Commitment to Excellence

2005 SUMMARY ANNUAL REPORT

EDO corporation

GLOBAL TECHNOLOGY REACH

EDO Corporation designs and manufactures a diverse range of products for defense, intelligence, and commercial markets, and provides related engineering and professional services. EDO's advanced systems are at the core of the transformation to lighter, faster, and smarter defense capabilities.

EDO has a market-driven organizational structure, focused on five key markets that we believe will provide above-average growth. These are market sectors in which the company has industry-leading technology, a solid foundation of products across multiple customers, and a high potential for further development.

We have aligned our resources into two reporting segments, serving five market sectors:

- Engineered Systems and Services
  - Integrated Systems and Structures
  - Undersea Warfare
  - Professional and Engineering Services
- Electronic Systems and Communications
  - Electronic Warfare
  - C4 (Command, Control, Communications and Computers)

This Summary Annual Report describes our key products and introduces some of the individuals responsible for our past success and our confidence in the future.

EDO Corporation was founded in 1925 and employs 3,000 people.

About The Cover
The F-35 Joint Strike Fighter is one of our most important platforms for the future. EDO is developing the weapon-release system, as well as advanced antennas and electronics for this stealthy tactical fighter. EDO produces integrated systems for all of the leading U.S. fighter jets in production today, including the F-15, F-16, F/A-18, and F-22.

EDO is firmly committed to excellence in providing our military personnel with the best possible technology. We are proud of our long heritage of service to the national defense, and are inspired by the brave men and women who rely on our products.

FINANCIAL HIGHLIGHTS

(all amounts expressed in thousands, except per share amounts)

	2005	2004	2003	2002	2001	2000
Net Sales:						
Electronic Systems and Communications	**$ 408,217**	273,306	221,554	163,193	118,907	91,175
Engineered Systems and Services	**$ 240,265**	262,867	239,113	165,683	141,054	115,647
Total	**$ 648,482**	536,173	460,667	328,876	259,961	206,822
Operating Earnings	**$ 53,279**	52,801	30,928	29,385	27,076	9,239
Net Interest Expense	**$ (7,120)**	(7,848)	(8,152)	(4,956)	(2,216)	(2,438)
Dividends on Preferred Shares	**–**	–	–	–	(194)	(881)
Net Earnings Available for Common Shares	**$ 26,269**	29,068	14,809	10,629	14,758	440
Capital Expenditures	**$ 23,718**	14,206	8,865	7,093	14,298	3,861
Company Funded Research and Development Expense	**$ 17,122**	11,620	8,594	8,492	8,750	5,371
Funded Backlog	**$ 558,685**	474,605	462,327	375,029	294,812	252,888
Shareholders' Equity	**$ 239,893**	211,928	190,332	168,273	174,498	65,818
EBITDA, as adjusted*	**$ 78,060**	75,035	66,807	51,184	37,037	27,307
Cash Flow from Operations	**$ 44,823**	25,687	17,574	31,917	14,097	9,334
Weighted Average Common Shares - Diluted**	**23,001**	22,377	17,561	17,379	14,254	10,662
Earnings per Diluted Common Share:						
Continuing Operations	**$ 1.33**	1.49	0.76	0.81	1.09	0.05
Discontinued Operations	**–**	–	0.08	–	0.02	–
Cumulative Effect of a Change in Accounting Principle	**–**	–	–	(0.20)	–	–
Net Earnings per Diluted Common Share	**$ 1.33**	1.49	0.84	0.61	1.11	0.05
Cash Dividends per Common Share	**$ 0.12**	0.12	0.12	0.12	0.12	0.12

* *Excludes unusual items, and pension and ESOP expense or income.*

** *The "Weighted Average Common Shares – Diluted" does not represent the actual number of shares outstanding. Rather, it represents the number of shares required to calculate diluted earnings per share under Generally Accepted Accounting Principles (GAAP).*

James M. Smith
Chairman, President and CEO

TO OUR SHAREHOLDERS

We are pleased to have delivered another year of revenue growth and sustained profitability at EDO Corporation.

We are pleased to have delivered another year of revenue growth and sustained profitability at EDO Corporation. In 2005, revenue was $648.5 million, an increase of 21 percent over the $536.2 achieved in 2004. Revenue has grown at an average compounded annual rate of more than 25 percent since 2000.

Organic revenue growth continues to exceed our own forecasts, which we increased at the beginning of 2005 to a range of eight to ten percent. Driven by the strong demand for our electronic force-protection systems, the actual organic growth rate for 2005 was 17 percent, a remarkable achievement in this industry.

Net income was $26.3 million, or $1.33 per share in 2005, versus $29.1 million, or $1.49 per share in 2004. Net income declined in 2005 primarily because of our substantial investments in new facilities and expenses related to the refinancing of our debt. Nevertheless, earnings per share have grown at an average compounded annual rate of more than 90 percent since 2000.

Again this year, independent observers such as *Forbes* Magazine have recognized our results. In the February 13, 2006 issue, *Forbes* included us among their 25 fastest-growing technology companies. In the October 31, 2005 issue, *Forbes* included EDO in their list of the 200 Best Managed Small Companies. According to Forbes, a company makes the list "by delivering financial performance – namely, growth in sales, earnings per share, and a high return on equity."

Investing for the Future

Our strong financial performance enables us to invest in promising technology and modernize and expand our facilities. Using our substantial cash flow from operations, which in 2005 totaled $44.8 million, we made significant investments to support current and anticipated contract needs and provide capacity for sustainable growth.

These investments included the opening of three modern facilities, consolidation of certain operations, and the closing of three outdated plants. The company now operates 25 facilities in 11 states across the country and in Europe. We also have accelerated internally funded research and development in areas where we have proprietary, market-leading technology, such as electronic force protection and aircraft armament systems.

Market Driven Structure

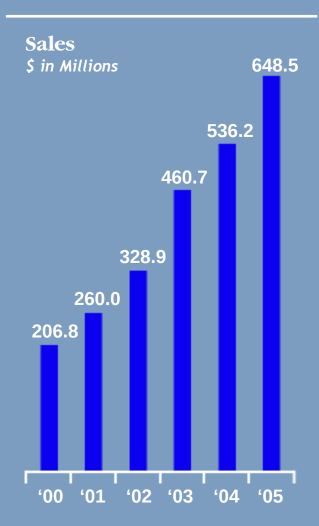
In addition to facility improvements, we are sharpening our competitive edge by focusing marketing and engineering efforts on five key markets that we believe will drive above-average growth. These are market sectors in which the company has advanced technology, a solid foundation of products across multiple customers, and a high potential for further development.

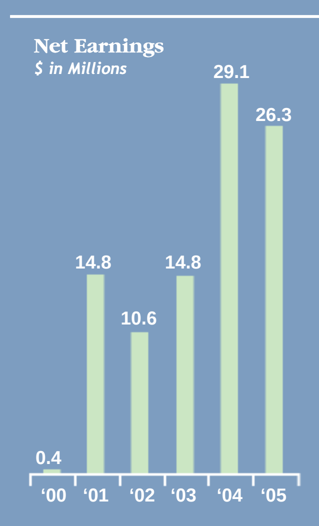
We have aligned our resources into five sectors: Integrated Systems and Structures; Electronic Warfare; C4 (Command, Control, Communications and Computers); Undersea Warfare; and Professional and Engineering Services. This structure is designed to more effectively serve these market sectors and capitalize on their full potential.

Drivers of Future Growth

Among these market-focused sectors, EDO has secured a number of early-stage development or production programs that are expected to drive growth over the next decade.

The largest of these programs is the aircraft-armament system for the F-35 Joint Strike Fighter, which is shown on our cover photo. This program has the potential to generate more than $2 billion for EDO over the aircraft's expected production lifetime.





Another area with high growth potential is battlefield-communications systems. In June, the Marine Corps awarded EDO a $240 million contract to produce battlefield-communications equipment known as the Transition Switch Module. TSM is a key component of a digital voice, data, and video communications system capable of handling the demanding needs of net-centric warfare.

The Joint Enhanced Core Communication System, or JECCS, was a significant source of revenue and earnings growth for the C4 sector in 2005. In 2006, we will pursue additional battlefield-communications contracts with the Marine Corps, as well as with other branches of the military.

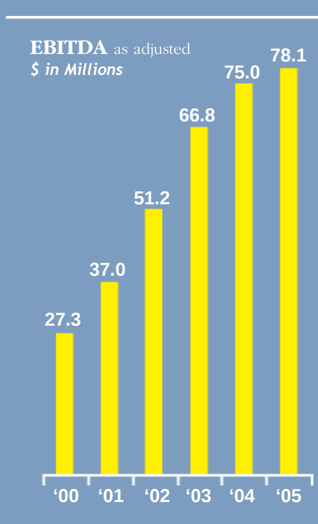
Electronic Support Measures (ESM) and Electronic Intelligence (ELINT) are additional areas of sustainable growth. We believe that our ES-3601, 3701, and future 3801 ESM systems are the most advanced systems available for long-range signal detection, high-precision direction finding, and parameter measurement. They provide threat warning for ships and aircraft with virtually 100 percent probability of intercepting threat signals.

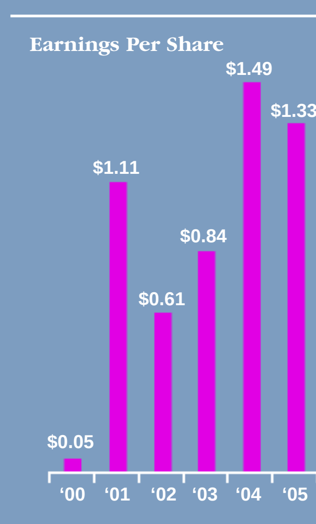
We also believe that our Warlock Electronic Force Protection technology has the potential for additional growth, although not at the triple-digit rate achieved in 2005. Clearly, protection against remotely-controlled bombs will be needed on military vehicles for the foreseeable future. We are investing financial and engineering resources to maintain our substantial lead in this technology.

In undersea warfare, we have received a $30 million contract from Lockheed Martin for sonar equipment on the first four new S-80A Spanish submarines. We believe this program could lead to long-term production of many more submarines for the Lockheed Martin team, which includes EDO.

We expect to begin production of our new OASIS (AN/ALQ-220 Organic Airborne/Surface Influence Sweep) minesweeping system in 2008. OASIS has been selected as the baseline sweep mission package for the Navy's new Littoral Combat Ship.

In professional and engineering services, particular emphasis is being placed on expanding our services to the Army, and our overall capabilities in systems





integration and IT services. We will also seek to grow in areas where we already have a strong presence, such as logistics and engineering support.

And most recently, in January 2006, we received an initial contract to develop the weapon carriage-and-release system for the MQ-9 Predator B unmanned aircraft system. This, like so many of EDO's early-stage development contracts, offers the opportunity for long-term production on one of the most promising aircraft platforms of the future.

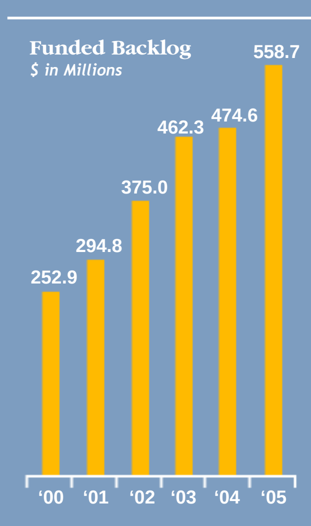
Growth Through Acquisition

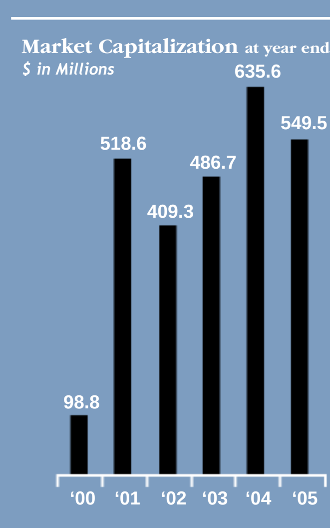
These are just a few highlights of the many exciting technologies under development at EDO. However, our aggressive growth targets, in line with those already reached, cannot be achieved through organic growth alone. We continue to actively seek acquisitions that fit exactly right -- financially, operationally, and culturally. We were able to complete three such acquisitions in 2005: EVI Technologies, Fiber Innovations, and NexGen Communications.

Two of them, EVI and NexGen, were acquired in pursuit of our objective to increase participation in markets related to the intelligence communities. We have integrated these two operations, and anticipate significant synergies in our business development efforts.

The third acquisition, Fiber Innovations, was acquired in pursuit of our objective to go beyond our position as a leader in weapon-release systems to greater content in weapons systems themselves. Fiber Innovations adds state-of-the-art composite-structure design and manufacturing capabilities in this area. This newly acquired capability allows EDO to compete for highly complex composite structures, such as weapons, and to do so at a lower cost and more rapid rate than traditional methods.

To achieve our vision of becoming a larger, more technically diverse company, we continue to pursue the strategy that we established in 2000. That is, we seek acquisitions with compatible business cultures that either add to our base of niche products, or strengthen existing product lines. I believe that our track record to date has been excellent. Every acquisition made under this management team has been successful and has contributed to our pace-setting total return to shareholders.





These acquisitions have also added aggressive entrepreneurial managers to the business. A number of key leadership positions at EDO are now filled by talented people who built businesses that we have acquired. Every acquired company joins EDO as a full participant, with its employees having the opportunity to excel as part of a larger and stronger corporation. This is why a compatible business culture is a critical precursor of successful integration into the EDO team.

Corporate Governance

EDO is committed to the highest standards of corporate governance. All board committees are composed solely of independent directors. In fact, with the exception of myself as Chairman, all of our directors are independent of management. We have eliminated staggered terms of office for the board, meaning that each director now stands for election annually, giving shareholders the opportunity to judge our performance each year.

Our board members collectively bring a diversity of background and perspective -- and each brings dedication -- to the task of guiding us to improved shareholder value. I believe that we have a very strong and capable board, and I thank them for their service.

I would like to add a special thank you to George Ball, who retired in 2005 after many years of service on the board. George has been instrumental in building the shareholder value that EDO has achieved in recent years.

Looking Ahead

It is becoming clear that the global war on terror may last for several decades or more, and is now being referred to as "The Long War." But unlike previous conflicts, our foe is not tied to a particular location, government, equipment, or tactics. The evolving "asymmetric" warfare requires more effective information gathering, communications, and countermeasure systems -- all areas of expertise for EDO engineers. We are well positioned in technologies that will be needed by a transformed military.

This annual report features some of our advanced technology and just a few of the talented people responsible for our success. Look closely at each picture and you will clearly see their "commitment to excellence." The entire EDO team is committed to excellence in providing our forces with the best possible products and support. We are equally committed to succeed together, as a company, in this competitive business.

I thank you for your past support and look forward to reporting our continued progress.

James M. Smith

James M. Smith
Chairman, President and Chief Executive Officer

SENIOR MANAGEMENT TEAM

James M. Smith
Chairman, President and CEO

Jon A. Anderson
Senior Vice President
Washington Operations

Frederic B. Bassett
Senior Vice President
Finance, CFO and Treasurer

Patricia D. Comiskey
Senior Vice President
Human Resources

Frank W. Otto
Senior Vice President
Strategic Development

Lisa M. Palumbo
Senior Vice President
and General Counsel

Effie Pavlou
Controller
and Assistant Treasurer

George P. Fox, Jr.
Group Vice President
Electronic Systems

Milo W. Hyde
Group Vice President
Systems and Analysis

James M. Smith
Chairman, President and CEO
EDO Corporation

Robert E. Allen
Managing Director
Redding Consultants, Inc.

Robert Alvine
Chairman, President and CEO
i-Ten Management Corp

Dennis C. Blair
President and CEO
Institute for Defense Analysis
Admiral U.S. Navy (Ret.)

Robert M. Hanisee
Former Managing Director
Trust Company of the West

Michael J. Hegarty
Director
Flushing Financial Corporation

Leslie F. Kenne
Lieutenant General
U.S. Air Force (Ret.)

Paul Kern
General U.S. Army
(Ret.)

Ronald L. Leach
Former Vice President, Accounting
Eaton Corporation

James Roth
Former President and CEO
GRC International Inc.

Robert S. Tyrer
President and COO
The Cohen Group

Robert Walmsley
Chairman
EDO (UK) Ltd.

