SELECTED FINANCIAL DATA

(Dollars in thousands except per share amounts)

For the Year Ended	Feb. 26, 2000	Feb. 27, 1999	Feb. 28, 1998	Feb. 22, 1997
Consolidated Statement of Operations:				
Net sales	$723,349	$701,325	$487,999	$412,379
Cost of sales	543,682[a]	522,875[b]	309,094	270,557
Gross profit	179,667	178,450	178,905	141,822
Operating expenses	172,971[a]	216,207[c]	120,236[d]	99,424
Operating earnings (loss)	6,696	(37,757)	58,669	42,398
Equity in losses of unconsolidated subsidiary	1,289	–	–	–
Interest expense, net	52,921	41,696	22,765	27,167
Earnings (loss) before income taxes, extraordinary item and cumulative effect of accounting change	(47,514)	(79,453)	35,904	15,231
Income taxes	3,283	3,900	5,386	1,522
Earnings (loss) before extraordinary item and cumulative effect of accounting change	(50,797)	(83,353)	30,518	13,709
Extraordinary item	–	–	8,956[e]	–
Cumulative effect of accounting change	–	–	–	–
Net earnings (loss)	**$ (50,797)**	**$ (83,353)**	**$ 21,562**	**$ 13,709**
Net earnings (loss) – cash basis[i]	$ (30,332)	$ (64,680)	$ 31,137	$ 23,255
Diluted earnings (loss) per share:				
Earnings (loss) before extraordinary item and cumulative effect of accounting change	$ (2.05)	$ (3.36)	$ 1.30	$ 0.72
Net earnings (loss)	**(2.05)**	**(3.36)**	**0.92**	**0.72**
Net earnings (loss) per share – cash basis[i]	(1.22)	(2.61)	1.33	1.22
Weighted average common shares – diluted	24,764	24,814	23,430	19,097
Common stock price: high	$ 22.25	$ 35.75	$ 41.50	$ 25.13
low	5.75	11.50	19.50	9.88
At Year-End:				
Working capital	$129,913	$143,423	$262,504	$122,174
Total assets	881,789	904,299	681,757	491,089
Current ratio	1.75:1	1.84:1	3.19:1	2.34:1
Long-term debt	618,202	583,715	349,557	225,402
Total stockholders' equity	64,497	115,873	196,775	165,761
Common shares outstanding	24,931	24,603	22,892	21,893

(a) Includes $34,299 of consolidation costs and $60,076 of costs related to Seating Products manufacturing problems, $83,673 of which is included in cost of sales

(b) Includes $87,825 charge for restructuring and new product introductions

(c) Includes $79,155 write-off of acquired in-process research and development costs and acquisition-related expenses (all in connection with acquisitions of Puritan-Bennett Aero Systems Company, Aircraft Modular Products and SMR Aerospace, Inc.) and gain of $25,301 on sale of 51% interest in In-Flight Entertainment business

(d) Includes $4,664 charge for settlement of Iran Air dispute

(e) Unamortized debt issue costs, premiums and expenses related to repurchase of notes

(f) Changed method of accounting for precontract engineering costs in fiscal 1996. Costs were previously capitalized, included as a component of inventories and amortized to earnings as products shipped. Effective February 26, 1995, such costs were charged to research, development and engineering and expensed as incurred. As a result, periods prior to fiscal 1996 are not comparable.

Feb. 24, 1996	Feb. 25, 1995	July 29, 1990
$ 232,582	$ 229,347	$ 22,944
160,031	154,863	11,375
72,551	74,484	11,569
113,996 (f) (g)	78,337 (h)	6,680
(41,445)	3,853	4,889
–	–	–
18,636	15,019	1,564
(60,081)	(18,872)	3,325
–	(6,806)	1,012
(60,081)	(12,066)	2,313
–	–	(723)
(23,332) (f)	–	–
$ (83,413)	**$ (12,066)**	**$ 1,590**
$ (73,914)	$ (2,112)	$ 2,496
$ (3.71)	$ (0.75)	$ 0.43
(5.15)	**(0.75)**	**0.29**
(4.57)	(0.13)	0.46
16,185	16,021	5,425
$ 13.63	$ 11.50	$ 10.75
5.25	5.38	6.75
$ 41,824	$ 76,563	$ 7,361
433,586	375,954	21,348
1.39:1	2.16:1	3.12:1
273,192	172,693	1,627
44,157	125,331	16,194
16,393	16,096	6,868

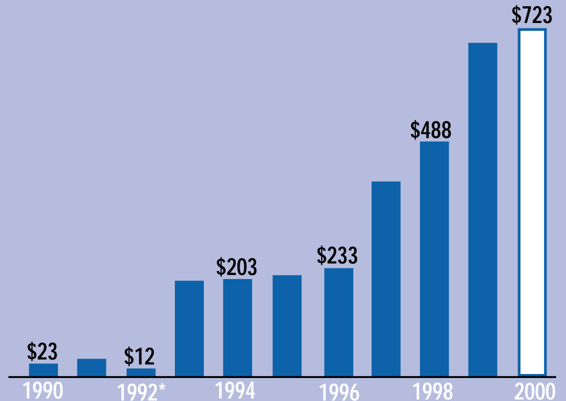
(g) Includes $4,170 charge to integrate and consolidate European seating operations in connection with Burns acquisition

(h) Includes $23,700 charge primarily related to intangible assets and inventories associated with earlier generations of passenger entertainment systems

(i) Excludes tax-affected amortization expense

SIGNIFICANT GROWTH IN SALES
($ in millions; fiscal years)

Sales have grown substantially since 1990 due to successful acquisitions, new product development and expansion of the worldwide aircraft fleet.



*Results for seven months due to adoption of fiscal year ending in February

Acquire, Consolidate, Unify

B/E Aerospace has acquired 15 companies since 1989 at a cost of about $680 million. Unifying them into an effective organization required a nearly-continuous consolidation program. That program, which cost about $180 million, has:

- rationalized and integrated product lines,
- reduced manufacturing plants from 31 to 14,
- reduced headcount from 7,500 to about 4,500, and
- implemented standard shared platforms for information management and engineering design.

With shared platforms in place, B/E began implementing lean manufacturing techniques in fiscal 2000. The result should be higher profit margins, lower inventory, shortened lead times and improved quality. Certain facilities have already begun to achieve these results.

This Annual Report includes forward-looking statements based on our current expectations, assumptions, estimates and projections about our company and our industry. These forward-looking statements involve risks and uncertainties. Our actual experience may differ materially from that anticipated in such statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors," as well as future events that may have the effect of reducing our available operating income and cash balances, such as: unexpected operating losses, the impact of rising fuel prices on our airline customers, delays in, or unexpected costs associated with, the integration of our acquired businesses, conditions in the airline industry, problems meeting customer delivery requirements, new or expected refurbishments, capital expenditures, cash expenditures related to possible future acquisitions, further remediation of our Seating Products operating problems, labor disputes involving us, our significant customers or airframe manufacturers, the possibility of a write-down of intangible assets, delays or inefficiencies in the introduction of new products or fluctuations in currency exchange rates.

Introduction

B/E Aerospace, Inc. ("company," "B/E," "we," "us" and "our") is the world's largest manufacturer of commercial and general aviation aircraft cabin interior products, serving virtually all major airlines and a wide variety of general aviation customers and airframe manufacturers. We believe that we have achieved leading global market positions in each of our major product categories, which include aircraft seats, food and beverage preparation and storage equipment, galley and other interior structures, oxygen delivery systems and lighting systems. In addition, we provide design, integration, installation and certification services, offering our customers in-house capabilities to design, project manage, integrate, test and certify reconfigurations and modifications for commercial aircraft cabin interiors and to manufacture related products, including engineering kits and interface components. We also provide upgrade, maintenance and repair services for our airline customers around the world.

Our revenues are generally derived from two primary sources: refurbishment or upgrade programs for the existing worldwide fleets of commercial and general aviation aircraft and new aircraft deliveries. We believe our large installed base of products, estimated to be approximately $6 billion as of February 26, 2000 (valued at replacement prices), gives us a significant advantage over our competitors in obtaining orders for refurbishment programs, principally due to the tendency of the airlines to purchase equipment for such programs from the original supplier.

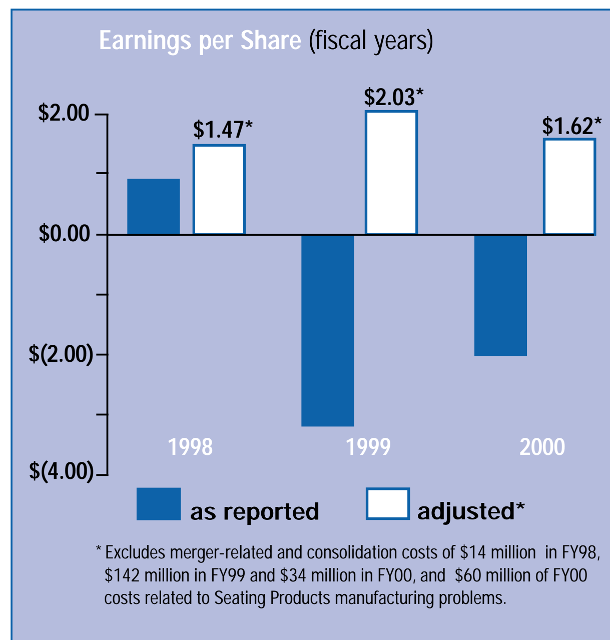
Between 1989 and February 2000, we acquired fifteen companies and integrated the acquisitions by eliminating 17 operating facilities, rationalizing our product lines and consolidating personnel at the acquired businesses, resulting in headcount reductions of over 3,000 employees. The worldwide rationalization of facilities, headcounts and product lines will continue to aid us in several ways. It will strengthen the global business management focus on our core product categories, achieve a more effective leveraging of our resources and improve our ability to rapidly react to changing business conditions. In conjunction with these efforts, we have also implemented a company-wide information technology system, a company-wide engineering system and initiated lean manufacturing in our remaining facilities. Common management information and engineering systems, lean manufacturing processes across all operations, coupled with a rationalized product offering are expected to provide the company with the ongoing benefit of a generally lower cost structure, and expanding gross and operating margins. The aggregate cost of the fifteen acquisitions completed since 1989, including integration, product line rationalization, restructuring and related costs was approximately $860 million. We sold a 51% interest in our In-Flight Entertainment ("IFE") business in fiscal 1999 and completed the sale of our remaining 49% equity interest in fiscal 2000.

Since early 1994, the airlines have experienced a significant turnaround in operating results, with the domestic airline industry achieving record operating earnings during calendar years 1995 though 1998. Airline company balance sheets have been substantially strengthened and their liquidity enhanced as a result of this record profitability, debt and equity financings and a closely managed fleet expansion. Recent increases in fuel prices have not had a material impact on the profitability of the airline industry to-date. However, should fuel prices continue at or above the current level for a prolonged period, the airline industry's profitability may be impacted and discretionary airline spending will be more closely monitored or even reduced. During the latter part of fiscal 1999 and throughout fiscal 2000, our seating operations have negatively impacted our operating results. The operating inefficiencies resulted in delayed deliveries to

customers, increased re-work of seating products, claims for warranty, penalties, out of sequence charges, substantial increases in air freight and other expedite-related costs. Late customer deliveries have resulted in certain airlines diverting seating programs to other manufacturers and the deferrals of other seating programs. We believe we have now resolved the problems we encountered in our seating operations.

Our business strategy is to maintain our market leadership position through various initiatives, including new product development. In fiscal 2000, research, development and engineering expenses totaled $54 million, or 7.5% of net sales, versus 8.0% of net sales in fiscal 1999.

The following discussion and analysis addresses the results of our operations for the year ended February 26, 2000, as compared to our results of operations for the year ended February 27, 1999. The discussion and analysis then addresses the results of our operations for the year ended February 27, 1999 as compared to our results of operations for the year ended February 28, 1998. The discussion and analysis then addresses our liquidity, financial condition and other matters. All dollar amounts are presented in thousands of dollars, except per share amounts.



