric Indicator Company, (ELINCO), is a leading manufacturer of rotating electrical components. Our customers include the leaders in such diversified fields as medical and scientific instruments, computer peripherals, surveillance systems, laser inspection systems and synthetic fiber spinning equipment. Shipments set a record in 1980 and we anticipate that 1981 will see further improvement.

During the year, ELINCO was engaged in a major research and development effort that resulted in the development of a brushless d.c. motor — the company's first major product based on electronic technology. The motor will be supplied completely programmed or, where the customer needs to incorporate the logic into his own electronics, appropriate software data will be provided. The brushless motor provides tachometer output data as an optional feature. We have applied for patents on this new motor and initial response from the Patent Office seems favorable.

Response to our new 2-3/8-inch diameter frame size, initially offered in early 1980, was very positive and resulted in requests for prototypes from companies involved in such diverse fields as medical instrumentation and oil field equipment. Interest in high torques has led to the development of a 3-3/8-inch diameter motor for a computer peripheral manufacturer and the designing of a 4-3/8-inch unit for the direct drive of a high density multi-disc system.

Throughout 1980, we continued to work closely with our customers to tailor ELINCO products to their equipment. This has been a very successful program and results are typified by the order for several hundred variable speed reluctance synchronous motors from a major chemical and textile manufacturer. In this instance, cooperation over the past two years resulted in our motors being designed into their synthetic fiber spinning machines, each of which utilize sixty-four such specialized motors.

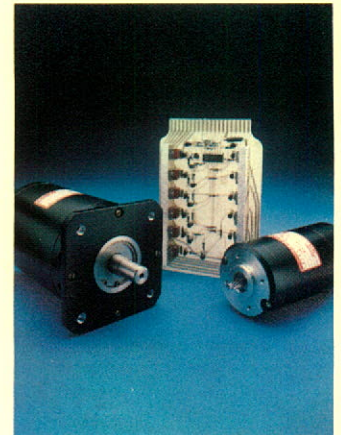
Although the last quarter of 1980 saw some stretchout of delivery on current orders, the incoming order level has held steady and we enter 1981 with a very healthy backlog.

Fiber Science, Inc., Salt Lake City, Utah.

The reduced weight of our composite structures, as well as their ability to withstand the severe salt water environment without corrosion, has spurred major interest within the marine systems industry.

Our success with fiberglass laminated sonar domes, in terms of both performance and low maintenance, has resulted in additional orders from the U.S. and foreign navies. This has led to increased interest in the use of fiberglass domes where previously only metal or rubber had been considered. In addition, propeller shafts are being fabricated for test and evaluation by the U.S. Navy and this has prompted serious inquiries from the ship building industry for both development and production of propeller shafts.

Our Rapid Deployment Minesweeping System and shaft liners are presently being evaluated by the Navy and successful completion of these tests could lead to significant production programs in 1981.



Above: 2-3/8" and 3-3/8" diameter brushless d.c. motors with control electronics.

Opposite: Lightweight filament wound water tank for Boeing commercial airliner.

EDO CORPORATION AND SUBSIDIARIES

Statements of Consolidated Earnings

Years ended December 31, 1980, 1979 and 1978

Income:	1980	1979	1978
Net sales.	\$97,344,918	\$88,921,906	\$75,343,923
Other income.	<u>291,820</u>	<u>343,048</u>	<u>304,392</u>
	<u>97,636,738</u>	<u>89,264,954</u>	<u>75,648,315</u>
Costs and expenses:			
Cost of sales.	74,803,263	66,720,435	56,385,074
Selling, general and administrative.	12,667,222	11,655,097	9,973,663
Research and development.	3,058,103	2,410,298	2,249,294
Employee retirement plans.	2,038,890	1,782,027	1,509,027
Interest.	<u>1,040,904</u>	<u>1,489,438</u>	<u>1,068,271</u>
	<u>93,608,382</u>	<u>84,057,295</u>	<u>71,185,329</u>
Earnings before Federal income taxes.	4,028,356	5,207,659	4,462,986
Provision for Federal income taxes.	<u>1,480,056</u>	<u>1,953,433</u>	<u>1,819,854</u>
Net earnings.	<u>\$ 2,548,300</u>	<u>\$ 3,254,226</u>	<u>\$ 2,643,132</u>
Net earnings per share based on weighted average shares outstanding during the year:			
Primary	<u>\$1.08</u>	<u>\$1.67</u>	<u>\$1.41</u>
Fully diluted.	<u>—</u>	<u>\$1.60</u>	<u>—</u>