Committees of the Board of Directors

AUDIT
Robert M. Hanisee, *Chair*
Michael J. Hegarty
Ronald L. Leach
Robert S. Tyrer
Robert Walmsley

COMPENSATION
Dennis C. Blair, *Chair*
Robert E. Allen
Robert M. Hanisee
Leslie F. Kenne
James Roth
Robert S. Tyrer

NOMINATING AND GOVERNANCE
Robert E. Allen, *Chair*
Robert M. Hanisee
Paul J. Kern
Robert Walmsley

PENSION INVESTMENT
Robert Alvine, *Chair*
Dennis C. Blair
James Roth
Ronald L. Leach

FINANCE
Michael J. Hegarty, *Chair*
Robert E. Allen
Robert Alvine
Leslie F. Kenne

MANAGEMENT DEVELOPMENT
James Roth, *Chair*
Leslie F. Kenne
Paul J. Kern
Robert S. Tyrer

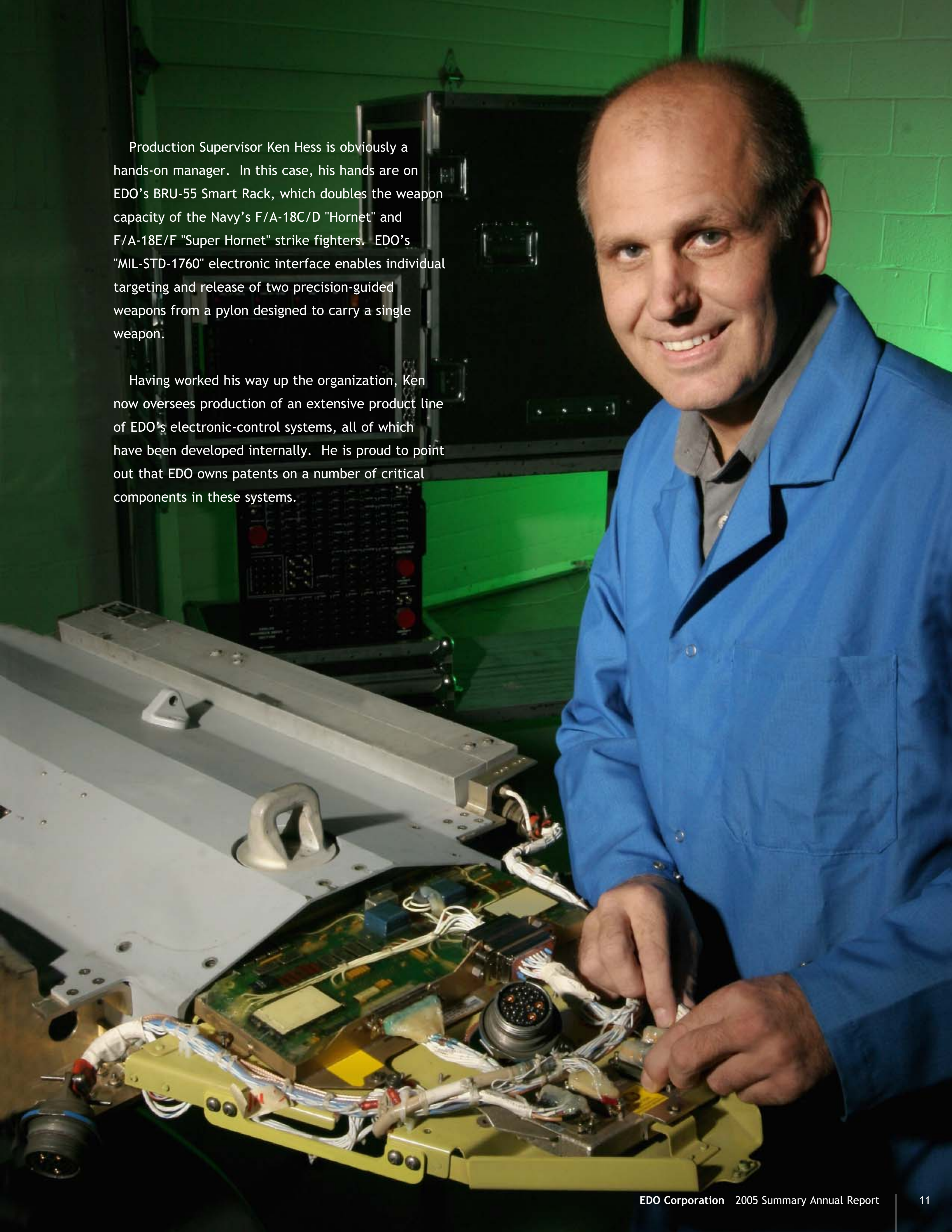
James Barber - Sector Vice President, Integrated Systems and Structures

The ISS Sector addresses two primary markets: aircraft-armament suspension-and-release systems; and advanced composite structures.

EDO provides a full range of sophisticated ejector and launching systems, including the F-22 AVEL (AMRAAM Vertical Eject Launcher), various bomb racks, such as the BRU-55 and BRU-57 "Smart Racks", and the electronics assembly for Raytheon's LAU-117 Maverick missile launcher. We are developing systems for the F-35 Joint Strike Fighter, (our cover photo) which have the potential to generate more than $2 billion for EDO over the aircraft's expected production lifetime.

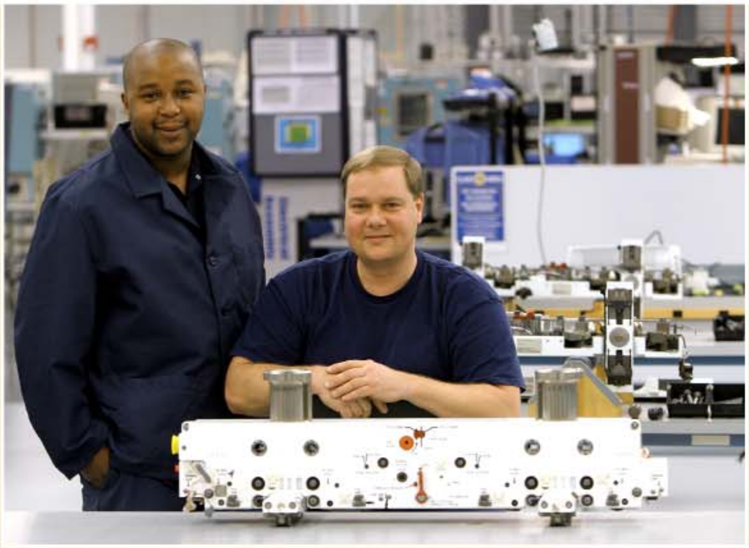
"We have recently won development contracts for a number of new programs," said Sector VP James Barber. "These include suspension-and-release systems for the new P-8A Multi-mission Maritime Aircraft and the Predator B unmanned aircraft. Such development projects should result in long-term production contracts in the future."

EDO's future depends on understanding our customers' needs. Maureen Koerwer has been instrumental in managing relationships with customers, and recognizes the value of listening. "We listen to their needs, and translate them into design requirements. A good example is our development of state-of-the-art, clean, pneumatic-release technology for weapon-release systems."



Production Supervisor Ken Hess is obviously a hands-on manager. In this case, his hands are on EDO's BRU-55 Smart Rack, which doubles the weapon capacity of the Navy's F/A-18C/D "Hornet" and F/A-18E/F "Super Hornet" strike fighters. EDO's "MIL-STD-1760" electronic interface enables individual targeting and release of two precision-guided weapons from a pylon designed to carry a single weapon.

Having worked his way up the organization, Ken now oversees production of an extensive product line of EDO's electronic-control systems, all of which have been developed internally. He is proud to point out that EDO owns patents on a number of critical components in these systems.



EDO is developing the aircraft-armament system for the F-35 Joint Strike Fighter. This includes missile launchers stored within the weapons bay of the aircraft, as well as bomb release units (BRU) mounted either internally or externally. Internal mounting is required to maintain the JSF's stealth capability.

Assemblers Joseph Rollins (left) and Henry Maiback are seen here with a prototype of the Pneumatic BRU-30. After years of engineering development work and computer simulation, this prototype will prove that the BRU-30 can achieve its critical mission. This includes securely holding the weapon as the aircraft undertakes maneuvers, and ejecting it at the precise angle and velocity needed for successful launch at supersonic speeds.

Critical to the flawless functioning of EDO's weapon-release systems are the electronic controls, such as those being prepared by technician Rolando Claudio (right).

EDO leads the industry in bomb-rack electronics. These sophisticated electronics are integrated into bomb-rack hardware, enabling direct communication and targeting of modern "smart" weapons. As a result, our "Smart Rack" aircraft-armament systems, such as the BRU-55 and BRU-57, are being installed on many of today's most advanced fighter jets.

Lou Morelli is program manager for the BRU-55 product line. With more than a decade of company experience, and prior military service with the Naval Air Development Center, Lou has played a central role in moving the BRU-55 from concept to production.

How is EDO able to compete in this market segment? Getting an early start was a key to success, according to Lou. EDO engineers developed the Smart Rack market in conjunction with military laboratories at the very onset of smart-weapon technology. Since then, expertise in this highly complex engineering area has helped us keep our lead. "Passing the very rigorous qualification testing for the BRU-55 was one of my proudest professional accomplishments," concluded Morelli.

Supervisor Bill Taylor keeps a close eye on the production of a specialized braiding process used by EDO to manufacture composite structures. This structure is five times as strong as steel for its weight.

Composite structures offer the potential for dramatic growth with the application of stronger and lighter materials. To capture this potential, EDO has been working on initiatives with the military to significantly reduce the cost of composite technologies in defense applications.

William Arnold - Sector Vice President, Undersea Warfare

The USW Sector addresses two major markets: Sonar systems and mine countermeasures. EDO has been a leader in both of these areas for decades.

Sector VP Bill Arnold is leading EDO's initiatives to address the threats of undersea warfare. "In recent years, there has been renewed interest in extremely quiet diesel-electric submarines. The use of mines has also resurfaced as a significant threat. We see substantial opportunities to employ our market-leading technology in these areas."

In Sonar systems, our advanced technology has an unparalleled ability to detect today's quietest submarines. We have received a $30 million contract from Lockheed Martin for the first four new S-80A Spanish submarines. This program could lead to long-term production of many more submarines for the Lockheed Martin/EDO team.

In mine countermeasures, our new OASIS (AN/ALQ-220 Organic Airborne/Surface Influence Sweep) minesweeping system has been selected as a baseline mission package for the Navy's new Littoral Combat Ship. Also, in 2006, we will open a new facility in Panama City, Florida near our primary mine-warfare customer, the Naval Surface Warfare Center, Panama City (NSWC PC). This facility will support our existing mine-warfare systems and develop future systems.

EDO has been a leading developer of advanced-technology sonar systems for more than 50 years. Shown here is an Arleigh Burke Class guided-missile destroyer that is equipped with our AN/SQS-53C sonar array.

EDO is completing the development of a next-generation naval minesweeping system known as OASIS (Organic Airborne and Surface Mine Influence Sweep). "Organic" means that military ships, including the Navy's future Littoral Combat Ship, will be able to carry it onboard, ready to be deployed whenever mines are encountered.

"Reducing the size and weight sufficiently to be carried as an organic mission module required a dramatic departure from our currently employed MK 105 design," said Project Engineer Thomas Lithen (right). "Simulating the magnetic and acoustic fields of a large ship with such a small device presented many engineering challenges. But that is where EDO excels."

Assembler Matthew Kagiwada (left) worked closely with the engineers to build the partially-assembled prototype shown here.

Julius Caesar - Sector Vice President, Professional and Engineering Services

The PES Sector includes four major areas of specialty: information technology; acquisition management; engineering; and technical services.

"We are expanding our capabilities to fully serve our customers from tip to tail," explained Sector VP Julius Caesar. "Our professionals have specialized skills that span a wide range of military needs. We are taking action to further strengthen these service capabilities, both organically and through acquisitions.

"We believe that defense-related services provide attractive opportunities, fueled by the growing complexity of transformational, net-centric systems, as well as the need for the government to further outsource professional support functions."

In his 20 years with EDO, Godfrey "Curtis" Eatmon has worked his way through the engineering ranks to now lead the company's Testing and Evaluation team in support of the Flight Test Operations of the AN/ALQ-161A system at Edwards Air Force Base, California. A former Navy specialist in anti-submarine warfare, Curtis holds overall responsibility for final acceptance of mission-critical products.

Working with our customers to fully understand their needs is a key part of his job. Equally important is guiding and motivating his staff to meet these needs, while keeping the customers satisfied. His success is measured by the continuing growth that EDO has achieved in providing these engineering services to the Air Force.

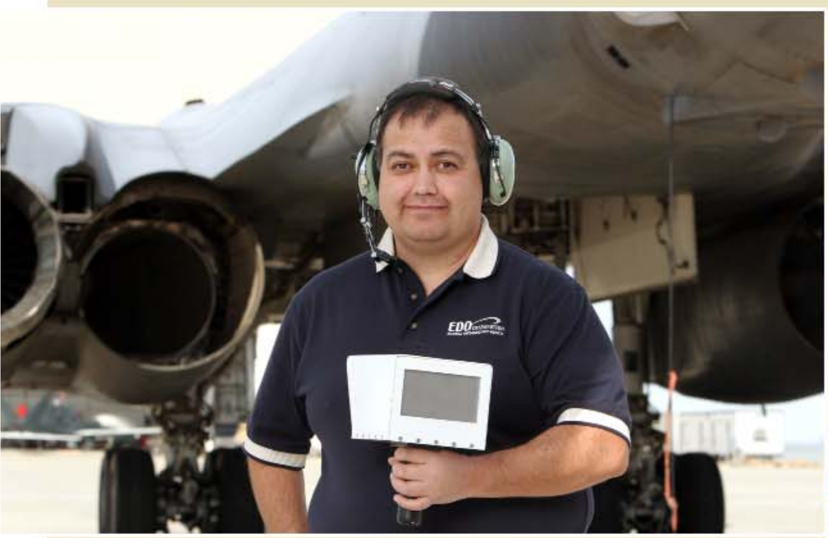
EDO has been providing engineering services to the Air Force on site at bases around the country for many years. Richard Groves is one of our veteran systems technicians, serving the Birk Flight Test Facility at Edwards Air Force Base. Richard is shown here preparing an end-to-end test of the B-1B Bomber's Radar Warning Receiver and Electronic Countermeasures system, using EDO's AN/ALM-280 Enhanced Automated Special Test Equipment (EASTE).

Our engineering support services often lead to the development of tools that ultimately become viable products. EASTE, as well as the AN/PLM-4, are both examples of this type of product development. EASTE can simulate every known threat radar that the B-1B could face in an actual mission environment.

To date, EDO has sold more than 650 AN/PLM-4 systems. Surrounded here by his work, Engineer Mike Wood is responsible for testing every one of them. Referred to as "Mr. Reliable" by coworkers, Mike loves to answer customer requests for AN/PLM-4 failure history. "We have no failures," is the simple reply. "This equipment is deployed worldwide, in extreme conditions and even combat situations. They get dropped, they get beat up, but they just keep working."

By simulating enemy radar, the AN/PLM-4 can quickly check the radar-warning systems of an aircraft prior to take-off. The pilot can then be confident that vital electronic systems are fully functional before entering a combat situation. At right, Assembler Laura Frable is wiring the control panel for a new AN/PLM-4.

"Our customers are always asking for smaller and lighter-weight products," explains Systems Technician Peter Gonzales. "Even though the AN/PLM-4 is the smallest and lightest test set of its kind, we continue to push the limits, and have now developed this truly 'handheld' version."



Like the AN/PLM-4, the prototype handheld device that Pete is holding can simulate known radar-emitter signatures. It uses the same software and memory module, which helps minimize logistics support costs. The Handheld Radar Signal Simulator is the ideal solution whenever and wherever a small, lightweight test set is needed.

EDO's AN/PLM-4 is a deployable test set that replaces four large boxes of equipment, and can be used virtually anywhere, anytime. Its instant results, portability, and ease of use with any aircraft's radar warning system make it the premiere EW test set.

Data Analyst Daniel Henderson, shown here testing the defensive suite of the B-1B Bomber, analyzes the data recorded by the aircraft to continuously improve the effectiveness of products such as the AN/ALQ-161. An expert in his field, Dan is an industrial engineer who has served in the Air Force on such projects as the Cruise Missile and the F-117 Stealth Fighter.

H. Lee Buchanan - Sector Vice President, Electronic Warfare

EW Sector products include: electronic force protection; electronic support measures (ESM); electronic intelligence (ELINT); interference cancellation (INCAN); jamming systems for aircraft; radio frequency (RF) products; and various classified products.

"Warlock was EDO's highest revenue product line in 2005, driven by the urgency of current conflicts," said Sector VP Lee Buchanan. "We believe that we have the only system proven to defeat all wirelessly detonated devices, and have made accelerated production our highest priority."

EDO engineers are preparing for the long-term global war on terror by further advancing our technology and reducing its cost. Smaller, lighter, and less-expensive devices will help enable Warlock technology to become standard equipment on new military vehicles.

Other current research and development programs include the microwave-receiver subsystem for a new Global Precipitation Measurement satellite, and the continuous improvement of ESM and ELINT technology. Our ES-3601, 3701, and future 3801 ESM systems provide the most advanced threat warning available for ships and aircraft, with virtually 100 percent probability of intercepting threat signals.

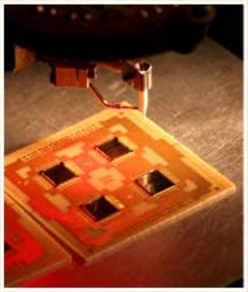
EDO's strong reputation for excellence and reliability is a source of pride for quality inspector Patricia Zelaya (right) and assembler Kim Quan.

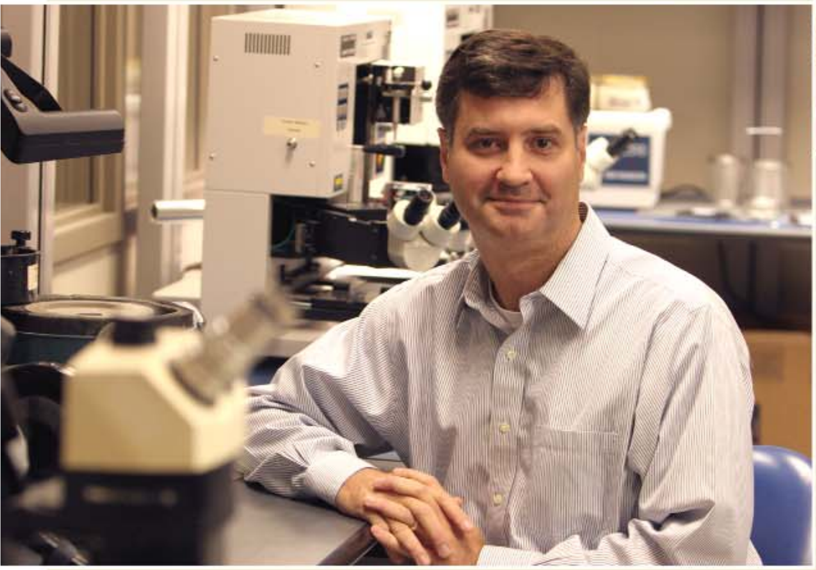
"Everyone knows that there is an urgent need to deliver Warlock units as quickly as possible," said Patricia. "But we also know that American soldiers are depending on these products. We never forget about that. I make sure that nothing goes out of here unless it works perfectly."

EDO continues to invest internal R&D funds to maintain our lead in electronic force protection equipment, such as the Warlock prototype being assembled here by Toni Chacon. With 21 years of service, Toni now supervises product assembly. She works closely with the design engineers and often provides practical advice on wiring designs and routing.

"I love what I'm doing, especially learning how engineers work and helping to find the best way to turn concepts into real products. I like to get involved."

Working on the Warlock project has been especially rewarding for Toni and her team who assemble the products. "We have had Army customers visit our plant and thank us for saving their lives. That really makes us feel good."



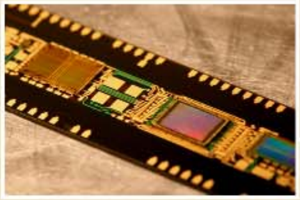


EVI Technologies, acquired in May 2005, designs and produces highly specialized wireless surveillance and communications systems. Joining EDO has enabled EVI to substantially accelerate revenue growth.

