

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

INTRODUCTION

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of our financial condition, changes in financial condition and results of operations. The MD&A is organized as follows:

Overview. This section provides a general description of our Company's businesses, as well as recent significant transactions that have either occurred during the transition period ended December 31, 2002 or early calendar year 2003 that we believe are important in understanding the results of operations and anticipating future trends in those operations.

Results of Operations. This section provides an analysis of our results of operations for all three years presented in the accompanying consolidated statements of operations. In addition, we provide a brief description of transactions and events that impact the comparability of the results being analyzed.

Liquidity and Capital Resources. This section provides an analysis of our cash flows, as well as a discussion of outstanding debt and commitments, both firm and contingent, that existed as of December 31, 2002. Included is a discussion of the amount of financial capacity available to fund future commitments, as well as a discussion of other financing arrangements.

New Accounting Pronouncements. This section describes significant new accounting pronouncements and the timing of their adoption and estimated impact, if known, to the financial statements.

Critical Accounting Policies. This section discusses those accounting policies that both are considered important to our financial condition and results, and require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including the critical accounting policies, are summarized in note 1 to the accompanying consolidated financial statements.

Risk Factors and Forward-Looking Statements. These sections discuss important risk factors and how certain of our forward-looking statements throughout MD&A are based on management's present expectations about future events and are inherently susceptible to uncertainty and changes in circumstances.

All dollar amounts in the following discussion and analysis are presented in millions of dollars, except per share amounts.

OVERVIEW

We are the world's largest manufacturer of cabin interior products for commercial aircraft and for business jets and a leading distributor of aftermarket fasteners. We serve virtually all major airlines and a wide variety of business jet customers and airframe manufacturers. We believe that we have achieved leading global market positions in each of our major product categories, which include:

- Commercial aircraft seats, including an extensive line of first class, business class, tourist class and regional aircraft seats;
- A full line of aircraft food and beverage preparation and storage equipment, including coffeemakers, water boilers, beverage containers, refrigerators, freezers, chillers and high-heat and convection ovens;
- Both chemical and gaseous aircraft oxygen delivery systems;
- Business jet and general aviation interior products, including an extensive line of executive aircraft seats, indirect overhead lighting systems, oxygen, safety and air valve products; and
- A broad line of aftermarket fasteners, covering over 100,000 SKUs.

We design, develop and manufacture a broad range of cabin interior structures and provide comprehensive aircraft cabin interior reconfiguration and passenger-to-freighter conversion engineering services and component kits.

We generally derive our revenues 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 over \$5.0 billion as of December 31, 2002 (valued at replacement prices), gives us a significant advantage over our competitors in obtaining orders both for spare parts and for refurbishment programs, principally due to the tendency of the airlines to purchase equipment for such programs from the original supplier. For the transition period ended December 31, 2002, approximately 60% of our revenues were from the aftermarket and 40% were from new aircraft deliveries. For fiscal year 2002, 63% of our revenues were from the aftermarket and 37% were from new aircraft deliveries. For fiscal year 2001, 60% of our revenues were from the aftermarket and 40% were from new aircraft deliveries.

We conduct our operations through strategic business units that have been aggregated under three reportable segments: Commercial Aircraft Products, Business Jet Products and Fastener Distribution.

Net sales by line of business were as follows:

	Ten-Month Period		Fiscal Year Ended			
	Ended Dec. 31, 2002		February 23, 2002		February 24, 2001	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Commercial aircraft products:						
Seating products	\$144.6	28.7%	\$247.8	36.4%	\$288.1	43.2%
Interior systems products	116.0	23.0	152.6	22.4	151.6	22.8
Engineered interior structures, components and assemblies	93.9	18.7	150.2	22.1	140.6	21.1
	<u>354.5</u>	<u>70.4</u>	<u>550.6</u>	<u>80.9</u>	<u>580.3</u>	<u>87.1</u>
Business jet products	71.1	14.1	85.6	12.6	86.1	12.9
Fastener distribution	78.0	15.5	44.3	6.5	--	--
Net sales	<u>\$503.6</u>	<u>100.0%</u>	<u>\$680.5</u>	<u>100.0%</u>	<u>\$666.4</u>	<u>100.0%</u>

We generated approximately 46% of our total revenues from sales outside the U.S. for the transition period ended December 31, 2002, and approximately 24% of total revenues was generated in Europe and approximately 11% was generated in Asia. In fiscal 2002, we generated approximately 42% of our total revenues from sales outside the U.S., and approximately 20% of total revenues were generated in Europe and approximately 12% was generated in Asia. In fiscal 2001, we generated approximately 42% of our total revenues from sales outside the U.S., and approximately 22% of total revenues were generated in Europe and approximately 10% was generated in Asia.

Financial and other information by segment and relating to foreign and domestic operations for each of the ten-month transition period ending December 31, 2002, and the fiscal years ended February 23, 2002 and February 24, 2001, is set forth in note 15 to our consolidated financial statements.

We have substantially expanded the size, scope and nature of our business through a number of acquisitions. Since 1989, we have completed 23 acquisitions, including one acquisition during the transition period ended December 31, 2002, three during fiscal year 2002 and four during fiscal year 2001, for an aggregate purchase price of approximately \$980.0, in order to position ourselves as the preferred global supplier to our customers.

During the period from 1989 to 2000, we integrated the acquired businesses, closing 17 facilities, reducing our workforce by 3,000 positions and implementing common information technology platforms and lean manufacturing initiatives company-wide. This integration effort resulted in costs and charges totaling approximately \$125.0.

The rapid decline in industry conditions brought about by the terrorist attacks on September 11, 2001 caused us to implement a facility consolidation and integration plan designed to re-align our capacity and cost structure with changed conditions in the airline industry. The facility consolidation and integration plan includes closing five facilities and reducing workforce by approximately 1,400 employees. The total estimated cost of this program is approximately \$155.0, including \$65.0 of cash charges. Through December 31, 2002, we had incurred approximately \$55.0 of the cash costs and expect to incur the remaining \$10.0 during the first half of calendar 2003.

All of the aforementioned initiatives to integrate, rationalize and restructure the businesses acquired through December 31, 2002 had an aggregate cost of approximately \$270, which has already been expensed. These initiatives enabled us to eliminate a total of 21 facilities, with one additional facility expected to be closed by mid-2003, and reduce headcount by over 4,000 employees, with an additional reduction of approximately 400 expected in connection with the closure of the aforementioned facility by mid-2003. We believe these initiatives will enable us to substantially expand profit margins when industry conditions improve and demand increases, strengthen the global business management focus on our core product categories, more effectively leverage 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 techniques in our remaining facilities. Common management information and engineering systems and lean manufacturing processes across all operations, coupled with a rationalized product offering, are expected to provide us with the ongoing benefit of a generally lower cost structure, and expanding gross and operating margins.

New product development is a strategic tool for our company. Our customers regularly request that we engage in new product development and enhancement activities. We believe that these activities, if properly focused and managed, will protect and enhance our leadership position. Research, development and engineering spending have been approximately 6% - 7% of sales for the past several years, and is expected to remain at that level for the foreseeable future.

We also believe in providing our businesses with the tools required to remain competitive. In that regard, we have, and will continue to invest in property and equipment that enhances our productivity. Over the past two years, annual capital expenditures were approximately \$14 - \$18. Taking into consideration our recent capital expenditure investments, current industry conditions and the recent acquisitions, we expect that annual capital expenditures will be approximately \$15 for the next few years.

Recent Acquisitions

We completed the following significant acquisitions during fiscal 2001 and fiscal 2002:

Fiscal 2001 Acquisitions

Effective February 24, 2001 we completed the acquisition of four companies that specialize in manufacturing precision-machined components and assemblies for the aerospace industry. We acquired these businesses, Alson Industries, Inc., T.L. Windust Machine, Inc., DMGI, Inc. and Maynard Precision, Inc., for an aggregate purchase price of approximately \$70.1.

Fiscal 2002 Acquisitions

In May 2001, we acquired the outstanding common stock of Nelson Aero Space, Inc. for approximately \$20.0. In July 2001, we acquired the outstanding common stock of Denton Jet Interiors, Inc. for approximately \$16.0.

On September 14, 2001, we acquired M & M for a purchase price of \$184.7. M & M is a leading distributor of aerospace fasteners. The M & M acquisition was completed by issuing to the former shareholders a total of approximately 1.9 million shares of our stock, paying them \$152.0 in cash and assuming current liabilities of approximately \$8.8. We financed this acquisition through cash on hand and approximately \$100.0 of borrowings under our bank credit facility.

RESULTS OF OPERATIONS

The Transition Period from February 24, 2002 to December 31, 2002 Compared to the Ten-Month Period From February 25, 2001 to December 31, 2001

Consolidated Results

To assist in understanding the performance of our operations, where noted, the results discussed below have been adjusted to exclude the effect of certain facility and workforce consolidation costs, as well as certain unusual or nonrecurring items. By presenting "as adjusted" results, we intend to provide a better understanding of the core results and underlying trends from which to consider not only past performance, but also the prospects for the future. In each case where "as adjusted" results are discussed, all of the differences from our reported results are given to reconcile the reported results to the "as adjusted" results. Users of this financial information should consider the types of events and transactions for which adjustments have been made. In addition to providing a discussion of reported results, results for the comparable period in the prior year have also been prepared on a pro forma basis treating companies acquired during the ten-month period ended December 31, 2001 as though acquired as of February 25, 2001. By also discussing these pro forma results, we intend to enhance comparability between periods and make an analysis of the current period results more meaningful. Pro forma adjustments would have increased net sales, gross profit, selling, general and administrative expenses, operating earnings, interest expense and net earnings by \$60.9, \$24.0, \$10.6, \$13.4, \$4.7 and \$8.8, respectively, for the ten-month period ended December 31, 2001. Results for the current transition period ended December 31, 2002 have not been prepared on a pro forma basis, as we made no significant acquisitions in the current period. These "as adjusted" and pro forma results do not conform to U.S. generally accepted accounting principles, or GAAP. While we believe that these measures are useful aids in understanding our results in the periods shown, as the magnitude of these items is such that it is important for readers of this discussion and analysis to be aware of these items and the effect that they had on our results during the periods presented and we use these measures to evaluate our performance. These "as adjusted" and pro forma results should be used only in conjunction with the results presented in accordance with GAAP. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisitions been completed as of the date indicated.

Revenues were negatively impacted by the severe change in industry conditions following the terrorist attacks on September 11, 2001. Net sales for the transition period ended December 31, 2002 were \$503.6, which is \$79.0 or 13.6% lower than net sales of \$582.6 for the comparable period in the prior year, which was also negatively impacted by the events of September 11, 2001.

On a pro forma basis (treating companies acquired during the ten-month period ended December 31, 2001 as though acquired as of February 25, 2001), net sales during the transition period ended December 31, 2002 would have been \$139.9 or 21.7% lower than pro forma net sales of \$643.5 for the prior period.

Net sales for each of our segments are set forth in the following table:

	Transition Period Ended Dec. 31, 2002	% of Net Sales	Ten-Month Period Ended Dec. 31, 2001	% of Net Sales	Change
Commercial Aircraft Products	\$354.5	70.4%	\$476.5	81.8%	\$(122.0)
Business Jet Products	71.1	14.1	75.7	13.0	(4.6)
Fastener Distribution	78.0	15.5	30.4	5.2	47.6
Total	\$503.6	100.0%	\$582.6	100.0%	\$(79.0)

Sales of commercial aircraft products were \$122.0 or 25.6% lower than sales in the prior year, due to the recession in the airline industry and the further downturn in industry conditions following September 11, 2001. Sales of business jet products and fastener distribution products also reflected restrained demand due to the aviation industry downturn. Because we acquired M&M in September 2001, the current period reflects the full ten-month transition period of fastener distribution revenue compared with four months in the comparable period in the prior year. On a pro forma basis (treating companies acquired during the ten-month period ended December 31, 2001 as though acquired as of February 25, 2001), sales of fastener distribution products were \$10.5 or 11.9% lower than pro forma sales in the comparable period in the prior year. Pro forma adjustments would have increased sales of fastener distribution products by \$58.1 for the comparable period ended December 31, 2001.

Gross profit was \$151.3, or 30.0% of net sales for the transition period ended December 31, 2002 as compared to \$118.2, or 20.3% of sales for the ten-month period ended December 31, 2001. The period over period increase in gross margin as a percentage of net sales occurred despite the 13.6% decrease in revenues and was due to a \$60.9 reduction in facility consolidation and integration costs and the positive impact of our facility consolidation efforts, lean manufacturing and continuous improvement programs.

On a pro forma basis (treating companies acquired during the ten-month period ended December 31, 2001 as though acquired as of February 25, 2001) and excluding facility and personnel consolidation and integration costs of \$39.5 in 2002 and \$100.4 in 2001, gross profit on this pro forma, as adjusted basis would have been \$190.8, or 37.9% of sales for the transition period ended December 31, 2002 as compared to \$242.6, or 37.7% of pro forma sales for the ten-month period ended December 31, 2001. This increase in gross margin as a percentage of sales on this pro forma, as adjusted basis occurred despite the \$139.9 or 21.7% decrease in revenues, and was due to the positive impact of our facility consolidation and integration efforts, lean manufacturing and continuous improvement programs.

Selling, general and administrative expenses were \$98.5 or 19.6% of net sales for the transition period ended December 31, 2002 as compared to \$120.2 or 20.6% of net sales for the comparable period in the prior year. The \$21.7 decrease in selling, general and administrative expenses was due to lower spending, primarily as a result of our facility consolidation and integration program and austerity measures, together with a decrease of \$13.4 related to the adoption of SFAS No. 142. Because we acquired M & M in September 2001, the current period reflects the full ten-month period of selling, general and administrative expenses of \$12.0, as compared with \$6.1 of such costs during the four months in the comparable period in the prior year.