Statements of Changes in Consolidated Shareholders' Equity

Years ended December 31, 1980, 1979 and 1978

	1980			Total Shareholders' equity		
	Common Shares at \$1.00 par value	Additional paid-in capital	Retained earnings	1980	1979	1978
Balance at beginning of year.	\$2,321,755	\$14,301,531	\$15,867,321	\$32,490,607	\$24,593,788	\$22,544,803
Common shares sold during year.	—	—	—	—	5,319,086	—
Shares issued upon conversion of debentures (6,061 shares in 1979).	15,561	228,203	—	243,764	94,971	—
Net earnings for the year.	—	—	2,548,300	2,548,300	3,254,226	2,643,132
Cash dividends — \$.40 per share 1980, \$.38 per share 1979 and \$.31 per share for 1978.	—	—	(933,612)	(933,612)	(771,464)	(594,147)
	<u>2,337,316</u>	<u>14,529,734</u>	<u>17,482,009</u>	<u>34,349,059</u>	<u>32,490,607</u>	<u>24,593,788</u>
Less Employee Stock Ownership Trust obligation.	—	—	—	600,000	900,000	1,200,000
Balance at end of year.	<u>\$2,337,316</u>	<u>\$14,529,734</u>	<u>\$17,482,009</u>	<u>\$33,749,059</u>	<u>\$31,590,607</u>	<u>\$23,393,788</u>

See accompanying notes to consolidated financial statements.

EDO CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1980 and 1979

Assets

	1980	1979
Current assets:		
Cash and short term cash investments.	\$ 2,701,267	\$ 348,433
Recoverable Federal income taxes.	2,747,823	—
Accounts receivable, including amounts due from the United States Government of \$6,515,336 in 1980 and \$4,254,673 in 1979.	18,879,602	15,913,043
Inventory:		
Finished goods.	3,439,790	4,383,017
Work in process.	14,088,141	11,536,970
Raw materials and supplies.	8,821,241	10,022,836
Total inventory.	26,349,172	25,942,823
Prepayments.	460,200	547,797
Total current assets.	<u>51,138,064</u>	<u>42,752,096</u>
Property, plant and equipment, at cost.	25,358,456	22,757,989
Less accumulated depreciation and amortization.	14,995,272	13,482,590
Net property, plant and equipment.	<u>10,363,184</u>	<u>9,275,399</u>
Other assets:		
Excess of cost over book value of net assets acquired.	3,589,862	3,589,862
Deferred charges and other assets.	250,124	470,547
	<u>\$65,341,234</u>	<u>\$56,087,904</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Current installments of long-term debt.	\$ 550,000	\$ 550,000
Accounts payable and accrued liabilities.	8,867,879	8,757,714
Contract advances and deposits.	8,601,251	3,502,773
Federal income taxes payable.	1,959,485	1,181,810
Total current liabilities.	<u>19,978,615</u>	<u>13,992,297</u>
Deferred Federal income taxes.	2,202,560	—
Long-term debt, less current installments.	8,811,000	9,605,000
Employee Stock Ownership Trust obligation.	600,000	900,000
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 2,337,316 in 1980, and 2,321,755 in 1979.	2,337,316	2,321,755
Additional paid-in capital.	14,529,734	14,301,531
Retained earnings.	17,482,009	15,867,321
	34,349,059	32,490,607
Less Employee Stock Ownership Trust obligation.	600,000	900,000
Total shareholders' equity.	<u>33,749,059</u>	<u>31,590,607</u>
	<u>\$65,341,234</u>	<u>\$56,087,904</u>

See accompanying notes to consolidated financial statements.