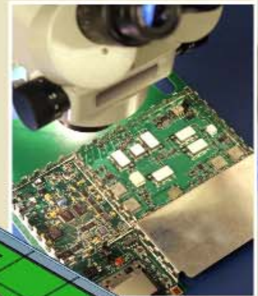
Program Manager John Mellert points to the ability to react very quickly to customer requests, often just over a weekend. He summarizes his work very simply, "We solve emerging problems." According to John, "the customer's typical reaction is 'you did that, now let me give you something harder.' We love that kind of challenge, and the credibility that comes with backing up our promises."

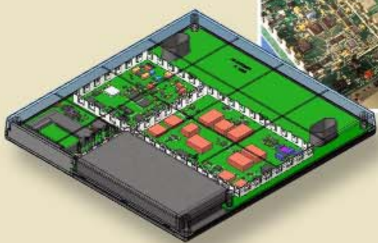
Principal Engineer Alan Rothenberg is deeply involved in a number of internally-funded research and development projects. Although nearly 20 percent of EDO's revenue comes from customer-funded development, we also fund our own R&D projects in areas where we wish to maintain ownership of the resultant intellectual property.

A prime example is electronic force protection. Alan is leading R&D efforts to defeat various mechanisms used to detonate roadside bombs.



"We are known for our ability to produce miniaturized systems with extremely quick turnaround from concept to delivery," Alan explains. "When I take on a challenge like this, I want to be involved in every aspect of the project."





William Veihmeyer is one of the company's principal engineers, having come to EDO with the acquisition of EVI in May of 2005. He has played an important role in EVI's substantial growth of the past 15 years.

"Our focus on performance and reliability makes this a great working environment for an engineer. We can be very creative, because we are not constrained by conventional concepts of production. In fact, our challenge is overcoming constraints, pushing forward the frontiers of engineering, and developing novel manufacturing processes. There is nothing as rewarding as following a new concept through to completion."

EDO engineers regularly work on government projects that challenge them to extend the boundaries of applied physics. But often, it is shrinking physical boundaries that pose the greatest challenge. EDO has been successful at taking maximum advantage of the latest in miniaturized, "off-the-shelf" components to reduce both size and cost.

Electrical Engineer Michael LaBarre designs miniaturized circuits to meet the unique demands of EDO's customers. Mike explains, "With the demand for extremely quick turnaround from concept to delivery, we are experts at utilizing existing technologies to create innovate systems that solve the practical challenges faced by our customers."

EDO's quick-reaction capabilities are essential to meet the needs of many customers. An example is the capability to design and produce specialized electronic equipment. Here, Facilities Assistant Joseph Smith is preparing rotary-etching equipment to fabricate a custom-designed printed circuit board.

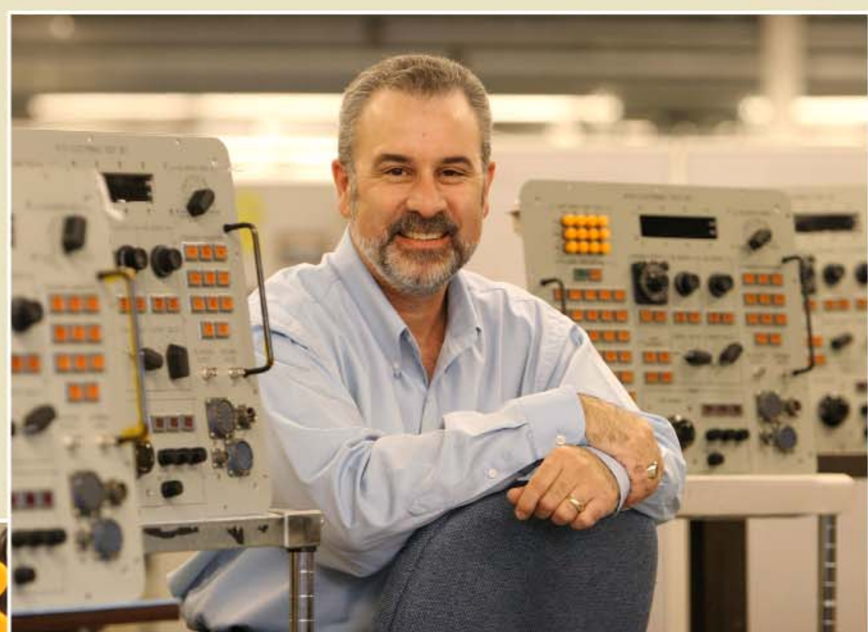
"It's hard to get bored in this job," says Joseph, "because we are doing something different every day. Besides circuit boards, I also fabricate prototypes in our sheet metal shop, wood shop, machine shop . . . whatever it takes. That's one of the best things about my job, the variety of things that we do. I support the entire team at this facility."

Roadside bombs and other "improvised explosive devices" have been a lethal force against coalition forces in Iraq. As this threat began to unfold in 2003, EDO's engineers, led by Engineering Fellow Mark Bahu, had an idea for a device that would inhibit the remotely-controlled triggers on these IEDs. This product became known as Warlock.

Mark is truly a conceptual thinker who is constantly discussing new ideas with his team, including Hugo Pham (left) and Justin Pender, who are showing us their best side in this picture. Some of these ideas have resulted in highly successful products, including Warlock and its predecessor "Shortstop".

Mark's enthusiasm for his work is obvious. "We are applying science and technology to accomplish a mission and save lives. That's what I do every day, and I really believe in it."

Jim Rodriguez is the "Deepwater" Project Engineer. Deepwater is the Coast Guard's multi-year project to modernize ships, aircraft, command and control, and logistics systems. L-3 Communications Systems has been selected as a major communication-system subcontractor. EDO is providing L-3 with the Radio Frequency Distribution System (RFDS) that will enable interference-free, simultaneous transmissions among the various radio communications systems aboard each ship.



With his engineering and coordination skills, Jim gets involved in many different projects. Pictured here are automatic flight control system panels being readied for delivery to another customer. Typical of EDO's custom-engineered products, this system is used to test flight-control modules before they are installed into helicopters.

Jim explained that our Deepwater contract offers the opportunity to equip up to 90 Coast Guard vessels over the 20-year life of the project, so our team effort and performance are critical. "As project engineer, I must keep the full team on track. This includes hardware and software engineers and specialists of various backgrounds from within the company, as well as our suppliers. I enjoy the interaction, and I believe my knowledge and skills continue to improve as a result."

John Vollmer - Sector Vice President, C4

The C4 sector (Command, Control, Communications and Computers) includes: military communications systems and support; networking equipment; and antenna products.

"Communications-related products have contributed substantially to EDO's growth in 2005," said Sector VP John Vollmer. "Much of this growth came from the Joint Enhanced Core Communication System, or JECCS. In 2006, we will pursue additional battlefield-communications contracts with the Marine Corps, as well as with other branches of the military."

In 2005, EDO won a $240 million contract from the Marine Corps to produce battlefield-communications equipment known as Transition Switch Modules (TSM). Production is expected to begin during the second half of 2006.

EDO's capabilities in antenna technology have been enhanced at our new facility in Bohemia, New York. We have a strong position in communication and navigation antennas for both commercial and military applications. We are also leaders in custom-designed antennas for military platforms and satellites.

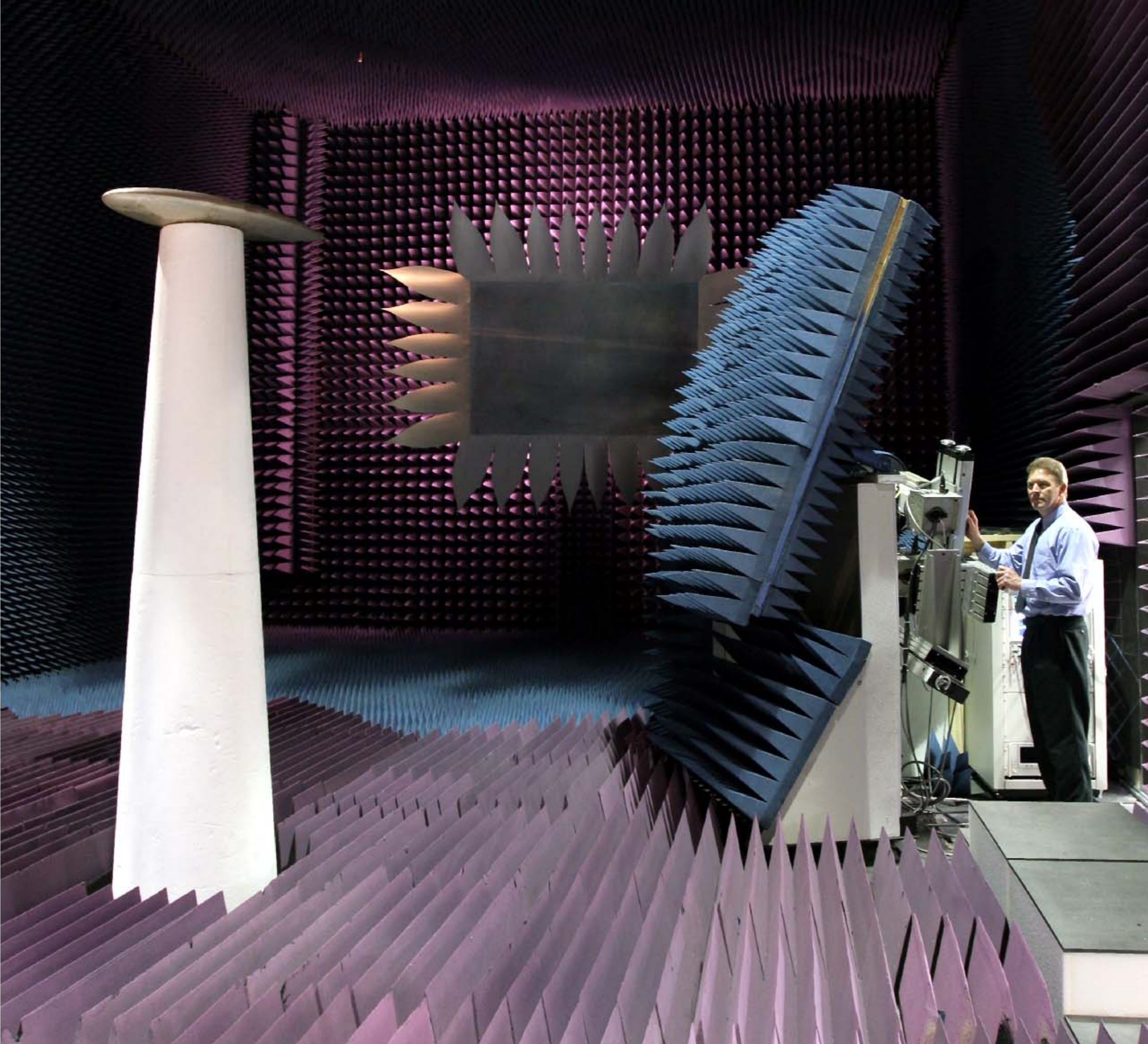
EDO's Fleet System Engineering Team (FSET) consists of more than 100 highly-skilled engineers and technicians that serve aboard active-duty ships and shore stations around the world. Two of them are Allen Knapp and Stephanie Overholt, shown here at work aboard the USS Enterprise. FSETs generally serve one or two-month rotations at sea, assuring that the command and control, communications, and computer systems are fully functional all the time.

"Something new is always being added or upgraded," said Allen. "FSET engineers support 125 different C4 systems, so we are in a constant learning mode. But no matter what problem I face, I know that I can get help from someone else on our team – collectively, we really have seen it all."

Stephanie points out that Navy leadership "has come to depend on us for reliable, worldwide fleet communications under live-combat situations. Most carrier groups will not even leave port without their FSET on board."

EDO is an engineering-driven company with breakthrough designs and leading-edge products that often address seemingly insurmountable challenges. In 2005, we made substantial investments in the type of modern facilities and equipment needed to stay on the leading edge of rapidly changing technology. An example is this anechoic chamber used to test advanced antennas.

Electrical Engineering Manager Steven Murphy explained that the chamber allows us to very accurately and rapidly measure the wideband performance of an antenna over its full spatial field of view. This facility is also specially designed to test the stealth characteristics of an antenna's design, which is an essential element for many military platforms.



EDO: A HISTORY OF SERVICE

The Berlin Airlift

Our air-traffic surveillance and control radar.

Berliners watch C-54 aircraft, carrying goods, land at Tempelhof, 1948.

The BERLIN AIRLIFT

Electronics magazine, August 1949, explained AIL's "moving target indication" system.

On October 16, 2005, EDO celebrated 80 years of continuous operation. Throughout this long history, EDO employees have shared a passionate spirit of service to their country.

One of our proudest examples was our small but vital role in the Berlin Airlift in 1948 and 1949. One of our predecessor companies, Airborne Instruments Laboratory, built and installed air-traffic surveillance and control radars that not only made the Airlift possible, but proved the viability of these techniques for future air-defense radars.

According to the August 1949 issue of *Electronics* magazine, AIL's radar and employees in Germany "brought C-54 cargo planes safely through the corridors to touch down at Templehof every three minutes despite fog, rain, and snow . . . The experience gained under pressure proves the feasibility of all-weather operation for commercial airlines."

TODAY, EDO HAS EMPLOYEES DEPLOYED AROUND THE WORLD

At the height of the Berlin Airlift, two groups of aircraft flew in four-hour blocks around the clock. While one group of aircraft was loaded and serviced, the other group was in the air. On the 264-mile route, 32 aircraft were in the air simultaneously.

Photographed here are a few of EDO's Field Service Representatives:
Top foreground: Mike Bing
Middle: Gary Goldstein
Bottom: Dave Watrous

A key technological breakthrough that made this possible was AIL's "moving target indication" system, which for the first time eliminated ground clutter that caused short-range blindness for ground radars.

As the engineering perspective of *Electronics* magazine predicted at the time, "the airlift accomplished a great feat. However, even more important is what it taught us concerning specific needs for future air-transport equipment and procedures." Indeed, AIL went on to become a leader in this area, providing air traffic control systems for major airports in the United States and abroad.

Today, EDO's spirit of service remains as strong as ever. We have many employees deployed in Iraq and other areas around the world, dedicated to assisting our troops with the best possible technology and field support.

Address	EDO Corporation 60 East 42nd Street 42nd Floor New York, NY 10165 212.716.2000, Fax 212.716.2049 www.edocorp.com
NYSE Ticker Symbol	EDO
Investor Relations	William A. Walkowiak, CFA, 212.716.2038, Fax 212.716.2050 ir@edocorp.com
Product Communications	Ed Mygland, 212.716.2021, Fax 212.716.2047 ed.mygland@edocorp.com
Stock Registrar and Transfer Agent	American Stock Transfer and Trust Company 59 Maiden Lane, New York, NY 10038 800.937.5449
Certified Public Accountants	Ernst & Young LLP 5 Times Square, New York, NY 10036 212.773.3000

Forward-Looking Statement

Certain statements made in this annual report, including statements about future revenues and long-term organic revenue growth, as well as annual revenue expectations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates and projections about the Company's business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including those described above and the following: changes in demand for the Company's products, product mix, the timing of customer orders and deliveries, changes in the government’s funding priorities, the impact of competitive products and pricing, difficulties encountered in the integration of acquired businesses and other risks discussed from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions. Such forward-looking statements speak only as of the date on which they are made, and the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this annual report.

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

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2005

or

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

For the transition period from to

Commission file number 1-3985

EDO Corporation
(Exact name of registrant as specified in its charter)

New York	**11-0707740**
(State of Incorporation)	*(IRS Employer Identification No.)*
60 East 42nd Street, 42nd Floor **New York, New York**	**10165**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (212) 716-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Shares, par value $1 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the registrant's common stock held by non-affiliates was $417,561,840 based on the reported last sale price of common stock on June 25, 2005 which is the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of EDO common stock outstanding as of February 24, 2006 was 20,198,731 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the Registrant's definitive proxy statement (filed pursuant to Reg. 14A) relating to its 2006 Annual Meeting of Shareholders are incorporated by reference in Part III of this Report.

EDO CORPORATION

TABLE OF CONTENTS

PART I

Item 1. *Business*

Introduction

EDO Corporation was incorporated in New York in 1925 by Earl Dodge Osborn, from whose initials "EDO" is derived.

EDO Corporation designs and manufactures a diverse range of products for defense, intelligence, and commercial markets, and provides related engineering and professional services. Major product groups include: defense electronics, communications, aircraft-armament systems, undersea warfare, and integrated composite structures. EDO's advanced systems are at the core of the transformation to lighter, faster, and smarter defense capabilities.

The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the Proxy Statement for its Annual Meeting of Shareholders are made available, free of charge, on its Web site www.edocorp.com, as soon as reasonably practicable after such reports have been filed with or furnished to the Securities and Exchange Commission.

Acquisitions

Acquisitions have been a primary driver of our growth in recent years. Since 1998, EDO has completed ten acquisitions which have added to or strengthened our capabilities in defense products and services, including aircraft electronic warfare systems, professional, engineering and information technology services, reconnaissance and surveillance systems, communications and countermeasures systems, defense communications and related services and aircraft armament systems. The following three acquisitions were completed in 2005:

On May 2, 2005, we acquired for cash all of the units of EVI Technology, LLC (EVI), a privately-held company. EVI is a designer, manufacturer and integrator of classified intelligence systems. EVI has strengthened and expanded EDO's range of products and engineering expertise in a number of synergistic areas.

On September 19, 2005, we acquired for cash all of the stock of Fiber Innovations, Inc., a privately-held company that is a designer and manufacturer of fiber reinforced-composites. This acquisition has added important complementary design and manufacturing capabilities to EDO's integrated-composite-structures business.

On December 20, 2005, the Company acquired for cash all of the stock of NexGen Communications LLC, a privately-held company specializing in the design and production of communications systems for a diverse set of U.S. government organizations. The acquisition strengthened our fast-growing position in specialized communication products.

Segments

In 2005, EDO revised its reporting segments in line with the evolution of the business as a result of acquisitions in defense-related markets. Our reporting segments now reflect the two primary categories of products that we provide to the aerospace and defense industry: Electronic Systems and Communications; and Engineered Systems and Services.

We set forth certain business segment information including information on revenues from external customers, operating earnings, assets and capital expenditures in Note 18 on pages 60 through 63 of this Report.

Each segment's percent of our consolidated net sales for the past three fiscal years was:

	Electronics Systems and Communications	Engineered Systems and Services
2005	63%	37%
2004	51%	49%
2003	48%	52%

ELECTRONIC SYSTEMS AND COMMUNICATIONS

The Electronic Systems and Communications segment includes products that serve the Electronic Warfare and the C4 (Command, Control, Communications and Computers) markets. Primary products include electronic force protection equipment, interference cancellation technology, airborne electronic warfare systems, reconnaissance and surveillance systems, other specialized electronic systems, C4 products and services and antenna products.