On a pro forma basis (treating companies acquired during the ten-month period ended December 31, 2001, as though acquired as of February 25, 2001), pro forma, as adjusted, selling, general and administrative expenses would have been \$124.0 or 19.3% of pro forma net sales for the comparable period in the prior year. The period over period decrease in selling, general and administrative expenses for the transition period ended December 31, 2002 compared to the pro forma, as adjusted, selling, general and administrative expenses in the comparable period in the prior year of \$25.5 or 20.6% resulted from our austerity measures, a lower level of spending \$(12.1) and the implementation of SFAS No. 142 \$(13.4). We incurred acquisition-related expenses of \$6.8 in the prior period in connection with the acquisition of M&M that have been excluded from the pro forma, as adjusted, figures in 2001.

Research, development and engineering expenses were \$34.1 or 6.8% of net sales for the transition period ended December 31, 2002 as compared with \$36.7 or 6.3% of sales for the comparable period in the prior year. The period over period decrease in research, development and engineering expenses is primarily attributable to austerity measures, which were implemented subsequent to the September 11, 2001 terrorist attacks.

In February 2003, we received an adverse result in an arbitration proceeding, which had been ongoing since October 2000. The decision reduced the amounts we originally sought in connection with the dispute, resulting in a net amount of \$7.8 million due to us. The dispute concerned the sale of our in-flight entertainment business to Thales. Under the terms of the purchase and sale agreement, we received \$62 million during 1999, and were to receive two additional payments totaling \$31.4 million, and a third and final payment based on actual sales and bookings. Thales did not pay the \$31.4 million, or the third and final payment. We initiated arbitration proceedings to compel payment in December 2000. Thales counterclaimed against us, alleging various breaches of the purchase and sale agreement. Previously, we had recorded a receivable of \$38.5 million in connection with the sale of the business to Thales. As a result of the arbitration award, we reduced our note receivable by \$29.5 as of December 31, 2002, representing the difference between the arbitration panel's award and our previously recorded amounts.

Despite a 13.6% decrease in net sales, our operating loss for the current period decreased by \$27.9 compared to the operating loss in the comparable period in the prior year due to a \$60.9 decrease in facility consolidation and integration costs, and a \$24.3 decrease in operating expenses, excluding the \$29.5 arbitration result, arising from austerity measures and the implementation of SFAS No. 142.

On a pro forma basis (treating companies acquired during the ten-month period ended December 31, 2001, as though acquired as of February 25, 2001) and excluding facility and personnel consolidation and integration costs of \$39.5 and the \$29.5 arbitration award in 2002 and facility and personnel consolidation and integration costs of \$100.4 and acquisition related expenses of \$6.8 in 2001, operating earnings on this pro forma, as adjusted basis declined by only \$23.7, despite the \$139.9 decrease in revenues for the current transition period compared to pro forma revenues in the comparable period in the prior year, reflecting both lower manufacturing costs and lower operating expenses. Our gross margin calculated on the pro forma, as adjusted basis described above for both periods was nearly unchanged, reflecting the impact of our facility consolidation and integration initiatives. Period over period operating expenses calculated on the pro forma, as adjusted basis described above decreased by \$28.1, which was attributable to austerity measures and a decrease of \$13.4 from the implementation of SFAS No. 142. Pro forma adjustments would have increased operating expenses by \$10.6 for the ten-month period ended December 31, 2001. Based on our results for the transition period ended December 31, 2002, we believe our facility consolidation and integration program has eliminated over \$35.0 of annualized cash costs.

Interest expense, net was \$57.3 for the transition period ended December 31, 2002, or \$8.5 greater than interest expense of \$48.8 for the comparable period in the prior year. The increase in interest expense is due to an increase in debt following the acquisition of M & M in September 2001 and higher interest rates on our bank borrowings. On a pro forma basis (treating companies acquired during the ten-month period ended December 31, 2001, as though acquired as of February 25, 2001), interest expense, net was \$57.3 for the transition period ended December 31, 2002, or \$3.8 greater than pro forma interest expense of \$53.5 for the comparable period in the prior year. The increase in interest expense for the current transition period compared to pro forma interest expense in the comparable period in the prior year is due to higher interest rates on our bank borrowings.

The lower level of revenues, which was partially offset by lower facility consolidation and integration costs during the transition period ended December 31, 2002, resulted in a loss before income taxes and extraordinary item of \$(68.1) or \$19.4 less than the \$(87.5) loss before income taxes and extraordinary item in the comparable period in the prior year.

Income tax expense for the transition period ended December 31, 2002 was \$2.7 as compared to \$2.0 in the comparable period in the prior year. We recorded a \$9.3 extraordinary item during the ten-month period ended December 31, 2001 related to the early extinguishment of certain long-term debt.

Net loss was \$(70.8) or \$(2.03) per share for the transition period ended December 31, 2002 as compared to a net loss of \$(98.8) or \$(3.05) per share for the comparable period in the prior year.

On a pro forma basis (treating companies acquired during the ten-month period ended December 31, 2001, as though acquired as of February 25, 2001) and excluding facility and personnel consolidation and integration costs of \$39.5 and the \$29.5 arbitration award in 2002 and facility and personnel consolidation costs of \$100.4, acquisition-related expenses of \$6.8 and debt extinguishment costs of \$9.3 in 2001, our net loss on this pro forma, as adjusted basis would have been \$(1.8) or \$(0.05) per share for the transition period ended December 31, 2002 as compared to net earnings on this same pro forma, as adjusted basis of \$26.5 or \$0.79 per share for the comparable period in the prior year. Lower net sales and greater interest expense were the principal reasons for the decrease in net earnings on this pro forma, as adjusted basis as discussed further above.

Fiscal Year Ended February 23, 2002 Compared with the Fiscal Year Ended February 24, 2001

Consolidated Results

Revenues were negatively impacted by the severe change in industry conditions following the terrorist attacks on September 11, 2001. Net sales for fiscal 2002 were \$680.5, which is \$14.1 or 2.1% greater than net sales of \$666.4 for the comparable period in the prior year. This increase was entirely attributable to the acquisition of M & M in September 2001.

Net sales for each of our segments are set forth in the following table:

	FY 2002	FY 2001	Change
Commercial Aircraft Products	\$550.6	\$580.3	\$(29.7)
Business Jet Products	85.6	86.1	(0.5)
Fastener Distribution	44.3	--	44.3
	<u>\$680.5</u>	<u>\$666.4</u>	<u>\$ 14.1</u>

Net sales at our Commercial Aircraft Products segment were \$29.7 or 5.1% lower than the prior year due to the recession in the airline industry and the further downturn in industry conditions following September 11, 2001.

Gross profit was \$150.4, or 22.1% of net sales for fiscal 2002, including facility consolidation and integration expenses of \$104.6, as compared to \$249.8 or 37.5% of net sales in the prior year. The decline in the gross margin was due to the facility consolidation and integration costs; excluding such costs, gross margin for fiscal 2002 was essentially unchanged from fiscal 2001.

Selling, general and administrative expenses were \$139.4 or 20.5% of net sales for fiscal 2002 as compared to \$124.2 or 18.6% of net sales in fiscal 2001. The \$15.2 year over year increase in selling, general and administrative expenses resulted from recent acquisitions. Included in selling, general and administrative expenses for fiscal 2002 and 2001 were approximately \$6.8 and \$8.3, respectively, of costs related to acquisitions we completed during each respective fiscal year.

Research, development and engineering expenses were \$43.5 or 6.4% of net sales for fiscal 2002, as compared with \$48.9 or 7.3% of sales in fiscal 2001. The year over year decrease in research, development and engineering expenses is primarily attributable to the timing of customer programs along with austerity measures we implemented subsequent to the September 11, 2001 terrorist attacks.

We generated an operating loss of \$(32.5) during fiscal 2002, including facility consolidation and related expenses of \$111.4. Excluding such costs, we generated operating earnings of \$78.9 or 11.6% of net sales, which was \$6.1 or 7.2% lower than operating earnings of \$85.0 (excluding acquisition-related expenses of \$8.3) or 12.8% of net sales in the prior year. The decrease in operating earnings excluding such costs in fiscal 2002 is primarily attributable to the lower level of revenues from our businesses following the terrorist attacks on September 11, 2001.

Interest expense, net was \$60.5 for fiscal 2002, or \$6.3 greater than interest expense of \$54.2 for the prior year. The increase in interest expense is due to the larger amount of outstanding debt created by the refinancing of certain indebtedness during fiscal 2002 along with the impact of recent acquisitions.

The lower level of revenues and facility and integration consolidation costs during fiscal 2002 resulted in a loss before income taxes and extraordinary item of \$(93.0) or \$(115.5) less than income before income taxes in the prior year of \$22.5. Earnings before facility consolidation and acquisition-related expenses, income taxes, and extraordinary item in fiscal 2002 were \$18.4, which was \$12.4 or 40.3% lower than pretax earnings in fiscal 2001 of \$30.8, calculated on the same basis.

Income tax expense for fiscal 2002 was \$1.8 as compared to \$2.2 in the prior year. The Company recorded a \$9.3 extraordinary item during fiscal 2002 related to the early extinguishment of certain long-term debt.

Net (loss) earnings was \$(104.1) or \$(3.18) per share for fiscal 2002, as compared to net earnings of \$20.3 or \$0.78 per share for fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

Current Financial Condition

Our liquidity requirements consist of working capital needs, ongoing capital expenditures and payments of interest and principal on our indebtedness. Our primary requirements for working capital are directly related to the level of our operations; working capital, primarily accounts receivable and inventories, fluctuate with the demand for our product. Our working capital was \$262.9 as of December 31, 2002, as compared to \$304.8 as of February 23, 2002. At December 31, 2002, our cash and cash equivalents were \$156.9 as compared to \$159.5 at February 23, 2002.

Cash Flows

Cash used in operating activities was \$13.5 during the transition period ended December 31, 2002 compared to cash provided by operations of \$57.9 for fiscal year 2002. The primary sources of cash during the transition period ending December 31, 2002 were a non-cash impairment charge of \$7.0, charges for depreciation and amortization of \$24.7, a legal settlement charge of \$29.5 and a decrease in accounts receivable of \$22.2. The primary uses of cash were a net loss of \$70.8, an increase in inventories of \$8.5 and a decrease in payables and accruals of \$15.9.

The primary source of cash from investing activities was \$33.4 of proceeds received from real estate sales and sales-leaseback transactions. The primary uses of cash from investing activities were related to capital expenditures to implement new information system enhancements and plant modernization along with \$6.5 of cash used for acquisitions.

Capital Spending

Our capital expenditures were \$17.4 and \$13.9 during the transition period ended December 31, 2002 and the fiscal year ended February 23, 2002, respectively. The period over period increase in capital expenditures is primarily attributable to plant consolidation and modernization efforts. We anticipate ongoing annual capital expenditures of approximately \$15 for the next several years. We have no material commitments for capital expenditures. We have, in the past, generally funded our capital expenditures from cash from operations and funds available to us under our bank credit facility. We expect to fund future capital expenditures from cash on hand and from operations and from funds available to us under our bank credit facility. In addition, since 1989, we have completed 23 acquisitions for an aggregate purchase price of approximately \$980.0. We have financed these acquisitions primarily through issuances of debt and equity securities, including our 8%, 8 7/8% and 9 1/2% senior subordinated notes.

Outstanding Debt and Other Financing Arrangements

In January and March 2003, the Company obtained amendments to the credit facility with J.P. Morgan Chase. The amended bank credit facility reduced the total commitments by \$15.0 to \$135.0 (of which \$30.0 may be utilized for acquisitions) during January 2003. The amended bank credit facility provides for another \$15.0 reduction in facility size to \$120.0 at December 31, 2004. The amended bank credit facility expires in August 2006 and is collateralized by substantially all of our cash, accounts receivable, inventories and other personal property. At December 31, 2002, indebtedness under the old bank credit facility consisted of letters of credit aggregating approximately \$5.6 and outstanding borrowings under the revolving facility aggregating to \$144.0 (bearing interest at LIBOR plus 3.0%, or approximately 4.64% as of December 31, 2002). The amended bank credit facility bears interest ranging from 200 to 350 basis points over the Eurodollar rate as defined in the agreement (or approximately 4.5% as of the January 2003 effective date). The amended bank credit facility contains customary affirmative covenants, negative covenants and conditions of borrowings, all of which were met as of December 31, 2002. We presented the \$15.0 reduction in commitments as short-term debt in our consolidated balance sheet at December 31, 2002.

In connection with a recapitalization of our company in April 2001, we issued \$250.0 of 8 7/8% senior subordinated notes due 2011, pursuant to an indenture dated April 17, 2001, between us and the Bank of New York, as trustee, and sold the notes to Merrill Lynch & Co., Credit Suisse First Boston, JP Morgan, CIBC World Markets and First Union Securities, Inc. On July 27, 2001, we exchanged the outstanding 8 7/8% senior subordinated notes due 2011 with an aggregate value of \$250.0 principal amount for 8 7/8% senior subordinated notes due 2011, Series B, registered under the Securities Act of 1933.