Year ended February 26, 2000 compared with year ended February 27, 1999

Net sales for fiscal 2000 were $723,349, an increase of approximately $22,024, or 3.1% over the prior year. Organic revenue growth, exclusive of IFE, in fiscal 2000 and fiscal 1999 was approximately 5.6% and 13.7%, respectively, whereas revenue growth on a pro forma basis for fiscal 2000 and 1999, giving effect to the 1999 Acquisitions and excluding IFE for both periods, was approximately 4.1% and 15.5%, respectively. Of our backlog of approximately $470,000 as of February 26, 2000, approximately $279,000 is deliverable by the end of fiscal 2001. Our backlog at February 27, 1999 aggregated approximately $640,000.

Gross profit for fiscal 2000 was $179,667. Gross profit for fiscal 2000 before the special costs and charges described below was $263,340 (36.4% of net sales). This was 1% less than the prior year of $266,275 (calculated on a comparable basis), which represented 38.0% of net sales. The decrease in gross profit before special costs and charges is primarily attributable to the mix of product sales during the year.

During the latter part of fiscal 1999 and throughout fiscal 2000, our operating results were negatively impacted by our seating operations. These operating problems resulted in delayed deliveries to customers, increased re-work of seating products, claims for warranty, penalties, out of sequence charges, substantial increases in air freight and other expedite-related costs. Late customer deliveries resulted in certain airlines diverting seating programs to other manufacturers and the deferral of other seating programs. We believe we have now resolved the operating problems in our seating business.

During fiscal 2000, we incurred $36,076 of costs in our seating operations associated with claims for penalties, out of sequence charges, warranties and substantial increases in air freight and other expedite-related costs. In addition, we incurred approximately $24,000 of manufacturing and engineering inefficiencies, of which $16,300 has been included as a component of cost of sales, $3,700 has been included as a component of selling, general and administrative expenses and $4,000 has been included as a component of research, development and engineering expenses. Also, during fiscal 2000, we completed a review of our businesses and decided to discontinue certain product and service offerings. This product line rationalization will reduce the number of facilities by two and is expected to result in a headcount reduction of approximately 700. The total cost of this product and service line rational-

ization was $34,299. Approximately $31,297 of the rationalization costs are included in cost of sales, with the balance of $3,002 charged to operating expenses.

The aggregate impact of these operating inefficiencies, penalties and product line rationalization costs was to increase cost of sales and operating expenses by $94,375 during fiscal 2000. Future margin expansion will largely depend upon the success of our seating business in four areas: achieving planned efficiencies for recently-introduced products, optimizing manufacturing processes with the new management information system, successfully implementing lean manufacturing techniques and rationalizing facilities and personnel. While our manufacturing productivity and efficiency has improved recently, there can be no assurance that the rate of these improvements will continue.

Selling, general and administrative expenses were $94,891 (13.1% of net sales) for fiscal 2000, which was $11,243, or 13%, greater than the comparable period in the prior year of $83,648 (11.9% of net sales). Severance and other facility consolidation costs associated with the charges described above, together with increased operating expenses at our seating products operations and increased management information system training costs and related expenses were the principal reasons for the increase.

Research, development and engineering expenses were $54,004 (7.5% of net sales) during fiscal 2000, a decrease of $2,203 over the prior year. Amortization expense for fiscal 2000 of $24,076 was $1,578 greater than the amount recorded in the prior year, and is due to the 1999 Acquisitions.

Based on management's assumptions, a portion of the purchase price for the companies we acquired in fiscal 1999 ("1999 Acquisitions") was allocated to purchased in-process research and development that had not reached technological feasibility and had no future alternative use. During fiscal 1999, we recorded a charge of $79,155 for the write-off of acquired in-process research and development and other acquisition-related expenses.

We generated operating earnings of $6,696 (0.9% of net sales) during fiscal 2000, as compared to an operating loss of $(37,757) in the prior year.

Equity in losses of unconsolidated subsidiary of $1,289 represents our share of the losses generated by Sextant In-Flight Systems through October 5, 1999, at which time we sold our remaining 49% interest.

Interest expense, net was $52,921 during fiscal 2000, or $11,225 greater than interest expense of $41,696 for the prior year, and is due to the increase in our long-term debt used, in part, to finance the 1999 Acquisitions.

The loss before income taxes in the current year was $(47,514) (which includes $94,375 of costs and charges primarily related to our Seating Products operations) as compared to the loss before income taxes in the prior year of $(79,453) (which includes restructuring and new product introduction costs of $87,825, acquisition-related expenses of $79,155 and the transaction gain of $25,301). Earnings before income taxes excluding the above-mentioned costs and expenses were $46,861 for fiscal 2000 compared to $62,226 in the prior year. Income tax expense for fiscal 2000 was $3,283 as compared to $3,900 in the prior year.

The net loss for fiscal 2000 was $(50,797), or $(2.05) per share (basic and diluted), as compared to a net loss of $(83,353), or $(3.36) per share (basic and diluted), in fiscal 1999.

Year ended February 27, 1999 compared to year ended February 28, 1998

Net sales for fiscal 1999 were $701,325, an increase of approximately $213,326, or 44% over the prior year. Organic revenue growth during fiscal 1999 was approximately 10.6%; organic revenue growth, exclusive of IFE in both fiscal 1999 and fiscal 1998 was approximately 13.7%, whereas revenue growth on a pro forma basis for both fiscal 1999 and 1998 giving effect to the 1999 Acquisitions and excluding IFE for both periods was approximately 15.5%. The second half of fiscal 1999 reflected substantially greater internal growth than the first half of the year, primarily driven by our Seating Products operations.

Gross profit for fiscal 1999 before the special costs and charges described above was $266,275 (38.0% of net sales). This was $87,370, or 49%, greater than the comparable period in the prior year of $178,905, which represented 36.7% of net sales. The primary reasons for the improvement in gross margins include: (1) a company-wide re-engineering program that has resulted in higher employee productivity and better manufacturing efficiency, (2) higher unit volumes and (3) improvement in product mix. As described above, during fiscal 1999 we commenced a restructuring plan designed to lower our cost structure and improve our long-term competitive position. The cost of the restructuring, along with costs associated with new product introductions, was $87,825. We recorded such amount as an increase in cost of sales during fiscal 1999; reflecting such costs and charges, gross profit for the year was $178,450 or 25.4% of net sales.

Selling, general and administrative expenses were $83,648 (11.9% of net sales) for fiscal 1999, which was $25,026, or 43%, greater than the comparable period in the prior year of $58,622 (12.0% of net sales). The increase in selling, general and administrative expenses was primarily due to the 1999 Acquisitions along with increases associated with internal growth.

Research, development and engineering expenses were $56,207 (8.0% of net sales) during fiscal 1999, an increase of $10,522 over the prior year. The increase in research, development and engineering expense is primarily attributable to ongoing new product development activities and the 1999 Acquisitions. Amortization expense for fiscal 1999 of $22,498 was $11,233 greater than the amount recorded in the prior year and is due to the 1999 Acquisitions.

Based on management's assumptions, a portion of the purchase price for the 1999 Acquisitions was allocated to purchased in-process research and development that had not reached technological feasibility and had no future alternative use. During fiscal 1999, we recorded a charge of $79,155 for the write-off of acquired in-process research and development and other acquisition-related expenses. Such amount has been presented as a component of transaction gain, expenses and other expense in the accompanying financial statements. Management estimates that the research and development cost to complete the in-process research and development related to projects will aggregate approximately $11,000, which will be incurred over a five-year period.

In February 1999, we sold a 51% interest in IFE to Sextant for an initial cash purchase price of $62,000. The final purchase price will be determined on the basis of the operating results for the joint venture over its initial two years of operations and could range from $47,000 to $87,000; accordingly, $15,000 of the proceeds were deferred as of February 25, 1999, and are included in other liabilities in the accompanying financial statements as of February 27, 1999. We recorded a gain on this transaction of approximately $25,301, which has been reflected as a component of transaction gain, expenses and other expense in the accompanying financial statements.

We incurred an operating loss of $(37,757) (which includes restructuring and new product introduction costs of $87,825, acquisition-related expenses of $79,155 and the transaction gain of $25,301) during fiscal 1999, as compared to operating earnings of $58,669 in the prior year. Operating earnings during fiscal 1999 excluding such costs, expenses and the transaction gain were $103,922, or 14.8% of net sales. Interest expense, net was $41,696 during fiscal 1999, or $18,931 greater than interest expense of $22,765 for the prior year, and is due to the increase in our long-term debt incurred in connection with the 1999 Acquisitions.

The loss before income taxes in the current year was $(79,453) (which includes restructuring and new product introduction costs of $87,825, acquisition-related expenses of $79,155 and the transaction gain of $25,301) as compared to earnings before income taxes of $35,904 in the prior year. Earnings before income taxes excluding the above-mentioned costs and expenses were $62,226. Income tax expense for fiscal 1999 was $3,900 as compared to $5,386 in the prior year. The loss before extraordinary items for fiscal 1999 was $(83,353), or $(3.36) per share (basic and diluted), as compared to earnings before extraordinary items of $30,518, or $1.30 per share (diluted), for the comparable period in the prior year.

We incurred an extraordinary loss of $8,956 during fiscal 1998 for unamortized debt issue costs, tender and redemption premiums and costs and expenses associated with the repurchase of our 9¾% Senior Notes.

The net loss for fiscal 1999 was $(83,353), or $(3.36) per share (basic and diluted), as compared to net earnings of $21,562, or $0.92 per share (diluted), in fiscal 1998.

Liquidity and capital resources

Our liquidity requirements consist of working capital needs, ongoing capital expenditures and scheduled payments of interest and principal on indebtedness. Our primary requirements for working capital have been directly related to increased inventory levels as a result of revenue growth. Our working capital was $129,913 as of February 26, 2000, as compared to $143,423 as of February 27, 1999.

At February 26, 2000, cash and cash equivalents were $37,363, as compared to $39,500 at February 27, 1999. Cash provided from operating activities was $16,886 for fiscal 2000. The primary source of cash during fiscal 2000 was non-cash charges for depreciation and amortization of $42,237, a decrease in accounts receivable of $36,448 and an increase in payables, accruals and current taxes of $4,756, offset by a use of cash of $18,910 related to increases in inventories and other current assets.

Our capital expenditures were $33,169 and $37,465 during fiscal 2000 and 1999, respectively. Our capital

expenditure spending over the past two years was primarily attributable to:

- acquisitions completed during fiscal 1999,
- the purchase of previously leased facilities,
- the development of a new management information system to replace our existing systems, many of which were inherited in acquisitions and
- expenditures for plant modernization.

We anticipate on-going annual capital expenditures of approximately $23,000 for the next several years.

We have credit facilities with The Chase Manhattan Bank (the "Bank Credit Facility"). The Bank Credit Facility consists of a $100,000 revolving credit facility (of which $50,000 may be utilized for acquisitions) and an acquisition facility of $33,300. The revolving credit facility expires in April 2004 and the acquisition facility is amortizable over five years beginning in August 1999. The Bank Credit Facility is collateralized by our accounts receivable, inventories and by substantially all of our other personal property. Indebtedness under the existing Bank Credit Facility consisted of revolving credit facility outstanding borrowings of $39,000 (bearing interest at LIBOR plus 1.75%, or approximately 7.8%), letters of credit aggregating approximately $2,319 and outstanding borrowings under the acquisition facility aggregating $33,300 (bearing interest at LIBOR plus 1.5%, or approximately 7.9%) as of February 26, 2000. The Bank Credit Facility was amended on December 21, 1999 and contains customary affirmative covenants, negative covenants and conditions of borrowing, all of which were met as of February 26, 2000.

In January 1996, we sold $100,000 of 9⅞% Senior Subordinated Notes (the "9⅞% Notes"). In February 1998, we sold $250,000 of 8% Senior Subordinated Notes (the "8% Notes"). In conjunction with the sale of the 8% Notes, we initiated a tender offer for the $125,000 of 9 3/4% Senior Notes due 2003 (the "9¾% Notes"). The net proceeds from the sale of the 8% Notes of approximately $240,419 were used:

- for the tender offer (which expired on February 25, 1998) in which approximately $101,800 of the 9¾% Notes were retired
- to call the remaining 9¾% Notes on March 16, 1998 and
- together with the proceeds from the Bank Credit Facility, to partially fund the 1999 Acquisitions.