EDO CORPORATION AND SUBSIDIARIES

Statements of Changes in Consolidated Financial Position

Years ended December 31, 1980, 1979 and 1978

Sources of working capital:	1980	1979	1978
Net earnings.	\$2,548,300	\$ 3,254,226	\$ 2,643,132
Depreciation and amortization.	1,697,066	1,372,028	1,195,769
Deferred income taxes.	2,202,560	—	—
Working capital provided by operations.	6,447,926	4,626,254	3,838,901
Proceeds from sale of common shares.	—	5,319,086	—
Proceeds from issuance of long-term debt.	—	—	8,200,000
Other (net).	464,187	180,448	122,754
	<u>6,912,113</u>	<u>10,125,788</u>	<u>12,161,655</u>
Uses of working capital:			
Plant and equipment expenditures.	2,784,851	2,785,212	2,126,161
Reduction of long-term debt.	794,000	645,000	3,136,000
Payment of dividends.	933,612	771,464	594,147
	<u>4,512,463</u>	<u>4,201,676</u>	<u>5,856,308</u>
Increase in working capital.	<u>\$2,399,650</u>	<u>\$ 5,924,112</u>	<u>\$ 6,305,347</u>
Changes in working capital:			
Increase (decrease) in current assets:			
Cash and short term cash investments.	\$2,352,834	\$ (406,322)	\$ (186,658)
Recoverable Federal income taxes.	2,747,823	—	—
Accounts receivable.	2,966,559	2,684,149	2,698,848
Inventory	406,349	3,248,123	5,633,732
Prepayments.	(87,597)	217,903	37,688
	<u>8,385,968</u>	<u>5,743,853</u>	<u>8,183,610</u>
Increase (decrease) in current liabilities:			
Notes payable.	—	(1,200,000)	(900,000)
Current installments of long-term debt.	—	236,000	(400,000)
Accounts payable and accrued liabilities.	110,165	(1,040,860)	2,949,381
Contract advances and deposits.	5,098,478	1,893,663	43,163
Federal income taxes payable.	777,675	(69,062)	185,719
	<u>5,986,318</u>	<u>(180,259)</u>	<u>1,878,263</u>
Increase in working capital.	<u>\$2,399,650</u>	<u>\$ 5,924,112</u>	<u>\$ 6,305,347</u>

See accompanying notes to consolidated financial statements.

EDO CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1980, 1979 and 1978

(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 transactions have been eliminated.

(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. The costs of maintenance and repairs are charged to operations when incurred, while renovations and improvements are capitalized. Depreciation and amortization have been computed using the declining balance and straight-line methods over the assets' estimated useful lives. The cost and accumulated depreciation of assets retired or otherwise disposed of are eliminated from the cost and depreciation or amortization accounts and any gain or loss resulting therefrom is included in operations.

(d) Other Assets

The excess of cost over the book value of net assets acquired

in 1969 aggregating \$3,589,862 is not being amortized by the Company inasmuch as there has been no diminution in its value.

(e) Income Taxes

Deferred income taxes arise principally from timing differences in the recording of transactions for financial and tax reporting purposes.

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

(f) 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. Primary earnings per share amounts are based on 2,363,683, 1,949,551 and 1,875,694 shares outstanding for 1980, 1979 and 1978, respectively. Fully diluted earnings per share for 1979 is based on 2,059,329 shares outstanding, and includes the dilutive effect of the assumed conversion of the Company's 5.25% convertible debentures. There was minimal dilution in 1980 and 1978. Per share amounts for 1978 have been adjusted to reflect the 50% stock dividend paid on October 18, 1979.

(2) Short Term Cash Investments

Short term cash investments of the Company are carried at cost, which approximates market. At December 31, 1980 short term cash investments consisted of \$2,295,741 in certificates of deposit, bank notes and U.S. treasury bills. There were no short term cash investments at December 31, 1979.

(3) Long-Term Contract Receivables and Inventory

Accounts receivable include \$3,488,203 and \$2,961,639 at December 31, 1980 and 1979, respectively, representing unbilled revenues on long-term contracts.

Work-in-process inventory includes \$9,465,668 and \$6,034,175 at December 31, 1980 and 1979, respectively, applicable to long-term contracts.

(4) Property, Plant and Equipment

The Company's property, plant and equipment at December 31, 1980 and 1979 and their related useful lives are summarized as follows:

	1980	1979	Range in Years
Land and land improvements.....	\$ 649,692	\$ 649,692	8-30
Buildings and building improvements.....	4,482,316	4,460,929	8-45
Machinery and equipment.....	16,405,496	14,294,574	5-10
Automotive and flight equipment.....	1,564,021	1,525,528	3-8
Leasehold improvements.....	2,256,931	1,827,266	Lease terms
	<u>\$25,358,456</u>	<u>\$22,757,989</u>	

EDO CORPORATION AND SUBSIDIARIES

(5) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at December 31, 1980 and 1979:

	1980	1979
Trade payables.....	\$2,130,539	\$2,954,434
Salaries, wages and vacations.....	1,871,387	1,812,294
Employee retirement plans.....	1,620,570	1,391,660
Other.....	3,245,383	2,599,326
	<u>\$8,867,879</u>	<u>\$8,757,714</u>

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

Long-term debt of the Company consists of the following at December 31, 1980 and 1979:

	1980	1979
9.65% Senior promissory notes due 1993.....	\$7,750,000	\$ 8,200,000
5.25% convertible subordinated debentures due 1987.....	1,011,000	1,255,000
4% secured notes.....	600,000	700,000
Total long-term debt.....	9,361,000	10,155,000
Less current installments.....	550,000	550,000
Long-term debt, excluding current installments.....	<u>\$8,811,000</u>	<u>\$ 9,605,000</u>

The 9.65% senior promissory notes were issued on September 1, 1978 together with warrants now exercisable to purchase 125,052 common shares at \$13.34 per share. The warrants expire June 30, 1993. Required annual principal payments under this agreement are as follows: \$450,000 from 1981 to 1983; \$625,000 from 1984 to 1992 and \$775,000 at maturity.