Long-term debt consists principally of our 8 7/8% senior subordinated notes, 9 1/2% senior subordinated notes and 8% senior subordinated notes and borrowings outstanding under the amended bank credit facility (net of the \$15.0 reduction in commitments, which is a component of short-term debt). The \$250.0 of 8% notes mature on March 1, 2008, the \$200.0 of 9 1/2% notes mature on November 1, 2008 and the \$250.0 of 8 7/8% notes mature on May 1, 2011. The notes are unsecured senior subordinated obligations and are subordinated to all of our senior indebtedness. Each of the 8% notes, 8 7/8% notes and 9 1/2% 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 December 31, 2002. A breach of such covenants, or the covenants under our amended bank credit facility, that continues beyond any grace period can constitute a default, which can limit the ability to borrow and can give rise to a right of the lenders to terminate the applicable facility and/or require immediate repayment of any outstanding debt.

Contractual and Other Obligations

The following charts reflect our contractual obligations and commercial cash commitments as of December 31, 2002. Commercial commitments include lines of credit, guarantees and other potential cash outflows resulting from a contingent event that requires performance by us or our subsidiaries pursuant to a funding commitment.

Contractual Obligations	2003	2004	2005	2006	2007	Thereafter	Total
Long-term debt	\$16.9	\$17.6	\$0.7	\$114.7	\$ 3.3	\$699.7	\$852.9
Operating leases	<u>11.1</u>	<u>7.8</u>	<u>6.9</u>	<u>6.1</u>	<u>6.0</u>	<u>44.3</u>	<u>82.2</u>
Total	<u>\$28.0</u>	<u>\$25.4</u>	<u>\$7.6</u>	<u>\$120.8</u>	<u>\$ 9.3</u>	<u>\$744.0</u>	<u>\$935.1</u>

Commercial Commitments

Letters of Credit	\$ 5.6	--	--	--	--	--	\$ 5.6
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We believe that our cash flow from operations (which provides us with our ability to fund our operations, make planned capital expenditures, make scheduled payments and refinance our indebtedness) depends on our future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control.

The September 11, 2001 terrorist attacks have severely impacted conditions in the airline industry. Accordingly, the airlines are seeking to conserve cash in part by deferring or eliminating cabin interior refurbishment programs and canceling or deferring aircraft purchases. This has caused a substantial contraction in our business, the extent and duration of which cannot be determined at this time. However, we believe that our operating cash flow, cash and cash equivalents, borrowing capacity under our amended bank credit facility, and access to capital markets are sufficient to fund our operating needs, including contractual and other obligations, and to service our debt obligations for the foreseeable future.

Sale-Leaseback

During the third quarter of 2002, we entered into two sale-leaseback transactions involving four of our facilities. Under the terms of the sale-leaseback agreements, the facilities were sold for \$27.0, net of transaction costs, and have been leased back for periods ranging from 15 to 20 years. The leasebacks have been accounted for as operating leases. The future lease payments have been included in the above tables. A gain of \$4.8 resulting from the sales have been deferred and will be amortized on a straight-line basis to rent expense over the initial term of the leases.

Off-Balance Sheet Arrangements – Lease Arrangements

We finance our use of certain facilities and equipment under committed lease arrangements provided by various institutions. Since the terms of these arrangements meet the accounting definition of operating lease arrangements, the aggregate sum of future minimum lease payments is not reflected on our consolidated balance sheet. As of December 31, 2002, future minimum lease payments under these arrangements approximated \$54.2. We also have various other arrangements whose future minimum lease payments approximated \$28.0 at December 31, 2002.

Indemnities, Commitments and Guarantees

During our normal course of business, we have made certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property indemnities to our customers in connection with the delivery, design, manufacture and sale of its products, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, indemnities to other parties to certain acquisition agreements and indemnities to our directors and officers to the maximum extent permitted under the laws of the State of Delaware. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Substantially all of these indemnities, commitments and guarantees provide for limitations on the maximum potential future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

Deferred Tax Assets

We established a valuation allowance of \$124.4 as of December 31, 2002 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 assets during the federal operating loss carryforward period. The federal operating loss carryforward begins to expire in 2012. Such uncertainties include recent cumulative losses attributable to the recent industry conditions, the highly cyclical nature of the industry in which we operate, risks associated with our facility consolidation and integration plan, our high degree of financial leverage, risks associated with new product introductions, recent increases in the cost of fuel and its impact on our airline customers, and risks associated with the integration of 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, requires gains and losses on extinguishment of debt to be classified as part of continuing operations rather than treated as extraordinary, as previously required in accordance with SFAS No. 4. SFAS No. 145 also modifies accounting for subleases where the original lessee remains the secondary obligor and requires certain modifications to capital leases to be treated as sale-leaseback transactions. We will adopt SFAS No. 145 on January 1, 2003 and expect no material impact to our consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies the guidance previously provided under Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Among other things, SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when there is a commitment to a restructuring plan as set forth under the nullified guidance. We plan to adopt SFAS No. 146 on January 1, 2003 for future restructurings as required.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148 is not expected to have a material impact on our financial position or results of operations as we have no plans to adopt the fair value method.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others", an interpretation of FIN No. 5, 57 and 107, and rescission of FIN No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others". FIN No. 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the recognition provisions of FIN No. 45 is not expected to have a material impact on our consolidated results of operations and financial position.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Entities", an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The consolidation requirements of FIN No. 46 will apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements will apply to entities established prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. The disclosure requirements will apply in all financial statements issued after January 31, 2003. We will begin to adopt the provisions of FIN No. 46 during the first quarter of calendar 2003 but expect the provisions of FIN No. 46 will not have a material impact on our consolidated results of operations and financial position upon adoption as we do not currently have any variable interest entities.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see note 1 to our consolidated financial statements.

Revenue Recognition

Sales of products are recorded on the date of shipment and passage of title, or if required, upon acceptance by the customer. Service revenues are recorded when services are performed. Revenues and costs under certain long-term contracts are recognized using contract accounting under the percentage-of-completion method. We sell our products primarily to airlines and aircraft manufacturers worldwide, including occasional sales collateralized by letters of credit. We perform ongoing credit evaluations of our customers and maintain reserves for estimated credit losses. Actual losses have been within management's expectations.

We apply judgment to ensure that the criteria for recognizing sales are consistently applied and achieved for all recognized sales transactions.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Inventories

We value our inventory at the lower of cost or market. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements. As demonstrated during the transition period ended December 31, 2002 and the fiscal year ended February 23, 2002, demand for our products can fluctuate significantly. Our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if our inventory were determined to be overvalued, we would be required to recognize such costs in our cost of goods sold at the time of such determination. Likewise, if our inventory were determined to be undervalued, we may have over-reported our costs of goods sold in previous periods and would be required to recognize such additional operating income at the time of sale.

Long-Lived Assets (including Tangible and Intangible Assets and Goodwill)

To conduct our global business operations and execute our strategy, we acquire tangible and intangible assets, which affect the amount of future period amortization expense and possible impairment expense that we may incur. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. We assess potential impairment to intangible assets of a reporting unit on an annual basis or when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of our acquired businesses, market conditions and other factors. Future events could cause us to conclude that impairment indicators exist and that goodwill or other acquired tangible or intangible assets associated with our acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on our results of operations.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statements of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of \$124.4 as of December 31, 2002, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating income losses carried forward, before they expire. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods we may need to establish additional valuation allowance which could materially impact our financial position and results of operations.

RISK FACTORS

We are directly dependent upon the conditions in the airline industry and a severe and prolonged downturn could negatively impact our results of operations

The September 11, 2001 terrorist attacks have severely impacted conditions in the airline industry. Sharply lower demand from our airline customer base affected our financial results, both for the transition period ended December 31, 2002 and the fiscal year ended February 23, 2002. The lower demand reflects the current downturn in the airline industry, which is the most severe ever experienced. High airline operating costs, weak air travel and low-ticket prices have damaged many carriers' financial condition. Prior to the September 11, 2001 terrorist attacks, airline profits were already being adversely affected by increases in pilot and other airline wages, higher fuel prices and the softening of the global economy. Air travel dropped significantly following the 2001 terrorist attacks, further weakening many airlines' financial condition. To cut costs, carriers worldwide have reduced fleet sizes, parking or idling about 2,200 aircraft, or 15% of their fleets, as of December 2002. In an attempt to stimulate air travel, airlines have decreased domestic airfares to levels not seen since 1988. Reflecting the reduction in air travel and fares, North American airline revenue has dropped 24% since 2000.

As a result of these factors, the U.S. airline industry incurred a \$7 billion loss in calendar 2001 and an \$11 billion loss in calendar 2002. The airline industry crisis caused two major domestic airlines, US Airways and United Airlines, to file for protection under Chapter 11 of the United States Bankruptcy Act and industry experts believe other major domestic carriers may be required to do so as well. In addition, at least one smaller domestic carrier, National Airlines, has ceased operations entirely.

Accordingly, the airlines are seeking to conserve cash in part by deferring or eliminating cabin interior refurbishment programs and deferring or canceling aircraft purchases. This has caused a substantial contraction in our business, the extent and duration of which cannot be determined at this time. We expect these adverse industry conditions to have a material adverse impact on our results of operations and financial condition until such time as conditions in the industry improve. Industry conditions could also deteriorate further if there is a prolonged war in Iraq or other outbreak or escalation of national or international hostilities. Several airlines have recently announced additional employee layoffs and the parking or idling of additional aircraft citing the commencement of hostilities with Iraq, along with rising fuel prices and the threat of terrorism.

The airline industry is also 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.

Our substantial indebtedness could limit our ability to obtain additional financing and will require that a significant portion of our cash flow be used for debt service

We have substantial indebtedness and, as a result, significant debt service obligations. As of December 31, 2002, we had approximately \$696.0 of net indebtedness outstanding, representing approximately 91% of total capitalization.

The degree of our leverage and, as a result, significant debt service obligations, could have significant consequences to purchasers or holders of our shares of common stock, including:

- Limiting our ability to obtain additional financing to fund our growth strategy, working capital requirements, capital expenditures, acquisitions, debt service requirements or other general corporate requirements;
- Limiting our ability to use operating cash flow in other areas of our business because we must dedicate a substantial portion of those funds to fund debt service obligations;
- Increasing our vulnerability to adverse economic and industry conditions; and
- If we are able to replace our bank credit facility, increasing our exposure to interest rate increases because borrowings under a new bank credit facility will likely be at variable interest rates.

We may not be able to generate the necessary amount of cash to service our indebtedness, which may require us to refinance our debt, obtain additional financing or sell assets

Our ability to satisfy our debt service 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 meet our debt service obligations, we will need to refinance, obtain additional financing or sell assets. Our business may not generate cash flow, and we may not be able to obtain funding, sufficient to satisfy our debt service requirements.

We have significant financial and operating restrictions in our debt instruments that may have an adverse affect on our operations

The indentures governing our outstanding notes contain numerous financial and operating covenants that limit our ability to incur additional indebtedness, to create liens or other encumbrances, to make certain payments and investments, including dividend payments and to sell or otherwise dispose of assets and merge or consolidate with other entities. Agreements governing future indebtedness could also contain significant financial and operating restrictions. Our amended bank credit facility contains customary affirmative and negative covenants. A failure to comply with the obligations contained in any current or future agreements governing our indebtedness, including our indentures, could result in an event of default under our amended bank credit facility, or such indentures, which could permit acceleration of the related debt and acceleration of debt under other instruments that may contain cross-acceleration or cross-default provisions. We are not certain whether we would have, or be able to obtain, sufficient funds to make these accelerated payments.

The airline industry is heavily regulated and failure to comply with applicable laws could reduce our sales, or require us to incur additional costs to achieve compliance, which could reduce our results of operations

The Federal Aviation Administration 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, such as the U.K. Civil Aviation Authority and the Japanese Civil Aviation Board, 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 the subject product or service would be prohibited by law until such license is obtained or renewed. In addition, designing new products to meet existing regulatory requirements and retrofitting installed products to comply with new regulatory requirements can be both expensive and time consuming.

From time to time the FAA proposes new regulations. These new regulations generally cause an increase in costs to comply with these regulations; when the FAA first enacted Technical Standard Order C127, all seating companies were required to meet these new rules. Compliance with this rule required industry participants to spend millions of dollars on engineering, plant and equipment to comply with the regulation. A number of smaller seating companies decided that they did not have the resources, financial or otherwise, to comply with these rules and they either sold their businesses or ceased operations.

To the extent the FAA implements rule changes in the future, we may incur additional costs to achieve compliance.

There are risks associated with the implementation of our facility consolidation program; failure to integrate our combined operations successfully could lead to a loss of revenues and customers

We have developed a comprehensive facility consolidation and integration plan, which is designed to reduce our capacity and fixed costs consistent with current demand and anticipated demand. This plan involves shutting five principal facilities, transferring the operations to another facility while maintaining an ongoing business for the transferred operations. If we are not successful in implementing this plan, our costs may not be as currently anticipated, we may incur delays in delivering products to our customers, which could result in significant penalty payments to our customers and the airframe manufacturers. While the facility consolidation program is on track as of the date of this report, there can be no assurance that we will be successful in the implementation of this effort or that we will not incur liabilities as a result thereof.

The airline industry is subject to extensive health and environmental regulation, any violation of which could subject us to significant liabilities and penalties

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 or to which we have sent hazardous substances or wastes for treatment, recycling or disposal. We may 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, or at facilities we may acquire.

We compete with a number of established companies, some of which have significantly greater financial, technological and marketing resources than we do and we may not be able to compete effectively with these companies

We compete with numerous established companies. Some of these companies, particularly in the passenger-to-freighter conversion business, have significantly greater financial, technological and marketing resources than we do. Our ability to be an effective competitor 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, and in avoiding product obsolescence. Our ability to maintain or expand our market position in the rapidly growing passenger-to-freighter conversion business will depend on our success in being selected to convert specific aircraft, our ability to maintain and enhance our engineering design, our certification and program management capabilities and our ability to effectively use our recent acquisitions to manufacture a broader range of structural components, connectors and fasteners used in this business.