We incurred an extraordinary charge of $8,956 for unamortized debt issue costs, tender and redemption premiums and fees and expenses related to the repurchase of the 9¾% Notes. In November 1998, we sold $200,000 of 9½% Senior Subordinated Notes (the "9½% Notes"). The net proceeds from the offering of approximately $194,100 were used to settle our obligations related to the SMR acquisition and to repay a portion of our bank borrowings.

Long-term debt consists principally of the Bank Credit Facility, 9⅞% Notes, 8% Notes and 9½% Notes. The 9⅞% Notes, 8% Notes and 9½% Notes mature on February 1, 2006, March 1, 2008 and November 1, 2008, respectively. The 9⅞% Notes, 8% Notes and 9½% Notes contain restrictive covenants, including limitations on future indebtedness, restricted payments, transactions with affiliates, liens, dividends, mergers and transfers of assets, all of which were met by us as of February 26, 2000.

We believe that the cash flow from operations and availability under the Bank Credit Facility will provide adequate funds for our working capital needs, planned capital expenditures and debt service requirements through the term of the Bank Credit Facility. We believe that we will be able to refinance the Bank Credit Facility prior to its termination, although there can be no assurance that we will be able to do so. Our ability to fund our operations, make planned capital expenditures, make scheduled payments and refinance our indebtedness depends on our future operating performance and cash flow, which, in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control.

Deferred tax assets

We have established a valuation allowance related to the utilization of our deferred tax assets because of uncertainties that preclude us from determining that it is more likely than not that we will be able to generate taxable income to realize such asset during the federal operating loss carryforward period, which begins to expire in 2012. Such uncertainties include cumulative losses incurred by us during both of the past two years, the highly cyclical nature of the industry in which we operate, economic conditions in Asia that are impacting the airframe manufacturers and the airlines, our high degree of financial leverage, risks associated with new product introductions, recent increases in the costs of fuel and its impact on our airline customers, remediation of our Seating Products operating problems and risks associated with the integration of our acquired businesses. We monitor these uncertainties as well as other positive and negative factors that may arise in the future, as we assess the necessity for a valuation allowance for our deferred tax assets.

Year 2000 costs

We have successfully addressed the year 2000 ("Y2K") problem. Our achievement was accomplished through focus and execution in the following areas:

- Assessment
- Remediation and Testing
- Program to Assess and Monitor Progress of Third Parties

A Y2K compliant Enterprise Resource Planning ("ERP") application was implemented in nine of our facilities, including our largest operating facilities. We also upgraded our remaining sites' ERP applications to Y2K certified releases, as well as shop floor microchip enhanced equipment. In all cases at every facility there were no material issues resulting from Y2K.

We also contacted all vendors and compiled an electronic file of correspondence tracking and measuring vendor Y2K compliance capabilities. There have been no material Y2K related issues related to delivery of product from our vendors.

We ensured our communications infrastructure including, but not limited to, hubs, routers, personal computers, desktop software, frame relay, PBX's, T1's, vendors and servers, were Y2K ready. No interruption of business resulted from Y2K issues.

We checked and replaced all potential problems with our facilities' environmental items such as HVAC, elevators and security systems. There have been no facility issues related to Y2K issues.

Through February 26, 2000, we incurred approximately $39,179 associated with the implementation of our ERP system. A portion of these costs have been capitalized to the extent permitted under accounting principles generally accepted in the United States of America. We do not expect future costs related to the year 2000 to be material. We will continue to monitor our critical computer applications throughout the year 2000 to ensure that any latent year 2000 matters that may arise are promptly addressed.

New accounting pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities,* which we are required to adopt effective in our fiscal year 2002. SFAS No. 133, as amended, will require us to record all derivatives on the balance sheet at fair value. We do not currently engage in hedging activities and will continue to evaluate the effect of adopting SFAS No. 133. We will adopt SFAS No. 133 in our fiscal year 2002.

Risk factors

Industry conditions

Our principal customers are the world's commercial airlines. As a result, our business is directly dependent upon the conditions in the highly cyclical and competitive commercial airline industry. In the late 1980s and early 1990s, the world airline industry suffered a severe downturn, which resulted in record losses and several air carriers seeking protection under bankruptcy laws. As a consequence, during such period, airlines sought to conserve cash by reducing or deferring scheduled cabin interior refurbishment and upgrade programs and delaying purchases of new aircraft. This led to a significant contraction in the commercial aircraft cabin interior products industry and a decline in our business and profitability. Since early 1994, the airlines have experienced a turnaround in operating results, leading the domestic airline industry to record operating earnings during calendar years 1995 through 1998. This financial turnaround was, in part, driven by record load factors, rising fare prices and declining fuel costs. Airline company balance sheets have been substantially strengthened and their liquidity enhanced as a result of their record profitability, debt and equity financings and a closely managed fleet expansion. Recent increases in fuel prices have not had a material impact on the airline industry to-date. However, should fuel prices continue at or above the current level for a prolonged period, we would expect to see the airline industry's profitability will be impacted and discretionary airline spending may be more closely monitored or even reduced.

In addition, the airline industry is undergoing a process of consolidation and significantly increased competition. Such consolidation could result in a reduction of future aircraft orders as overlapping routes are eliminated and airlines seek greater economies through higher aircraft utilization. Increased airline competition may also result in airlines seeking to reduce costs by promoting greater price competition from airline cabin interior products manufacturers, thereby adversely affecting our revenues and margins.

Recently, turbulence in the financial and currency markets of many Asian countries has led to uncertainty with respect to the economic outlook for these countries. Of our $470,000 of backlog at February 26, 2000, approximately $279,000 is deliverable by the end of fiscal 2001. Of the total backlog at February 26, 2000, we had

approximately $58,000 with Asian carriers. Of such Asian carrier backlog, approximately $17,000 is with Japan Airlines, Singapore Airlines and Cathay Pacific. Although not all carriers have been affected by the current economic events in the Pacific Rim, certain carriers, including non-Asian carriers that have substantial Asian routes, could cancel or defer their existing orders. In addition, in December 1998, Boeing announced that in light of the continued economic conditions in Asia, it would be reducing production of a number of aircraft types, including particularly wide-body aircraft that require almost four times the dollar content for our products as compared to narrow-body aircraft.

Seating products operations

During the latter part of fiscal 1999 and throughout fiscal 2000, our seating operations negatively impacted operating results. The operating inefficiencies resulted in delayed deliveries to customers, increased re-work of seating products, claims for warranty, penalties, out of sequence charges, substantial increases in air freight and other expedite-related costs. Late customer deliveries have resulted in certain airlines diverting seating programs to other manufacturers and the deferrals of other seating programs.

The aggregate impact of these operating inefficiencies, penalties, and product line rationalization costs was to increase cost of sales and operating expenses by $94,375 during fiscal 2000. We believe we have addressed the problems we identified through a number of current initiatives. Future margin expansion will largely depend on the success of our seating business in four areas:

- achieving planned efficiencies for recently-introduced products,
- optimizing manufacturing processes with the new management information system,
- successfully implementing lean manufacturing techniques and
- rationalizing facilities and personnel.

While our manufacturing productivity and efficiencies have improved recently, there can be no assurance that the rate of these improvements will continue or that we will not discover other inefficiencies in our seating operations.

Significant indebtedness and interest payment obligations

We have substantial indebtedness and, as a result, significant debt service obligations. As of February 26, 2000, indebtedness outstanding was $621,925 and represented 90% of total capitalization.

The degree of our leverage could have important consequences to purchasers or holders of our common stock, including:

- limiting our ability to obtain additional financing to fund our growth strategy, working capital, capital expenditures, debt service requirements or other purposes,
- limiting our ability to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to make principal payments and fund debt service,
- increasing our vulnerability to adverse economic and industry conditions and
- increasing our vulnerability to interest rate increases because borrowings under our Bank Credit Facility are at variable interest rates.

Our ability to pay interest on the notes and to satisfy our other debt obligations will depend upon, among other things, our future operating performance and our ability to refinance indebtedness when necessary. Each of these factors is to a large extent dependent on economic, financial, competitive and other factors, beyond our control. If, in the future, we cannot generate sufficient cash from operations to make scheduled payments on the notes or to meet our other obligations, we will need to refinance, obtain additional financing or sell assets. We cannot assure you that our business will generate cash flow, or that we will be able to obtain funding, sufficient to satisfy our debt service requirements.

Restrictions in debt agreements on our operations

The operating and financial restrictions and covenants in our existing debt agreements, including our Bank Credit Facility, the indentures governing the 9⅞% Notes, the 8% Notes, the 9½% Notes and any future financing agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. A breach of any of these restrictions or covenants could cause a default under the bank credit facilities and the notes. A significant portion of our indebtedness then may become immediately due and payable. We are not certain whether we would have, or be able to obtain, sufficient funds to make

these accelerated payments, including payments on the notes.

New product introductions and technological change

Airlines currently are taking delivery of a new generation of aircraft and demanding increasingly sophisticated cabin interior products. As a result, the cabin interior configurations of commercial aircraft are becoming more complex and will require more technologically advanced and integrated products. Our future success may depend to some extent on our ability to continue to develop, profitably manufacture and deliver, on a timely basis, other technologically advanced, reliable high-quality products, which can be readily integrated into complex cabin interior configurations.

Competition

We compete with a number of established companies that have significantly greater financial, technological and marketing resources than we do. Although we have achieved a significant share of the market for a number of our commercial airline cabin interior products, there can be no assurance that we will be able to maintain this market share. Our ability to maintain our market share will depend on our ability to remain the supplier of retrofit and refurbishment products and spare parts on the commercial fleets on which our products are currently in service. It will also depend on our success in causing our products to be selected for installation in new aircraft, including next-generation aircraft, expected to be purchased by the airlines over the next decade, and in avoiding product obsolescence.

General aviation acquisitions; ability to integrate acquired businesses; additional capital requirements

Between 1989 and January 1996, we acquired nine companies. During fiscal 1999, we acquired six additional companies. Through several of these recent acquisitions, we have expanded our activities from the commercial to the general aviation market. There can be no assurance that we will be successful in entering the general aviation market. We intend to consider future strategic acquisitions in the commercial airline and general aviation cabin interior industries, some of which could be material to us. We are in discussions from time to time with one or more third parties regarding possible acquisitions. As of the date of this Annual Report, we have no agreement or understanding on any acquisition. Our ability to continue to achieve our goals will depend upon our ability to integrate effectively the recent and any future acquisitions and to achieve cost efficiencies. Although we have been successful in the past in doing so, we may not continue to be successful.

We have recorded $459,175 of intangible assets in connection with these acquisitions, with a net book value of $364,483 as of February 26, 2000. These intangible assets are being amortized on a straight-line basis over their estimated useful lives. However, at each balance sheet date, we assess whether there has been a permanent impairment in the value of intangible assets. If the carrying value of the intangible assets exceeds the estimated undiscounted future cash flows from operating activities of the related business, a permanent impairment is deemed to have occurred. In this event, intangible assets are written down accordingly. While as of February 26, 2000, we have not determined that an impairment exists, we could in the future determine that such an impairment is appropriate in connection with intangible assets recorded in connection with these acquired businesses.

Depending upon, among other things, the acquisition opportunities available, we may need to raise additional funds. We may seek additional funds through public offerings or private placements of debt or equity securities or bank loans. In the absence of such financing, our ability to make future acquisitions in accordance with our business strategy, to absorb adverse operating results, to fund capital expenditures or to respond to changing business and economic conditions may be adversely affected. All of these factors may have a material adverse effect on our business, results of operations and financial condition.

Regulation

The Federal Aviation Administration (the "FAA") prescribes standards and licensing requirements for aircraft components, including virtually all commercial airline and general aviation cabin interior products, and licenses component repair stations within the United States. Comparable agencies regulate these matters in other countries. If we fail to obtain a required license for one of our products or services or lose a license previously granted, the sale of such product or service would be prohibited by law until such license is obtained or renewed. In addition, designing new products to meet existing FAA requirements and retrofitting installed products to comply with new FAA requirements can be both expensive and time-consuming.