Electronic Force Protection

Sales of electronic force protection products accounted for 22%, 7%, and 2% of consolidated net sales in 2005, 2004 and 2003, respectively. These products are designed to protect troops by intercepting and jamming or modifying electronic signals used to trigger remotely controlled explosive devices, including improvised explosive devices, or IED's.

One of EDO's highest priorities in 2005 was to quickly fill the U.S. Army's orders for our counter-IED equipment known as Warlock. Although we have been developing various versions of this technology for more than 15 years, the Army's primary emphasis has shifted to increasing production of the newest, most sophisticated versions. As a result, sales of this product increased substantially in 2005. Although a number of other organizations are developing competing products, we believe that we have the most advanced technology in our market.

Our Shortstop program was initiated in 1990 by the U.S. Central Command as a quick-reaction response capability for Operation Desert Storm. The current production system is a modified version that, as described by the Army, provides a protective "electronic bubble for vehicles, dismounted operations in conjunction with vehicles, and for fixed sites."

Because of the short-term nature of the Army's recent orders, it is difficult to predict the level of sales in 2006. However, we believe that there will be an ongoing need to protect people and vehicles from the threat of remotely controlled explosive devices.

Interference Cancellation

EDO has been a world leader in interference-cancellation technology for more than 25 years. Our technology is used to eliminate interference in dense electromagnetic environments that can degrade the effectiveness of radios and other electronic equipment. Under a contract from the Boeing Company, EDO is currently developing an interference-cancellation system for the EA-18G aircraft. The EA-18G has been selected by the U.S. Navy to replace the EA-6B Prowler aircraft, which provides an umbrella of protection for strike aircraft, ground troops and ships by jamming enemy radar, electronic data links and communications. EDO's interference-cancellation equipment will allow clear communications during all mission scenarios.

In addition, EDO is providing the interference-cancellation subsystem for the CV-22 Osprey tilt-rotor aircraft and the Coast Guard modernization project known as Deepwater.

Airborne Electronic Warfare Systems

Sales of airborne electronic warfare systems accounted for 7%, 9%, and 12% of consolidated net sales in 2005, 2004 and 2003, respectively.

Our AN/ALQ-161 is the defensive avionics system that protects the U.S. Air Force's B-1B bomber from radar-guided and infrared-guided missile threats. Currently, we provide continued logistics support, sustaining engineering support and capability upgrades to the AN/ALQ-161 systems. This support includes software enhancements and hardware improvements to increase situation awareness and jamming effectiveness while decreasing costs. In 2005, EDO received numerous awards, totaling $39 million, to maintain the AN/ALQ-161 system and allow the B-1B bomber to perform its mission against ever changing threats.

We were the original designer and integrator of the AN/ALQ-99 Tactical Support Jamming System for the EA-6B aircraft in the 1960s. We have been under contract for support and modifications for this aircraft's systems and subsystems since then. We continue to maintain and support the AN/ALQ-99 system, including the current on-board system hardware and the tactical jamming pods. The DoD currently expects EA-6B aircraft to be in operation through 2015 as the jamming pod migrates to the EA-18G Growler aircraft.

Reconnaissance and Surveillance Systems

Sales of reconnaissance and surveillance systems accounted for 13%, 16%, and 17% of consolidated net sales in 2005, 2004 and 2003, respectively.

Our reconnaissance and surveillance systems include state-of-the-art electronic systems, used primarily for Electronic Intelligence (ELINT) and Electronic Support Measure (ESM) systems. The primary purpose of an ELINT system is to determine what electronic signals are in the mission environment and accurately collect data. The analyzed data is stored in collection libraries for subsequent use in ESM systems that provide both situational awareness and warning of enemy threats. A key feature of EDO's ESM systems is precision direction-finding at long range, even in difficult electromagnetic environments. They can be integrated into any type of combat-system multi-function console and enables the rapid dissemination of radar threat intercept data.

The ES-3601 and ES-3701 are leading international ESM systems for naval applications. More than 60 systems have been sold, many of which are already in operation providing effective at-sea performance. The ES-3701 was selected by the Royal Danish Navy for their new Flexible Support Ship. The ES-3601 has been selected by General Dynamics for the initial "Flight 0" Littoral Combat Ships. EDO is currently developing a next generation all-digital ESM system, to be known as the ES-3801.

The ALR-95 ESM is currently operational on U.S. Navy maritime patrol aircraft and was selected by Lockheed Martin for the U.S. Coast Guard Deepwater program maritime patrol mission.

Specialized Electronic Systems

As a result of two recent acquisitions, EDO has a growing presence in the design and production of specialized electronics systems for a diverse set of U.S. government organizations. In particular, we specialize in developing innovative solutions for intelligence and law-enforcement and special operations applications. These organizations turn to EDO for some of their most challenging, rapid-response wireless requirements.

EDO's specialized services include research and development, product design, and manufacturing of wireless devices and systems for monitoring and managing data and physical assets. Nearly all of these systems are classified.

C4 (Command, Control, Communications and Computers)

Sales of C4 products and services accounted for 10%, 11%, and 8% of consolidated net sales in 2005, 2004 and 2003, respectively.

One of EDO's leading C4 products is a tactical telecommunications system developed for the U.S Marine Corps known as JECCS (AN/TSQ-231 Joint Enhanced Core Communications System). JECCS provides the Marine Corps with a mobile, first-in system for network management, data and voice transmission, and switching services. Three "Block I" systems have been delivered and in 2006 we will complete the delivery of our current contract for 11 JECCS units in the Block II configuration.

In 2005 EDO was awarded a contract for a new generation of Marine Corps battlefield-communications equipment known as the Transition Switch Module. The Transition Switch Module will interface with all existing USMC telecommunications equipment to provide digital voice, data, and video communications to deployed Marine units. The indefinite-delivery/indefinite-quantity contract has a maximum value of $240 million for the procurement of up to 476 units. Work is expected to be completed by May 2010.

We provide engineering and C4 field services to U.S. Navy ships, shore sites and critical programs, through our Fleet Systems Engineering Teams (FSET) contract. FSETs are provided on a continuous basis to Carrier Strike Groups (CSGs), Expeditionary Strike Groups (ESGs), Network Operating Centers (NOCs) and Naval Computer and Telecommunications Area Master Stations (NCTAMS). Our technicians keep communications networks up, optimize the networks to meet changing mission requirements, and ensure connectivity between systems and across networks. Ancillary to our FSET activities, we also provide integration and training services for the US Navy, and we provide design, development, installation and training services for the Virginia-class submarine Exterior Communications System (ECS).

EDO provides systems integration services for naval C4 systems wherein we integrate a ship's sensor systems, including radar and sonar, communications systems, navigation and integrated bridge systems, and aircraft control systems to provide situational awareness in a common display format for a ship's commander. We are currently completing a contract for Norwegian Coast Guard vessels.

We also provide ongoing C4 services to USAID's Office of Foreign Disaster Assistance (OFDA) supporting the US response to worldwide disasters. We provide OFDA headquarters with network administration, communications field support, integrated logistics services, training, and equipment procurement, inventory and maintenance.

EDO maintains a C4 lab for the Marine Corps that includes an array of circuit switching and technical control equipment procured by both the Marine Corps and EDO. This lab provides EDO the ability to test equipment for interoperability on-line with other U.S. Department of Defense ("DoD") and USMC laboratories as well as participate in DoD-wide interoperability exercises. The C4 lab is a key enabler for future developments and growth with military tactical communications customers.

Antenna Products

We design and manufacture antenna systems for a wide variety of military and commercial applications including communications, electronic warfare, navigation, radar, and wireless Local Area Networks. Our antenna business is approximately 65% military and 35% commercial. Our military antennas are deployed on many different types of platforms and vehicles including fixed wing and rotary aircraft, unmanned aerial vehicles (UAVs), satellites, surface ships, submarines, and ground vehicles. Our commercial antennas are used on commercial airliners, business jets, and general-aviation aircraft. We have been effective in establishing long term agreements with most of the prime aircraft manufacturers, Boeing being the most prominent.

We have a broad customer and product base in this business. In 2005, we sold more than 39,000 antennas of 420 different types to more than 400 different original-equipment manufacturers and after-market customers. A large portion of our revenue results from spare part sales and repair services for an installed base of antennas in excess of 400,000 units. In addition, we produced antennas for our Warlock product. We continually work on the development of new antenna products via internally funded and customer-sponsored research and development.

ENGINEERED SYSTEMS AND SERVICES

The Engineered Systems and Services segment addresses Integrated Systems and Structures, Undersea Warfare, and Professional Services markets. Primary products include aircraft armament systems, integrated composite structures, mine countermeasure systems, sonar systems and flight line products. We also offer a wide range of professional engineering services.

Aircraft Armament

Sales of aircraft armament systems accounted for 11%, 12%, and 13% of consolidated net sales in 2005, 2004 and 2003, respectively.

Aircraft armament systems include sophisticated devices that allow for the carriage and release of bombs, missiles, and other "stores" utilized by military aircraft. We also design and produce the logical and electrical interfaces between the weapon and the aircraft that allow for targeting and release of those weapons.

Over the past two decades, EDO has made significant investments in aircraft-armament technology to meet the worldwide demand for smart, lightweight, high-performance weapons-interface systems. We have developed and manufactured bomb-release units (BRU) for the F-15E aircraft, ejection-release units (ERU) for the Tornado multi-role combat aircraft, jettison-release mechanisms for the F-14, pneumatic missile-eject launchers for the F/A-22, and smart-weapon, multiple-carriage systems for the F-18 and domestic and foreign F-16s.

In 2005, we continued production of F-15E BRUs for the USAF and international customers and provided spare-parts support for Tornado ERUs and F-15 BRUs worldwide. Furthermore, we received "Lot 6" production orders for LAU-142/A missile launchers known as AVEL for an additional 24 F-22 aircraft. The AVEL carries and ejects missiles from internal bays employing a highly reliable pneumatic-ejection system controlled by the aircraft's stores-management system. We are under contract for depot support and anticipate that we will provide depot support through the life of the F-22. We also received a contract for the first production lot of 135 BRU-55 dual-carriage, "smart" bomb racks for the Navy's F/A-18 aircraft. The contract will extend for approximately 24 months and includes an option for additional production units.

Also in 2005, we continued development and testing of the pneumatic suspension-and-release system for the F-35 Joint Strike Fighter program. We are also under contract to design and develop a new electronic control unit for the AGM-65 Maverick missile. This control unit will enable the Maverick missile to be carried on aircraft currently not compatible with this weapon. Our control unit will interface with the aircraft through Raytheon's LAU-117 Dual Mode Launcher, whose electronics assembly was also designed and built by EDO. We were also selected by Boeing to design and develop the aircraft bomb-rack system and the sonobouy-launch system for the P-8A Multi-mission Maritime Aircraft.

Integrated Composite Structures

Our capabilities in the area of fiber-reinforced advanced composite structures include product and system design, engineering analysis, process development, tooling design and fabrication, qualification testing and validation, production, and after-market support. The primary focus of our business-development effort is advanced composite structures for all types of platforms including manned and unmanned aircraft, missiles, ships and ground vehicles.

EDO produces high performance integrated composite structures through innovative preforming technologies and liquid resin infusion processes. These include braiding, Resin Transfer Molding (RTM) and Vacuum assisted RTM (VaRTM) of composite structures. We are a subcontractor to Lockheed Martin for the JASSM (Joint Air-to-Surface Standoff Missile) stealthy cruise missile. We fabricate 90% of the composite components for the vehicle including the entire fuselage, wing spars and other smaller structures. JASSM is qualified to be carried on the B-1B and B-52. Qualification on the F-16 and B-2 is expected soon.

In 2005 we secured a contract with GE Aircraft Engines to fabricate variable-bleed valve ducts for the GEnx engine. The GEnx engine is the primary engine on Boeing's 787, 747 advanced and Airbus' A350. We fabricate 11 ducts in total as a shipset for each engine. The contract includes the development/qualification effort and the initial production quantities through 2012. This is a significant breakthrough for EDO as we are now an approved production supplier for composite hardware on GE engines.

We produce filament-wound launch canisters for the new Thales VT-1 missile program. We also continued production of composite tanks for the Boeing C-17 aircraft. We have been the sole supplier of these tanks since production began, more than 12 years ago. We also design and fabricate composite structures for Northrop Grumman on military aircraft modification programs.

We have been a provider to Boeing for composite tanks on commercial airliners for 38 years and our aftermarket support for these tanks to the commercial airlines remains strong.

We produce our trademark "Fiberbond" line of composite piping for water and fire systems on oil rigs. This includes the fabrication and installation of topside piping systems for Gulf of Mexico deep-water oil platforms. We continue to invest in introducing our Fiberbond piping to the U.S. Navy due to its non-corrosive, lightweight and non-magnetic properties.

Mine Countermeasure Systems

We are the preeminent supplier of airborne naval-minesweeping equipment worldwide. The principal system of this type used by the U.S. Navy, the MK 105 helicopter-towed system, was designed and developed by us. We continue to provide spares and logistics support for these systems to the Navy and an international customer, and we continue to function as the Navy maintenance depot for the MK 105 systems.

We won a competitive contract from the Navy for the next generation lightweight, helicopter-towed minesweeping system, called the Organic Airborne/Surface Influence Sweep (OASIS). Production is expected to start in 2008 and continue through 2015.

We continued work on the Navy contract to demonstrate the feasibility of unmanned, surface-vessel mine warfare technology and the application of this technology for fleet integration. The Navy has selected EDO's Unmanned Surface Sweep System, named US3, and OASIS, as baseline sweep mission packages for the Littoral Combat Ship (LCS).

In 2006, EDO will open a new facility in Panama City, FL near our primary mine-warfare customer, the Naval Surface Warfare Center, Panama City (NSWC PC). This facility will support our existing mine-warfare systems and develop future systems.

Sonar Systems and Components

We have been a supplier of sonar systems and components, including sonar sensors, underwater-communication systems, depth-sounding, and speed-measuring equipment for more than 50 years.

We are one of North America's leading manufacturers of piezoelectric-ceramic components for defense applications, and we also provide material and related transducers to several commercial markets. Piezoelectric-ceramic elements convert acoustic energy to electrical energy and vice versa and form the basis of many defense and commercial products.

We believe our ability to combine, manufacture and develop engineered active materials with state-of-practice mixed analog and digital electronics and software engineering makes us competitive in several niche markets. For example, we produce underwater acoustic transducers for use in all areas of undersea warfare and piezoelectric shapes for a variety of industries.

In 2005, Lockheed Martin awarded EDO a contract valued at $30 million for sonar equipment on the new Spanish S-80A submarine's combat management system. This initial award covers outboard sonar arrays on four conventionally-powered submarines. This award positions the Lockheed Martin team, including EDO, to compete for other international submarine opportunities.

During 2005, our newest and most capable towed-sonar system, the EDO Model 980 ALOFTS, which is designed to detect quiet submarines in littoral waters, was delivered to an international customer. Five more systems will be installed through 2008. We have also received an order from another international customer for one ALOFTS system with options for two additional systems expected to be procured in 2006 and 2007.

Development continued in cooperation with Ultra Electronics, the UK-based aerospace and defense-electronics group, on our newest hull-mounted sonar, the MFS 7000. In 2005, this equipment was installed on the United Kingdom's first new anti-air warfare destroyers, the Daring class. There will be a total of six ships of the Daring class with MFS-7000 sonar systems installed.

EDO is also producing SQS-53C sonar arrays for the Arleigh Burke-class of guided-missile destroyer. If all options are exercised, deliveries will extend to approximately 2010. In addition to supplying these arrays for U.S. Navy ships, EDO also provides them to allied navies under the Foreign Military Sales (FMS) program.

In 2005, installation of two EDO Model 997 hull-mounted sonars to replace the earlier EDO Model 610 was also completed on two additional Brazilian Navy ships, bringing the total number of these new systems operating to six.

We continued to support our legacy SQR-18 and SQS-35 towed sonars in their role as primary undersea-warfare systems for several international navies, most notably the Taiwanese Navy.

Professional and Engineering Services

Professional and engineering services accounted for 13%, 17%, and 19% of consolidated net sales in 2005, 2004 and 2003, respectively.

Our primary areas of services include four major areas of specialty: information technology; acquisition management; engineering; and technical services. Within these specialties, we provide a broad range of services, primarily to the DoD.

We provide business transformation, analysis & information technology services including strategic business planning, human capital planning, benchmarking and metrics tracking and analysis, website development, and IT policy and planning.

We provide surface-warfare services, including human-systems integration, configuration management, business & financial management, modernization planning, data management, and various engineering functions. We provide the Navy with in-service engineering support for marine-propulsion gas-turbine systems. We also provide systems-engineering services in areas such as test and evaluation, systems integration, performance modeling and computer-aided design to Navy, Coast Guard, and commercial clients.

EDO supports the Marine Corps Joint Capabilities and Integration Office, Systems Command and Logistics Command by designing and executing concept-based experimentation, technology identification, wargaming, and modeling and simulation. We also provide acquisition and logistics support to the Marine Corps, including several logistic bases and systems-command centers.

We provide aviation and logistics-support services, including integrated logistics support, systems engineering, systems integration, interactive technical manuals, training systems development, and reliability engineering.

We support several of the Navy's program executive offices by providing logisticians, acquisition specialists, engineers and financial analysts who perform functions such as configuration management, budget analysis, analysis of ship casualty reports, ship-manning assessments, and review of training requirements. We have provided acquisition support to the Coast Guard's Deepwater program office as they create a transformational fleet of vessels.

We support the Department of the Navy for in-service engineering and depot support for a mine-countermeasure program based in San Diego. This contract complements our continued support for the Explosive Ordnance Disposal Program Management Office (PMS-EOD), a contract we have successfully maintained since 1984.

We perform engineering services under contracts to the Navy for threat-simulator-validation support at China Lake Naval Air Warfare Center, to the Air Force electronic warfare directorate at Edwards Air Force Base for F-22 and various other aircraft platforms, and provide technical and engineering support to various Boeing Satellite Systems programs.

We also provide a broad range of electronic-warfare-related engineering services to the Air Force, as well as aerospace and commercial businesses, to produce and support complex, high-technology solutions. Engineering specialties include software, radio-frequency, computer-aided design, and mechanical engineering.