If we are unable to manufacture quality products and to deliver our products on time, we may be subject to increased costs or loss of customers or orders, which could reduce our results of operations

During the latter part of fiscal 1999 and throughout fiscal 2000, we experienced significant operating inefficiencies in our seating programs which 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. In addition, as a result of our late customer deliveries, certain airlines diverted their seating programs to other manufacturers. To the extent we suffer any of these inefficiencies or shortcomings in the future we will likely experience significant penalties and loss of customers.

Our acquisition strategy may be less successful than we expect and therefore, our growth may be limited

We intend to consider future acquisitions. We intend to consider future strategic acquisitions, some of which could be material to us and which may include companies that are substantially equivalent or larger in size compared to us. We continually explore and conduct discussions with many third parties regarding possible acquisitions. As of the date of this Form 10-K, we have no acquisition agreements to acquire any business or assets. Our ability to continue to achieve our goals may depend upon our ability to identify and successfully acquire attractive companies, to effectively integrate such companies, achieve cost efficiencies and to manage these businesses as part of our Company.

We may not be able to effectively manage or integrate the acquired companies. Further, we may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these acquisitions. Our efforts to integrate these businesses could be affected by a number of factors beyond our control, such as regulatory developments, general economic conditions, increased competition and the loss of certain customers resulting from the acquisitions. In addition, the process of integrating these businesses could cause an interruption of, or loss of momentum in, the activities of our existing business and the loss of key personnel and customers. The diversion of management's attention and any delays or difficulties encountered in connection with the transition and integration of these businesses could have a material adverse effect on our business and results of operations. Further, the benefits that we anticipate from these acquisitions may not develop.

We will have to finance any future acquisitions. Depending upon the acquisition opportunities available, we may need to raise additional funds or arrange for additional bank financing. We may seek such additional funds through public offerings or private placements of debt or equity securities or bank loans. Issuance of additional equity securities by us could result in substantial dilution to stockholders. The incurrence of additional indebtedness by us could have adverse consequences to stockholders as described above. 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 which may have a material adverse effect on our business, results of operations and financial condition.

There are risks inherent in international operations that could have a material adverse effect on our business operations

Our operations are primarily in the United States, with approximately 28% of our sales during the transition period ended December 31, 2002 coming from our foreign operations in the United Kingdom and The Netherlands. While the majority of our operations are based domestically, each of our facilities sells to airlines all over the world. As a result, 40% or more of our consolidated sales for the past three fiscal years were to airlines located outside the United States. 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. At December 31, 2002, we reported a cumulative foreign currency translation amount of \$(11.6) in stockholders' equity as a result of foreign currency adjustments, and we may 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. If in the future a substantial majority of our sales were not denominated in the currency of the country of product origin, we could face increased currency risk. Also, changes in the value of the U.S. dollar or other currencies could result in fluctuations in foreign currency translation amounts or the U.S. dollar value of transactions and, as a result, our net earnings could be adversely affected. Our largest foreign currency exposure results from activity in Euros and British pounds.

We may engage in hedging transactions in the future to manage or reduce our foreign exchange risk. However, our attempts to manage our foreign currency exchange risk may not be successful and, as a result, our results of operations and financial condition could be adversely affected.

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. Due to our foreign operations we could be subject to such factors in the future and the impact of any such events that may occur in the future could subject us to additional costs or loss of sales, which could adversely affect our operating results.

Our total assets include substantial intangible assets. The write-off of a significant portion of unamortized intangible assets would negatively affect our results of operations

Our total assets reflect substantial intangible assets. At December 31, 2002, goodwill and identified intangibles, net, represented approximately 48% of total assets and 736% of stockholders' equity. Intangible assets consist of goodwill and other identified intangible assets associated with our acquisitions, representing the excess of cost over the fair value of tangible assets we have acquired since 1989. We may not be able to realize the value of these assets. Goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed at least annually for impairment. Acquired intangible assets with definite lives are amortized over their individual useful lives. In addition to goodwill, our intangible assets with indefinite lives consist of the M & M trademark. In accordance with SFAS No. 142, the goodwill and trademark with indefinite lives that were being amortized over periods ranging from 30 to 40 years follow the non-amortization approach beginning February 24, 2002. Patents and other intangible assets are amortized using the straight-line method over periods ranging from three to thirty years (see note 7 to our consolidated financial statements). On at least an annual basis, we assess whether there has been an 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, an impairment is deemed to have occurred. In this event, the amount is written down accordingly. Under current accounting rules, this would result in a charge of operating earnings. Any determination requiring the write-off of a significant portion of unamortized goodwill and identified intangible assets would negatively affect our results of operations and total capitalization, which could be material. As of December 31, 2002, we have determined that no impairment existed.

Risks Associated with our Capital Stock

Provisions in our charter documents may discourage potential acquisitions of our company, even those which the holders of a majority of our common stock may favor

Our restated certificate of incorporation and by-laws contain provisions that may have the effect of discouraging a third party from making an acquisition of us by means of a tender offer, proxy contest or otherwise. Our restated certificate of incorporation and by-laws:

- Classify the board of directors into three classes, with directors of each class serving for a staggered three-year period;
- Provide that directors may be removed only for cause and only upon the approval of the holders of at least two-thirds of the voting power of our shares entitled to vote generally in the election of such directors;
- Require at least two-thirds of the voting power of our shares entitled to vote generally in the election of directors to alter, amend or repeal the provisions relating to the classified board and removal of directors described above;
- Permit the board of directors to fill vacancies and newly created directorships on the board;
- Restrict the ability of stockholders to call special meetings; and
- Contain advance notice requirements for stockholder proposals.

Such provisions would make the removal of incumbent directors more difficult and time-consuming and may have the effect of discouraging a tender offer or other takeover attempt not previously approved by the board of directors.

Our board of directors has declared a dividend of one preferred share purchase right for each share of common stock outstanding. A right will also be attached to each share of common stock subsequently issued. The rights will have certain anti-takeover effects. If triggered, the rights would cause substantial dilution to a person or group of persons that acquires more than 15.0% of our common stock on terms not approved by our board of directors. The rights could discourage or make more difficult a merger, tender offer or other similar transaction.

Under our restated certificate of incorporation, our board of directors also has the authority to issue preferred stock in one or more series and to fix the powers, preferences and rights of any such series without stockholder approval. The board of directors could, therefore, issue, without stockholder approval, preferred stock with voting and other rights that could adversely affect the voting power of the holders of common stock and could make it more difficult for a third party to gain control of us. In addition, under certain circumstances, Section 203 of the Delaware General Corporation Law makes it more difficult for an "interested stockholder", or generally a 15% stockholder, to effect various business combinations with a corporation for a three-year period.

You may not receive cash dividends on our shares

We have never paid a cash dividend and do not plan to pay cash dividends on our common stock in the foreseeable future. We intended to retain our earnings to finance the development and expansion of our business and to repay indebtedness. Also, our ability to declare and pay cash dividends on our common stock is restricted by covenants in our outstanding notes and amended bank credit facility.

If the price of our common stock continues to fluctuate significantly, you could lose all or a part of your investment

Since the beginning of the transition period ending on December 31, 2002, the closing price of our common stock has ranged from a low of \$2.62 to a high of \$14.05. The price of our common stock is subject to sudden and material increases and decreases, and decreases could adversely affect investments in our common stock. The price of our common stock could fluctuate widely in response to:

- Our quarterly operating results;
- Changes in earnings estimates by securities analysts;
- Changes in our credit ratings;
- Changes in our business;
- Changes in the market's perception of our business;
- Changes in the businesses, earnings estimates or market perceptions of our competitors or customers;
- Changes in the outlook for the airline industry;
- Changes in general market or economic conditions;
- Changes in the legislative or regulatory environment;
- A prolonged war with Iraq or other outbreak or escalation of national or international hostilities; and
- Terrorist attacks.

In addition, the stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company and these fluctuations could materially reduce our stock price.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 31E of the Securities Exchange Act of 1934, including statements regarding the future benefits of our consolidation program, implementation and expected benefits of lean manufacturing and continuous improvement programs, our dealings with customers and partners, the integration of acquired businesses, productivity improvements from recent information technology investments, ongoing capital expenditures, the adequacy of funds to meet our capital requirements, the ability to refinance our indebtedness, if necessary, the reduction of debt, the potential impact of new accounting pronouncements, the impact on our business of the September 11, 2001 terrorist attacks, the recovery of the airline industry and the impact on our business of a prolonged war with Iraq. These forward-looking statements include risks and uncertainties, and our actual experience may differ materially from that anticipated in such statements. Factors that might cause such a difference include those discussed in our filings with the Securities and Exchange Commission, under the heading "Risk Factors" in this Form 10-K, as well as future events that may have the effect of reducing our available operating income and cash balance, 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, our success in winning new or expected refurbishment contracts from customers, capital expenditures, cash expenditures related to possible future acquisitions, facility closures, product transition costs, 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.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented herein. These statements should be considered only after carefully reading this entire Form 10-K and the documents incorporated herein by reference.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including foreign currency fluctuations and changes in interest rates affecting the cost of our variable-rate debt.

Foreign currency - We have direct operations in Europe that receive revenues from customers in various currencies and purchase raw materials and component parts from foreign vendors in various currencies. Accordingly, we are exposed to transaction gains and losses that could result from changes in foreign currency exchange rates relative to the U.S. dollar. The largest foreign currency exposure results from activity in British pounds and Euros.

From time to time, we and our foreign subsidiaries may enter into foreign currency exchange contracts to manage risk on transactions conducted in foreign currencies. At December 31, 2002, we had no outstanding forward currency exchange contracts. We did not enter into any other derivative financial instruments.

Interest Rates - At December 31, 2002, we had adjustable rate debt of \$144.0 and fixed rate debt of \$699.7. The weighted average interest rate for the adjustable and fixed rate debt was approximately 4.6% and 8.7%, respectively, at December 31, 2002. If interest rates were to increase by 10% above current rates, the estimate impact on our financial statements would be to reduce pretax income by approximately \$0.7. We do not engage in transactions intended to hedge our exposure to changes in interest rates.

As of December 31, 2002, we maintained a portfolio of securities consisting mainly of taxable, interest-bearing deposits with weighted average maturities of less than three months. If short-term interest rates were to increase or decrease by 10%, we estimate interest income would increase or decrease by approximately \$0.2.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Nasdaq National Market under the symbol "BEAV." The following table sets forth, for the periods indicated, the range of high and low per share sales prices for the common stock as reported by Nasdaq.

	(Amounts in Dollars)	
	<u>High</u>	<u>Low</u>
Calendar Year Ended December 31, 2000		
First Quarter	\$ 9.88	\$ 5.88
Second Quarter	8.25	6.00
Third Quarter	17.25	6.50
Fourth Quarter	16.63	11.81
Calendar Year Ended December 31, 2001		
First Quarter	25.88	16.00
Second Quarter	24.35	15.49
Third Quarter	19.90	3.50
Fourth Quarter	11.85	6.27
Calendar Year Ended December 31, 2002		
First Quarter	10.16	6.31
Second Quarter	14.05	9.06
Third Quarter	13.11	4.00
Fourth Quarter	5.38	2.62

On March 24, 2003 the closing price of our common stock as reported by Nasdaq was \$1.56 per share. As of such date, we had 1,027 shareholders of record, and we estimate that there are approximately 15,200 beneficial owners of our common stock. We have not paid any cash dividends in the past, and we have no present intention of doing so in the immediate future. Our Board of Directors intends, for the foreseeable future, to retain any earnings to reduce indebtedness and finance our future growth, but expects to review our dividend policy regularly. The indentures, pursuant to which our 8%, 8 7/8% and 9 1/2% senior subordinated notes were issued, as well as our amended bank credit facility, permit the declaration of cash dividends only in certain circumstances described therein.