Risks inherent in international operations

Our foreign operations accounted for 29% of net sales for fiscal 2000, compared with 27% of net sales for fiscal

1999 and 25% for fiscal 1998. In addition, we have direct investments in a number of subsidiaries in foreign countries (primarily in Europe). Fluctuations in the value of foreign currencies affect the dollar value of our net investment in foreign subsidiaries, with these fluctuations being included in a separate component of stockholders' equity. Operating results of foreign subsidiaries are translated into U.S. dollars at average monthly exchange rates. We reported a cumulative foreign currency translation amount in stockholders' equity of $(10,560) at February 26, 2000, compared with $(6,105) at February 27, 1999 as a result of foreign currency adjustments. There can be no assurance that we will not incur additional adjustments in future periods. In addition, the U.S. dollar value of transactions based in foreign currency (collections on foreign sales or payments for foreign purchases) also fluctuates with exchange rates. Historically, foreign currency risk has not been material because a substantial majority of our sales have been denominated in the currency of the country of product origin and no repatriation of earnings has occurred (or is anticipated). However, there can be no assurance that a substantial majority of sales will continue to be denominated in the currency of the country of product origin or as to the impact of changes in the value of the United States dollar or other currencies. The largest foreign currency exposure results from activity in British pounds and Dutch guilders.

We have not hedged net foreign investments in the past, although we may engage in hedging transactions in the future to manage or reduce our exchange risk. There can be no assurance that our attempts to manage our foreign currency exchange risk will be successful.

Our foreign operations could also be subject to unexpected changes in regulatory requirements, tariffs and other market barriers and political and economic instability in the countries where we operate. There can be no assurance as to the impact of any such events that may occur in the future.

Risks associated with the conversion by certain EU member states to the "Euro"

We may be exposed to certain risks as a result of the conversion by certain European Union ("EU") member states of their respective currencies to the "Euro" as legal currency beginning on January 1, 1999. The conversion rates between such member states' currencies and the Euro will be fixed by the Council of the European Union. Risks related to the conversion to the Euro could include, among other things:

- effects on pricing due to increased cross-border price transparency,
- costs of modifying information systems, including both software and hardware,
- costs of relying on third parties whose systems also require modification,
- changes in the conduct of business and in the principal markets for our products and services and
- changes in currency exchange rate risk.

We have analyzed whether the conversion to the Euro will materially affect our business operations. While we are uncertain as to the impact of the conversion, we do not expect costs in connection with the Euro conversion to be material. However, the actual effects of the conversion cannot be known until the conversion to the Euro has taken place and there can be no assurance that the actual effects of the conversion could not have a material adverse effect on our business, results of operations and financial condition.

Environmental matters

We are subject to extensive and changing federal, state and foreign laws and regulations establishing health and environmental quality standards, and may be subject to liability or penalties for violations of those standards. We are also subject to laws and regulations governing remediation of contamination at facilities currently or formerly owned or operated by us to which we have sent hazardous substances or wastes for treatment, recycling or disposal. We believe that we are currently in compliance, in all material respects, with all such laws and regulations. We may, however, be subject to future liabilities or obligations as a result of new or more stringent interpretations of existing laws and regulations. In addition, we may have liabilities or obligations in the future if we discover any environmental contamination or liability at any of our facilities.

The Board of Directors and Stockholders
BE Aerospace, Inc.
Wellington, Florida

We have audited the accompanying consolidated balance sheets of BE Aerospace, Inc. and subsidiaries as of February 26, 2000 and February 27, 1999, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three fiscal years in the period ended February 26, 2000. These financial statements are the responsibilty of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of BE Aerospace, Inc. and subsidiaries as of February 26, 2000 and February 27, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 26, 2000, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Costa Mesa, California
April 7, 2000

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	February 26, 2000	February 27, 1999
Assets		
Current Assets:		
Cash and cash equivalents	**$ 37,363**	$ 39,500
Accounts receivable - trade, less allowance for doubtful accounts of $3,883 (2000) and $2,633 (1999)	**103,719**	140,782
Inventories, net	**127,230**	119,247
Other current assets	**35,291**	14,086
Total current assets	**303,603**	313,615
Property and equipment, net	**152,350**	138,730
Intangibles and other assets, net	**425,836**	451,954
	$ 881,789	$ 904,299
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	**$ 60,824**	$ 63,211
Accrued liabilities	**109,143**	97,065
Current portion of long-term debt	**3,723**	9,916
Total current liabilities	**173,690**	170,192
Long-term debt	**618,202**	583,715
Other liabilities	**25,400**	34,519
Commitments and contingencies (Note 11)	**–**	–
Stockholders' Equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding	**–**	–
Common stock, $.01 par value; 50,000,000 shares authorized; 24,931,307 (2000) and 24,602,915 (1999) shares issued and outstanding	**249**	246
Additional paid-in capital	**249,682**	245,809
Accumulated deficit	**(174,874)**	(124,077)
Accumulated other comprehensive loss	**(10,560)**	(6,105)
Total stockholders' equity	**64,497**	115,873
	$ 881,789	$ 904,299

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	YEAR ENDED		
(Dollars in thousands, except per share data)	February 26, 2000	February 27, 1999	February 28, 1998
Net sales	**$ 723,349**	$ 701,325	$ 487,999
Cost of sales (Note 3)	**543,682**	522,875	309,094
Gross profit	**179,667**	178,450	178,905
Operating Expenses:			
Selling, general and administrative	**94,891**	83,648	58,622
Research, development and engineering	**54,004**	56,207	45,685
Amortization of intangible assets	**24,076**	22,498	11,265
Transaction gain, expenses and other expenses (Note 4)	**–**	53,854	4,664
Total operating expenses	**172,971**	216,207	120,236
Operating earnings (loss)	**6,696**	(37,757)	58,669
Equity in losses of unconsolidated subsidiary	**1,289**	–	–
Interest expense, net	**52,921**	41,696	22,765
Earnings (loss) before income taxes and extraordinary item	**(47,514)**	(79,453)	35,904
Income taxes	**3,283**	3,900	5,386
Earnings (loss) before extraordinary item	**(50,797)**	(83,353)	30,518
Extraordinary item	–	–	8,956
Net earnings (loss)	**$ (50,797)**	$ (83,353)	$ 21,562
Other comprehensive income (loss):			
Foreign exchange translation adjustment	**(4,455)**	(3,086)	(2,137)
Comprehensive income (loss)	**$ (55,252)**	$ (86,439)	$ 19,425
Basic earnings (loss) per share:			
Earnings (loss) before extraordinary item	**$ (2.05)**	$ (3.36)	$ 1.36
Extraordinary item	–	–	(0.40)
Net earnings (loss)	**$ (2.05)**	$ (3.36)	$ 0.96
Weighted average common shares	**24,764**	24,814	22,442
Diluted earnings (loss) per share:			
Earnings (loss) before extraordinary item	**$ (2.05)**	$ (3.36)	$ 1.30
Extraordinary item	–	–	(0.38)
Net earnings (loss)	**$ (2.05)**	$ (3.36)	$ 0.92
Weighted average common shares	**24,764**	24,814	23,430

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance, February 22, 1997	21,893	$ 219	$ 228,710	$ (62,286)	$ (882)	$165,761
Sale of stock under employee stock purchase plan	88	1	1,796	–	–	1,797
Exercise of stock options	852	9	8,106	–	–	8,115
Employee benefit plan matching contribution	59	–	1,677	–	–	1,677
Net earnings	–	–	–	21,562	–	21,562
Foreign currency translation adjustment	–	–	–	–	(2,137)	(2,137)
Balance, February 28, 1998	22,892	229	240,289	(40,724)	(3,019)	196,775
Sale of stock under employee stock purchase plan	151	1	2,167	–	–	2,168
Exercise of stock options	292	3	3,829	–	–	3,832
Employee benefit plan matching contribution	101	1	2,300	–	–	2,301
Issuance of stock in conjunction with acquisition of SMR (Note 2)	4,000	40	117,960	–	–	118,000
Repurchase of stock in conjunction with acquisition of SMR (Note 2)	(4,000)	(40)	(117,960)	–	–	(118,000)
Impact of immaterial poolings (Note 2)	1,167	12	(2,776)	–	–	(2,764)
Net loss	–	–	–	(83,353)	–	(83,353)
Foreign currency translation adjustment	–	–	–	–	(3,086)	(3,086)
Balance, February 27, 1999	24,603	246	245,809	(124,077)	(6,105)	115,873
Sale of stock under employee stock purchase plan	107	1	1,335	–	–	1,336
Exercise of stock options	49	–	442	–	–	442
Employee benefit plan matching contribution	172	2	2,096	–	–	2,098
Net loss	–	–	–	(50,797)	–	(50,797)
Foreign currency translation adjustment	–	–	–	–	(4,455)	(4,455)
Balance, February 26, 2000	**24,931**	**$ 249**	**$ 249,682**	**$ (174,874)**	**$(10,560)**	**$ 64,497**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	YEAR ENDED February 26, 2000	February 27, 1999	February 28, 1998
Cash flows from operating activities:			
Net earnings (loss)	**$ (50,797)**	$ (83,353)	$ 21,562
Adjustments to reconcile net earnings (loss) to net cash flows provided by operating activities:			
Acquisition-related expenses	–	79,155	–
Gain on sale of 51% interest in subsidiary	–	(25,301)	–
Extraordinary item	–	–	8,956
Depreciation and amortization	**42,237**	40,690	24,160
Deferred income taxes	**1,054**	(277)	(460)
Non-cash employee benefit plan contributions	**2,098**	2,301	1,677
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	**36,448**	(21,407)	(14,665)
Inventories	**(8,764)**	(10,935)	(28,597)
Other current assets	**(10,146)**	(5,514)	(5,141)
Payables, accruals and current taxes	**4,756**	39,856	2,106
Net cash flows provided by operating activities	**16,886**	15,215	9,598
Cash flows from investing activities:			
Capital expenditures	**(33,169)**	(37,465)	(28,923)
Change in intangibles and other assets	**(16,250)**	(19,429)	(15,686)
Acquisitions, net of $3,910 cash acquired	**–**	(231,690)	–
Net proceeds on sale of 51% interest in subsidiary	**–**	61,735	–
Net cash flows used in investing activities	**(49,419)**	(226,849)	(44,609)
Cash flows from financing activities:			
Net borrowings under revolving lines of credit	**28,924**	36,267	5,450
Proceeds from issuance of stock, net of expenses	**1,759**	6,000	11,611
Principal payments on long-term debt	**–**	(31,714)	(101,808)
Repurchase of common stock originally issued in conjunction with acquisition of SMR Aerospace	**–**	(118,000)	–
Proceeds from long-term debt	**–**	194,137	240,419
Net cash flows provided by financing activities	**30,683**	86,690	155,672
Effect of exchange rate changes on cash flows	**(287)**	(241)	(125)
Net increase (decrease) in cash and cash equivalents	**(2,137)**	(125,185)	120,536
Cash and cash equivalents, beginning of year	**39,500**	164,685	44,149
Cash and cash equivalents, end of year	**$ 37,363**	$ 39,500	$ 164,685
Supplemental disclosures of cash flow information:			
Cash paid during year for:			
Interest, net	**$ 51,745**	$ 27,994	$ 25,065
Income taxes, net	**4,902**	4,570	5,012
Interest capitalized in computer equipment and software	**1,474**	2,088	467

See Notes to Consolidated Financial Statements.

1. Summary of significant accounting policies

Organization and Basis of Presentation - BE Aerospace, Inc. and its wholly-owned subsidiaries (the "Company" or "B/E") designs, manufactures, sells and services a broad line of commercial and general aviation aircraft cabin interior products consisting of a broad range of aircraft seating products, service systems and interior systems products, including structures as well as all food and beverage storage and preparation equipment. The Company's customers are the operators of commercial and general aviation aircraft. As a result, the Company's business is directly dependent upon the conditions in the commercial airline and general aviation industry. The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Consolidation - The accompanying consolidated financial statements include the accounts of BE Aerospace, Inc. and its wholly-owned subsidiaries. Investments in less than majority-owned businesses are accounted for under the equity method. All intercompany transactions and balances have been eliminated in consolidation. The Company's fiscal year ends on the last Saturday in February.