Flight Line Products

The provision of engineering services to the Air Force led to the development of portable radar-signal simulators designed to test the radar-warning receivers. Our first sale of this equipment was made in June 1998. The first significant contract was awarded by the Air Force in 2001 for 70 units. The primary product is the AN/PLM-4.

The AN/PLM-4 tests the radar-warning systems and electronic countermeasures systems onboard fighter jets and other military aircraft before takeoff, as well as during routine maintenance. In addition to the flight-line version, the radar-signal simulator is available in configurations for laboratory, shipboard and vehicle testing.

In 2005, we received orders for 143 AN/PLM-4 radar signal simulators from the USAF, US Navy and international customers. This brought the total number of systems ordered to 677.

We are currently developing a smaller, lightweight, hand-held version of the radar signal simulator.

Research and Development

Research and development is important to the success of our business, because we focus on niche markets where we have leading-edge technology. While research and development efforts are facilitated by a large portion of our staff, our research and development efforts involved the primary efforts of about 190 employees in 2005. Most of our research and development is funded by long-term development contracts with customers, with the remainder funded at our own expense. Expenditures under development contracts with customers vary in amount from year to year because of the timing of contract funding and other factors.

Customer-funded research and development is principally related to military programs. Major customer-sponsored programs include the development of: mine-countermeasures systems; aircraft weapons-carriage technology; command-and-control software for combat-systems integration; shallow-water sonar; low-observable, anti-jam, GPS antennas; mobile-communications and data systems; and underwater-communications transducer products.

Company-funded research and development is intended primarily to develop new products and extend the capabilities of existing products. Principal current company-funded research and development includes: next-generation electronic force protection systems; digital signal-processing technology for electronic intelligence and support systems; image and signal processing, computer software, and other improvements for combat systems; minesweeping technology; aircraft weapons-carriage systems; application of composites for structural uses; various types of communication equipment; electronic countermeasures; advanced antennas; sonar systems, including processing and detection enhancements; noise reduction and interference cancellation; piezoelectric and composite materials; and new capabilities for our radar-signal simulator products.

The following table sets forth research and development expenditures for the years presented.

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Customer-sponsored	$56,000	$61,600	$48,800
Company-funded	17,100	11,600	8,600
Total	$73,100	$73,200	$57,400

Marketing and International Sales

We sell defense products to the U.S. DOD as a prime contractor and through subcontracts with other prime contractors. In addition, we also sell defense equipment to foreign governments directly, (including through Foreign Military Funded Programs) and through the U.S. Government under Foreign Military Sales programs. We also sell commercial products domestically and internationally.

Sales of our defense products are usually made under long-term contracts or subcontracts covering one or more years of production. These contracts are obtained either through competitive bidding or contract negotiation. We believe that our long history of association with our military customers is an important factor in our overall business, and that the experience gained through this history has enhanced our ability to anticipate our customers' needs. Our approach to defense business is to anticipate specific customer needs and to develop systems to meet those needs either at our own expense or pursuant to research and development contracts. Many of our employees, including our chief executive officer and our vice president of Washington operations, are actively involved in the marketing of our defense products in the U.S. and abroad. We also have about 50 independent international sales representatives concentrating on the marketing of our defense products in foreign countries.

Commercial products are sold in industrial and commercial markets. In foreign markets, piezoelectrics, antennas and electronic products are generally sold commercially through a network of sales representatives. Fiber-reinforced composite products are sold directly and through sales representatives.

It is generally the policy of our U.S. business units to denominate all foreign contracts in U.S. dollars and seek not to incur significant costs in connection with long-term foreign contracts until we have received advance payments or letters-of-credit on amounts due under the contracts. EDO (UK) Ltd. generally denominates its contracts in British Pounds Sterling.

International sales comprised 14% of consolidated net sales in 2005, 14% in 2004, and 18% in 2003.

Backlog

We define backlog as the funded value of contracts and orders that has not been recognized as sales. As of December 31, 2005 our total backlog was $558.7 million compared with $474.6 million as of December 31, 2004. Approximately 72% of the total backlog at December 31, 2005 is scheduled for delivery in 2006. Our backlog consists primarily of current orders under long-lived, mission-critical programs of key defense platforms on which we have a strong strategic position. A significant portion of our sales is to prime contractors, the U.S. DoD and foreign governments pursuant to long-term contracts. Accordingly, our backlog consists in large part of orders under these contracts.

Backlog does not include portions of contracts for which the U.S. Government has not appropriated funds, nor does it include unexercised options in any contract. There is about $646.6 million in unfunded contracts and unexercised options at the end of 2005.

Government Contracts

Net sales to the U.S. Government, as a prime contractor and through subcontracts with other prime contractors, accounted for $528.6 million or 82% of our 2005 consolidated net sales compared with $425.6 million or 79% in 2004 and $348.3 million or 76% in 2003, and consisted primarily of sales to the DoD. Such sales include sales of military equipment to the U.S. Government for resale to foreign governments under the Foreign Military Sales program. Our business is not substantially dependent on any contract.

Our defense business can be and has been significantly affected by changes in national-defense policy and spending. Our U.S. Government contracts and subcontracts and certain foreign-government contracts contain the usual required provisions permitting termination at any time for the convenience of the government with payment for work completed and committed along with associated profit at the time of termination.

Our contracts with the DoD are made on either a fixed-price or cost-reimbursable basis. Both types may include incentive provisions. Fixed-price contracts provide fixed compensation for specified work. Cost-reimbursable contracts require us to perform specified work in return for reimbursement of costs (to the extent allowable under U.S. Government regulations) plus a specified fee. Under both contract types, an incentive adjustment may be made to our fee based on attainment of performance, scheduling, cost, quality or other goals. In general, with fixed-price contracts we assume a greater risk of loss, but also have the potential for higher profit margins, compared to cost-reimbursable contracts. The distribution of our government contracts between fixed-price and cost-reimbursable contracts varies from time to time.

Competition and Other Factors

Some of our products are sold in markets containing a number of competitors substantially larger than we are and with greater financial resources. Direct sales of military products to the U.S. and foreign governments are based principally on product performance, cost and reliability. Such products are generally sold in competition with products of other manufacturers that may fulfill an equivalent function, but which are not direct substitutes.

We purchase some materials and components used in our systems and equipment from independent suppliers. These materials and components are normally not purchased under long-term contracts unless a long-term sales contract with one of our customers so requires. We believe that most of the items we purchase are obtainable from a variety of suppliers. We normally seek to have alternative sources for major items, although we are sometimes dependent on a single supplier or a few suppliers for some items.

It is difficult to state precisely our market position in all of our product lines because information as to the volume of sales of similar products by our competitors is not generally available and the relevant markets are often not precisely defined. However, we believe that we are a significant factor in the markets for stores-release mechanisms for military aircraft, military sonar systems, military data-links, helicopter-towed mine-countermeasures systems, piezoelectric ceramics, electronic-countermeasures systems, and antennas.

Although we own a significant number of patents and have filed applications for additional patents, we do not believe that our businesses depend heavily upon our patents. In addition, most of our U.S. Government contracts license us to use patents owned by others. Similar provisions in the U.S. government contracts awarded to other companies make it impossible for us to prevent the use by other companies of our patents in most domestic defense work.

Environmental

Refer to Note 17 on page 60 of this Report for information regarding the cost of compliance with environmental regulations.

Employees

As of December 31, 2005, we employed 3,000 persons.

Risk Factors

Reductions in government spending would adversely affect our results of operations.

A reduction in purchases of our products by domestic and foreign government agencies would have a material adverse effect on our business because a significant portion of our net sales are derived from contracts directly or indirectly with government agencies. In 2005, 2004 and 2003, we derived about 82%, 79% and 76%, respectively, of net sales from direct and indirect contracts with the U.S. Government and derived about 14%, 14% and 18%, respectively, of net sales from international sales to foreign governments. The development of our business will depend upon the continued willingness of the U.S. and foreign governments to fund existing and new defense programs and, in particular, to continue to purchase our products and services. Although defense spending in the United States has recently increased, further increases may not continue and any proposed budget or supplemental budget request may not be approved. In addition, the U.S. Department of Defense may not continue to focus its spending on technologies that we incorporate in our products.

The U.S. Government may terminate or modify our existing contracts or its contracts with the prime contractors for which we are a subcontractor, which would adversely affect our revenue.

A significant portion of our revenues are derived from U.S. Government contracts, directly or indirectly. There are inherent risks in contracting with the U.S. Government, including risks peculiar to the defense industry, which could have a material adverse effect on our business, financial condition or results of operations. Laws and regulations permit the U.S. Government to:

- terminate contracts for its convenience;
- reduce or modify contracts or subcontracts if its requirements or budgetary constraints change;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- adjust contract costs and fees on the basis of audits done by its agencies; and
- control or prohibit the export of our products.

If the U.S. Government terminates our contracts for convenience, we may only recover our costs incurred or committed for settlement expenses and profit on work completed before the termination. Additionally, most of our backlog could be adversely affected by any modification or termination of contracts with the U.S. Government or contracts the prime contractors have with the U.S. Government. The U.S. Government regularly reviews our costs and performance on its contracts, as well as our accounting and general business practices. The U.S. Government may reduce the reimbursement for our fees and contract-related costs as a result of an audit.

Our business is subject to various restrictive laws and regulations because we are a contractor and subcontractor to the U.S. Government and because we provide military products to foreign governments.

As a contractor and subcontractor to the U.S. Government, we are subject to various laws and regulations that are more restrictive than those applicable to non-government contractors. We are required to obtain and maintain material governmental authorizations and approvals to run our business as it is currently conducted.

For example, we need a license to operate an FAA repair station. In addition, because we provide defense equipment and related services to foreign governments, we must obtain licenses from the U.S. State Department for our foreign exports. Our failure or inability to obtain these licenses could have a material adverse effect on our business. New or more stringent laws or government regulations concerning government contracts and defense exports, if adopted and enacted, could have a material adverse effect on our business. Responding to governmental audits, inquiries or investigations may involve significant expense and divert management attention from regular operations. Also, an adverse finding in any such audit, inquiry or investigation could involve debarment, fines, injunctions or other sanctions.

If we fail to win competitively awarded contracts in the future, we may experience a reduction in our sales, which could negatively affect our profitability.

We obtain many of our U.S. Government contracts through a competitive bidding process. We cannot assure you that we will continue to win competitively awarded contracts or that awarded contracts will generate sales sufficient to result in our profitability. We are also subject to risks associated with the following:

- the frequent need to bid on programs in advance of the completion of their design (which may result in unforeseen technological difficulties and cost overruns);
- the substantial time and effort, including the relatively unproductive design and development required to prepare bids and proposals, spent for competitively awarded contracts that may not be awarded to us;
- design complexity and rapid technological obsolescence; and
- the constant need for design improvement.

Our government contracts may be subject to protest or challenge by unsuccessful bidders or to termination, reduction or modification in the event of changes in government requirements, reductions in federal spending or other factors. In addition, failure to obtain a renewal or follow-on contract with respect to any significant contract or a number of lesser contracts with the U.S. Government or foreign governments would result in a loss of revenues. If revenues from the award of new contracts fail to offset this loss, it could have a material adverse effect on our results of operations and financial position.

A large majority of our contracts are fixed-price, and we may face increased risks of cost overruns or losses on our contracts.

The majority of our government contracts and subcontracts are firm, fixed-price contracts providing for a predetermined fixed price for the products we make regardless of the costs we incur. At times, we must therefore make pricing commitments to our customers based on our expectation that we will achieve more cost-effective product designs and automate more of our manufacturing operations. The manufacture of our products requires a complex integration of demanding processes involving unique technical skill sets. In addition, the expense of producing products can rise due to increased costs of materials, components, labor, capital equipment or other factors. As a result, we face risks of cost overruns or order cancellations if we fail to achieve forecasted product design and manufacturing efficiencies or if products cost more to produce than expected.

We may be required to reduce our profit margins on contracts on which we use the percentage-of-completion accounting method.

We record sales and profits on many of our contracts using percentage-of-completion methods of accounting. As a result, revisions made to our estimates of sales and profits are recorded in the period in which the conditions that require such revisions become known and can be estimated. Although we believe that our profit margins are fairly stated and that adequate provisions for losses for our fixed price contracts are recorded in our financial statements, as required under U.S. generally accepted accounting principles, we cannot assure you that our contract profit margins will not decrease or our loss provisions will not increase materially in the future.

Our products and systems may be rendered obsolete by our inability to adapt to technological change.

The rapid change of technology continually affects our product applications and may directly impact the performance of our products. For our electronic warfare products, we are required to improve reliability and maintainability, extend frequency ranges and provide advanced jamming techniques. We can give you no assurances that we will successfully maintain or improve the effectiveness of our existing products, nor can we assure you that we will successfully identify new opportunities and continue to have the needed financial resources to develop new products in a timely or cost-effective manner. In addition, products manufactured by others may render our products and systems obsolete or non-competitive. If any of these events occur, our results of operations would be adversely affected.

The unsuccessful integration of a business or business segment we acquire could have a material adverse effect on our operating results.

One of our key operating strategies is to pursue selective acquisitions. We review and actively pursue possible acquisitions on a continuous basis. Except as previously disclosed in our public filings, we do not currently have any commitments, agreements or understandings to acquire any specific businesses or other material assets. Our acquisition strategy may require additional debt or equity financing, resulting in additional leverage or dilution of ownership. We cannot assure you that any future acquisition will be consummated, or that if consummated, we will be able to integrate such acquisition successfully without a material adverse effect on our financial condition or results of operations. Moreover, any acquisition could involve other risks, including:

- diversion of management's attention from existing operations;
- potential loss of key employees or customers of acquired companies; and
- exposure to unforeseen liabilities of acquired companies.

We are dependent in part upon our relationships and alliances with industry participants in order to generate revenue.

We rely on the strength of our relationships with other contractors to form strategic alliances. Some of our partners assist us in the development of some of our products through teaming arrangements. Under these teaming arrangements, our partners usually have borne a portion of the expenses associated with our research and development of new and existing products that are the subject of such agreements. We cannot assure you that our partners will continue to bear these expenses in the future. If any of our existing relationships with our partners were impaired or terminated, we could experience significant delays in the development of our new products ourselves, and we would incur additional development costs. We would need to fund these costs internally or identify new partners.

Some of our partners are also potential competitors, which may impair the viability of new strategic relationships. While we must compete effectively in the marketplace, our future alliances may depend on our partners' perception of us. Our ability to win new and/or follow-on contracts may be dependent upon our relationships within the military industry.

We have developed outsourcing arrangements for the manufacture of many of the components and sub-assemblies of our products. If third parties fail to deliver quality products and components at reasonable prices on a timely basis, we may alienate some of our customers and our revenues, profitability and cash flow may decline.

We use contract manufacturers as an alternative to our own manufacture of the components and sub-assemblies of our products. If these contract manufacturers are not willing to contract with us on competitive terms or devote adequate resources to fulfill their obligations to us, or we do not properly manage these relationships, our existing customer relationships may suffer. In addition, by undertaking these activities, we run the risks that

- the reputation and competitiveness of our products and services may deteriorate as a result of the reduction of our control and quality and delivery schedules and the consequent risk that we will experience supply interruptions and be subject to escalating costs; and
- our competitiveness may be harmed by the failure of our contract manufacturers to develop, implement or maintain manufacturing methods appropriate for our products and customers.

We may be required to defend lawsuits or pay damages in connection with the alleged or actual harm caused by our products.

We face an inherent business risk of exposure to product liability claims in the event that the use of some of our products is alleged to have resulted in unintended harm to others or to property. Although we maintain general liability and product liability insurance, we may incur significant liability if product liability lawsuits against us are successful. We cannot assure you that such coverage will be adequate to cover all claims that may arise or that it will continue to be available to us on acceptable terms.

We may incur substantial environmental liability arising from our activities involving the use of hazardous materials.

Our business is subject to federal, state, local and foreign laws, regulations and ordinances governing the use, manufacture, storage, handling and disposal of hazardous materials and waste products. From time to time, our operations have resulted or may result in noncompliance with environmental laws or liability for the costs of investigating and cleaning up, and certain damages resulting from, sites of past spills, disposals or other releases of hazardous materials. In addition, we have been identified as a potentially responsible party pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or corresponding state environmental laws, for the cleanup of contamination resulting from past disposals of hazardous materials at some sites where we, along with others, sent waste in the past. We are a party to consent decrees as a result of our potential responsibility for contamination caused by the disposal of hazardous materials. We cannot assure you that such matters, or any similar liabilities that arise in the future, will not exceed our resources, nor can we completely eliminate the risk of accidental contamination or injury from these materials.

Political and economic instability in foreign markets may have a material adverse effect on our operating results.

Foreign sales represented about 14% our total sales in 2005 and we intend to increase the amount of foreign sales we make in the future. Foreign sales are subject to numerous risks, including political and economic instability in foreign markets, restrictive trade policies of foreign governments, economic conditions in local markets, inconsistent product regulation by foreign agencies or governments, the imposition of product tariffs and the burdens of complying with a wide variety of international and U.S. export laws and differing regulatory requirements. If we fail to increase our foreign sales it could have a material adverse effect on our results of operations.

Concentration of voting power and certain provisions in our charter documents could make a merger, tender offer or proxy contest difficult and may adversely affect the price of our common shares.

At December 31, 2005, the EDO Employee Stock Ownership Trust, or ESOT, owned 3,720,214 common shares (or about 18% of the outstanding common shares). The trustee of the plan has obligations under the trust agreement and its fiduciary duties when voting allocated shares under the plan. The procedure the trustee generally follows is to receive direction from each of the plan participants with respect to his or her allocated shares, and then to vote all shares in accordance with the direction received. The market may perceive that the concentration of voting power in the hands of a single employee stock ownership plan creates a potential barrier against another party acquiring us. This perception could result in lower market prices for our common shares. In addition, certain agreements to which we are a party, including loan and executive officer agreements, contain provisions that impose increased costs in the event of a change of control.

If we are unable to protect our intellectual property rights adequately, the value of our commercial products could be diminished.

The value of our commercial products is increased, in part, by obtaining, maintaining and enforcing our patents and other proprietary rights. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret and copyright laws, we cannot assure you that the precautionary steps we have taken will completely protect our intellectual property rights. In the event a competitor successfully challenges our patents or licenses, we could incur substantial litigation costs that could have a material adverse effect on our operating results and financial condition.

The U.S. Government's right to use technology developed by us limits our intellectual property rights.