INDEPENDENT AUDITORS' REPORT

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 (the "Company") as of December 31, 2002 and February 23, 2002, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the 10-month period from February 24, 2002 to December 31, 2002 and the fiscal years ended February 23, 2002 and February 24, 2001. Our audits also included the financial statement schedule listed in item 15(a). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule 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 December 31, 2002 and February 23, 2002, and the results of their operations and their cash flows for the 10-month period from February 24, 2002 to December 31, 2002 and the fiscal years ended February 23, 2002 and February 24, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill and intangible assets.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
March 4, 2003

CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 2002 AND FEBRUARY 23, 2002*(In millions, except share data)*

	<u>December 31, 2002</u>	<u>February 23, 2002</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 156.9	\$ 159.5
Accounts receivable - trade, less allowance for doubtful accounts of \$3.9 (December 31, 2002) and \$4.9 (February 23, 2002)	73.8	93.3
Inventories, net	163.2	157.0
Other current assets	<u>22.8</u>	<u>46.6</u>
Total current assets	416.7	456.4
Property and equipment, net	115.5	142.7
Goodwill, net	344.7	333.1
Identified intangibles, net	165.2	172.9
Other assets, net	<u>25.0</u>	<u>23.2</u>
	<u>\$1,067.1</u>	<u>\$1,128.3</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 136.9	\$ 150.3
Current portion of long-term debt	<u>16.9</u>	<u>1.3</u>
Total current liabilities	<u>153.8</u>	<u>151.6</u>
Long-term debt	836.0	853.5
Other liabilities	8.0	2.1
Commitments, contingencies and off-balance sheet arrangements (Note 10)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 1.0 million shares authorized; no shares outstanding	--	--
Common stock, \$0.01 par value; 100.0 million shares authorized; 35.2 million (December 31, 2002) and 34.4 million (February 23, 2002) shares issued and outstanding	0.3	0.3
Additional paid-in capital	410.1	405.3
Accumulated deficit	(329.5)	(258.7)
Accumulated other comprehensive loss	<u>(11.6)</u>	<u>(25.8)</u>
Total stockholders' equity	<u>69.3</u>	<u>121.1</u>
	<u>\$1,067.1</u>	<u>\$1,128.3</u>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE TEN-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2002 AND FOR THE
FISCAL YEARS ENDED FEBRUARY 23, 2002 AND FEBRUARY 24, 2001**

(In millions, except per share data)

	Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
Net sales	\$ 503.6	\$ 680.5	\$ 666.4
Cost of sales (Note 4)	<u>352.3</u>	<u>530.1</u>	<u>416.6</u>
Gross profit	151.3	150.4	249.8
Operating expenses:			
Selling, general and administrative	98.5	139.4	124.2
Research, development and engineering	34.1	43.5	48.9
Legal settlement	<u>29.5</u>	<u>--</u>	<u>--</u>
Total operating expenses	<u>162.1</u>	<u>182.9</u>	<u>173.1</u>
Operating (loss) earnings	(10.8)	(32.5)	76.7
Interest expense, net	<u>57.3</u>	<u>60.5</u>	<u>54.2</u>
(Loss) earnings before income taxes and extraordinary item	(68.1)	(93.0)	22.5
Income taxes	<u>2.7</u>	<u>1.8</u>	<u>2.2</u>
(Loss) earnings before extraordinary item	(70.8)	(94.8)	20.3
Extraordinary item	<u>--</u>	<u>9.3</u>	<u>--</u>
Net (loss) earnings	(70.8)	(104.1)	20.3
Other comprehensive income (loss):			
Foreign exchange translation adjustment	<u>14.2</u>	<u>(3.9)</u>	<u>(11.3)</u>
Comprehensive (loss) income	<u>\$ (56.6)</u>	<u>\$ (108.0)</u>	<u>\$ 9.0</u>
Basic net (loss) earnings per share before extraordinary item	\$ (2.03)	\$ (2.90)	\$ 0.80
Extraordinary item	<u>--</u>	<u>(0.28)</u>	<u>--</u>
Basic net (loss) earnings per share	<u>\$ (2.03)</u>	<u>\$ (3.18)</u>	<u>\$ 0.80</u>
Weighted average common shares	<u>34.9</u>	<u>32.7</u>	<u>25.4</u>
Diluted net (loss) earnings per share before extraordinary item	\$ (2.03)	\$ (2.90)	\$ 0.78
Extraordinary item	<u>--</u>	<u>(0.28)</u>	<u>--</u>
Diluted net (loss) earnings per share	<u>\$ (2.03)</u>	<u>\$ (3.18)</u>	<u>\$ 0.78</u>
Weighted average common shares	<u>34.9</u>	<u>32.7</u>	<u>25.9</u>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE TEN-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2002
AND FOR THE FISCAL YEARS ENDED FEBRUARY 23, 2002 AND FEBRUARY 24, 2001**

(In millions)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Other</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Income (Loss)</u>	<u>Equity</u>
<u>Balance, February 26, 2000</u>	24.9	\$ 0.2	\$249.7	\$(174.9)	\$ (10.6)	\$ 64.4
Sale of stock under						
employee stock purchase plan	0.3	--	2.1	--	--	2.1
Exercise of stock options	0.6	--	6.4	--	--	6.4
Employee benefit plan						
matching contribution	0.2	--	1.9	--	--	1.9
Issuance of stock in connection						
with acquisitions	2.5	0.1	51.4	--	--	51.5
Net earnings	--	--	--	20.3	--	20.3
Foreign currency translation						
adjustment	--	--	--	--	(11.3)	(11.3)
<u>Balance, February 24, 2001</u>	28.5	0.3	311.5	(154.6)	(21.9)	135.3
Sale of stock under						
employee stock purchase plan	0.1	--	1.9	--	--	1.9
Exercise of stock options	0.4	--	4.2	--	--	4.2
Employee benefit plan						
matching contribution	0.2	--	2.6	--	--	2.6
Issuance of stock in connection						
with acquisitions	2.4	--	42.9	--	--	42.9
Sale of common stock						
under public offering	2.8	--	42.2	--	--	42.2
Net loss	--	--	--	(104.1)	--	(104.1)
Foreign currency translation						
adjustment	--	--	--	--	(3.9)	(3.9)
<u>Balance, February 23, 2002</u>	34.4	0.3	405.3	(258.7)	(25.8)	121.1
Sale of stock under						
employee stock purchase plan	0.3	--	1.8	--	--	1.8
Exercise of stock options	0.2	--	1.3	--	--	1.3
Employee benefit plan						
matching contribution	0.3	--	1.7	--	--	1.7
Net loss	--	--	--	(70.8)	--	(70.8)
Foreign currency translation						
adjustment	--	--	--	--	14.2	14.2
<u>Balance, December 31, 2002</u>	<u>35.2</u>	<u>\$ 0.3</u>	<u>\$410.1</u>	<u>\$(329.5)</u>	<u>\$ (11.6)</u>	<u>\$ 69.3</u>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE TEN-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2002 AND FOR THE
FISCAL YEARS ENDED FEBRUARY 23, 2002 AND FEBRUARY 24, 2001**

(In millions)

	Ten-Month Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) earnings	\$ (70.8)	\$ (104.1)	\$ 20.3
Adjustments to reconcile net (loss) earnings to net cash flows provided by operating activities:			
Extraordinary item	--	9.3	--
Depreciation and amortization	24.7	46.8	42.8
Provision for doubtful accounts	0.8	1.9	0.6
Loss on disposal of property and equipment	0.5	--	--
Impairment of property and equipment, inventories and other assets	7.0	62.9	--
Impairment of intangible assets	--	20.4	--
Non-cash employee benefit plan contributions	1.8	2.6	1.9
Legal settlement	29.5	--	--
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	22.2	19.7	6.0
Inventories	(8.5)	3.9	(6.4)
Other current assets	(4.8)	31.3	1.8
Payables, accruals and other liabilities	<u>(15.9)</u>	<u>(36.8)</u>	<u>(9.1)</u>
Net cash flows (used in) provided by operating activities	<u>(13.5)</u>	<u>57.9</u>	<u>57.9</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	(6.5)	(207.9)	--
Capital expenditures	(17.4)	(13.9)	(17.2)
Proceeds from real estate sales	33.4	--	--
Change in intangibles and other assets	<u>(2.6)</u>	<u>(9.2)</u>	<u>(0.9)</u>
Net cash flows provided by (used in) investing activities	<u>6.9</u>	<u>(231.0)</u>	<u>(18.1)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Bank Credit Facility	--	155.0	--
Repayments of Bank Credit Facility	(1.0)	(66.7)	(24.5)
Proceeds from issuance of stock, net of expenses	3.0	48.3	8.5
Principal payments on long-term debt	(3.3)	(112.1)	--
Proceeds from long-term debt	<u>2.0</u>	<u>248.4</u>	<u>--</u>
Net cash flows provided by (used in) financing activities	<u>0.7</u>	<u>272.9</u>	<u>(16.0)</u>
Effect of exchange rate changes on cash flows	<u>3.3</u>	<u>(0.6)</u>	<u>(0.9)</u>
Net (decrease) increase in cash and cash equivalents	(2.6)	99.2	22.9
Cash and cash equivalents, beginning of period	<u>159.5</u>	<u>60.3</u>	<u>37.4</u>
Cash and cash equivalents, end of period	<u>\$ 156.9</u>	<u>\$ 159.5</u>	<u>\$ 60.3</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during period for:			
Interest, net	\$ 68.1	\$ 56.7	\$ 56.2
Income taxes, net	2.4	1.6	2.9
Interest capitalized in computer equipment and software	--	--	0.3
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:			
Stock issued in connection with acquisitions	--	42.9	51.5
Liabilities assumed and accrued acquisition costs incurred in connection with the acquisitions	--	11.2	14.5
Reclassification of Sextant Note from long-term other asset to other current asset	--	--	15.7

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE TEN-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2002 AND FOR THE
FISCAL YEARS ENDED FEBRUARY 23, 2002 AND FEBRUARY 24, 2001**

(In millions, except per share data)

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 aircraft and business jet cabin interior products consisting of a broad range of seating products, interior systems, including structures as well as all food and beverage storage and preparation equipment and distributes aerospace fasteners. The Company's principal customers are the operators of commercial and business jet aircraft and aircraft manufacturers. As a result, the Company's business is directly dependent upon the conditions in the commercial airline, business jet and aircraft manufacturing industries. The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

In October 2002, the Company changed its year end from the last Saturday in February to December 31, effective with the transition period beginning on February 24, 2002 and ending on December 31, 2002. These financial statements are being filed by the Company as part of a Transitional Report on Form 10-K covering the transition period. References to the "transition period" in these consolidated financial statements are to the transition period beginning February 24, 2002 and ending on December 31, 2002. Prospectively, the Company's fiscal quarters will conform to calendar periods ending March 31, June 30 and September 30.

Consolidation – The accompanying consolidated financial statements include the accounts of BE Aerospace, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Financial Statement Preparation – 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 periods. Actual results could differ from those estimates. Certain reclassifications have been made to the prior years' financial statements to conform to the December 31, 2002 presentation.

Revenue Recognition – Sales of parts, assembled products and equipment are recorded on the date of shipment and passage of title or, if required, upon acceptance by the customer. Service revenues are recorded when services are 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 estimated credit losses.

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. Deferred income taxes are computed using enacted tax rates that are expected to be in effect when the temporary differences reverse. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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

Accounts Receivable – The Company performs ongoing credit evaluations of our customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Inventories – The Company values inventory at the lower of cost or market. The Company regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory is based primarily on an estimated forecast of product demand and production requirements. As demonstrated during the transition period ended December 31, 2002 and during the fiscal year ended February 23, 2002, demand for the Company's products can fluctuate significantly. Estimates of future product demand may prove to be inaccurate, in which case the Company may understate or overstate the provision required for excess and obsolete inventory. In the future, if inventory is determined to be overvalued, the Company would be required to recognize such costs in cost of goods sold at the time of such determination. Likewise, if inventory is determined to be undervalued, the Company may have over-reported costs of goods sold in previous periods and would be required to recognize such additional operating income at the time of sale.

Debt Issuance Costs – Costs incurred to issue debt are deferred and amortized as interest expense over the term of the related debt using the straight-line method, which approximates the effective interest method.

Change in Accounting for Goodwill and Identified Intangible Assets – Effective February 24, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, acquired intangible assets must be separately identified. Goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed at least annually for impairment. Acquired intangible assets with definite lives are amortized over their individual useful lives. In addition to goodwill, intangible assets with indefinite lives consist of the M & M trademark. In accordance with SFAS No. 142, the goodwill and the trademark with indefinite lives that were being amortized over periods ranging from 30 to 40 years follow the non-amortization approach beginning January 1, 2002. Patents and other intangible assets are amortized using the straight-line method over periods ranging from three to thirty years (see note 7). Upon adoption of SFAS No. 142 and on at least an annual basis, management assesses whether there has been any impairment in the value of goodwill by comparing the fair value to the net carrying value of reporting units. If the carrying value exceeds its estimated fair value, an impairment loss would be recognized if the implied fair value of goodwill was less than its carrying value. In this event, the asset is written down accordingly. In accordance with SFAS No. 142, the Company has completed step one of the impairment tests and fair value analysis for goodwill and other intangible assets, respectively, and there were no impairments or impairment indicators present and no loss was recorded during the ten-month transition period ended December 31, 2002. During the fiscal year ended February 23, 2002, management determined that certain intangible assets having an unamortized cost of \$20.4 had been permanently impaired as a result of the decline in industry conditions and facility consolidation.

Long-Lived Assets – The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its carrying amount. Any required impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value, and is recorded as a reduction in the carrying value of the related asset and a charge to operating results. During the year ended February 23, 2002, management determined that certain property, plant and equipment had been permanently impaired as a result of the decline in industry conditions and facility consolidation. As a result, the Company recorded a charge of \$24.1 in the third quarter of the fiscal year ended February 23, 2002.

Product Warranty Costs – Estimated costs related to product warranties are accrued at the time products are sold. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company's stated warranty policies and practices, the historical frequency of claims and the cost to replace or repair its products under warranty. The following table provides a reconciliation of the activity related to the Company's accrued warranty expense:

	Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
Balance at beginning of period	\$ 11.3	\$ 9.9	\$ 22.9
Charges to costs and expenses	2.5	8.4	9.7
Costs incurred	<u>(4.9)</u>	<u>(7.0)</u>	<u>(22.7)</u>
Balance at end of period	<u>\$ 8.9</u>	<u>\$ 11.3</u>	<u>\$ 9.9</u>

Accounting for Stock-Based Compensation – The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", 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 (loss) earnings and net (loss) earnings per share for the transition period ended December 31, 2002 and for the fiscal years ended February 23, 2002 and February 24, 2001 would have been reduced to the pro forma amounts indicated in the following table:

	Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
As reported			
Net (loss) earnings	\$ (70.8)	\$ (104.1)	\$ 20.3
Deduct: Additional expense per SFAS No. 123, fair value method, net of related tax effects	<u>5.8</u>	<u>9.2</u>	<u>14.6</u>
Pro forma	<u>\$ (76.6)</u>	<u>\$ (113.3)</u>	<u>\$ 5.7</u>
Basic net earnings (loss) per share:			
As reported	\$ (2.03)	\$ (3.18)	\$ 0.80
Pro forma	\$ (2.19)	\$ (3.46)	\$ 0.22
Diluted net earnings (loss) per share:			
As reported	\$ (2.03)	\$ (3.18)	\$ 0.78
Pro forma	\$ (2.19)	\$ (3.46)	\$ 0.22

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 during the transition period ended December 31, 2002 and fiscal 2002 and 2001: risk-free interest rates of 3.7%, 4.4% and 6.1%, expected dividend yields of 0.0%; expected lives of 3.5 years, 3.5 years and 3.5 years; and expected volatility of 96%, 85%, and 70%, respectively.