Use of Estimates - The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - In accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes,* the Company provides deferred income taxes for temporary differences between amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes. A valuation allowance related to a deferred tax asset is recorded when it's more likely than not that some portion or all of the deferred tax asset will not be realized.

Revenue Recognition - Sales of assembled products and equipment are recorded on the date of shipment or, if required, upon acceptance by the customer. Service revenues are recorded when performed. Revenues and costs under certain long-term contracts are recognized using contract accounting under the percentage-of-completion method. The Company sells its products primarily to airlines worldwide, including occasional sales collateralized by letters of credit. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. Actual losses have been within management's expectations.

Warranty Costs - Estimated costs related to product warranties are accrued at the time products are sold.

Cash Equivalents - The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Intangible Assets - Intangible assets consist of goodwill and other identified intangible assets associated with the Company's acquisitions. Goodwill and other identified intangible assets are amortized on a straight-line basis over their estimated useful lives. At each balance sheet date, management assesses whether there has been a permanent impairment in the value of intangible assets. If the carrying value of the asset exceeds the estimated undiscounted future cash flows from operating activities of the related business, a permanent impairment is deemed to have occurred. In this event, the asset is written down accordingly. As of February 26, 2000, management determined that no impairment existed.

Long-Lived Assets - The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* In accordance with SFAS No. 121, long-lived assets are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. At February 26, 2000, management determined that no such impairment existed.

Research and Development - Research and development expenditures are expensed as incurred.

Effect of Accounting Changes - In 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* and SOP 98-5, *Reporting on the Costs of Start-up Activities.* The Company adopted SOP 98-1 and SOP 98-5 on March 1, 1998, with no material effect on the consolidated financial statements.

Foreign Currency Translation - In accordance with the provisions of SFAS No. 52, *Foreign Currency Translation,* the assets and liabilities of subsidiaries located outside the United States are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates. Revenue and expense items are translated at the average exchange rates prevailing during the period. Gains and losses resulting from foreign currency transactions are recognized currently in income, and those resulting from translation of financial statements are accumulated as a separate component of stockholders' equity.

New Accounting Pronouncement - In June 1998, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* which the Company is required to adopt effective in its fiscal year 2002. SFAS No. 133, as amended, will require the Company to record all derivatives on the balance sheet at fair value. The Company does not currently engage in hedging activities and will continue to evaluate the effect of adopting SFAS No. 133. The Company will adopt SFAS No. 133 in its fiscal year 2002.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to conform to the February 26, 2000 presentation.

2. Acquisitions and dispositions

During fiscal 1999, the Company completed a number of acquisitions, which are collectively referred to as the "1999 Acquisitions." The following is a description of each of the more significant transactions:

Puritan-Bennett Aero Systems Company

On April 13, 1998, the Company completed its acquisition of Puritan-Bennett Aero Systems Co. ("PBASCO") for approximately $69,700 in cash and the assumption of approximately $9,200 of liabilities, including related acquisition costs and certain liabilities arising from the acquisition. PBASCO is a manufacturer of commercial aircraft oxygen delivery systems and "WEMAC" air valve components and, in addition, supplies overhead lights and switches, crew masks and protective breathing devices for both commercial and general aviation aircraft. During the first quarter of fiscal 1999, the Company recorded a charge of $13,000 associated with the PBASCO transaction, for the write-off of in-process research and development and acquisition-related expenses (Note 4).

The PBASCO acquisition was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed have been reflected in the accompanying consolidated balance sheet as of February 26, 2000 and February 27, 1999. The operating results of PBASCO have been included in the consolidated financial statements of the Company since the date of the acquisition. The aggregate purchase price for the PBASCO acquisition was allocated to the net assets acquired based on appraisals and management's estimates as follows:

Accounts receivable	$10,200
Inventories	12,000
Other current assets	200
Property, plant and equipment	4,700
Intangible assets	38,800
Purchased in-process research and development and acquisition-related expenses	13,000
	$78,900

Aircraft Modular Products

On April 21, 1998, the Company acquired substantially all of the assets of Aircraft Modular Products ("AMP") for approximately $117,300 in cash and the assumption of approximately $12,800 of liabilities, including related acquisition costs and certain liabilities arising from the acquisition. AMP is a manufacturer of cabin interior products for general aviation (business jet) and commercial-type VIP aircraft, providing a broad line of products including seating, sidewalls, bulkheads, credenzas, closets, galley structures, lavatories, tables and sofas, along with related spare parts. During the first quarter of fiscal 1999, the Company recorded a charge of approximately $19,255 associated with the AMP transaction for the write-off of in-process research and development and acquisition-related expenses (Note 4).

The AMP acquisition was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed have been reflected in the accompanying consolidated balance sheet as of February 26, 2000 and February 27, 1999. The operating results of AMP have been included in the consolidated financial statements of the Company since the date of the acquisition. The aggregate purchase price for the AMP acquisition was allocated to the net assets acquired based on appraisals and management's estimates as follows:

Accounts receivable	$ 8,300
Inventories	2,045
Other current assets	1,400
Property, plant and equipment	5,400
Intangible and other assets	93,700
Purchased in-process research and development and acquisition-related expenses	19,255
	$130,100

SMR Aerospace, Inc.

On August 7, 1998, the Company acquired all of the capital stock of SMR Aerospace, Inc. and its affiliates, SMR Developers LLC and SMR Associates (together, "SMR") for an aggregate purchase price of approximately $141,500 cash and the assumption of approximately $32,600 of liabilities, including related acquisition costs and certain liabilities arising from the acquisition. The Company paid for the acquisition of SMR by issuing four million shares (the "SMR Shares") of Company stock (then valued at approximately $30 per share) to the former stockholders of SMR and paying them $2,000 in cash. The Company also paid $22,000 in cash to the employee stock ownership plan of a subsidiary of SMR Aerospace, Inc. to purchase the minority equity interest in such subsidiary held by the Employee Stock Ownership Plan. The Company agreed to register for sale with the Securities and Exchange Commission the SMR Shares. If the net proceeds from the sale of the shares, which included the $2,000 in cash already paid, was less than $120,000, the Company agreed to pay such difference in cash to the selling stockholders. Because of the market price for the Company's common stock and the Company's payment obligation to the selling stockholders described above, the Company decided to repurchase the SMR Shares with approximately $118,000 of the proceeds from the sale of 9½% Senior Subordinated Notes instead of registering the shares for sale (the $118,000 payment represents the net proceeds of $120,000 the Company was obligated to pay the selling stockholders, less the $2,000 in cash the Company already paid them).

SMR provides design, integration, installation and certification services for commercial aircraft passenger cabin interiors. SMR provides a broad range of interior reconfiguration services that allow airlines to change the size of certain classes of service, modify and upgrade the seating, install telecommunications or entertainment options, relocate galleys, lavatories, and overhead bins and install crew rest compartments. SMR is also a supplier of structural design and integration services, including airframe modifications for passenger-to-freighter conversions. In addition, SMR provides a variety of niche products and components that are used for reconfigurations and conversions. SMR's services are performed primarily on an aftermarket basis and its customers include major airlines such as United Airlines, Japan Airlines, British Airways, Air France, Cathay Pacific and Qantas, as well as Boeing, Airborne Express and Federal Express. During the second quarter of fiscal 1999, the Company recorded a charge of approximately $46,900 associated with the SMR transaction for the write-off of in-process research and development and acquisition-related expenses (Note 4).

The SMR acquisition was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed have been reflected in the accompanying consolidated balance sheet as of February 26, 2000 and February 27, 1999. The operating results of SMR have been included in the consolidated financial statements of the Company since the date of the acquisition. The aggregate purchase price for the SMR acquisition was allocated to the net assets acquired based on appraisals and management's estimates as follows:

Accounts receivable	$ 11,700
Inventories	9,700
Other current assets	1,400
Property, plant and equipment	6,100
Intangible and other assets	98,300
Purchased in-process research and development and acquisition-related expenses	46,900
	$ 174,100

CF Taylor

On September 3, 1998, the Company acquired substantially all of the galley equipment assets and certain property and assumed related liabilities of C.F. Taylor Interiors Limited and acquired the common stock of C F Taylor (Wokingham) Limited (collectively "CF Taylor"), both wholly owned subsidiaries of EIS Group PLC, for a total cash purchase price of approximately $25,100, subject to adjustments, and the assumption of approximately $16,500 of liabilities, including related acquisition costs and certain liabilities arising from the acquisition. CF Taylor is a manufacturer of galley equipment for both narrow- and wide-body aircraft, including galley structures, crew rests and related spare parts.

The CF Taylor acquisition was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed have been reflected in the accompanying consolidated balance sheet as of February 26, 2000 and February 27, 1999. The operating results of CF Taylor have been included in the consolidated financial statements of the Company since the date of the acquisition. The aggregate purchase price for the CF Taylor acquisition was allocated to the net assets acquired based on appraisals and management's estimates as follows:

Accounts receivable	$ 7,500
Inventories	7,600
Other current assets	100
Property, plant and equipment	3,700
Intangible and other assets	22,700
	$ 41,600

In-Flight Entertainment Business

On February 25, 1999, the Company completed the sale of a 51% interest in its In-Flight Entertainment ("IFE") business to Sextant Avionique, Inc. ("Sextant"), a wholly-owned subsidiary of Sextant Avionique, S.A. (the "IFE Sale"). The Company sold its 51% interest in IFE for $62,000 in cash. Terms of the purchase agreement provided for the final price for the 51% interest to be determined on the basis of operating results for the IFE business over the two-year period ending February 28, 2001. The Company used substantially all of the proceeds from the IFE Sale to repay a portion of its bank line of credit. On October 5, 1999, the Company completed the sale of its remaining 49% equity interest in IFE to Sextant and this sale did not result in a significant gain. Total consideration for 100% of its equity interest in IFE, intra-entity obligations and for the provision of marketing, product and technical consulting services will range from a minimum of $93,600 up to $123,300 (inclusive of the $62,000 received in February 1999 for the sale of a 51% interest in IFE). Terms of the agreement provide for the Company to receive payments of $15,675 on October 5, 2000 and 2001, which are included in other current assets and intangibles and other assets, net, in the accompanying financial statements as of February 26, 2000. A third and final payment will be based on the actual sales and booking performances over the period from March 1, 1999 to December 31, 2001.

Pro Forma Information

The following pro forma unaudited financial data is presented to illustrate the estimated effects of the 1999 Acquisitions and the IFE sale as if these transactions had occurred as of the beginning of each fiscal year presented.

	2000	**1999**	**1998**
Net sales	**$723,349**	$689,816	$597,182
Net earnings (loss)	**(49,508)**	(32,728)	9,983
Diluted earnings (loss) per share	**$ (2.00)**	$ (1.32)	$ 0.43

Other Acquisitions

During fiscal 1999, the Company acquired all of the issued and outstanding shares of Aerospace Interiors, Inc. on March 27, 1998 and Aerospace Lighting Corporation on July 30, 1998 for 201,895 and 964,780 shares, respectively, in transactions accounted for as a pooling of interests. The Company's consolidated financial statements for fiscal year 1999 include the results of these entities from the date of acquisition. Prior period financial statements were not restated as the results of operations would not have been materially different than those previously reported by the Company.

3. Restructuring plan and new product introduction costs

During the fourth quarter of fiscal 1999, the Company began to implement a restructuring plan designed to lower its cost structure and improve its long-term competitive position. This plan includes consolidating seven facilities reducing the total number from 21 to 14, reducing its employment base by approximately 8% and rationalizing its product offerings. The cost of the restructuring, along with costs associated with new product introductions, was $87,825 and was charged to cost of sales, of which $62,497 is related to North American facilities. The restructuring costs and charges are comprised of $61,089 related to impaired inventories and property, plant and equipment as a result of the rationalization of its product offerings and severance and related separation costs, lease termination and other costs of $4,949. New product introduction costs aggregated $21,787.