We seek to protect the competitive benefits we derive from our patents, proprietary information and other intellectual property. However, we do not have the right to prohibit the U.S. Government from using certain technologies developed or acquired by us or to prohibit third party companies, including our competitors, from using those technologies in providing products and services to the U.S. Government. The U.S. Government has the right to royalty-free use of technologies that we have developed under U.S. Government contracts. We are free to commercially exploit those government-funded technologies and may assert our intellectual property rights to seek to block other non-government users thereof, but we cannot assure you we could successfully do so.

A failure to attract and retain technical personnel could reduce our revenues and our operational effectiveness.

There is a continuing demand for qualified technical personnel, and we believe that our future growth and success will depend upon our ability to attract, train and retain such personnel. Competition for personnel in the military industry is intense, and there are a limited number of persons with knowledge of, and experience in, this industry. Although we currently experience relatively low rates of turnover for our technical personnel, the rate of turnover may increase in the future. An inability to attract or maintain a sufficient number of technical personnel could have a material adverse effect on our contract performance or on our ability to capitalize on market opportunities.

Increased scrutiny of financial disclosure could adversely affect investor confidence, and any restatement of earnings could increase litigation risks and limit our ability to access the capital markets.

Congress, the SEC, other regulatory authorities and the media are intensely scrutinizing a number of financial reporting issues and practices. Although all businesses face uncertainty with respect to how the U.S. financial disclosure regime may be affected by this process, particular attention has been focused recently on companies' interpretations of generally accepted accounting principles.

If we are required to restate our financial statements as a result of a determination that we had incorrectly applied generally accepted accounting principles, that restatement could adversely affect our ability to access the capital markets or the trading price of our securities. The recent scrutiny regarding financial reporting may also result in an increase in litigation involving companies with publicly traded securities, such as us. There can be no assurance that any such litigation against us would not materially adversely affect our business or the trading price of our securities.

If we are unable to comply with the restrictions and covenants in our debt agreements, there would be a default under the terms of those agreements, and this could result in an acceleration of payment of funds that have been borrowed.

If we are unable to comply with the restrictions and covenants in our debt agreements, there would be a default under the terms of these agreements. Some of the debt agreements also require us to maintain specified financial ratios and satisfy financial tests. Our ability to meet these financial ratios and tests may be affected by events beyond our control, including, without limitation, sales levels, contract terminations and potential acquisitions. As a result, there can be no assurance that we will be able to meet these tests. In the event of a default under these agreements, the lenders could terminate their commitments to lend or accelerate the loans and declare all amounts borrowed due and payable.

Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. If any of these events occur, there can be no assurance that we would be able to make necessary payments to the lenders or that we would be able to find alternative financing. Even if we are able to obtain alternative financing, it may not be on terms that are acceptable to us.

Restrictions and covenants in our debt agreements limit our ability to conduct our business and could prevent us from obtaining needed funds in the future.

Our debt and financing arrangements contain a number of significant limitations that restrict our ability to, among other things:

- borrow additional money or issue guarantees;
- pay dividends or other distributions to shareholders;
- make investments;
- create liens on assets;
- sell assets;
- enter into transactions with affiliates; and
- engage in mergers or consolidations.

These restrictions may limit our ability to obtain future financing, fund needed capital expenditures or withstand a future downturn in business or the economy.

We currently derive a significant percentage of our total sales from our Warlock force protection systems. If sales of the Warlock force protection systems decrease, our financial condition and results of operations may be adversely affected.

Currently, sales of our Warlock force protection systems to the United States Army constitute a significant percentage of our total sales. Sales of Warlock force protection systems accounted for 22% of our total sales for fiscal 2005. Due to the immediate need for the systems, the United States Army places expedited, short term orders with us for these products from time to time. Consequently, the termination, reduction or postponement of purchases by the United States Army, which could happen at any time, may adversely affect our financial condition and results of operations.

Item 2. ***Properties***

All of our operating facilities are leased except a Wando, SC facility obtained in the Darlington acquisition. In 2003, we sold our facility in Deer Park, NY. We believe our facilities are adequate for our present purposes. All facilities in the following listing are suitable for expansion by using available but unused space, leasing additional available space, or by physical expansion of leased buildings. We believe that, with respect to leases which expire during 2006 we will be able to either extend the lease or lease other facilities on reasonable terms. Our obligations under the various leases are set forth in Note 16 on pages 59 and 60 of this Report.

Set forth below is a listing of our principal plants and other materially important physical properties.

Segment	Location	Type	Approximate Floor Area (in sq. ft.)
Electronic Systems and Communications/ Engineered Systems and Services	North Amityville, NY	Manufacturing/Assembly	225,000
Electronic Systems and Communications/Engineered Systems and Services	Chesapeake, VA	Assembly	46,000
Electronic Systems and Communications	Morgan Hill, CA	Manufacturing	160,000
Electronic Systems and Communications	Thousand Oaks, CA	Assembly	113,000
Electronic Systems and Communications	Alexandria, VA & Wando, SC	Manufacturing	105,000
Electronic Systems and Communications	Bohemia, NY	Manufacturing	94,000
Electronic Systems and Communications	Columbia, MD	Office/Assembly	77,000
Engineered Systems and Services	Salt Lake City, UT (2 facilities)	Manufacturing	284,000
Engineered Systems and Services	Alexandria, VA	Office	193,000
Engineered Systems and Services	Brighton, UK	Manufacturing	56,000
Engineered Systems and Services	Walpole, MA	Manufacturing	55,000
Engineered Systems and Services	Huntingdon, PA	Assembly	40,000
Engineered Systems and Services	Lancaster, CA	Office/Assembly	38,000
Engineered Systems and Services	Baton Rouge, LA	Manufacturing	29,000

Item 3. ***Legal Proceedings***

The Company and/or its subsidiaries are parties to various legal proceedings arising in the normal course of business, including various environmental actions described in Note 17 on page 60 of this Report. While litigation is subject to inherent uncertainties, management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, are not material to the business or financial condition of the Company. The following is a description of certain proceedings:

U.S. v. EDO Corporation et al.; EDO Corporation et al. v. Elinco Associates L.P. et al. (United States District Court, District of Connecticut). The Company and three other companies entered into a consent decree in 1990 with the Federal government for the remediation of a Superfund site in Norwalk, CT. The Superfund site has been divided into three operable units. The consent decree relates to two of the operable units. The third operable unit has not been formally studied and the Company is unable to determine whether the EPA will address the third operable unit or, if it does, whether it will conclude that specific remedial response action will be required for it, and in such event, what the costs, if any, or the Company's degree of responsibility will be. As of December 31, 2005 the Company estimates that its discounted liability over the remainder of the twenty years related to the two operable units is approximately $1.6 million. See also Note 17 on page 60 of this Report.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

The information responsive to this item is set forth under the headings "Common Share Prices" and "Dividends" on pages 31 and 32, together with dividend information contained in the "Consolidated Statements of Shareholders' Equity" on pages 35 and 36 and Note 8 on pages 47 and 48 of this Report. The information regarding equity compensation plans can be found in Note 1(k) on pages 42 and 43 and Note 13 on pages 51 and 52 of this Report.

Item 6. *Selected Financial Data*

SELECTED FINANCIAL DATA

EDO CORPORATION AND SUBSIDIARIES
(Not Covered By Independent Auditor's Reports)

	2005	2004	2003	2002	2001
		(In thousands, except per share amounts)			
Statement of Earnings Data:					
Net sales	$648,482	$536,173	$460,667	$328,876	$259,961
Costs and expenses:					
Cost of sales	490,617	392,961	338,259	240,850	189,733
Selling, general and administrative	85,921	78,791	71,855	47,584	34,013
Research and development	17,122	11,620	8,594	8,492	8,750
Environmental costs/impairment loss on Deer Park facility	1,543	—	9,160	—	—
Other expenses(a)	—	—	1,871	2,565	389
	595,203	483,372	429,739	299,491	232,885
Operating earnings	53,279	52,801	30,928	29,385	27,076
Net interest expense(b)	(11,291)	(7,848)	(8,152)	(4,956)	(2,216)
Other non-operating (expense) income, net	(147)	(319)	279	(95)	(971)
	(11,438)	(8,167)	(7,873)	(5,051)	(3,187)
Earnings before income taxes and cumulative effect of a change in accounting principle	41,841	44,634	23,055	24,334	23,889
Income tax expense	(15,572)	(15,566)	(9,644)	(10,342)	(9,210)
Earnings before cumulative effect of a change in accounting principle from:					
Continuing operations	26,269	29,068	13,411	13,992	14,679
Discontinued operations	—	—	1,398	—	273
Earnings before cumulative effect of a change in accounting principle	26,269	29,068	14,809	13,992	14,952
Cumulative effect of a change in accounting principle, net of tax of $790(c)	—	—	—	(3,363)	—
Dividends on preferred shares(d)	—	—	—	—	(194)
Net earnings available for common shares	$ 26,269	$ 29,068	$ 14,809	$ 10,629	$ 14,758
Per Common Share Data:					
Basic net earnings (loss):					
Continuing operations	$ 1.45	$ 1.64	$ 0.78	$ 0.82	$ 1.14
Discontinued operations	—	—	0.08	—	0.02
Basic net earnings before cumulative effect of a change in accounting principle	1.45	1.64	0.86	0.82	1.16
Cumulative effect of a change in accounting principle	—	—	—	(0.20)	—
Basic net earnings	$ 1.45	$ 1.64	$ 0.86	$ 0.62	$ 1.16
Diluted net earnings (loss):					
Continuing operations	$ 1.33	$ 1.49	$ 0.76	$ 0.81	$ 1.09
Discontinued operations	—	—	0.08	—	0.02
Diluted net earnings before cumulative effect of a change in accounting principle	1.33	1.49	0.84	0.81	1.11
Cumulative effect of a change in accounting principle	—	—	—	(0.20)	—
Diluted net earnings	$ 1.33	$ 1.49	$ 0.84	$ 0.61	$ 1.11
Cash dividends per common share	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Weighted-average common shares outstanding:					
Basic	18,081	17,695	17,308	17,080	12,776
Diluted(e)	23,001	22,377	17,561	17,379	14,254

	2005	2004	2003	2002	2001
	(In thousands, except per share amounts)				
Other Data:					
Depreciation and amortization	$ 15,699	$ 16,040	$ 17,065	$ 11,321	$ 11,396
Capital expenditures	23,718	14,206	8,865	7,093	14,298
Backlog	558,685	474,605	462,327	375,029	294,812
Consolidated Balance Sheet Data:					
Cash, cash equivalents, marketable securities and restricted cash	$108,731	$ 98,884	$ 86,632	$159,860	$ 58,031
Working capital	244,862	226,708	175,715	204,382	105,177
Total assets	687,399	546,689	494,696	481,574	285,630
Total debt (f)	208,250	137,800	137,800	137,800	463
Shareholders' equity	239,893	211,928	190,332	168,273	174,498

(a) Reflects $0.9 million in 2003 and $0.6 million in 2002 for the write-off of purchased in-process research and development ("IPR&D") and other acquisition-related costs, respectively, associated with our acquisition of the assets of Condor Systems, Inc., as well as a $0.9 million curtailment loss in 2003 and a $2.0 million curtailment loss in 2002 associated with our benefit plans; a $0.9 million post-retirement curtailment gain in 2001; $1.3 million in 2001 for the write-off of IPR&D; and other EDO-AIL merger-related costs in 2001.

(b) In 2005, includes $2.9 million of premium paid to redeem all of the outstanding $137.8 million principal amount of our 5.25% Convertible Subordinated Notes and $1.3 million of write-off of the remaining unamortized deferred finance costs associated with these Notes.

(c) Upon adoption of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," we recorded a cumulative effect of a change in accounting principle effective January 1, 2002. See Note 1(f) to the consolidated financial statements.

(d) ESOP Convertible Cumulative Preferred Shares, Series A. On March 8, 2001, all outstanding preferred shares were converted into common shares. No preferred dividends were paid after March 8, 2001.

(e) In 2005 and 2004, the 5.25% Convertible Subordinated Notes had a dilutive effect on the earnings per share calculation. In November 2005, the 5.25% Convertible Subordinated Notes were redeemed. Also in November 2005, 4.0% Convertible Subordinated Notes were issued which had a dilutive effect in 2005. Consequently, 4.7 million shares are included in the diluted shares outstanding in 2005 compared to 4.4 million shares in 2004.

(f) Includes current portion of notes payable.

Items 7. and 7A. ***Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk***

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

Overview

EDO Corporation (the "Company") designs and manufactures a diverse range of products with core competencies in critical defense areas. We are a leading supplier of sophisticated, highly engineered products and systems for defense, aerospace and intelligence applications. We believe our advanced systems are mission-critical on a wide range of military programs and are at the core of transforming defense capabilities. We have two reporting segments: Electronic Systems and Communications and Engineered Systems and Services. Our Electronic Systems and Communications segment provides highly-engineered electronic systems and equipment including electronic warfare systems, reconnaissance and surveillance systems, and command, control, communications, and computers (C4) products and systems. Our Engineered Systems and Structures segment comprises aircraft armament systems, integrated composite structures, undersea warfare sonar systems, and professional engineering services. The Company has a disciplined acquisition program which is diversifying its base of major platforms and customers.

The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the Proxy Statement for its Annual Meeting of Shareholders are made available, free of charge, on its Web site www.edocorp.com, as soon as reasonably practicable after such reports have been filed with or furnished to the Securities and Exchange Commission.

Acquisitions

On December 20, 2005, the Company acquired for cash all of the stock of NexGen Communications LLC (NexGen), a privately-held company specializing in the design and production of communications systems for a diverse set of U.S. government organizations. The acquisition strengthened our fast-growing position in specialized communication products. The acquired company became part of the Company's Electronic Systems and Communications segment. The Company has not yet completed its analysis of the fair value of the acquired assets and liabilities. Consequently, the excess purchase price over the net assets acquired has been temporarily assigned to goodwill, and amounts recorded are subject to change. The excess of the purchase price over the net assets acquired related to NexGen is not deductible for income tax purposes.

On September 19, 2005, we acquired for cash all of the stock of Fiber Innovations, Inc., (Fiber Innovations) a privately-held company that is a designer and manufacturer of fiber reinforced-composites. This acquisition has added important complementary design and manufacturing capabilities to EDO's integrated-composite-structures business. The acquired company became part of the Company's Engineered Systems and Services segment. The excess of the purchase price over the net assets acquired related to Fiber Innovations is not deductible for income tax purposes.

On May 2, 2005, we acquired for cash all of the units of EVI Technology, LLC (EVI), a privately-held company. EVI is a designer, manufacturer and integrator of classified intelligence systems. EVI has strengthened and expanded EDO's range of products and engineering expertise in a number of synergistic areas. The acquired company became part of the Company's Electronic Systems and Communications segment. The excess of the purchase price over the net assets acquired related to EVI recorded as goodwill and other intangible assets is deductible for income tax purposes over 15 years.

In June 2003, we acquired all of the stock of Emblem Group Ltd., a privately-held company based in England. Emblem, which has been renamed EDO (UK) Ltd., operated through its MBM Technology unit in England and Artisan Technologies Inc. subsidiary in the United States. EDO (UK) reinforces our position as a global leader in aircraft armament-release systems and broadens our customer base in Europe. Emblem became part of the Company's Engineered Systems and Services segment. In the second quarter of 2004 we received $0.3 million from an escrow account resulting in a decrease in purchase price and, therefore, goodwill. The excess of the purchase price over the net assets acquired recorded as goodwill and other intangibles related to Emblem's units located in the UK is deductible for U.S. income tax purposes over 15 years. The excess of the purchase price over the net assets acquired related to Artisan Technologies, Inc. is not deductible for income tax purposes.

In March 2003, we acquired all of the stock of Darlington, Inc., a privately-held defense-communications company. This acquisition significantly expanded our capabilities in defense communications and related services. Darlington became part of the Company's Electronic Systems and Communications segment. The excess of the purchase price over the net assets acquired recorded as goodwill and other intangible assets is deductible for income tax purposes over 15 years.

In February 2003, we acquired all of the stock of Advanced Engineering & Research Associates, Inc. (AERA), a privately-held company which strengthened and expanded our range of professional services. AERA became part of the Company's Engineered Systems and Services segment. The excess of the purchase price over the net assets acquired recorded as goodwill and other intangible assets is deductible for income tax purposes over 15 years.

In July 2002, we acquired, in an auction under section 363 of the U.S. Bankruptcy Code, substantially all of the assets of Condor Systems, Inc., a privately-held defense-electronics company and its subsidiary (together, "Condor"). The acquisition of Condor's business has significantly expanded our defense-electronics capabilities in the areas of reconnaissance and surveillance systems and communications and countermeasures. The assets became part of the Company's Electronic Systems and Communications segment. Associated with the acquisition and included in operating earnings for 2003 is $0.9 million, of acquisition-related costs. The excess of the purchase price over the net assets acquired recorded as goodwill, IPR&D and other intangible assets is deductible for income tax purposes over 15 years.

These acquisitions were accounted for as purchases and, accordingly, their operating results are included in the Company's consolidated financial statements since their respective acquisition dates.

Sale of Property

On June 24, 2003, the Board of Directors of the Company approved the decision to sell our 726,000 square foot facility in Deer Park, NY. This decision was based on a company-wide facility plan that evaluated potential uses for the property. We concluded that the Deer Park facility would not meet future requirements, and thus an outright sale was completed, freeing assets for more productive use, including acquisitions. A pre-tax impairment loss of $9.2 million was recorded in the second quarter of 2003, as the net book value of the assets exceeded the fair value less the costs to sell. The fair value was based on a $29.0 million sales price per the sales agreement entered into in July 2003. In 2005, we recorded $1.5 million of an additional cost provision to account for an environmental cleanup that was not discovered until after the sale.

Of the $29.0 million sales price, $22.0 million was in cash and $7.0 million in the form of a purchase money mortgage and note. We closed on the sale in October 2003 and received the cash less closing payments. The due date of the note is October 9, 2005 or the date EDO achieves "Material Closure" defined as "the investigation, assessment and remediation of an Environmental Condition sufficient to not cause any material interference with the buyer's ability to develop, construct, finance or lease the Premises." The Company believes that the note is currently due and payable. See Note 4 to our consolidated financial statements on pages 45 and 46.

Discussion of Critical Accounting Policies

We make estimates and assumptions in the preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our critical accounting policies, which are those that are most important to the portrayal of our consolidated financial condition and results of operations and which require our most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The following is a brief discussion of the critical accounting policies employed by us.