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

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.

Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, requires gains and losses on extinguishment of debt to be classified as part of continuing operations rather than treated as extraordinary, as previously required in accordance with SFAS No. 4. SFAS No. 145 also modifies accounting for subleases where the original lessee remains the secondary obligor and requires certain modifications to capital leases to be treated as sale-leaseback transactions. The Company will adopt SFAS No. 145 on January 1, 2003 and expects no material impact to its consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies the guidance previously provided under Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Among other things, SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when there is a commitment to a restructuring plan as set forth under the nullified guidance. The Company plans to adopt SFAS No. 146 on January 1, 2003 for future restructurings as required.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148 is not expected to have a material impact on the Company's financial position or results of operations as the Company has no plans to adopt the fair value method.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others", an interpretation of FIN No. 5, 57 and 107, and rescission of FIN No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others". FIN No. 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the recognition provisions of FIN No. 45 is not expected to have a material impact on the Company's consolidated results of operations and financial position.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Entities", an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The consolidation requirements of FIN No. 46 will apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements will apply to entities established prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. The disclosure requirements will apply in all financial statements issued after January 31, 2003. The Company will begin to adopt the provisions of FIN No. 46 during the first quarter of calendar 2003 but expects the provisions of FIN No. 46 will not have a material impact on its consolidated results of operations and financial position upon adoption as it does not currently have any variable interest entities.

2. TRANSITION REPORTING

In October 2002, the Company changed its fiscal year end from the last Saturday in February to December 31, effective with the transition period beginning on February 24, 2002 and ending on December 31, 2002. These financial statements are being filed by the Company as part of a Transitional Report on Form 10-K covering the transition period. Prospectively, the Company's fiscal quarters will conform to calendar periods ending March 31, June 30 and September 30.

All references to the ten-month period from February 25, 2001 to December 31, 2001 are unaudited.

The following financial data is presented to illustrate the period's results of operations and earnings per share information for the ten-month period ended December 31, 2001:

	<u>2001</u>
Net sales	\$ 582.6
Gross profit	118.2
Operating loss	(38.7)
Loss before income taxes and extraordinary item	(87.5)
Income taxes	2.0
Net loss before extraordinary item	(89.5)
Net loss	(98.8)
Net loss per share before extraordinary item	(2.76)
Net loss per share	(3.05)

The results for the ten-month period ended December 31, 2001 include approximately \$98.9 of facility consolidation charges and \$1.5 of transition costs included as a component of cost of sales (See note 4). Also, the Company recorded costs and expenses associated with the acquisition of M & M of approximately \$6.8 that is included as a component of selling, general and administrative expenses in the ten-month period ended December 31, 2001 (See note 3).

The Company recorded a \$9.3 extraordinary item during the ten-month period ended December 31, 2001 related to the early extinguishments of certain long-term debt.

3. ACQUISITIONS AND DISPOSITION

The Company has completed a number of acquisitions and a disposition. The following is a summary of recent transactions:

Fiscal Year 2002 Acquisitions

Effective May 8, 2001, the Company acquired the outstanding common stock of Nelson Aero Space, Inc. for approximately \$20.0. Effective July 18, 2001, the Company acquired the outstanding common stock of Denton Jet Interiors, Inc. for approximately \$16.0. Both of the transactions have been accounted for using purchase accounting. The assets purchased and liabilities assumed have been reflected in the accompanying consolidated balance sheet as of February 23, 2002.

On September 14, 2001, the Company acquired M & M Aerospace Hardware, Inc. ("M & M") for \$184.7. M & M is a leading distributor of aerospace fasteners. The M & M acquisition was completed by issuing to the former shareholders a total of approximately 1.9 million shares of B/E stock valued at \$32.7, paying them \$152.0 in cash and assuming current liabilities of approximately \$8.8. The Company financed this acquisition through cash on hand and approximately \$100.0 of borrowings under its Bank Credit Facility. This transaction has been accounted for using purchase accounting and has been included in the Company's operations since the date of acquisition.

The purchase price of M & M has been allocated based on independent appraisals and management's estimates as follows:

Accounts receivable	\$ 13.4
Inventories	53.8
Other current assets	0.2
Property and equipment	16.7
Goodwill, (non-amortizing, tax deductible)	88.3
Trademark (indefinite life, non-amortizing)	19.4
Non-compete agreement (useful life of 8 years)	1.7
Current liabilities	<u>(8.8)</u>
	<u>\$184.7</u>

The Company believes that the M&M acquisition resulted in the recognition of goodwill primarily because of its industry position, management strength and potential to serve as a platform for the consolidation of the business segment.

The Company recorded costs and expenses associated with the acquisition of M & M of approximately \$6.8, which is included as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations for the fiscal year ended February 23, 2002.

Disposition

In-Flight Entertainment Business

In February 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") for approximately \$62.0 in cash. In October 1999, the Company completed the sale of its remaining 49% equity interest in IFE to Sextant. Terms of the agreement provided for the Company to receive two payments totaling \$31.4, and a third payment based on actual sales and bookings as defined in the agreement (the "IFE obligations"). The IFE obligation amounts were included in other current assets net, in the accompanying consolidated financial statements as of February 23, 2002. Sextant had not made any of the payments related to the IFE obligations in accordance with the terms of the purchase and sale agreement. The Company initiated arbitration proceedings to compel payment. Sextant counterclaimed against the Company, claiming various breaches of the IFE Sale agreements. In February 2003, an arbitration panel resolved the dispute by awarding BE Aerospace, Inc. a net amount of \$7.8. In connection with this decision, the Company recorded a charge of \$29.5 in the accompanying consolidated statement of operations for the transition period ended December 31, 2002. This charge represented the difference between the balance of the IFE obligations receivable and the net amount awarded to the Company as of December 31, 2002.

4. FACILITY CONSOLIDATIONS AND OTHER SPECIAL CHARGES

The September 11, 2001 terrorist attacks have severely impacted conditions in the airline industry. Sharply lower demand from our airline customer base affected the Company's financial results, both for the ten-month transition period ended December 31, 2002 and the fiscal year ended February 23, 2002. The lower demand reflects the current downturn in the airline industry, which is the most severe ever experienced. High airline operating costs, weak air travel and low ticket prices have damaged many carriers' financial condition. Prior to the September 11, 2001 terrorist attacks, airline profits were already being adversely affected by increases in pilot and other airline wages, higher fuel prices and the softening of the global economy. Air travel dropped significantly following the 2001 terrorist attacks, further weakening many airlines' financial condition.

The rapid decline in industry conditions brought about by the terrorist attacks on September 11, 2001 caused the Company to implement a facility consolidation and integration plan designed to re-align its capacity and cost structure with changed conditions in the airline industry. In November 2001, the Company began implementing a facility consolidation plan that consisted of closing five principal facilities and reduce its workforce by about 1,000 employees. As a result, during fiscal 2002, the Company recorded a charge of \$98.9 which included cash expenses of approximately \$15.6 and non-cash charges totaling approximately \$62.9 associated with the write-down of fixed assets, inventory and other assets and \$20.4 million associated with the impairment of related intangible assets. The \$15.6 of cash charges related to involuntary severance and benefit programs for approximately 1,000 employees, lease termination costs and preparing facilities for disposal and sale. In addition, the Company incurred approximately \$5.7 of transition costs associated with the facilities and personnel consolidation program, which were expensed as incurred. These costs and charges, which aggregate \$104.6, have been included in cost of sales for the fiscal year ended February 23, 2002.

Industry conditions continued to worsen during the fall of 2002 as the airlines deferred retrofit programs and continued to lower their purchases of spare parts. In addition, the business jet manufacturers announced further production cuts and additional plant shutdowns. In response to these worsening conditions, the Company revised its consolidation plan to encompass a total personnel reduction of 1,400 employees.

During the transition period ended December 31, 2002, the Company incurred a total of approximately \$39.5 of charges and transition costs associated with the facilities and personnel consolidation and integration program, which have been expensed as incurred as a component of cost of sales. The charges and transition costs included \$6.0 of costs associated with additional personnel reductions and a \$7.0 charge related to inventories that became obsolete due to the increase in parked aircraft that are not expected to return to active service. Cash requirements related to facility consolidation activities were funded from cash in banks.

Through December 31, 2002, the Company has closed four of the five facilities and paid approximately \$7.0 for over 1,000 of the planned 1,400 headcount reductions. Through December 31, 2002, the Company has incurred approximately \$145.0 of the total estimated costs, including approximately \$55.0 of the estimated cash costs. Cash requirements related to facility consolidation activities were funded from cash in banks.

The following table summarizes the facility consolidation costs accrued as of December 31, 2002:

	Original Accrual	Disposals	Cash Paid	Balance at Feb. 23, 2002	Additions	Disposals/ Reclass	Cash Paid	Balance at Dec. 31, 2002
Accrued liability for severance, lease termination and other costs	\$15.6	\$ --	\$(3.1)	\$ 12.5	\$ 6.0	\$ 1.7	\$(16.4)	\$3.8
Impaired inventories, property and equipment	62.9	(50.8)	--	12.1	7.0	(19.1)	--	--
Impaired intangible assets	20.4	(20.4)	--	--	--	--	--	--
	<u>\$98.9</u>	<u>\$(71.2)</u>	<u>\$(3.1)</u>	<u>\$ 24.6</u>	<u>\$ 13.0</u>	<u>\$(17.4)</u>	<u>\$(16.4)</u>	<u>\$3.8</u>

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:

	December 31, 2002	February 23, 2002
Raw materials and component parts	\$ 58.8	\$ 53.4
Work-in-process	26.5	32.6
Finished goods (primarily aftermarket fasteners)	<u>77.9</u>	<u>71.0</u>
	<u>\$163.2</u>	<u>\$157.0</u>

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 (or the lesser of the term of the lease as to leasehold improvements, as appropriate). Property and equipment consist of the following:

	<u>Useful Life (Years)</u>	<u>December 31, 2002</u>	<u>February 23, 2002</u>
Land, buildings and improvements	10 - 30	\$ 38.2	\$ 61.2
Machinery	3 - 13	54.4	56.6
Tooling	3 - 10	16.0	15.8
Computer equipment and software	4 - 15	84.6	81.8
Furniture and equipment	2 - 10	<u>9.9</u>	<u>9.4</u>
		203.1	224.8
Less accumulated depreciation and amortization		<u>(87.6)</u>	<u>(82.1)</u>
		<u>\$115.5</u>	<u>\$142.7</u>

7. GOODWILL AND INTANGIBLE ASSETS

Effective February 24, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." As a result of adopting SFAS No. 142, the Company's goodwill and certain intangible assets are no longer amortized, but are subject to an annual impairment test. In accordance with the implementation of SFAS No. 142, the historical cost and accumulated amortization of certain developed technologies were reset with no impact to the consolidated financial statements. The following sets forth the intangible assets by major asset class, all of which were acquired during business acquisition transactions:

	<u>Useful Life (Years)</u>	<u>December 31, 2002</u>			<u>February 23, 2002</u>		
		<u>Original Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Original Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Acquired technologies	4-30	\$ 93.2	\$14.4	\$ 78.8	\$ 108.7	\$27.2	\$ 81.5
Trademarks and patents	7-30	26.0	8.5	17.5	24.6	6.8	17.8
Trademarks (nonamortizing)	--	19.4	--	19.4	19.4	--	19.4
Technical qualifications, plans and drawings	3-30	26.1	12.8	13.3	25.5	11.5	14.0
Replacement parts annuity and product approvals	3-30	39.2	18.2	21.0	37.6	15.9	21.7
Covenant not to compete and other identified intangibles	3-10	<u>24.8</u>	<u>9.6</u>	<u>15.2</u>	<u>30.6</u>	<u>12.1</u>	<u>18.5</u>
		<u>\$228.7</u>	<u>\$63.5</u>	<u>\$165.2</u>	<u>\$246.4</u>	<u>\$73.5</u>	<u>\$172.9</u>

Aggregate amortization expense on intangible assets was approximately \$7.5, \$25.0 and \$23.4 for the ten-month transition period ended December 31, 2002 and for the fiscal years ended February 23, 2002 and February 24, 2002, respectively. Amortization expense associated with identified intangible assets is expected to be approximately \$8.9 in each of the next five years.