Pretax cash outlays were not significant during fiscal 1999, and were approximately $4,900 during fiscal 2000. Cash requirements were funded from operations. The Company identified seven facilities, four domestic and three in Europe, for consolidation. The consolidation activities were substantially complete by the end of the fiscal year 2000.

The assets impacted by this program included inventories, factories, warehouses, assembly operations, administration facilities and machinery and equipment. New product introduction costs represent costs incurred in bringing new products to market in volume for the first time and include engineering design and development, costs in excess of standard costs at budgeted manufacturing levels and related expenditures.

The following table summarizes the restructuring costs:

	Original	Utilized in Fiscal 1999	Balance at Feb. 27, 1999	Utilized in Fiscal 2000	Balance at Feb. 26, 2000
Severance, lease termination and other costs	$ 4,949	$ 651	$ 4,298	$ 4,298	–
Impaired inventories, property and equipment	61,089	41,178	19,911	19,911	–
	$66,038	$ 41,829	$24,209	$24,209	–

4. Transaction gain, expenses and other expenses

As a result of the acquisitions of PBASCO, AMP and SMR, the Company recorded a charge aggregating $79,155 for the write-off of acquired in-process research and development and acquisition-related expenses associated with its acquisitions. In-process research and development expenses arose from new product development projects that were in various stages of completion at the respective acquired enterprises at the date of acquisition. In-process research and development expenses for products under development at the date of acquisition that had not established technological feasibility and for which no alternative use had been identified were written off. The in-process research and development projects have been valued based on expected net cash flows over the product life, costs to complete, the stage of completion of the projects, the result of which has been discounted to reflect the inherent risk associated with the completion of the projects, and the realization of the efforts expended.

New product development projects underway at the dates of acquisition included, among others, modular drop boxes, passenger and flight crew oxygen masks, oxygen regulators and generators, protective breathing equipment, on-board oxygen generating systems, reading lights, passenger service units, executive aircraft interior products for the Bombardier Global Express, Boeing Business Jet, Airbus Corporate Jet, Cessna Citation 560XL, Cessna Citation 560 Ultra, Visionaire Vantage and Lear 60, as well as other specific executive aircraft seating products, pneumatic and electrical de-icing systems for the substantial majority of all executive and commuter aircraft types, crew rest modules for selected wide-body aircraft, passenger-to-freighter and

combi- to-freighter conversion kits for selected wide-body aircraft, hovercraft skirting devices, cargo nets and smoke barriers. The Company has determined that these projects ranged from 25%-95% complete at February 26, 2000 and estimates that the cost to complete these projects will aggregate approximately $4,522 and will be incurred over a two-year period.

Uncertainties that could impede progress to a developed technology include: (1) availability of financial resources to complete the development, (2) regulatory approval (FAA, CAA, etc.) required for each product before it can be installed on an aircraft, (3) continued economic feasibility of developed technologies, (4) customer acceptance and (5) general competitive conditions in the industry. There can be no assurance that the in-process research and development projects will be successfully completed and commercially introduced.

The Company recorded the in-process research and development and acquisition-related expenses of $79,155 net of the gain on the IFE sale of $25,301 as transaction gain, expenses and other expenses in the accompanying financial statements for the year ended February 27, 1999. The sale of the Company's 49% equity interest in IFE to Sextant on October 5, 1999 did not result in a significant gain.

In January 1998, the Company resolved a long-running dispute with the U.S. Government over export sales between 1992 and 1995 to Iran Air. The dispute centered on shipments of aircraft seats and related spare parts for five civilian aircraft operated by Iran Air. Iran Air purchased the seats in 1992 and arranged for them to be installed by a contractor in France. At the time, Iran was not the subject of a U.S. trade embargo. In connection with its sale of seats to Iran Air, the Company applied for and was granted a validated export license by the U.S. Department of Commerce. Other expenses for the year ended February 28, 1998 relate to fines, civil penalties and associated legal fees arising from the settlement.

5. Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average cost method. Finished goods and work in process inventories include material, labor and manufacturing overhead costs. Inventories consist of the following:

	2000	1999
Raw materials and component parts	**$ 59,322**	$ 44,352
Work-in-process	**36,556**	47,383
Finished goods	**31,352**	27,512
	$ 127,230	$119,247

6. Property and equipment

Property and equipment are stated at cost and depreciated and amortized generally on the straight-line method over their estimated useful lives of two to thirty years (term of lease as to leasehold improvements). Property and equipment consist of the following:

	Years	2000	1999
Land, buildings and improvements	10-30	**$ 62,783**	$ 56,943
Machinery	3-13	**49,626**	57,692
Tooling	3-10	**28,213**	26,313
Computer equipment and software	4-15	**71,608**	45,777
Furniture and equipment	2-10	**6,850**	7,098
		219,080	193,823
Less accumulated depreciation and amortization		**(66,730)**	(55,093)
		$ 152,350	$138,730

7. Intangibles and other assets

Intangibles and other assets consist of the following:

	Straight-Line Amortization Period (Years)	2000	1999
Goodwill	30	**$ 197,736**	$ 195,956
Developed technologies	16-17	**104,770**	103,945
Product technology, production plans and drawings	7-20	**55,614**	56,163
Replacement parts annuity	20	**23,942**	24,188
Product approvals and technical manuals	20	**23,812**	23,677
Trademarks and patents	20	**23,017**	23,380
Covenants not-to-compete	3-14	**11,883**	11,694
Other intangible assets	5-20	**11,401**	12,192
Assembled workforce	10	**7,000**	7,000
Debt issue costs	5-10	**23,842**	23,507
Other assets		**28,355**	17,660
Due from Sextant		**15,675**	28,025
		527,047	527,387
Less accumulated amortization		**(101,211)**	(75,433)
		$ 425,836	$ 451,954

8. Accrued liabilities

Accrued liabilities consist of the following:

	2000	1999
Other accrued liabilities	**$ 33,876**	$ 34,953
Accrued salaries, vacation and related benefits	**30,016**	24,555
Accrued interest	**17,808**	17,232
Accrued acquisition expenses	**4,514**	11,703
Accrued product warranties	**22,929**	8,306
Accrued income taxes	**–**	316
	$ 109,143	$ 97,065

9. Long-term debt

Long-term debt consists of the following:

	2000	1999
9⅞% Senior Subordinated Notes	**$ 100,000**	$ 100,000
8% Senior Subordinated Notes	**249,502**	249,440
9½% Senior Subordinated Notes	**200,000**	200,000
Chase Manhattan Bank Credit Facility	**72,300**	43,216
Other long-term debt	**123**	975
	621,925	593,631
Less current portion of long-term debt	**(3,723)**	(9,916)
	$ 618,202	$ 583,715

9⅞% Senior Subordinated Notes

The 9⅞% Senior Subordinated Notes (the "9⅞% Notes") are unsecured senior subordinated obligations of the Company, subordinated to any senior indebtedness of the Company and mature on February 1, 2006. Interest on the 9⅞% Notes is payable semiannually in arrears on February 1 and August 1 of each year. The 9⅞% Notes are redeemable at the option of the Company, in whole or in part, at any time after February 1, 2001 at predetermined redemption prices together with accrued and unpaid interest through the date of redemption. Upon a change of control (as defined), each holder of the 9⅞% Notes may require the Company to repurchase such holders' 9⅞% Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of such purchase.

8% Senior Subordinated Notes

In February 1998, the Company sold $250,000 of 8% Senior Subordinated Notes, priced to yield 8.02% (the "8% Notes"). The Company incurred an extraordinary charge of $8,956 for unamortized debt issue costs, tender and redemption premiums and fees and expenses related to the repurchase of previously issued notes.

The 8% Notes are unsecured senior subordinated obligations of the Company, subordinated to any senior indebtedness of the Company and mature on March 1, 2008. Interest on the 8% Notes is payable semiannually in arrears on March 1 and September 1 of each year. The 8% Notes are redeemable at the option of the Company, in whole or in part, on or after March 1, 2003, at predetermined redemption prices together with

accrued and unpaid interest through the date of redemption. In addition, at any time prior to March 1, 2001, the Company may, at predetermined prices together with accrued and unpaid interest through the date of redemption, redeem up to 35% of the aggregate principal amount of the Notes originally issued with the net proceeds of one or more equity offerings, provided that at least 65% of the aggregate principal amount of the 8% Notes originally issued remains outstanding after the redemption. Upon a change of control (as defined), each holder of the 8% Notes may require the Company to repurchase such holder's 8% Notes at 101% of the principal amount thereof, plus accrued interest to the date of such purchase.

9½% Senior Subordinated Notes

In November 1998, the Company sold $200,000 of 9½% Senior Subordinated Notes due 2008 (the "9½% Notes"). The net proceeds from the sale of the 9½% Notes were approximately $194,100, of which approximately $118,000 was used to meet the Company's obligations associated with the SMR acquisition. The remaining proceeds were used to repay approximately $75,000 of outstanding borrowings under the Company's Bank Credit Facility.

The 9½% Notes are unsecured senior subordinated obligations and are subordinated to any senior indebtedness of the Company and mature on November 1, 2008. Interest on the 9½% Notes is payable semiannually in arrears May 1 and November 1 of each year. The 9½% Notes are redeemable at the option of the Company, in whole or in part, at any time after November 1, 2003 at predetermined redemption prices together with accrued and unpaid interest through the date of redemption. Upon a change of control (as defined), each holder of the 9½% Notes may require the Company to repurchase such holder's 9½% Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of such purchase.

The 9⅞% Notes, 8% Notes and 9½% Notes contain certain restrictive covenants, including limitations on future indebtedness, restricted payments, transactions with affiliates, liens, dividends, mergers and transfers of assets, all of which were met by the Company as of February 26, 2000.

Credit Facilities

The Company maintains its credit facilities with The Chase Manhattan Bank (the "Bank Credit Facility"). The Bank Credit Facility consists of a $100,000 revolving credit facility (of which $50,000 may be utilized for acquisitions) and an acquisition facility of $33,300. The revolving credit facility expires in August 2004 and the acquisition facility is amortizable over five years beginning in August 1999. The Bank Credit Facility is collateralized by the Company's accounts receivable, inventories and by substantially all of its other personal property. At February 26, 2000, indebtedness under the existing Bank Credit Facility consisted of revolving credit facility outstanding borrowings of $39,000 (bearing interest at LIBOR plus 1.75%, or approximately 7.8%), letters of credit aggregating approximately $2,319 and outstanding borrowing under the acquisition facility aggregating $33,300 (bearing interest at LIBOR plus 1.5%, or approximately 7.9% as of February 26, 2000). At February 27, 1999, indebtedness under the existing Bank Credit Facility consisted of letters of credit aggregating approximately $3,053 and outstanding borrowings under the acquisition facility aggregating $36,000 (bearing interest at LIBOR plus 1.5%, or approximately 6.5% as of February 27, 1999). The Bank Credit Facility, which was most recently amended on December 21, 1999, contains customary affirmative covenants, negative covenants and conditions of borrowing (such as interest coverage and leverage ratios), all of which were met by the Company as of February 26, 2000. Maturities of long-term debt are as follows:

Fiscal year ending February:	
2001	$ 3,723
2002	5,220
2003	9,000
2004	12,240
2005	42,240
Thereafter	549,502
	$ 621,925

Interest expense amounted to $54,860, $44,794 and $25,834 for the years ended February 26, 2000, February 27, 1999 and February 28, 1998, respectively.