The 5.25% convertible subordinated debentures require annual sinking fund payments of \$129,000 to 1986. The debentures are convertible at the rate of 63.82 common shares for each \$1,000 principal amount, which is equivalent to approximately \$15.67 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 \$310,000 of debentures converted during 1979 and 1980. 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 102% currently to 100% at April 1, 1984.

The 4% secured notes of a subsidiary are payable in annual installments of \$100,000 and are secured by the capital stock and certain patent rights of the subsidiary whose underlying net equity approximates \$3,929,000.

As of December 31, 1980, the Company entered into 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, 1980, 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 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, 1980, under the most restrictive of the agreements, unrestricted retained earnings amounted to \$1,500,000.

The required principal payments on long-term debt over the next five years are as follows: 1981—\$550,000; 1982—\$550,000; 1983—\$627,000; 1984—\$854,000; 1985—\$854,000.

EDO CORPORATION AND SUBSIDIARIES

(7) Federal Income Taxes

The 1980, 1979 and 1978 provisions for Federal income taxes are comprised of the following amounts:

	1980	1979	1978
Current.	<u>\$ (1,836,823)</u>	<u>\$ 1,834,734</u>	<u>\$ 1,730,555</u>
Deferred.	<u>3,316,879</u>	<u>118,699</u>	<u>89,299</u>
Total.	<u>\$ 1,480,056</u>	<u>\$ 1,953,433</u>	<u>\$ 1,819,854</u>

The Company received approval from the Internal Revenue Service to change its method of revenue recognition on long-term contracts for tax reporting purposes from the percentage of completion method to the completed contract method beginning with the year 1980. Accordingly, the Company reported a loss from operations for tax purposes and has provided for the

recovery of income taxes previously paid and for the related deferred income taxes.

At December 31, 1980 and 1979, net current deferred income taxes of \$1,959,485 and \$986,113, respectively, are included in Federal income taxes under current liabilities.

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

	1980	1979	1978
Completed Contract method for tax purposes.	<u>\$3,252,995</u>	<u>\$ —</u>	<u>\$ —</u>
Inventory costs deductible for tax purposes.	<u>150,513</u>	<u>99,465</u>	<u>243,628</u>
Domestic International Sales Corporation (DISC) Commissions.	<u>(145,446)</u>	<u>6,458</u>	<u>(287,160)</u>
Other.	<u>58,817</u>	<u>12,776</u>	<u>132,831</u>
	<u>\$3,316,879</u>	<u>\$ 118,699</u>	<u>\$ 89,299</u>

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

	Per Cent of Pre-tax Earnings		
	1980	1979	1978
Tax at statutory rate.	46.0%	46.0%	48.0%
Investment tax credits.	(6.8)	(5.9)	(2.5)
Benefits from operation of a DISC.	(2.0)	(1.5)	(2.8)
Other.	(.5)	(1.1)	(1.9)
Effective income tax rate.	<u>36.7%</u>	<u>37.5%</u>	<u>40.8%</u>

No provision for taxes has been made for the undistributed DISC earnings of \$2,013,000, \$1,840,000 and \$1,670,000 at

December 31, 1980, 1979 and 1978, respectively, since it is the Company's intention not to distribute such earnings.

(8) Shareholders' Equity

In November 1979 the Company sold through a public offering 440,000 common shares at \$13.50 per share. Accordingly, common shares and additional paid-in capital have been increased, net of related expenses, by \$440,000 and \$4,879,086, respectively.

Common shares and additional paid-in capital have been adjusted by \$624,889 to reflect an increase of 624,889 outstanding common shares as a result of the declaration of a 50% stock dividend on September 25, 1979 which has been accounted for as a stock split.

In 1980 the shareholders of the Company approved the 1980 Stock Option Plan. Under this plan options to purchase an aggregate of up to 100,000 common shares along with Stock Appreciation Rights in connection therewith can be granted to key

employees at the fair market value on the date of grant.

In June 1980 options to purchase 80,000 common shares were granted at a price of \$14.69 per share. The options become exercisable in four substantially equal annual installments beginning one year after the date of grant.