Changes to the original cost basis of goodwill during the transition period ended December 31, 2002 were due to the reclassification of assembled workforce to goodwill and foreign currency fluctuations. The changes in the carrying amount of goodwill for the transition period ended December 31, 2002 are as follows:

	<u>Total</u>
Balance as of February 23, 2002	\$ 333.1
Goodwill acquired	2.0
Reclassification of assembled workforce	8.5
Acquisition purchase price adjustment	(1.5)
Effect of foreign currency translation	<u>2.6</u>
Balance as of December 31, 2002	<u>\$ 344.7</u>

A reconciliation of reported earnings (losses) before extraordinary item to earnings (losses) before extraordinary item adjusted to reflect the adoption of the non-amortization provisions of SFAS No. 142 as if SFAS No. 142 was adopted on February 27, 2000:

	Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
Earnings (loss) before extraordinary item:			
As reported	\$ (70.8)	\$ (94.8)	\$ 20.3
Goodwill amortization	<u>--</u>	<u>8.8</u>	<u>6.6</u>
As adjusted	<u>\$ (70.8)</u>	<u>\$ (86.0)</u>	<u>\$ 26.9</u>
Basic net earnings (loss) per share before extraordinary item:			
As reported	\$ (2.03)	\$ (2.90)	\$ 0.80
Goodwill amortization	<u>--</u>	<u>0.27</u>	<u>0.26</u>
As adjusted	<u>\$ (2.03)</u>	<u>\$ (2.63)</u>	<u>\$ 1.06</u>
Diluted net earnings (loss) per share before extraordinary item:			
As reported	\$ (2.03)	\$ (2.90)	\$ 0.78
Goodwill amortization	<u>--</u>	<u>0.27</u>	<u>0.26</u>
As adjusted	<u>\$ (2.03)</u>	<u>\$ (2.63)</u>	<u>\$ 1.04</u>

A reconciliation of reported net earnings (losses) to net earnings (losses) adjusted to reflect the adoption of the non-amortization provisions of SFAS No. 142 as if SFAS No. 142 was adopted on February 27, 2000:

	Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
Net earnings (loss):			
As reported	\$ (70.8)	\$ (104.1)	\$ 20.3
Goodwill amortization, net of taxes	<u>--</u>	<u>8.8</u>	<u>6.6</u>
As adjusted	<u>\$ (70.8)</u>	<u>\$ (95.3)</u>	<u>\$ 26.9</u>
Basic net earnings (loss) per share:			
As reported	\$ (2.03)	\$ (3.18)	\$ 0.80
Goodwill amortization	<u>--</u>	<u>0.27</u>	<u>0.26</u>
As adjusted	<u>\$ (2.03)</u>	<u>\$ (2.91)</u>	<u>\$ 1.06</u>
Diluted net earnings (loss) per share:			
As reported	\$ (2.03)	\$ (3.18)	\$ 0.78
Goodwill amortization	<u>--</u>	<u>0.27</u>	<u>0.26</u>
As adjusted	<u>\$ (2.03)</u>	<u>\$ (2.91)</u>	<u>\$ 1.04</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2002	February 23, 2002
Accounts payable	\$ 67.3	\$ 48.1
Accrued salaries, vacation and related benefits	16.3	17.0
Accrued interest	14.3	24.1
Accrued product warranties	8.9	11.3
Accrued acquisition expenses	3.8	13.9
Accrued restructuring	3.8	12.5
Other accrued liabilities	<u>22.5</u>	<u>23.4</u>
	<u>\$136.9</u>	<u>\$150.3</u>

9. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2002	February 23, 2002
8% Senior Subordinated Notes	\$249.7	\$249.7
8 7/8% Senior Subordinated Notes	250.0	250.0
9 1/2% Senior Subordinated Notes	200.0	200.0
Bank Credit Facility	144.0	145.0
Other long-term debt	<u>9.2</u>	<u>10.1</u>
	852.9	854.8
Less current portion of long-term debt	<u>(16.9)</u>	<u>(1.3)</u>
	<u>\$836.0</u>	<u>\$853.5</u>

8% Senior Subordinated Notes

The 8% Senior Subordinated 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. 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.

8 7/8% Senior Subordinated Notes

In April 2001, the Company sold \$250.0 of 8 7/8% Senior Subordinated Notes (the "8 7/8% Notes") due 2011. The net proceeds less debt issue costs received from the sale of the notes were approximately \$242.8. Approximately \$105.0 of proceeds was used to redeem the Company's \$100.0 of 9 7/8% senior subordinated notes due 2006 and approximately \$66.7 of proceeds was used to repay balances outstanding under the Company's previous bank credit facility, which was then terminated.

The 8 7/8% Notes are unsecured senior subordinated obligations of the Company, subordinated to all existing and future senior indebtedness and mature on May 1, 2011. Interest on the 8 7/8% Notes is payable semiannually in arrears on May 1 and November 1 of each year. The 8 7/8% Notes are redeemable, at the option of the Company, in whole or in part, at any time on or after May 1, 2006, at predetermined redemption prices together with accrued and unpaid interest through the date of redemption. In addition, at any time prior to May 1, 2004, the Company may redeem up to 35% of the aggregate principal amount of the Notes originally issued with the net proceeds of a public equity offering at 108.875% of the principal amount thereof, plus accrued interest, if at least 65% of the aggregate amount of the notes originally issued remains outstanding after the redemption. Upon a change in control (as defined), each holder of the 8 7/8% Notes may require the Company to repurchase such holder's 8 7/8% Notes at 101% of the principal amount thereof, plus accrued interest to the date of such purchase.

The 9 7/8% Senior Subordinated Notes (the "9 7/8% Notes") were senior unsecured obligations of the Company. The Company redeemed the 9 7/8% Notes at a redemption price equal to 104.97% of the principal amount, together with the accrued interest to the redemption date. The Company incurred an extraordinary charge of \$9.3 (net of tax) for unamortized debt issue costs, redemption premiums and fees and expenses related to the redemption of the 9 7/8% Notes.

9 1/2% Senior Subordinated Notes

The 9 1/2% Senior Subordinated Notes (the "9 1/2 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 9 1/2% Notes is payable semiannually in arrears on May 1 and November 1 of each year. The 9 1/2% 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 9 1/2% Notes may require the Company to repurchase such holder's 9 1/2% Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of such purchase.

The 8% Notes, 8 7/8% Notes and 9 1/2% 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 December 31, 2002.

Bank Credit Facility

In January and March 2003, the Company obtained amendments to the credit facility with J.P. Morgan Chase (the "Amended Bank Credit Facility"). The Amended Bank Credit Facility reduced the total commitments by \$15.0 to \$135.0 during January 2003 (of which \$30.0 may be utilized for acquisitions). The Amended Bank Credit Facility provides for another \$15.0 reduction in facility size to \$120.0 at December 31, 2004. The Amended Bank Credit Facility expires in August 2006 and is collateralized by substantially all of our cash, accounts receivable, inventories and other personal property. At December 31, 2002, indebtedness under the Bank Credit Facility consisted of letters of credit aggregating approximately \$5.6 and outstanding borrowings under the revolving facility aggregating to \$144.0 (bearing interest at LIBOR plus 3.0%, or approximately 4.64% as of December 31, 2002). The Amended Bank Credit Facility bears interest ranging from 200 to 350 basis points over the Eurodollar rate as defined in the agreement (or approximately 4.5% as of the January 2003 effective date). The Amended Bank Credit Facility contains customary affirmative covenants, negative covenants and conditions of borrowings, all of which were met as of December 31, 2002. The Company presented the \$15.0 reduction in commitments as short-term debt in the consolidated balance sheet at December 31, 2002.

B/E Aerospace (UK) Limited, one of the Company's subsidiaries, has a revolving line of credit agreement aggregating approximately \$6.4. This credit agreement is collateralized by accounts receivable and inventory of B/E Aerospace (UK) Limited. There were no borrowings outstanding under the credit agreement as of December 31, 2002.

Royal Inventum B.V., one of the Company's subsidiaries, has a revolving credit agreement aggregating approximately \$0.5. This credit agreement is collateralized by accounts receivable and inventory of the Netherland's entity. There were no borrowings outstanding under the credit agreement as of December 31, 2002.

Maturities of long-term debt are as follows:

<u>Year ending December 31,</u>	
2003	\$ 16.9
2004	17.6
2005	0.7
2006	114.7
2007	3.3
Thereafter	<u>699.7</u>
Total	<u>\$852.9</u>

Interest expense amounted to \$60.7 for the transition period ended December 31, 2002 and \$66.2 and \$57.9 for the fiscal years ended February 23, 2002 and February 24, 2001, respectively.

10. COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

Sale-Leaseback Transaction — During 2002, the Company entered into two sale-leaseback transactions involving four of its facilities. Under the terms of the sale-leaseback agreements, the facilities were sold for \$27.0, net of transaction costs, and have been leased back for initial periods ranging from 15 to 20 years. The leasebacks have been accounted for as operating leases. A gain of \$4.8 resulting from the sales have been deferred and will be amortized on a straight-line basis to rent expense over the initial term of the leases.

Lease Commitments — The Company finances its use of certain facilities and equipment under committed lease arrangements provided by various institutions. Since the terms of these arrangements meet the accounting definition of operating lease arrangements, the aggregate sum of future minimum lease payments is not reflected on our consolidated balance sheet. At December 31, 2002, future minimum lease payments under these arrangements approximated \$54.2. We also have various other agreements whose future minimum lease payments approximated \$28.0 at December 31, 2002.

Rent expense for the transition period ended December 31, 2002 and for fiscal years 2002 and 2001 was approximately \$13.5, \$9.7 and \$12.3, respectively. Future payments under operating leases with terms currently greater than one year are as follows:

<u>Year ending December 31,</u>	
2003	\$ 11.1
2004	7.8
2005	6.9
2006	6.1
2007	6.0
Thereafter	<u>44.3</u>
	<u>\$ 82.2</u>

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.

Indemnities, Commitments and Guarantees — During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property indemnities to the Company's customers in connection with the delivery, design, manufacture and sale of its products, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, indemnities to other parties to certain acquisition agreements and indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Substantially all of these indemnities, commitments and guarantees provide for limitations on the maximum potential future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

Employment Agreements — The Company has employment and compensation agreements with three key officers of the Company. Agreements for one of the officers provides for an officer to earn a minimum of \$765 thousand per year through a three year period ending from any date after which it is measured, 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 times 150% of the highest annual salary paid over the period. Such deferred compensation is payable in a lump sum, less any prior distributions.

A second agreement provides for an officer to receive annual minimum compensation of \$710 thousand per year through a three year period ending from any date after which it is measured, 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 times 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 \$345 thousand per year through a three year period ending from any date after which it is measured, 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 number of years worked times one-half of this officer's average highest three year's annual salary (as defined). Such deferred compensation is payable in a lump sum, less any prior distributions.

Deferred compensation for these three officers has been accrued as provided for under the above-mentioned employment agreements. Through December 31, 2001, the Company funded these and other deferred compensation obligations through corporate-owned life insurance policies and other investments, all of which were maintained in an irrevocable rabbi trust. The rabbi trust was terminated and the funds were deposited into individual retirement accounts for the benefit of the executives in January 2002. All contributions and prior deferred compensation made subsequent to January 2002 are maintained in individual grantor trusts on behalf of each of the executives. In addition, the Company has employment agreements with certain other key members of management that provide for aggregate minimum annual base compensation of \$1.9 million expiring on various dates through the year 2003. The Company's employment agreements generally provide for certain protections in the event of a change of control. These protections generally include the payment of severance and related benefits under certain circumstances in the event of a change of control, and for the Company to reimburse such officers for the amount of any excise taxes associated with such benefits.

11. INCOME TAXES

Income tax expense consists of the following:

	Transition Period Ended	Fiscal Year Ended	
	December 31, 2002	February 23, 2002	February 24, 2001
Current:			
Federal	\$ --	\$ 0.7	\$ 1.3
State	--	--	--
Foreign	<u>2.7</u>	<u>1.1</u>	<u>0.9</u>
	2.7	1.8	2.2
Deferred:			
Federal	11.7	22.9	8.3
State	(0.2)	3.8	2.5
Foreign	<u>6.6</u>	<u>4.0</u>	<u>1.1</u>
	18.1	30.7	11.9
Change in valuation allowance	<u>(18.1)</u>	<u>(30.7)</u>	<u>(11.9)</u>
	<u>\$ 2.7</u>	<u>\$ 1.8</u>	<u>\$ 2.2</u>

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:

	Transition Period Ended	Fiscal Year Ended	
	December 31, 2002	February 23, 2002	February 24, 2001
Statutory U.S. federal income tax expense (benefit)	\$ (23.8)	\$ (32.5)	\$ 7.9
Operating loss (with) without tax benefit	6.6	(2.5)	1.0
Goodwill amortization	--	3.2	3.3
Foreign tax rate differential	1.2	2.5	1.3
Meals and entertainment	0.3	0.2	0.3
Officer's life insurance	0.1	0.2	0.3
Change in valuation allowance	18.1	30.7	(11.9)
Other, net	<u>0.2</u>	<u>--</u>	<u>--</u>
	<u>\$ 2.7</u>	<u>\$ 1.8</u>	<u>\$ 2.2</u>

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

	December 31, 2002	February 23, 2002	February 24, 2001
Inventory reserves	\$ 9.3	\$ 8.9	\$ 6.3
Acquisition accruals	(10.2)	(7.3)	(6.4)
Warranty accruals	2.9	4.8	3.5
Accrued liabilities	12.9	15.0	10.6
Other	<u>1.2</u>	<u>2.1</u>	<u>1.5</u>
Net current deferred income tax asset	<u>16.1</u>	<u>23.5</u>	<u>15.5</u>
Intangible assets	4.0	11.6	9.8
Depreciation	(11.9)	(15.5)	(11.8)
Net operating loss carryforward	99.9	83.0	48.3
Research credit carryforward	7.1	7.1	7.1
Deferred compensation	0.7	1.1	11.3
Software development costs	(5.5)	(5.5)	(5.4)
Loss on legal settlement	13.0	--	--
Other	<u>1.0</u>	<u>1.0</u>	<u>0.8</u>
Net noncurrent deferred income tax asset	<u>108.3</u>	<u>82.8</u>	<u>60.1</u>
Valuation allowance	<u>(124.4)</u>	<u>(106.3)</u>	<u>(75.6)</u>
Net deferred tax assets (liabilities)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

The Company established a valuation allowance of \$124.4, as of December 31, 2002 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. The federal operating loss carryforward 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 impacting the airframe manufacturers and the airlines, the Company's high degree of financial leverage, risks associated with new product introductions 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 December 31, 2002, the Company had federal, state and foreign net operating loss carryforwards of \$223.4, \$134.7 and \$9.6, respectively. The federal and state net operating loss carryforwards begin to expire in 2012 and 2003, respectively. Approximately \$43.1 of the Company's net operating loss carryforward is related to the exercise of stock options and the tax effect of such net operating losses will be credited to additional paid-in capital rather than income tax expense when utilized.