Revenue Recognition

Sales under long-term, fixed-price contracts, including pro-rata profits, are generally recorded based on the relationship of costs incurred to date to total projected final costs or, alternatively, as deliveries and other milestones are achieved or services are provided. These projections are revised throughout the lives of the contracts. Adjustments to profits resulting from such revisions are made cumulative to the date of change and may affect current period earnings. Sales on other than long-term contract orders (principally commercial products) are recorded as shipments are made. Our gross profit is affected by a variety of factors, including the mix of products, systems and services sold, production efficiencies, price competition and general economic conditions. Estimated losses on long-term contracts are recorded when identified.

Inventories

Inventories under long-term contracts and programs reflect all accumulated production costs, including factory overhead, initial tooling and other related costs (including general and administrative expenses relating to certain of our defense contracts), less the portion of such costs charged to cost of sales. All other inventories are stated at the lower of cost (principally first-in, first-out method) or market. Inventory costs in excess of amounts recoverable under contracts and which relate to a specific technology or application and which may not have alternative uses are charged to cost of sales when such circumstances are identified.

From time to time, we manufacture certain products prior to receiving firm contracts in anticipation of future demand. Such costs are inventoried and are incurred to help maintain stable and efficient production schedules.

Several factors may influence the sale and use of our inventories, including our decision to exit a product line, technological change, new product development and/or revised estimates of future product demand. If inventory is determined to be overvalued due to one or more of the above factors, we would be required to recognize such loss in value at the time of such determination.

Under the contractual arrangements by which progress payments are received, the United States Government has a title to or a security interest in the inventories identified with related contracts.

Property, Plant and Equipment and Other Long-Lived Assets

Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease periods.

In those cases where we determine that the useful life of property, plant and equipment should be shortened, we depreciate the net book value in excess of salvage value over its revised remaining useful life thereby increasing depreciation expense. Factors such as technological advances, changes to our business model, changes in our capital strategy, changes in the planned use of equipment, fixtures, software or changes in the planned use of facilities could result in shortened useful lives. Long-lived assets, other than goodwill, are reviewed by us for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The estimate of cash flow, which is used to determine recoverability, is based upon, among other things, certain assumptions about future operating performance.

Our estimates of undiscounted cash flow may differ from actual cash flow due to such factors including technological advances, changes to our business model, or changes in our capital strategy or planned use of long-lived assets. If the sum of the undiscounted cash flows, excluding interest, is less than the carrying value, we would recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *"Goodwill and Other Intangible Assets"* goodwill must be tested at least annually for impairment at the reporting unit level. If an indication of impairment exists, we are required to determine if such goodwill's implied fair value is less than the unit carrying value in order to determine the amount, if any, of the impairment loss required to be recorded. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profits, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire the asset and/or a material decrease in the fair value of some or all of the assets.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate, for all of the reporting units. The discounted cash flow method measures intrinsic value by reference to an enterprise's or an asset's expected annual free cash flows. We applied what we believe to be the most appropriate valuation methodology for each of the reporting units. If we had established different reporting units or utilized different valuation methodologies, the impairment test results could differ.

Pension and Post-Retirement Benefits Obligations

We sponsor defined benefit pension and other retirement plans in various forms covering all eligible employees. Several statistical and other factors which attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate and expected return on plan assets within certain guidelines and in conjunction with our actuarial consultants. In addition, our actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate the expense and liability related to these plans. The actuarial assumptions used by us may differ significantly, either favorably or unfavorably, from actual results due to changing market, economic or regulatory conditions, higher or lower withdrawal rates or longer or shorter life spans of participants.

We use the building block approach to the estimation of the long-term rate of return on assets. Under this approach, we reviewed the publicly available common source data for the range of returns on basic types of equity and fixed income instruments and the differential to those rates provided by active investment management. In consultation with our actuarial and active asset management consultants and taking into account the funds' actual performance and expected asset allocation going forward, we selected an overall return rate within the resulting range.

Financial Highlights

Net sales for 2005 increased 20.9% to 648.5 million from $536.2 million for 2004 and included sales from the acquisitions of Fiber Innovations and EVI. For 2005, net earnings were $26.3 million or $1.33 per diluted share on 23.0 million shares compared to net earnings of $29.1 million or $1.49 per diluted share on 22.4 million shares in 2004. In 2005 and 2004, the 5.25% Convertible Subordinated Notes had a dilutive effect on the earnings per share calculation. In November 2005, the 5.25% Convertible Subordinated Notes were redeemed. Also in November 2005, 4.0% Convertible Subordinated Notes were issued which had a dilutive effect in 2005. Consequently, 4.7 million shares are included in the diluted shares outstanding in 2005 compared to 4.4 million shares in 2004.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) (FAS 123(R)), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. FAS123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in FAS123(R) is similar to the approach described in Statement 123. However, FAS123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. FAS123(R) must be adopted by the Company no later than January 1, 2006.

As permitted by Statement 123, the Company accounted for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options through December 31, 2005.

The Company has adopted FAS123(R) on January 1, 2006, using the "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of FAS123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of FAS123(R) that remain unvested on the effective date.

Accordingly, the adoption of FAS123(R)'s fair value method will have an impact on our result of operations. The impact of the adoption of FAS123(R) cannot be determined at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted FAS123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note (1)(k) to our consolidated financial statements.

FAS123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future, because they depend on, among other things, when employees exercise stock options and the fair value of the Company's stock on the date of exercise.

Results of Operations

Comparison of 2005 to 2004

Net sales by segment were as follows:

Segment	Twelve Months Ended December 2005	Twelve Months Ended December 2004	Increase/(Decrease) From Prior Period
	(Dollars in millions)		
Electronic Systems and Communications	$408.2	$273.3	49.4%
Engineered Systems and Services	240.3	262.9	(8.6)%
Total	$648.5	$536.2	20.9%

The increase in sales in the Electronic Systems and Communications segment for the year ended December 31, 2005 compared to the year ended December 31, 2004 is attributable to sales of Warlock force protection equipment to the U.S. Army. The Warlock program was a significant contributor to sales and margin in 2005, accounting for 22% of our total sales. In addition, the acquisition of EVI contributed sales for the eight months since its acquisition date. There were also increases in sales of C4 products and systems, including the Joint Enhanced Core Communication Systems ("JECCS") program for the Marine Corps and antennas. These increases were partially offset by a decrease in sales of electronic warfare systems due primarily to reduced efforts on the EA-6B aircraft and also to the completion of B1-B development efforts.

The decrease in sales in the Engineered Systems and Services segment for the year ended December 31, 2005 compared to the year ended December 31, 2004 is attributable to lower sales of professional services, mine countermeasures systems, and sonar systems, partially offset by three months of sales from the acquisition of Fiber Innovations since its acquisition date. The decrease in sales of professional services was due to lower levels of awards as well as timing of awards. The decrease in sales of mine countermeasures systems was due to the completion of various spares orders that followed the final deliveries of the MK-105 Mod 4 Upgrade program. The decrease in sales of sonar systems was due to several major programs nearing completion during 2005.

Operating earnings were as follows:

Segment	Twelve Months Ended December 31, 2005	Twelve Months Ended December 31, 2004	Increase/(Decrease) From Prior Period
	(Dollars in millions)		
Electronic Systems and Communications	$42.1	$26.5	58.9%
Engineered Systems and Services	12.7	26.3	(51.8)%
Deer Park facility environmental cost provision	(1.5)	—	
Total	$53.3	$52.8	1.0%

Items of note affecting operating earnings are summarized here to clarify the comparison of results.

	Twelve Months Ended December 31,	
	2005	2004
	(Dollars in thousands)	
Pension	$4,277	$2,183
ESOP Compensation expense	$4,952	$4,330
Intangible asset amortization	$5,931	$5,564

The increased pension expense in 2005 compared to 2004 is attributable to changes in actuarial assumptions, namely a reduction in the discount rate. The higher ESOP compensation expense in 2005 is attributable to our higher average stock price compared to 2004. Pension and ESOP compensation expense are allocated between cost of sales and selling, general and administrative expense. The intangible asset amortization expense is associated with the acquisitions made in 2002, 2003 and 2005 and affects primarily the Electronic Systems and Communications segment. In 2005, we incurred a $1.5 million charge to provide for environmental cleanup efforts relating to our former Deer Park facility.

Operating earnings in the Electronic Systems and Communications segment for the year ended December 31, 2005 were $42.1 million, or 10.3% of this segment's sales compared to $26.5 million, or 9.7% of this segment's sales for the year ended December 31, 2004. The increase in operating earnings is largely attributable to the increased sales of Warlock force protection systems and increased margins on sales of C4 products and systems, namely the aforementioned JECCS program. These increases were partially offset by cost growth of $2.4 million on an electronic warfare systems program. Additionally, as discussed in further detail below in the comparison of results of operations of 2004 compared to 2003, 2004 operating earnings were negatively impacted by a write-off of $2.6 million of Ku-band products inventory.

Operating earnings in the Engineered Systems and Services segment for the year ended December 31, 2005 were $12.7 million, or 5.3% of this segment's sales compared to $26.3 million, or 10.0% of this segment's sales for the year ended December 31, 2004. The decrease in operating earnings was due largely to the aforementioned lower sales in our professional services business. In addition, there was cost growth of $1.4 million on several sonar array and depth sounder programs. The lower spares sales related to mine countermeasures systems also contributed to lower earnings. These negative impacts were partially offset by an adjustment of $1.6 million of the estimated costs to complete on an aircraft armament program.

Operating earnings were also negatively affected by cost growth totaling $3.6 million on an undersea warfare systems program known as ALOFTS. Ongoing system testing identified various performance issues that required design and software modifications, which are continuing. We believe we have accounted for all costs for the modifications and future re-testing in our estimate-to-complete. The next significant tests for this program are currently scheduled to occur in 2006. In 2004, there was a $3.8 million negative impact to earnings on the same program.

In 2004 there was a positive impact to operating earnings in this segment of approximately $3.4 million resulting from the release of a reserve which had been previously established for a potential issue on MK105-related contracts. The release of the reserve was triggered by final deliveries of MK105 systems made in 2003 and proven performance resulting from system utilization over the course of 2004. This increase in earnings was partially offset by a $1.6 million negative impact to operating earnings resulting from an increase in the estimate-to-complete on an aircraft armament program.

Selling, general and administrative expenses for the year ended December 31, 2005 of $85.9 million decreased as a percent of net sales to 13.2% from 14.7% for the year ended December 31, 2004. The increase in sales is the primary driver of the decrease.

Research and development expense for the year ended December 31, 2005 increased to $17.1 million or 2.6% of net sales from $11.6 million or 2.2% of net sales for the year ended December 31, 2004. This increase is attributable to increased spending on next generation force protection efforts.

Interest expense, net of interest income, for the year ended December 31, 2005 decreased to $7.1 million compared to $7.8 million for the year ended December 31, 2004, primarily due to higher interest income resulting from higher average cash levels. Interest expense includes interest on the 5.25% Convertible Subordinated Notes through their redemption date in November 2005 as well as interest on the 4.0% Convertible Subordinated Notes due 2025 issued in November 2005. Also included in interest expense is amortization of deferred debt issuance costs associated with the offering of the 4.0% notes and amortization of deferred financing costs associated with our credit facility.

On November 29, 2005, we redeemed for cash all of our outstanding 5.25% Convertible Subordinated Notes. Associated with this redemption, we expensed $2.9 million representing a 2.1% premium paid on the $137.8 million principal amount of these 5.25% Notes, and wrote-off $1.3 million of the remaining unamortized deferred financing costs associated with these notes.

Income tax expense reflects an effective rate of 37.2% for the year ended December 31, 2005 and 34.9% for the year ended December 21, 2004. The higher effective tax rate for 2005 as compared to 2004 is attributable to the following: higher non-deductible non-cash ESOP compensation; a reduction in the state tax expense due to state filing positions; additional tax benefit from the manufacturing exemption that became effective January 1, 2005 and lower net benefit recorded for the adjustment to tax reserves. The Company recorded an income tax benefit of $1.5 million for the year ended December 31, 2005 due to the net adjustment for income tax contingencies of which $.7 million was recorded in the fourth quarter of 2005. This compares to an income tax benefit of $2.8 million that was recorded for the year ended December 31, 2004.

For the year ended December 31, 2005, net earnings were $26.3 million or $1.33 per diluted common share on 23.0 million diluted shares compared to net earnings of $29.1 million or $1.49 per diluted common share on 22.4 million diluted shares for the year ended December 31, 2004. The convertible notes had a dilutive effect for the years ended December 31, 2005, and 2004.

Comparison of 2004 to 2003

Net sales by segment were as follows:

Segment	Twelve Months Ended December 31, 2004	2003	Increase From Prior Period
	(Dollars in millions)		
Electronic Systems and Communications	$273.3	$221.6	23.3%
Engineered Systems and Services	262.9	239.1	10.0%
Total	$536.2	$460.7	16.4%

The increase in sales in the Electronic Systems and Communications segment for the year ended December 31, 2004 compared to the year ended December 31, 2003 is attributable to increases in sales of reconnaissance and surveillance systems, and command, control, communications and computers (“C4”) systems, including antenna products. There was also an increase in sales due to deliveries on our contract with the U.S. Army for the new force protection systems. This “rapid response” program was a significant contributor to sales and margin for the year. These increases were partially offset by decreases in sales of electronic warfare equipment due to the completion of the UEU production program as well as completion of production deliveries of interference cancellation systems and the basic shortstop electronic protection systems (“SEPS”) in 2003.

In addition, in 2004 there were no sales of our space products related to commercial communication satellites due to a significant downturn in market demand. Entering into 2004 there was a forecast from our primary customer that indicated a demand for our product. As the year progressed, and as late as October, there was market potential, including our pursuit of secondary customers. However, as we continued to evaluate the market for our inventory of Ku-band products, we concluded that the market was shifting to

Ka-band systems and that there was no potential sale of our product for the foreseeable future. Consequently, we wrote-off our remaining $2.6 million of inventory in the fourth quarter.

The increase in sales in the Engineered Systems and Services segment for the year ended December 31, 2004 compared to the year ended December 31, 2003 is attributable in part to a full year of sales of Emblem Group Ltd. ("Emblem"), which was acquired on June 16, 2003. This accounted for approximately $12.7 million of the increase in sales. There were also increases in sales of aircraft armament systems, airborne mine countermeasure systems, and professional services. There also were increases in sales of electro-ceramic products utilized in sonar transducers and in sales of integrated composite structures including production and installation of our composite pipe for water and fire systems on offshore oil platforms.

Partially offsetting these increases was a decrease in sales of $2.7 million in 2004 to reflect an increase to the estimate-to-complete of an undersea warfare systems program accounted for under the percentage of completion method. The increase in the estimate resulted in a decrease to the percent complete and therefore the decrease to sales. The revision to the estimate resulted from performance issues discovered during testing phases. Consequently, there was a reduction to operating earnings as discussed below.

Operating earnings by segment were as follows:

Segment	Twelve Months Ended December 31, 2004	Twelve Months Ended December 31, 2003	Increase/(Decrease) From Prior Period
	(Dollars in millions)		
Electronic Systems and Communications	$26.5	$18.5	43.3%
Engineered Systems and Services	26.3	22.5	16.9%
Impairment loss on Deer Park Facility	—	(9.2)	
Benefit plan curtailment loss	—	(0.9)	
Total	$52.8	$30.9	70.9%

The lower pension expense in 2004 compared to 2003 is attributable to the cash contribution we made to our defined benefit plan in 2003. The higher ESOP compensation expense in 2004 is attributable to our higher average stock price compared to 2003. Pension and ESOP compensation expense are allocated between cost of sales and selling, general and administrative expense. The intangible asset amortization expense is associated with the acquisitions made in 2002 and 2003 and affects primarily the Electronic Systems and Communications segment. The $9.2 million impairment charge in 2003 related to our Deer Park facility which was sold. Operating earnings for 2004 were also affected by several contract-related items which are described in further detail below in the discussion of segment operating earnings.

The Electronic Systems and Communications segment's operating earnings for the year ended December 31, 2004 were $26.5 million or 9.7% of this segment's net sales compared to $18.5 million or 8.3% of this segment's net sales for the year ended December 31, 2003. This increase in operating earnings was attributable to continuing higher-margin sales of reconnaissance and surveillance systems. In addition, operating results were positively affected by sales associated with the force protection systems program which was a significant contributor to operating earnings in this segment for the year. Partially offsetting these increases were operating losses related to adjustments to estimates-to-complete on development and start-up production phases on certain interference cancellation programs resulting from issues discovered in the first quarter during testing. In addition, there were losses in the antenna product line due to production inefficiencies that resulted in inventory adjustments as well as increases in estimates-to-complete. In the fourth quarter, there was the aforementioned write-off of space-products related inventory of $2.6 million.

The Engineered Systems and Services segment's operating earnings for the year ended December 31, 2004 were $26.3 million or 10.0% of this segment's net sales compared to $22.5 million or 9.4% of this segment's net sales for the year ended December 31, 2003. This increase in operating earnings was attributable to higher-margin sales of radar signal simulators and fiber-composite structural products/spares. The higher level of sales of aircraft armament systems, mine countermeasure systems, and professional services also contributed to the increase. In addition, there was a positive impact to operating earnings of approximately $3.4 million resulting from the release of a reserve which had been previously established for a potential issue on MK105-related contracts. The release of the reserve was triggered by final closeout of MK105 programs and proven performance resulting from system utilization over the course of the year. These increases were partially offset by the effect of increasing the estimate-to-complete on an aircraft armament program resulting in a $1.6 million negative impact to operating earnings and the aforementioned $3.8 million impact on an undersea warfare systems program.

Selling, general and administrative expenses for the year ended December 31, 2004 of $78.8 million decreased as a percent of net sales to 14.7% from 15.6% for the year ended December 31, 2003. This decrease was attributable primarily to facilities consolidations and other synergies achieved on the AERA and Darlington acquisitions. Included in selling, general and administrative expenses in 2004 and 2003 were $2.2 million and $1.1 million, respectively, of external costs for compliance with Sarbanes-Oxley. We have not quantified the internal costs.

Research and development expense for the year ended December 31, 2004 increased to $11.6 million or 2.2% of net sales from $8.6 million or 1.9% of net sales for the year ended December 31, 2003. The increase is attributable to expenditures in reconnaissance and surveillance systems and force protection systems.