At December 31, 1980, the Company has reserved authorized and unissued common shares for the following purposes:

Conversion of 5.25% convertible debentures.	64,522
Exercise of warrants.	125,052
Stock Option Plan.	<u>100,000</u>
	<u>289,574</u>

EDO CORPORATION AND SUBSIDIARIES

(9) Pension Plans

The Company maintains non-contributory pension plans covering substantially all of its employees. The total pension expense for 1980, 1979, and 1978 was \$1,620,569, \$1,391,660, and \$1,130,296, respectively, which includes amortization of past service cost over a period of 30 years. The Company makes annual contributions to the plans equal to the amounts accrued for pension expense, which is determined based on actuarial costs of the plans. A comparison of accumulated plan benefits and plan net assets as of December 31, 1979 and 1978, the latest valuation dates, is presented below:

Actuarial present value of accumulated plan benefits:	1979	1978
Vested	\$12,563,646	\$10,698,920
Non-vested	<u>1,598,473</u>	<u>1,510,228</u>
	<u>\$14,162,119</u>	<u>\$12,209,148</u>
Net assets available for benefits.	<u>\$12,938,669</u>	<u>\$11,106,602</u>

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent for both 1979 and 1978.

(10) Employee Stock Ownership Plan

The Company's Employee Stock Ownership Plan provides additional retirement benefits to substantially all employees. Contributions to the Plan amounted to \$418,321, \$390,367 and \$378,731 for 1980, 1979 and 1978, respectively. The Employee Stock Ownership Trust obligation, which is guaranteed by the Company, has been reflected as a liability and shareholders' equity has been reduced by the same amount.

(11) Contingencies and Commitments

The Company is contingently liable under the terms of letters of credit aggregating approximately \$2,560,000 at December 31, 1980, should it fail to perform in accordance with the terms of contracts with foreign customers.

At December 31, 1980, the Company and its subsidiaries are obligated under building and equipment leases expiring between 1981 and 1994. Rental expense under such leases for the years ended December 31, 1980, 1979 and 1978 amounted to \$1,744,248, \$1,385,859 and \$1,081,543, respectively. Minimum rentals under these obligations are as follows: 1981 — \$1,173,000; 1982 — \$977,000; 1983 — \$812,000; 1984 — \$753,000; 1985 — \$684,000; 1986-1994 — \$2,575,000.

A certain portion of the Company's U.S. Government sales since September 30, 1976 may be subject to the profit limitations of the Vinson-Trammell Act. Management believes that profits realized on sales subject to the Vinson-Trammell Act are within the current prescribed limitations.

(12) Business Segments

The nature of the products offered by the Company and its subsidiaries are described elsewhere in this annual report. These products may generally be categorized into three groups: military systems; aviation products; and marine systems and specialized products. Sales between industry segments approximate market price.

Export sales comprised 20%, 16% and 15% of net sales for 1980, 1979 and 1978, respectively. Domestic government sales amounted to 39%, 33% and 34% for 1980, 1979 and 1978, respectively. These sales largely reflect sales of military systems. In 1978, the aviation products segment had sales to an unaffiliated customer aggregating 12% of consolidated net sales.

The distribution of revenues, expenses and assets of the Company's business segments are identified on the opposite page.