As of December 31, 2002, the Company had federal research tax credit and alternative minimum tax credit carryforwards of \$7.1 and \$1.0, respectively. The federal research tax credits begin to expire in 2012.

The Company has not provided for any residual U.S. income taxes on the approximately \$24.7 of earnings from its foreign subsidiaries because such earnings are intended to be indefinitely reinvested. Such residual U.S. income taxes, if provided for, would be immaterial.

The Company's federal tax returns for the years ended February 22, 1997, February 28, 1998 and February 27, 1999 are currently under examination by the Internal Revenue Service. Management believes that the resolution of this examination will not have a material adverse effect on either the Company's results of operations or financial position.

12. EMPLOYEE RETIREMENT PLANS

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 other employees. The Company has invested in corporate-owned life insurance policies to assist in funding this program. 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 \$11.0 thousand 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 \$2.1, \$3.4 and \$1.9 for the transition period ended December 31, 2002 and for the fiscal years ended February 23, 2002 and February 24, 2001, respectively. Participants vest 100% in the Company match after three years of service.

13. STOCKHOLDERS' EQUITY

Earnings (Loss) Per Share. Basic earnings per common share are determined by dividing earnings (loss) applicable to common shareholders by the weighted average number of shares of common stock. Diluted earnings per share are determined by dividing earnings (loss) applicable 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 (loss) earnings per share for the transition period ended December 31, 2002 and for the fiscal years ended February 23, 2002 and February 24, 2001:

	Transition Period Ended	Fiscal Year Ended	
	December 31, 2002	February 23, 2002	February 24, 2001
Numerator – Net (loss) earnings	<u>\$ (70.8)</u>	<u>\$ (104.1)</u>	<u>\$ 20.3</u>
Denominator:			
Denominator for basic earnings (loss) per share –			
Weighted average shares	34.9	32.7	25.4
Effect of dilutive securities –			
Employee stock options	<u>—</u>	<u>—</u>	<u>0.5</u>
Denominator for diluted (loss) earnings per share –			
Adjusted weighted average shares	<u>34.9</u>	<u>32.7</u>	<u>25.9</u>
Basic net (loss) earnings per share	<u>\$ (2.03)</u>	<u>\$ (3.18)</u>	<u>\$ 0.80</u>
Diluted net (loss) earnings per share	<u>\$ (2.03)</u>	<u>\$ (3.18)</u>	<u>\$ 0.78</u>

The Company excluded dilutive securities from the calculation of loss per share of approximately 0.8 million and approximately 1.1 million for the transition period ended December 31, 2002 and for the fiscal year ended February 23, 2002, respectively.

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:

December 31, 2002

	Options (in thousands)	Option Price Per Share	Weighted Average Price Per Share
Outstanding, beginning of period	7,059	\$4.08 - \$31.50	\$14.41
Options granted	1,432	3.25 - 9.70	4.42
Options exercised	(203)	4.08 - 12.00	6.31
Options forfeited	(294)	4.08 - 31.50	17.15
Outstanding, end of period	<u>7,994</u>	3.25 - 31.50	12.50
Exercisable at end of period	<u>5,420</u>	\$3.25 - \$30.25	\$15.59

February 23, 2002

	Options (in thousands)	Option Price Per Share	Weighted Average Price Per Share
Outstanding, beginning of period	6,056	\$6.94 - \$31.50	\$17.30
Options granted	1,980	4.08 - 21.88	5.55
Options exercised	(365)	4.08 - 22.75	11.60
Options forfeited	(612)	4.08 - 29.87	19.93
Outstanding, end of period	<u>7,059</u>	4.08 - 31.50	14.41
Exercisable at end of year	<u>4,535</u>	\$4.08 - \$31.50	\$17.43

February 24, 2001

	Options (in thousands)	Option Price Per Share	Weighted Average Price Per Share
Outstanding, beginning of period	5,808	\$7.00 - \$31.50	\$18.00
Options granted	1,231	6.94 - 16.00	12.05
Options exercised	(600)	6.94 - 19.00	10.61
Options forfeited	(383)	6.94 - 29.88	19.98
Outstanding, end of period	<u>6,056</u>	6.94 - 31.50	17.30
Exercisable at end of year	<u>3,793</u>	\$6.94 - \$31.50	\$19.54

At December 31, 2002, 450,235 options were available for grant under each of the Company's Option Plans.

**Options Outstanding
at December 31, 2002**

Range of Exercise Price	Options Outstanding (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Options Exercisable (in thousands)	Weighted Average Exercise Price
\$ 3.25 - \$4.43	2,854	\$ 4.25	9.23	996	\$ 4.20
6.75 - 12.00	2,007	9.60	6.81	1,382	9.75
12.13 - 19.00	1,364	17.87	5.77	1,308	17.88
19.88 - 30.25	<u>1,769</u>	24.98	5.20	<u>1,734</u>	25.05
	<u>7,994</u>			<u>5,420</u>	

The estimated fair value of options granted during the transition period ended December 31, 2002 and for fiscal 2002 and fiscal 2001, was \$3.54 per share, \$4.17 per share and \$7.80 per share, respectively.

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 261,000 and 136,000 shares of common stock during the transition period ended December 31, 2002 and during fiscal 2002, respectively, pursuant to this plan at an average price per share of \$6.49 and \$14.29, respectively.

15. SEGMENT REPORTING

The Company is organized based on the products and services it offers. Under this organizational structure, the Company has three reportable segments: Commercial Aircraft Products, Business Jet Products and Fastener Distribution. The Company's Commercial Aircraft Products segment consists of eight operating facilities while the Business Jet and Fastener Distribution segments consist of two and one principal operating facilities, respectively.

Each segment reports its results of operations and makes requests for capital expenditures and acquisition funding to the Company's chief operational decision-making group. This group is presently comprised of the Chairman, the President and Chief Executive Officer, and the Corporate Senior Vice President of Administration and Chief Financial Officer. Each operating segment has separate management teams and infrastructures dedicated to providing a full range of products and services to their commercial, business jet and aircraft-manufacturing customers.

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

	TRANSITION PERIOD ENDED DECEMBER 31, 2002			
	Commercial Aircraft Products	Business Jet Products	Fastener Distribution	Consolidated
Net sales	\$354.5	\$ 71.1	\$ 78.0	\$ 503.6
Operating earnings (loss)	(32.9)	7.6	14.5	(10.8)
Total assets	700.9	170.5	195.7	1,067.1
Goodwill	169.2	87.3	88.2	344.7
Capital expenditures	12.0	4.9	0.5	17.4
Depreciation and amortization	19.9	3.6	1.2	24.7

	FISCAL YEAR ENDED FEBRUARY 23, 2002			
	Commercial Aircraft Products	Business Jet Products	Fastener Distribution	Consolidated
Net sales	\$550.6	\$ 85.6	\$ 44.3	\$ 680.5
Operating earnings (loss)	(40.1)	6.0	1.6	(32.5)
Total assets	761.3	165.0	202.0	1,128.3
Goodwill, net	164.8	82.5	85.8	333.1
Capital expenditures	11.1	2.2	0.6	13.9
Depreciation and amortization	34.9	10.6	1.3	46.8

	FISCAL YEAR ENDED FEBRUARY 24, 2001			
	Commercial Aircraft Products	Business Jet Products	Fastener Distribution	Consolidated
Net sales	\$580.3	\$ 86.1	\$ --	\$ 666.4
Operating earnings	62.5	14.2	--	76.7
Total assets	739.8	196.2	--	936.0
Goodwill, net	172.6	43.5	--	216.1
Capital expenditures	12.6	4.6	--	17.2
Depreciation and amortization	33.4	9.4	--	42.8

Through February 24, 2001, we operated in the (1) commercial aircraft products, (2) business jet products and (3) engineering services segments of the commercial airline and general aviation industry. Following the purchase of M & M Aerospace, Inc., we realigned our business to operate in the following segments – (1) commercial aircraft products, (2) business jet products and (3) fastener distribution.

Net sales for similar classes of products or services within these business segments for the transition period ended December 31, 2002 and for the fiscal years ended February 2002 and 2001 are presented below:

	Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
Commercial aircraft products:			
Seating products	\$144.6	\$247.8	\$288.1
Interior systems products	116.0	152.6	151.6
Engineered interior structures, components and assemblies	93.9	150.2	140.6
	<u>354.5</u>	<u>550.6</u>	<u>580.3</u>
Business jet products	71.1	85.6	86.1
Fastener distribution	78.0	44.3	--
Net sales	<u>\$503.6</u>	<u>\$680.5</u>	<u>\$666.4</u>

The Company operated principally in two geographic areas, the United States and Europe (primarily the United Kingdom), during the transition period ended December 31, 2002 and during the fiscal years ended February 23, 2002 and February 24, 2001. 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 transition period ended December 31, 2002 and the fiscal years ended February 23, 2002 and February 24, 2001 and identifiable assets as of December 31, 2002, February 23, 2002 and February 24, 2001 by geographic area:

	Transition Period Ended December 31, 2002	Fiscal Year Ended	
		February 23, 2002	February 24, 2001
Net sales:			
United States	\$ 362.4	\$ 535.7	\$ 503.8
Europe	<u>141.2</u>	<u>144.8</u>	<u>162.6</u>
Total:	<u>\$ 503.6</u>	<u>\$ 680.5</u>	<u>\$ 666.4</u>
Operating (loss) earnings:			
United States	\$ 13.9	\$ (30.3)	\$ 65.4
Europe	<u>(24.7)</u>	<u>(2.2)</u>	<u>11.3</u>
Total:	<u>\$ (10.8)</u>	<u>\$ (32.5)</u>	<u>\$ 76.7</u>
Identifiable assets:			
United States	\$ 861.9	\$ 948.7	\$ 756.7
Europe	<u>205.2</u>	<u>179.6</u>	<u>179.3</u>
Total:	<u>\$1,067.1</u>	<u>\$1,128.3</u>	<u>\$ 936.0</u>

Export sales from the United States to customers in foreign countries amounted to approximately \$111.5, \$113.7 and \$160.8 in the transition period ended December 31, 2002 and fiscal years 2002 and 2001, respectively. Net sales to all customers in foreign countries amounted to \$233.9, \$288.3 and \$279.8 in the transition period ended December 31, 2002 and fiscal 2002 and 2001, respectively. Net sales to Europe amounted to 24%, 20% and 22% in the transition period ended December 31, 2002, fiscal 2002 and 2001, respectively. Net sales to Asia amounted to 11%, 12% and 10% in the transition period ended December 31, 2002, fiscal 2002 and 2001, 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 the transition period ended December 31, 2002, fiscal 2002 and 2001.

16. FAIR VALUE INFORMATION

The following disclosure of the estimated fair value of financial instruments at December 31, 2002 and February 23, 2002 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 December 31, 2002 and February 23, 2002, the Company's 8 7/8% Notes had carrying values of \$250.0 and \$250.0 and fair values of \$183.8 and \$211.2, respectively. At December 31, 2002 and February 23, 2002, the Company's 8% Notes had carrying values of \$249.7 and \$249.7 and fair values of \$186.3 and \$209.3, respectively. At December 31, 2002 and February 23, 2002, the Company's 9 1/2% Notes had carrying values of \$200.0 and \$200.0 and fair values of \$150.0 and \$176.5, respectively. The carrying amounts under the Bank Credit Facility are a reasonable estimate of fair value as interest is based upon floating market rates.

The fair value information presented herein is based on pertinent information available to management at December 31, 2002 and February 23, 2002, respectively. 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 the transition period ended December 31, 2002 and the fiscal year ended February 23, 2002 are as follows:

	Transition Period Ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	December 2002
Net sales	\$ 154.3	\$ 154.8	\$ 145.5	\$ 49.0
Gross profit	52.9	49.0	37.0	12.4
Net loss	(1.5)	(6.2)	(22.4)	(40.7)
Basic net loss per share	(0.04)	(0.18)	(0.64)	(1.17)
Diluted net loss per share	(0.04)	(0.18)	(0.64)	(1.17)
	Fiscal Year Ended February 23, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 176.8	\$179.1	\$ 172.8	\$ 151.8
Gross profit (loss)	65.9	69.0	(37.8)	53.3
Net earnings (loss) before extraordinary item	7.8	8.9	(106.2)	(5.3)
Net (loss) earnings	(1.5)	8.9	(106.2)	(5.3)
Basic net (loss) earnings per share	(0.05)	0.28	(3.08)	(0.15)
Diluted net (loss) earnings per share	(0.05)	0.27	(3.08)	(0.15)