10. Income taxes

Income tax expense consists of the following:

	2000	1999	1998
Current:			
Federal	$ –	$ 1,004	$ (920)
State	–	–	–
Foreign	**2,229**	5,157	6,766
	2,229	6,161	5,846
Deferred:			
Federal	**(19,296)**	(25,731)	(3,666)
State	**(1,595)**	(8,169)	(716)
Foreign	**660**	(4,828)	(460)
	(20,231)	(38,728)	(4,842)
Change in valuation allowance	**21,285**	36,467	4,382
	$ 3,283	$ 3,900	$ 5,386

The difference between income tax expense and the amount computed by applying the statutory U.S. federal income tax rate (35%) to the pretax earnings before extraordinary item consists of the following:

	2000	1999	1998
Statutory U.S. federal income tax expense (benefit)	**$ (16,630)**	$(27,809)	$ 9,432
Operating loss (with)/ without tax benefit	**16,827**	25,940	(6,114)
Foreign tax rate differential	**124**	2,514	1,309
Goodwill amortization	**2,529**	1,507	537
Penalties	–	–	1,050
Other, net	**433**	1,748	(828)
	$ 3,283	$ 3,900	$ 5,386

The tax effects of temporary differences and carryforwards that give rise to deferred income tax assets and liabilities consist of the following:

	2000	1999	1998
Inventory reserves	**$ 6,161**	$ 9,770	$ 3,987
Acquisition reserves	**(4,467)**	(2,190)	(1,220)
Warranty reserves	**7,956**	1,832	2,440
Accrued liabilities	**9,202**	4,412	1,751
Other	**1,123**	1,551	1,761
Net current deferred income tax asset	**19,975**	15,375	8,719
Intangible assets	**(12,680)**	(11,926)	(12,576)
Depreciation	**(3,701)**	(2,085)	(1,853)
Net operating loss carryforward	**51,270**	21,853	27,462
Research credit carryforward	**4,578**	4,157	3,285
Deferred compensation	**9,911**	8,605	888
Research and development expense	**22,550**	24,232	–
Software development costs	**(5,429)**	(4,739)	–
Deferred gain on IFE Sale	–	6,600	–
Investment in Sextant	–	4,351	–
Other	**974**	794	410
Net noncurrent deferred income tax asset	**67,473**	51,842	17,616
Valuation allowance	**(87,448)**	(66,163)	(27,542)
Net deferred tax assets (liabilities)	**$ –**	$ 1,054	$ (1,207)

The Company established a valuation allowance of $87,448 related to the utilization of its deferred tax assets because of uncertainties that preclude it from determining that it is more likely than not that the Company will be able to generate taxable income to realize such assets during the federal operating loss carryforward period, which begins to expire in 2012. Such uncertainties include the impact of changing fuel prices on the Company's customers, recent cumulative losses, the highly cyclical nature of the industry in which it operates, economic conditions in Asia that are impacting the airframe manufacturers and the airlines, the Company's high degree of financial leverage, risks associated with new product introductions, remediation of

its Seating Products operating problems and risks associated with the integration of acquisitions. The Company monitors these as well as other positive and negative factors that may arise in the future, as it assesses the necessity for a valuation allowance against its deferred tax assets.

As of February 26, 2000, the Company had approximately $115,627 of federal operating loss carryforwards, which expire at various dates beginning in 2012, federal research credit carryforwards of $4,578, which expire at various dates beginning in 2007, and alternative minimum tax credit carryforwards of $974, which have no expiration date. Approximately $20,000 of the Company's net operating loss carryforward, related to the exercise of stock options, will be credited to additional paid-in capital rather than income tax expense when utilized.

The Company has not provided for any residual U.S. income taxes on the approximately $368 of earnings from our foreign subsidiaries because such earnings are intended to be indefinitely reinvested. Such residual U.S. income taxes, if provided for, would be immaterial.

The Internal Revenue Service audit of the Company's federal tax returns for the years ended February 24, 1996 and February 25, 1995 is complete. The finalization of this examination did not have a material adverse effect on either the Company's results of operations or financial position.

11. Commitments and contingencies

Leases - The Company leases certain of its office, manufacturing and service facilities and equipment under operating leases, which expire at various times through July 2009. Rent expense for fiscal 2000, 1999 and 1998 was approximately $13,587, $13,423 and $8,848, respectively. Future payments under operating leases with terms currently greater than one year are as follows:

Fiscal year ending in February:	
2001	$11,961
2002	9,122
2003	6,261
2004	2,792
2005	1,976
Thereafter	5,937
	$38,049

Litigation - The Company is a defendant in various legal actions arising in the normal course of business, the outcomes of which, in the opinion of management, neither individually nor in the aggregate are likely to result in a material adverse effect to the Company's financial statements.

Employment Agreements - The Company has employment and compensation agreements with three key officers of the Company. One of the agreements provides for an officer to earn a minimum of $675 per year through 2003, adjusted annually for changes in the consumer price index (as defined) or as determined by the Company's Board of Directors, as well as a deferred compensation benefit equal to the product of the years worked by the highest annual salary paid over the period. Such deferred compensation will be payable in either a lump sum or in equal monthly installments for that number of months equal to the number of months elapsed from the commencement date (as defined) through the cessation date (as defined).

A second agreement provides for an officer to receive annual minimum compensation of $625 per year through 2003, adjusted annually for changes in the consumer price index (as defined) or as determined by the Company's Board of Directors, as well as a deferred compensation benefit equal to the product of the years worked by the highest annual salary paid over the period. In all other respects, this officer's employment agreement contains similar provisions to those described above in the first agreement.

A third agreement provides for an officer to receive annual minimum compensation of $303 per year through 2003, adjusted annually for changes in the consumer price index (as defined) or as determined by the Company's Board of Directors, as well as a deferred compensation benefit upon completion of ten years of service for a period not to exceed ten years equal to one-half of this officer's average highest three year's annual salary (as defined).

Such deferred compensation has been accrued as provided for under the above mentioned employment agreements, aggregated $17,091 as of February 26, 2000, $15,318 as of February 27, 1999 and is included in other liabilities in the accompanying financial statements. The Company has funded this obligation through corporate-owned life insurance policies and other investments, all of which are maintained in an irrevocable rabbi trust. In addition, the Company has employment

agreements with certain other key members of management that provide for aggregate minimum annual base compensation of $4,867 expiring on various dates through the year 2001.

12. Employee retirement plans

Effective March 1, 1998, the Company adopted SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The Company sponsors and contributes to a qualified, defined contribution Savings and Investment Plan covering substantially all U.S. employees. The Company also sponsors and contributes to nonqualified deferred compensation programs for certain officers and other employees. The Company has invested in corporate-owned life insurance policies to assist in funding certain of these programs. The cash surrender values of these policies and other investments associated with these plans are maintained in an irrevocable rabbi trust and are recorded as assets of the Company. In addition, the Company and its subsidiaries participate in government-sponsored programs in certain European countries. In general, the Company's policy is to fund these plans based on legal requirements, tax considerations, local practices and investment opportunities.

The BE Aerospace Savings and Investment Plan was established pursuant to Section 401(k) of the Internal Revenue Code. Under the terms of the plan, covered employees are allowed to contribute up to 15% of their pay, limited to $10 per year. The Company match is equal to 50% of employee contributions, subject to a maximum of 8% of an employee's pay and is generally funded in Company stock. Total expense for the plan was $2,098, $2,301 and $1,677 related to this plan for the years ended February 26, 2000, February 27, 1999 and February 28, 1998, respectively. Participants vest 100% in the Company match after five years of service.

The BE Supplemental Executive Retirement Plan is an unfunded plan maintained for the purpose of providing deferred compensation for certain employees. This plan allows certain employees to annually elect to defer a portion of their compensation, on a pre-tax basis, until their retirement. The retirement benefit to be provided is based on the amount of compensation deferred, Company cash match and earnings on deferrals. Deferred compensation expense was $299, $231 and $163 in fiscal 2000, 1999 and 1998, respectively.

13. Stockholders' equity

Earnings (Loss) Per Share. Basic earnings per common share are determined by dividing earnings available to common shareholders by the weighted average number of shares of common stock. Diluted earnings per share are determined by dividing earnings available to common shareholders by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding (all related to outstanding stock options discussed below). The following table sets forth the computation of basic and diluted net earnings (loss) per share for the years ended February 26, 2000, February 27, 1999 and February 28, 1998:

	2000	1999	1998
Numerator:			
Net earnings (loss)	**$ (50,797)**	$ 83,353	$ 21,562
Denominator:			
Denominator for basic earnings (loss) per share – Weighted average shares	**24,764**	24,814	22,442
Effect of dilutive securities – Employee stock options	**–**	–	988
Denominator for diluted earnings (loss) per share – Adjusted weighted average shares	**24,764**	24,814	23,430
Basic net earnings (loss) per share	**$ (2.05)**	$ (3.36)	$ .96
Diluted net earnings (loss) per share	**$ (2.05)**	$ (3.36)	$ .92

Stock Option Plans. The Company has various stock option plans, including the Amended and Restated 1989 Stock Option Plan, the 1991 Directors Stock Option Plan, the 1992 Share Option Scheme and the Amended and Restated 1996 Stock Option Plan (collectively, the "Option Plans"), under which shares of the Company's common stock may be granted to key employees and directors of the Company. The Option Plans provide for granting key employees options to purchase the Company's common stock. Options are granted at the discretion of the Stock Option and Compensation Committee of the Board of Directors. Options granted vest 25% on the date of grant and 25% per year thereafter.

The following tables set forth options granted, canceled, forfeited and outstanding:

FEBRUARY 26, 2000

	Options	Option Price Per Share	Weighted Average Price Per Share
Outstanding, beginning of period	3,999	$ 7.00 – $ 31.50	$ 21.42
Options granted	2,335	7.00 – 17.75	12.93
Options exercised	(49)	7.63 – 20.81	8.93
Options forfeited	(477)	16.13 – 29.88	22.57
Outstanding, end of period	5,808	7.00 – 31.50	18.00
Exercisable at end of year	3,204	$ 7.00 – $ 31.50	$ 19.13

FEBRUARY 27, 1999

	Options	Option Price Per Share	Weighted Average Price Per Share
Outstanding, beginning of period	2,931	$ 7.00 – $ 31.50	$ 20.17
Options granted	1,454	16.44 – 29.50	22.41
Options exercised	(292)	7.38 – 29.88	13.12
Options forfeited	(94)	16.13 – 29.88	25.97
Outstanding, end of period	3,999	7.00 – 31.50	21.42
Exercisable at end of year	2,005	$ 7.00 – $ 31.50	$ 19.49

FEBRUARY 28, 1998

	Options	Option Price Per Share	Weighted Average Price Per Share
Outstanding, beginning of period	2,447	$ 0.81 – $ 24.93	$ 12.56
Options granted	1,394	21.50 – 31.50	27.71
Options exercised	(852)	0.81 – 29.88	9.74
Options forfeited	(58)	7.63 – 29.88	12.49
Outstanding, end of period	2,931	7.00 – 31.50	20.17
Exercisable at end of year	1,318	$ 7.00 – $ 31.50	$ 16.16

At February 26, 2000, options were available for grant under each of the Company's Option Plans.

OPTIONS OUTSTANDING AT FEBRUARY 26, 2000

Range of Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Options Exercisable	Weighted Average Exercise Price
$ 7.00 – $ 8.50	1,483	$ 8.33	8.71	587	$ 8.21
8.63 – 19.00	1,944	16.77	7.90	1,117	16.20
20.81 – 28.13	1,556	22.48	8.17	894	22.53
28.88 – 31.50	825	29.84	7.55	606	29.86
	5,808			3,204	

The estimated fair value of options granted during fiscal 2000, fiscal 1999 and fiscal 1998 was $10.70 per share, $13.93 per share and $13.56 per share, respectively. The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock option and purchase plans. Accordingly, no compensation cost has been recognized for its stock option plans and stock purchase plan. Had compensation cost for the Company's stock option plans and stock purchase plan been determined consistent with SFAS No. 123, the Company's net earnings (loss) and net earnings (loss) per share for the years ended February 26, 2000, February 27, 1999 and February 28, 1998 would have been reduced to the pro forma amounts indicated in the following table:

	2000	1999	1998
As reported			
Net earnings (loss)	**$(50,797)**	$(83,353)	$ 21,562
Diluted net earnings (loss) per share	**(2.05)**	(3.36)	0.92
Pro forma			
Net earnings (loss)	**$(69,570)**	$(98,477)	$ 13,232
Diluted net earnings (loss) per share	**(2.81)**	(3.97)	0.56
Weighted Average			
Weighted average and pro forma weighted average common shares	**24,764**	24,814	23,430

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options granted in fiscal 2000, 1999 and 1998: risk-free interest rates of 5.5%, 5.0% and 7.0%; expected dividend yields of 0.0%; expected lives of 3.5 years, 3.5 years and 3 years; and expected volatility of 114%, 73% and 40%, respectively.