EDO CORPORATION AND SUBSIDIARIES

	Military Systems	Aviation Products	Marine Systems and Specialized Products	Eliminations	Consolidated
1980					
Sales to unaffiliated customers.	\$46,968,807	\$31,272,085	\$19,104,026		\$97,344,918
Intersegment sales.	<u>1,384,398</u>	<u>4,198,486</u>	<u>167,795</u>	<u>(5,750,679)</u>	<u>—</u>
Net sales.	<u>\$48,353,205</u>	<u>\$35,470,571</u>	<u>\$19,271,821</u>	<u>\$(5,750,679)</u>	<u>\$97,344,918</u>
Operating profit (loss)	<u>\$ 6,772,196</u>	<u>\$ (1,867,352)</u>	<u>\$ 2,225,552</u>		<u>\$ 7,130,396</u>
General corporate expenses.					2,061,136
Interest expense.					<u>1,040,904</u>
Earnings before Federal income taxes.					<u>\$ 4,028,356</u>
Identifiable assets at December 31, 1980.	<u>\$26,724,243</u>	<u>\$28,357,207</u>	<u>\$10,259,784</u>		<u>\$65,341,234</u>
Depreciation expense for the year ended December 31, 1980.	<u>\$ 762,789</u>	<u>\$ 636,020</u>	<u>\$ 298,257</u>		<u>\$ 1,697,066</u>
Capital expenditures for the year ended December 31, 1980.	<u>\$ 1,211,668</u>	<u>\$ 908,795</u>	<u>\$ 664,388</u>		<u>\$ 2,784,851</u>
1979					
Sales to unaffiliated customers.	\$33,771,174	\$38,473,588	\$16,677,144		\$88,921,906
Intersegment sales.	<u>1,259,214</u>	<u>5,327,664</u>	<u>878,159</u>	<u>(7,465,037)</u>	<u>—</u>
Net sales.	<u>\$35,030,388</u>	<u>\$43,801,252</u>	<u>\$17,555,303</u>	<u>\$(7,465,037)</u>	<u>\$88,921,906</u>
Operating profit.	<u>\$ 4,818,464</u>	<u>\$ 1,838,731</u>	<u>\$ 1,540,452</u>		<u>\$ 8,197,647</u>
General corporate expenses.					1,500,550
Interest expense.					<u>1,489,438</u>
Earnings before Federal income taxes.					<u>\$ 5,207,659</u>
Identifiable assets at December 31, 1979.	<u>\$16,926,105</u>	<u>\$29,711,880</u>	<u>\$ 9,449,919</u>		<u>\$56,087,904</u>
Depreciation expense for the year ended December 31, 1979.	<u>\$ 606,001</u>	<u>\$ 523,449</u>	<u>\$ 242,578</u>		<u>\$ 1,372,028</u>
Capital expenditures for the year ended December 31, 1979.	<u>\$ 1,037,985</u>	<u>\$ 1,132,701</u>	<u>\$ 614,526</u>		<u>\$ 2,785,212</u>
1978					
Sales to unaffiliated customers.	\$27,769,537	\$33,897,046	\$13,677,340		\$75,343,923
Intersegment sales.	<u>1,167,692</u>	<u>4,562,881</u>	<u>1,958,924</u>	<u>(7,689,497)</u>	<u>—</u>
Net sales.	<u>\$28,937,229</u>	<u>\$38,459,927</u>	<u>\$15,636,264</u>	<u>\$(7,689,497)</u>	<u>\$75,343,923</u>
Operating profit.	<u>\$ 3,290,187</u>	<u>\$ 2,315,649</u>	<u>\$ 1,231,421</u>		<u>\$ 6,837,257</u>
General corporate expenses.					1,306,000
Interest expense.					<u>1,068,271</u>
Earnings before Federal income taxes.					<u>\$ 4,462,986</u>
Identifiable assets at December 31, 1978.	<u>\$15,394,637</u>	<u>\$25,929,046</u>	<u>\$ 7,692,661</u>		<u>\$49,016,344</u>
Depreciation expense for the year ended December 31, 1978.	<u>\$ 549,675</u>	<u>\$ 432,662</u>	<u>\$ 213,432</u>		<u>\$ 1,195,769</u>
Capital expenditures for the year ended December 31, 1978.	<u>\$ 467,824</u>	<u>\$ 1,201,957</u>	<u>\$ 456,380</u>		<u>\$ 2,126,161</u>

EDO CORPORATION AND SUBSIDIARIES

(13) Quarterly Financial Information (Unaudited)

The following table sets forth certain unaudited quarterly financial information for 1980 and 1979 (in thousands, except per share amounts):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1980	1979	1980	1979	1980	1979	1980	1979
Net sales.....	\$23,735	\$20,522	\$23,979	\$21,671	\$23,684	\$22,472	\$25,947	\$24,257
Gross profit.....	4,844	4,143	4,448	5,032	4,145	4,953	6,047	5,663
Net earnings.....	664	686	597	829	414	851	873	888
Earnings per share:								
Primary.....	.28	.37	.25	.44	.18	.45	.37	.41
Fully diluted.....	—	—	—	—	—	.44	—	.40
Cash dividends per share.....	.10	.08	.10	.10	.10	.10	.10	.10

Accountants' Report

Peat, Marwick, Mitchell & Co.
 Certified Public Accountants
 One Jericho Plaza
 Jericho, New York 11753

The Board of Directors and Shareholders
 EDO Corporation

We have examined the consolidated balance sheets of EDO Corporation and subsidiaries as of December 31, 1980 and 1979 and the related statements of consolidated earnings, shareholders' equity and changes in financial position for each of the years in the three year period ended December 31, 1980. 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 financial statements present fairly the consolidated financial position of EDO Corporation and subsidiaries at December 31, 1980, and 1979 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, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

February 10, 1981

EDO Common Shares are traded on the American Stock Exchange.