The impact of outstanding non-vested stock options granted prior to fiscal 1997 has been excluded from the pro forma calculation; accordingly, the pro forma adjustments shown above are not indicative of future period pro forma adjustments, when the calculation will apply to all applicable stock options.

14. Employee stock purchase plan

The Company has established a qualified Employee Stock Purchase Plan, the terms of which allow for qualified employees (as defined) to participate in the purchase of designated shares of the Company's common stock at a price equal to the lower of 85% of the closing price at the beginning or end of each semi-annual stock purchase period. The Company issued 106,530 and 151,654 shares of common stock during fiscal 2000 and 1999 pursuant to this plan at an average price per share of $12.54 and $14.30, respectively.

15. Segment reporting

The Company is organized based on customer-focused lines of business operating in a single segment. Each operation reports its results of operations and makes requests for capital expenditures and acquisition funding to the Company's chief operation decision-making group. This group is presently comprised of the Chairman, the Vice-Chairman and the Chief Executive Officer, and the Corporate Senior Vice President of Administration and Chief Financial Officer. Under this organizational structure, the Company's operations are aggregated into one reportable segment — the Aircraft Cabin Interior Products and Services segment ("ACIPS") is comprised of five lines of business: Seating Products, Interior Systems Products, Flight Structures and Engineering Services, Business Jet and VIP Products and Global Customer Service and Product Support, each of which have separate management teams and infrastructures dedicated to providing a full range of products and services to their commercial and general aviation operator customers. Each of these lines of business demonstrates similar economic performance and utilizes similar distribution methods and manufacturing processes. Customers are supported by a single worldwide after-sale service organization. As described in Note 2, the Company sold a 51% interest in IFE on February 25, 1999 and its remaining 49% interest in IFE on October 5, 1999. IFE was a separate, reportable segment.

The following table presents net sales and other financial information by business segment:

FISCAL 2000

	Aircraft Cabin Interior Products and Services	In-Flight Entertainment	Total
Net sales	$ 723,349	–	$ 723,349
Gross profit	179,667	–	179,667
Operating earnings	6,696	–	6,696
Depreciation and amortization	42,237	–	42,237
Equity in losses of unconsolidated subsidiary	1,289	–	1,289
Interest expense, net	52,921	–	52,921
Working capital	129,913	–	129,913
Total assets	881,789	–	881,789
Capital expenditures	33,169	–	33,169

FISCAL 1999

	Aircraft Cabin Interior Products and Services	In-Flight Entertainment	Total
Net sales	$ 622,548	$ 78,777	$ 701,325
Gross profit	146,472	31,978	178,450
Operating loss	(35,403)	(2,354)	(37,757)
Depreciation and amortization	35,505	5,185	40,690
Interest expense, net	37,543	4,153	41,696
Working capital	143,423	–	143,423
Total assets	904,299	–	904,299
Capital expenditures	36,309	1,156	37,465

FISCAL 1998

	Aircraft Cabin Interior Products and Services	In-Flight Entertainment	Total
Net sales	$ 406,905	$ 81,094	$ 487,999
Gross profit	136,020	42,885	178,905
Operating earnings	47,250	11,419	58,669
Depreciation and amortization	21,129	3,031	24,160
Interest expense, net	21,840	925	22,765
Working capital	240,463	22,041	262,504
Total assets	622,551	59,206	681,757
Capital expenditures	24,654	4,269	28,923

Through February 27, 1999, the Company operated in the: (1) Aircraft Cabin Interior Products and Services and (2) In-Flight Entertainment segments of the commercial airline and general aviation industry. Following the sale of its controlling interest in the IFE business, the Company operated a single segment – Aircraft Cabin Interior Products and Services. Revenues for similar classes of products or services within these business segments for the fiscal years ended February 2000, 1999 and 1998 are presented below:

	YEAR ENDED		
	Feb. 26, 2000	Feb. 27, 1999	Feb. 28, 1998
Seating products	**$ 324,878**	$296,482	$252,091
Interior systems products	**144,832**	137,966	93,107
Flight structures and engineering services	**122,051**	85,876	32,896
Business jet and VIP products	**81,096**	64,856	–
Global customer service, product support and other	**50,492**	37,368	28,811
In-flight entertainment products	–	78,777	81,094
Total Revenues	**$723,349**	$701,325	$487,999

The Company operated principally in two geographic areas, the United States and Europe (primarily the United Kingdom), during the years ended February 26, 2000, February 27, 1999 and February 28, 1998. There were no significant transfers between geographic areas during the period. Identifiable assets are those assets of the Company that are identified with the operations in each geographic area.

The following table presents net sales and operating earnings (loss) for the years ended February 26, 2000, February 27, 1999 and February 28, 1998 and identifiable assets as of February 26, 2000, February 27, 1999 and February 28, 1998 by geographic area:

	2000	1999	1998
Net Sales:			
United States	**$ 510,728**	$511,063	$365,957
Europe	**212,621**	190,262	122,042
Total	**$ 723,349**	$701,325	$487,999
Operating Earnings (Loss):			
United States	**$ (3,143)**	$ (43,613)	$ 39,128
Europe	**9,839**	5,856	19,541
Total	**$ 6,696**	$ (37,757)	$ 58,669
Identifiable Assets:			
United States	**$ 704,392**	$ 726,056	$ 541,675
Europe	**177,397**	178,243	140,082
Total	**$ 881,789**	$ 904,299	$ 681,757

Export sales from the United States to customers in foreign countries amounted to approximately $188,530, $174,659 and $132,831 in fiscal 2000, 1999 and 1998, respectively. Net sales to all customers in foreign countries amounted to $311,160, $297,474 and $232,691 in fiscal 2000, 1999 and 1998, respectively. Net sales to Europe amounted to 26%, 22% and 23% in fiscal 2000, 1999 and 1998, respectively. Net sales to Asia amounted to 11%, 12% and 18% in fiscal 2000, 1999 and 1998, respectively. Major customers (i.e., customers representing more than 10% of net sales) change from year to year depending on the level of refurbishment activity and/or the level of new aircraft purchases by such customers. There were no major customers in fiscal 2000. During the years ended February 27, 1999 and February 28, 1998, one customer accounted for approximately 13% and 18% of the Company's net sales, respectively.

16. Fair value information

The following disclosure of the estimated fair value of financial instruments at February 26, 2000 and February 27, 1999 is made in accordance with the requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments.* The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies; however, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, accounts receivable-trade, and accounts payable are a reasonable estimate of their fair values. At February 26, 2000 and February 27, 1999, the Company's 9⅞% Notes had a carrying value of $100,000 and a fair value of $95,250 and $104,500, respectively. At February 26, 2000 and February 27, 1999, the Company's 8% Notes had carrying values of $249,502 and $249,440 and fair values of $213,324 and $241,957, respectively. At February 26, 2000 and February 27, 1999, the Company's 9½% Notes had a carrying value of $200,000 and fair values of $185,000 and $209,000, respectively.

The fair value information presented herein is based on pertinent information available to management as of February 26, 2000. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

17. Selected quarterly data (unaudited)

Summarized quarterly financial data for fiscal 2000 are as follows:

YEAR ENDED FEBRUARY 26, 2000

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 185,032	$ 191,895	$ 164,578	$ 181,844
Gross profit (loss)	66,587	70,337	(2,008)	44,751
Net earnings (loss)	11,415	13,720	(66,038)	(9,894)
Basic net earnings (loss) per share	0.46	0.56	(2.66)	(0.40)
Diluted net earnings (loss) per share	0.46	0.55	(2.66)	(0.40)

Summarized quarterly financial data for fiscal 1999 are as follows:

YEAR ENDED FEBRUARY 27, 1999

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 139,991	$ 156,352	$ 195,751	$ 209,231
Gross profit (loss)	51,880	59,600	75,610	(8,640)
Net earnings (loss)	(23,875)	(35,495)	16,481	(40,464)
Basic net earnings (loss) per share	(1.03)	(1.44)	0.61	(1.65)
Diluted net earnings (loss) per share	(1.03)	(1.44)	0.59	(1.65)

Investor Information

Executive Offices

B/E Aerospace, Inc.
1400 Corporate Center Way
Wellington, Florida 33414-2105
(561) 791-5000
Fax: (561) 791-7900

Common Stock Listing

Nasdaq Stock Market
Ticker symbol: BEAV
Newspaper listing: BE Aero

Shareholder Inquiries

Address changes for registered shareholders and questions concerning stock accounts, transfer requirements and lost certificates should be directed to the Transfer Agent and Registrar. Other questions should be directed to Investor Relations at the company's executive offices.

Transfer Agent/Registrar

American Stock Transfer & Trust Co.
40 Wall Street, 46th Floor
New York, New York 10005
(800) 937-5449

Investor and Media Contact

Analysts, investors and media representatives seeking information about the company should contact:

Max Kuniansky
Director of Investor Relations
(561) 791- 5000
E-mail: max_kuniansky@beaerospace.com

SEC Reports

The company's Form 10-K annual report and current Form 10-Q quarterly reports, as filed with the Securities and Exchange Commission, are available free of charge to any B/E shareholder by writing to Investor Relations at the company's executive offices.

Corporate Website

Visit B/E Aerospace on the world wide web at www.beaerospace.com for updates on financial results, news releases, SEC reports and information about the company.

Annual Meeting of Shareholders

August 8, 2000, 10:30 a.m.
Ropes & Gray
One International Place, 36th Floor
Boston, Massachusetts

Independent Auditors

Deloitte & Touche LLP
695 Town Center Drive, Suite 1200
Costa Mesa, California 92626
(714) 436-7100

The company has not paid any cash dividends in the past and has no present intention of doing so in the immediate future. The company intends, for the foreseeable future, to retain earnings to finance its future growth, but expects to review its dividend policy regularly. The indentures pursuant to which the company's 8% Senior Subordinated Notes, 9⅞% Senior Subordinated Notes and 9½% Senior Subordinated Notes were issued and the terms of the company's credit facilities permit the declaration or payment of cash dividends only in certain circumstances described therein.

This Annual Report includes forward-looking statements based on our current expectations, assumptions, estimates and projections about our company and our industry. These forward-looking statements involve risks and uncertainties. Our actual experience may differ materially from that anticipated in such statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors," as well as future events that may have the effect of reducing our available operating income and cash balances, such as: unexpected operating losses, the impact of rising fuel prices on our airline customers, delays in, or unexpected costs associated with, the integration of our acquired businesses, conditions in the airline industry, problems meeting customer delivery requirements, new or expected refurbishments, capital expenditures, cash expenditures related to possible future acquisitions, further remediation of our Seating Products operating problems, labor disputes involving us, our significant customers or airframe manufacturers, the possibility of a write-down of intangible assets, delays or inefficiencies in the introduction of new products or fluctuations in currency exchange rates.

DIRECTORS

Amin J. Khoury
Chairman of the Board

Robert J. Khoury
Vice Chairman of the Board and
Chief Executive Officer

Jim C. Cowart
Independent Investor and
Corporate Financial Advisor

Richard G. Hamermesh
Managing Partner
Center for Executive Development

Brian H. Rowe
Chairman Emeritus
GE Aircraft Engines

Hansjörg Wyss
Chairman and Chief Executive Officer
Synthes-Stratec, Inc.

OFFICERS

Amin J. Khoury
Chairman of the Board

Robert J. Khoury
Vice Chairman of the Board and Chief Executive Officer

Thomas P. McCaffrey
Corporate Senior Vice President of Administration,
Chief Financial Officer and Assistant Secretary

Edmund J. Moriarty
Corporate Vice President – Law,
General Counsel and Secretary

Jeffrey P. Holtzman
Vice President – Finance,
Treasurer and Assistant Secretary

Joseph A. Piegari
Corporate Vice President, Human Resources

Stephen R. Swisher
Vice President and Controller

Marco C. Lanza
Executive Vice President
General Aviation, Flight Structures
and Engineering Services

Michael B. Baughan
Group Vice President and General Manager
Seating Products

Roman G. Ptakowski
Group Vice President and General Manager
Interior Systems

Scott A. Smith
Group Vice President and General Manager
Global Sales, Customer Service and Product Support