As of February 11, 1981 there were 3,744 shareholders of record (Brokers and nominees counted as one each)

Price range in 1980 and 1979 was as follows:

	1980		1979	
	High	Low	High	Low
1st Quarter.....	26	13-5/8	14-3/8	11-1/2
2nd Quarter.....	19-1/8	13-3/8	14-1/4	11-1/4
3rd Quarter.....	20-3/4	13-1/2	16-3/4	12-1/2
4th Quarter.....	21	15-3/8	18-7/8	12-1/4

The Company has paid quarterly cash dividends without interruption since the fourth quarter of 1976. A 50% stock dividend was paid in the fourth quarter of 1979. It is the present intention of the Company's Board of Directors to continue to pay regular quarterly dividends. However, 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 6 to the Financial Statements.

EDO CORPORATION AND SUBSIDIARIES

Selected Financial Data

in thousands except per share amounts

(Not covered by Independent Accountant's Report)

	1980	Years ended December 31,			
		1979	1978	1977	1976
Summary of Operations:					
Net sales:					
Military Systems.	\$46,969	33,771	27,770	28,329	30,864
Aviation Products.	31,272	38,474	33,897	28,552	24,686
Marine Systems and Specialized Products.	19,104	16,677	13,677	10,153	8,303
	<u>\$97,345</u>	<u>88,922</u>	<u>75,344</u>	<u>67,034</u>	<u>63,853</u>
Operating Profit (Loss)					
Military Systems.	\$ 6,772	4,818	3,290	2,808	3,365
Aviation Products.	(1,867)	1,839	2,316	2,031	1,140
Marine Systems and Specialized Products.	2,225	1,541	1,231	1,009	642
	<u>\$ 7,130</u>	<u>8,198</u>	<u>6,837</u>	<u>5,848</u>	<u>5,147</u>
Net Earnings from Operations.	<u>\$ 2,548</u>	<u>3,254</u>	<u>2,643</u>	<u>2,407</u>	<u>1,814</u>
Per Share Data (a)					
Net Earnings					
Primary.	\$ 1.08	\$ 1.67	\$ 1.41	\$ 1.28	\$ 1.13
Fully Diluted.	—	\$ 1.60	—	—	—
Average Number of Shares Outstanding					
Primary.	2,364	1,950	1,876	1,876	1,600
Fully Diluted.	—	2,059	—	—	—
Cash Dividends Declared.	\$.40	.38	.31	.28	.07
Book Value.	\$ 14.44	13.61	12.47	11.22	10.04
Other Information					
Working Capital.	\$31,159	28,760	22,836	16,530	15,739
Depreciation.	1,697	1,372	1,196	1,156	1,130
Plant and Equipment Expenditures.	2,785	2,785	2,126	1,439	1,497
Total Assets.	65,341	56,088	49,016	40,025	39,107
Long-Term Debt.	9,411	10,505	11,450	6,686	7,882
Shareholders' Equity.	\$33,749	31,591	23,394	21,045	18,838

(a) Adjusted to give retroactive effect to stock dividend paid on October 18, 1979.

EDO CORPORATION AND SUBSIDIARIES

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

Sales:	Percentage Increase (Decrease) from Prior Period		
	1980	1979	1978
Military Systems.....	39%	22%	(2%)
Aviation Products.....	(19%)	14%	19%
Marine Systems and Specialized Products.....	15%	22%	35%
Total Sales.....	9%	18%	12%

The increase in sales within our Military Systems segment was attributable to improved sales of existing products, the introduction of new products and an increase in foreign market penetration. Within our Aviation Products segment the change in sales volume represented increases in 1978 and 1979 and decreases in 1980 which essentially followed the levels of general aviation aircraft produced during those years. In addition, increases were reflected in each of these years in connection with our filament wound composite products which are supplied to the commercial and military aircraft markets. The improvements in the Marine Systems and Specialized Products segment's sales occurred from sales of existing and new products.

Cost of Sales:

Cost of Sales as a percentage of total sales was 77% in 1980 and 75% in 1979 and 1978. The 1979 amount represented a combination of a reduction in cost of sales percentage within our Military Systems and Marine Systems and Specialized Products segments and an increase in the cost of sales percentage of our Aviation Products segment. 1980 continued to reflect lower costs of sales percentages within our Military Systems and Marine Systems and Specialized Products but a larger increase in Aviation Products which resulted from the recession within the general aviation aircraft market.

Other Costs:

Selling, general and administrative costs and Company-sponsored research and development expenses as a percentage of sales generally remained constant over the last three years. Interest expenses increased 98% and 39% in 1978 and 1979, respectively. These increases were attributed to increased borrowing rates and higher borrowing requirements. However, interest expense declined 30% in 1980 resulting from lower borrowing requirements, due primarily to the proceeds of a public common share offering by the Company in November, 1979. Provision for Federal income taxes as a per cent of pre-tax earnings was 36.7% in 1980, 37.5% in 1979 and 40.8% in 1978. The 1980 and 1979 percentages reflect the increase in investment tax credits and the reduction in the corporate Federal income tax rate from 48% to 46%.

Earnings from Operations:

Within Military Systems and Marine Systems and Specialized Products segments there were reductions in total cost as a percent of sales in each of the three years 1978, 1979 and 1980, resulting in progressively greater profit margins. This improvement was due primarily to a combination of price increases and cost efficiencies.

The Aviation Products segment, however, experienced increases in cost as a percent of sales in each of the three years which resulted in reduced profit margins in 1978 and 1979 and an operating loss in 1980. These reductions were due primarily to the decline in general aviation aircraft produced during the three year period, particularly in 1980. As a result, the operating loss in 1980 was due to the low level of sales coupled with the fixed costs of operations and a decision to continue certain costs, including research and development expenditures, in order to have the company in a better operating position under a market recovery situation.

Liquidity and Capital Resources:

The Company has relied upon internally generated earnings and external financing to meet the working capital and capital expenditure requirements of the Company. The Company uses short-term debt to finance working capital requirements. There were unused lines of credit with Banks, including revolving credit agreements as of December 31, 1980 in the amount of \$10,000,000. Other financings, either in the form of long-term debt or public offering of the Company's common shares, have also been used as vehicles for raising capital.

In 1980 the Company changed its method of accounting for long term contracts for income tax purposes to the completed contract method. The effect of this change will increase cash flow by delaying tax payments on the profits generated from these contracts. If the level of long-term contracts increases, these benefits will also increase.

Cash flow has also historically been developed by advances from customers on long-term contracts. These advances are to cover the Company's commitments for future costs under these contracts.

Capital expenditures are expected to increase in the next three years over historical levels due primarily to a planned expansion of our facilities at our Government Products Division in College Point, New York.

It is anticipated that the funds required for capital expenditures and increased working capital requirements will be available to the Company.

The Company has experienced the effects of inflation through increases in the costs of labor, services and raw materials. These cost increases have generally been offset by either cost escalation factors that are negotiated in our long-term contracts or periodic price increases on our other products.

Board of Directors

Earl D. Osborn, Director Emeritus
William R. Ryan, Chairman
Gerald Albert, President
Archibald M. Brown, Jr., Financial Consultant
James S. Coles, President, Research Corporation (a foundation for the advancement of science)
*H. Struve Hensel, Lawyer, former partner, Coudert Brothers (a law firm)
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John H. Meyn, Vice President
Edward B. Moore, Vice President
James T. Pyle, Director Emeritus and Consultant, Aviation Development Council, N.Y.C.
*Richard Rachals, Management Consultant, former Vice Chairman of the Board of Directors, Kollmorgen Corporation (manufacturers of scientific instruments)
Ralph O. Romaine, Financial Consultant
*Member of Audit and Compensation Committee

Corporation Officers

EDO Corporation

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Gerald Albert, President
William F. Konrad, Vice President
John H. Meyn, Vice President-Finance and Secretary
Edward B. Moore, Vice President
Michael J. Hegarty, Treasurer and Assistant Secretary
Charles F. Anderson, Jr., Assistant Secretary

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Gerald H. Hoffman, Vice President, Group Marketing

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Donald P. Ryan, Vice President/General Manager Avionics
Morton Burstyn, Operations Manager Avionics
Robert Rubino, Operations Manager Floats
Edwin C. Doerr, Jr., Accounting Manager

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Peter J. Harris, Operations Manager

EDO-AIRE, Wichita

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William F. Konrad, Vice President-Manufacturing
Robert E. Nitschke, Vice President-Administration
John J. Dunphy, Vice President-Marketing
Frank J. Bono, Vice President-Controller

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George J. Kostick, Director of Marketing
Russell G. Henrich, Controller

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Leroy J. Cole, Manager Administrative Operations
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Ken H. Etulain, Vice President-Marketing
Herbert Tuttle, Manufacturing Manager-Instrument Division
Philip Brooks, Acoustics Branch Manager
Howard Jones, Research and Development Manager

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Peter Yeannakis, Director of Manufacturing
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C.A. Patnode, Director of Engineering
Jay Daines, Vice President-Engineering
Vagn Vernegaard, Vice President-Operations
Michael P. McKone, Controller

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