Interest expense, net of interest income, for the year ended December 31, 2004 decreased to $7.8 million compared to $8.2 for the year ended December 31, 2003, primarily due to higher interest income on a higher average cash balance. Interest expense is associated primarily with our $137.8 million principal amount of 5.25% Convertible Subordinated Notes ("Notes") issued in April 2002, amortization of deferred debt issuance costs associated with the offering of the Notes, and amortization of deferred financing costs associated with our credit facility.

Income tax expense reflects an effective rate of 34.9% for the year ended December 31, 2004 and 41.8% for the year ended December 21, 2003. In 2004, the Company recorded an income tax benefit of $2.8 million due to the reversal of income tax contingencies which were determined to be no longer needed during the fourth quarter of 2004.

For the year ended December 31, 2004, net earnings were $29.1 million or $1.49 per diluted common share on 22.4 million diluted shares compared to net earnings from continuing operations of $13.4 million or $0.76 per diluted common share on 17.6 million diluted shares for the year ended December 31, 2003. The convertible notes had a dilutive effect for the year ended December 31, 2004, but not for the year ended December 31, 2003. In the year ended December 31, 2003, we received notification of final settlement of bankruptcy matters pertaining to our former energy business. Upon the discontinuance of such business in 1996, a liability was established pending final settlement of the bankruptcy. This liability was reversed as of December 31, 2003. Consequently, $1.4 million, which was net of income tax expense of $1.0 million, was reported as earnings from discontinued operations in the accompanying statement of earnings.

Liquidity and Capital Resources

Balance Sheet

Our cash and cash equivalents increased 10.0% to $108.7 million at December 31, 2005 from $98.9 million at December 31, 2004. This increase was due to approximately $49.5 million received from financing activities comprised primarily of the issuance of 4.0% convertible subordinated notes and redemption of our 5.25% convertible subordinated notes. In addition, we generated $44.8 million from operations. These increases were offset by approximately $61.0 million used for acquisitions and $23.7 million for the purchase of capital equipment.

Accounts receivable increased 23.0% to $189.2 million at December 31, 2005 from $153.8 million at December 31, 2004. This increase was due to the timing of collections of billed receivables, primarily on aircraft armament systems programs, and due to increased sales. At December 31, 2005, approximately 81% of billed receivables were in the under 60 days aging category compared to 83% at December 31, 2004.

Inventories increased 7.0% to $56.6 million at December 31, 2005 from $52.9 million at December 31, 2004 due primarily to the efforts expended on work-in-progress on major programs.

The notes receivable of $7.1 million at December 31, 2005 and $7.2 million at December 31, 2004 are comprised of a note receivable from the sale of our facility in Deer Park in 2003 and a note receivable from the sale of our former College Point facility in January 1996. The outstanding amount of the College Point facility note was collected in January 2006. The Deer Park facility note is due on the later of October 9, 2005 or the date EDO achieves "Material Closure" defined as the investigation, assessment and remediation of an Environmental Condition sufficient to not cause any material interference with the Buyer's ability to develop, construct, finance or lease the Premises. EDO believes that this note is currently due, but it has not yet been collected; however, we see no reason to change its current classification.

Financing Activities

Credit Facility

In 2005, we entered into a $300 million credit facility which replaced our expiring $200 million credit facility. The new credit facility is a five-year facility with a consortium of banks, led by Citibank, N.A. as the administrative agent, Bank of America as the syndication agent and Wachovia Bank, N.A. as the documentation agent. The facility expires in November, 2010. The Credit Agreement provides for a revolving credit facility in an aggregate amount equal to $300 million which includes a swing loan facility with a sublimit of $20 million and a letter of credit facility with a sublimit of $100 million. The potential cash borrowing under the facility is reduced by the amount of outstanding letters of credit. The Company has the option to select Base Rate or Eurodollar Rate loans under the terms of the Credit Agreement. Any borrowings under the facility would be priced initially at LIBOR plus a predetermined amount depending on our consolidated leverage ratio at the time of the borrowing. At December 31, 2005, LIBOR was approximately 4.39% and the applicable adjustment to LIBOR was 1.50%. The facility requires us to pay each lender in the consortium a commitment fee on the average daily unused portion of their respective commitment at a rate equal to 0.25%.

There were no direct borrowings outstanding under any credit facility at December 31, 2005 or 2004. Letters of credit outstanding at December 31, 2005, pertaining to the credit facility were $32.2 million, resulting in $267.8 million available for borrowings.

In connection with the credit facility, the Company is required to maintain both financial and non-financial covenants and ratios, including, but not limited to, leverage ratio, fixed charge coverage ratio, and senior secured leverage ratio. As of December 31, 2005, the Company was in compliance with its covenants. The credit facility is secured by the Company's accounts receivables, inventory and machinery and equipment.

4.0% Convertible Subordinated Notes due 2025 ("4.0% Notes")

In November 2005, we completed the offering of $201.2 million principal of 4.0% Notes and received proceeds of $195.7 million, net of $5.5 million of commissions. Interest payments are due May 15 and November 15 of each year commencing on May 15, 2006. Accrued interest payable was $0.9 million at December 31, 2005. The 4.0% Notes are convertible, unless previously redeemed or repurchased by the Company, at the option of the holder at any time prior to maturity, into the Company's common stock at an initial conversion price of $34.19 per share, subject to adjustment in certain events. As of December 31, 2005, there had been no such conversions.

5.25% Convertible Subordinated Notes due 2007("5.25% Notes")

In April 2002, we completed the offering of the Notes and received proceeds of $133.7 million, net of $4.1 million of commissions paid. On November 29, 2005 these notes were redeemed for cash at a premium of 2.1% of the $137.8 million principal amount, or $2.9 million, which was expensed. As a result of the redemption, we also wrote-off $1.3 million of the remaining unamortized deferred financing costs associated with these notes.

Shelf Registration

At December 31, 2005, our remaining capacity under the universal shelf registration statement that became effective in January 2004, was approximately $298.8 million.

We believe that, for the foreseeable future, we have adequate liquidity and sufficient capital to fund our currently anticipated requirements for working capital, capital expenditures, including acquisitions, research and development expenditures, interest payments and funding of our pension and post-retirement benefit obligations. We continue to focus on positioning ourselves to be a significant player in the consolidation of first-tier defense suppliers and, to that end, have actively sought candidates for strategic acquisitions. Future acquisitions may be funded from any of the following sources: cash on hand; borrowings under our credit facility; issuance of our common stock or other equity securities; and/or convertible or other debt offerings.

Commitments and Contingencies

In order to aggregate all commitments and contractual obligations as of December 31, 2005, we have included the following table. We are obligated under building and equipment leases expiring between 2006 and 2017. The aggregate future minimum lease commitments under those obligations with non-cancellable terms in excess of one year are shown below. Our commitments under letters of credit and advance payment and performance bonds relate primarily to advances received on foreign contracts should we fail to perform in accordance with the contract terms. We do not expect to have to make payments under these letters of credits or bonds since these obligations are removed as we perform under the related contracts. The amounts for letters of credit and performance bonds represent the amount of commitment expiration per period. Actual pension contributions may differ from amounts presented below and are contingent on cash flow and liquidity.

Additionally, we are subject to certain legal actions that arise out of the normal course of business. It is our belief that the ultimate outcome of these actions will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

	Payments Due In:						
Commitments and Contractual Obligations:	Total	2006	2007	2008	2009	2010	2011 and Beyond
	(In millions)						
Note Payable	$ 7.0	$ 2.0	$ 2.0	$ 3.0	$ —	$ —	$ —
4.0% Convertible Subordinated Notes due 2025	201.2	—	—	—	—	—	201.2
Operating leases	138.7	16.8	16.1	15.6	15.5	14.3	60.4
Letters of credit	32.2	12.4	16.6	—	3.2	—	—
Projected pension contributions	23.0	6.0	6.0	6.0	5.0	—	—
Advance payment and performance bonds	1.9	0.2	—	—	1.7	—	—
Total	$404.0	$37.4	$40.7	$24.6	$25.4	$14.3	$261.6

Concentration of Sales

We conduct a significant amount of our business with the United States Government. Although there are currently no indications of a significant change in the status of government funding of certain programs, should this occur, our results of operations, financial position and liquidity could be materially affected. Such a change could have a significant impact on our profitability and our stock price. This could also affect our ability to acquire funds from our credit facility due to covenant restrictions or from other sources.

Backlog

The funded backlog of unfilled orders at December 31, 2005 increased to $558.7 million from $474.6 million at December 31, 2004. Our backlog consists primarily of current orders under long-lived, mission-critical programs on key defense platforms.

Common Share Prices

EDO common shares are traded on the New York Stock Exchange. As of February 21, 2006, there were 1,715 shareholders of record (brokers and nominees counted as one each).

The price range in 2005 and 2004 was as follows:

	2005		2004	
	High	Low	High	Low
1st Quarter	32.8700	27.1600	27.2000	23.1000
2nd Quarter	30.8900	26.5800	25.8900	20.7100
3rd Quarter	31.6300	26.8600	28.0100	22.3100
4th Quarter	30.3900	25.8000	32.4200	26.2400

Dividends

During 2005 and 2004, the Board of Directors approved the payment of quarterly cash dividends of $0.03 per common share. The Company's credit facility places certain limits on the payment of cash dividends.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995

The statements in this Annual Report and in oral statements that may be made by representatives of the Company relating to plans, strategies, economic performance and trends and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27(a) of the Securities Act of 1933 and Section 21(e) of the Securities Exchange Act of 1934. Forward looking statements are inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to the following for each of the types of information noted below.

U.S. and international military program sales, follow-on procurement, contract continuance, and future program awards, upgrades and spares support are subject to: U.S. and international military budget constraints and determinations; U.S. congressional and international legislative body discretion; U.S. and international government administration policies and priorities; changing world military threats, strategies and missions; competition from foreign manufacturers of platforms and equipment; NATO country determinations regarding participation in common programs; changes in U.S. and international government procurement timing, strategies and practices, the general state of world military readiness and deployment; and the ability to obtain export licenses.

Commercial satellite programs and equipment sales, follow-on procurement, contract continuance and future program awards, upgrades and spares support are subject to: establishment and continuance of various consortiums for satellite constellation programs; delay in launch dates due to equipment, weather or other factors beyond our control; and development of sufficient customer base to support a particular satellite constellation program.

Commercial product sales are subject to: success of product development programs currently underway or planned; competitiveness of current and future production costs and prices and market and consumer base development of new product programs.

Achievement of margins on sales, earnings and cash flow can be affected by: unanticipated technical problems; government termination of contracts for convenience; decline in expected levels of sales; underestimation of anticipated costs on specific programs; the ability to effect acquisitions; and risks inherent in integrating recent acquisitions into our overall structure.

Expectations of future income tax rates can be affected by a variety of factors, including statutory changes in Federal and state tax rates, nondeductibility of goodwill amortization and IPR&D acquired in a stock purchase business combination and the nondeductibility of our noncash ESOP compensation expense.

The Company has no obligation to update any forward-looking statements.

Item 8. *Financial Statements and Supplementary Data*

CONSOLIDATED STATEMENTS OF EARNINGS

EDO CORPORATION AND SUBSIDIARIES

	Years Ended December 31, 2005	2004	2003
	(In thousands, except per share amounts)		
Continuing Operations:			
Net Sales	$648,482	$536,173	$460,667
Costs and Expenses			
Cost of sales	490,617	392,961	338,259
Selling, general and administrative	85,921	78,791	71,855
Research and development	17,122	11,620	8,594
Environmental cost provision on Deer Park facility	1,543	—	—
Impairment loss on Deer Park facility	—	—	9,160
Write-off of purchased in-process research and development and merger-related costs	—	—	929
Benefit plan curtailment loss	—	—	942
	595,203	483,372	429,739
Operating Earnings	53,279	52,801	30,928
Non-Operating Income (Expense)			
Interest income	2,300	1,271	941
Interest expense	(9,420)	(9,119)	(9,093)
Loss on redemption of 5.25% Convertible Subordinated Notes	(4,171)	—	—
Other, net	(147)	(319)	279
	(11,438)	(8,167)	(7,873)
Earnings from continuing operations before income taxes	41,841	44,634	23,055
Income tax expense	(15,572)	(15,566)	(9,644)
Earnings from Continuing Operations	26,269	29,068	13,411
Discontinued Operations:			
Gain from discontinued operations, net of tax of $971	—	—	1,398
Earnings from Discontinued Operations	—	—	1,398
Net Earnings	$ 26,269	$ 29,068	$ 14,809
Earnings per Common Share:			
Basic:			
Continuing operations	$ 1.45	$ 1.64	$ 0.78
Discontinued operations	—	—	0.08
Net Earnings per Common Share — Basic	$ 1.45	$ 1.64	$ 0.86
Diluted:			
Continuing operations	$ 1.33	$ 1.49	$ 0.76
Discontinued operations	—	—	0.08
Net Earnings per Common Share — Diluted	$ 1.33	$ 1.49	$ 0.84
Dividends declared per common share	$ 0.12	$ 0.12	$ 0.12

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

EDO CORPORATION AND SUBSIDIARIES

	December 31, 2005	December 31, 2004
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$108,731	$ 98,884
Accounts receivable, net	189,190	153,810
Inventories	56,567	52,867
Deferred income tax asset, net	8,946	5,046
Notes receivable	7,100	7,202
Prepayments and other	3,809	3,493
Total current assets	374,343	321,302
Property, plant and equipment, net	49,574	34,830
Goodwill	152,347	91,651
Other intangible assets	55,925	50,356
Deferred income tax asset, net	29,637	30,241
Other assets	25,573	18,309
	$687,399	$546,689
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 33,111	$ 32,406
Accrued liabilities	52,126	48,492
Contract advances and deposits	42,244	13,696
Note payable	2,000	—
Total current liabilities	129,481	94,594
Income taxes payable	6,513	5,768
Note payable, long-term	5,000	—
Long-term debt	201,250	137,800
Post-retirement benefits obligations	103,815	94,936
Environmental obligation	1,392	1,663
Other long-term liabilities	55	—
Shareholders' equity:		
Preferred shares, par value $1 per share, authorized 500,000 shares	—	—
Common shares, par value $1 per share, authorized 50,000,000 shares, 20,305,815 issued in 2005 and 20,112,243 issued in 2004	20,306	20,112
Additional paid-in capital	167,219	158,548
Retained earnings	120,103	96,004
Accumulated other comprehensive loss, net of income tax benefit ($32,711 in 2005 and $29,617 in 2004)	(47,072)	(42,619)
Treasury shares at cost (111,317 shares in 2005 and 94,585 shares in 2004)	(1,868)	(1,449)
Unearned Employee Stock Ownership Plan shares	(14,789)	(16,039)
Deferred compensation under Long-Term Incentive Plan	(3,866)	(2,408)
Management group receivables	(140)	(221)
Total shareholders' equity	239,893	211,928
	$687,399	$546,689

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

EDO CORPORATION AND SUBSIDIARIES

	Years Ended December 31,					
	2005		2004		2003	
	Amount	Shares	Amount	Shares	Amount	Shares
	(In thousands)					
Common Shares						
Balance at beginning of year	20,112	20,112	19,832	19,832	19,790	19,790
Exercise of stock options	83	83	164	164	31	31
Shares used for Long-Term Incentive Plan	111	111	116	116	11	11
Balance at end of year	20,306	20,306	20,112	20,112	19,832	19,832
Additional Paid-In Capital						
Balance at beginning of year	158,548		150,097		147,091	
Exercise of stock options	792		1,371		150	
Income tax benefit related to stock options and Long-Term Incentive Plan	711		1,134		328	
Shares used for payment of directors' fees	83		60		28	
Shares used for Long-Term Incentive Plan	3,347		2,807		178	
Compensation expense on accelerated options	37		—		292	
Employee Stock Ownership Plan shares committed-to-be-released	3,701		3,079		2,030	
Balance at end of year	167,219		158,548		150,097	
Retained Earnings						
Balance at beginning of year	96,004		69,059		56,325	
Net earnings	26,269		29,068		14,809	
Common share dividends (12 cents per share)	(2,170)		(2,123)		(2,075)	
Balance at end of year	120,103		96,004		69,059	
Accumulated Other Comprehensive Loss						
Balance at beginning of year	(42,619)		(29,281)		(33,899)	
Unrealized gain (loss) on foreign currency, net of tax	8		(273)		50	
Additional minimum pension liability, net of tax	(4,461)		(13,065)		4,568	
Balance at end of year	(47,072)		(42,619)		(29,281)	
Treasury Shares at Cost						
Balance at beginning of year	(1,449)	(95)	(1,255)	(88)	(1,321)	(94)
Shares used for exercise of stock Options			—		87	6
Shares used for payment of directors' fees	115	7	80	5	80	6
Shares (repurchased from) used for Long-Term Incentive Plan	(534)	(23)	(274)	(12)	(101)	(6)
Balance at end of year	(1,868)	(111)	(1,449)	(95)	(1,255)	(88)
Deferred Compensation Under Long-Term Incentive Plan						
Balance at beginning of year	(2,408)		(479)		(579)	
Shares used for Long-Term Incentive Plan	(3,136)		(2,845)		(189)	
Shares cancelled of Long-Term Incentive Plan	17					
Amortization of Long-Term Incentive Plan deferred compensation expense	1,661		916		289	
Balance at end of year	(3,866)		(2,408)		(479)	

	Years Ended December 31,					
	2005		2004		2003	
	Amount	Shares	Amount	Shares	Amount	Shares
	(In thousands)					
Unearned Employee Stock Ownership Plan Compensation						
Balance at beginning of year	(16,039)		(17,290)		(18,541)	
Employee Stock Ownership Plan Shares committed-to-be-released	1,250		1,251		1,251	
Balance at end of year	(14,789)		(16,039)		(17,290)	
Management Group Receivables						
Balance at beginning of year	(221)		(351)		(593)	
Payments received on management loans	81		130		242	
Balance at end of year	(140)		(221)		(351)	
Total Shareholders' Equity	$239,893		$211,928		$190,332	
Comprehensive Income						
Net earnings	$ 26,269		$ 29,068		$ 14,809	
Additional minimum pension liability, net of income tax benefit (expense) of $3,100 in 2005, 9,079 in 2004 and $(3,175) in 2003	(4,461)		(13,065)		4,568	
Unrealized gain (loss) on foreign currency, net of tax	8		(273)		50	
Comprehensive income	$ 21,816		$ 15,730		$ 19,427	

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

EDO CORPORATION AND SUBSIDIARIES

	Years Ended December 31, 2005	2004	2003
	(In thousands)		
Operating Activities:			
Earnings from operations	$ 26,269	$ 29,068	$ 13,411
Adjustments to earnings to arrive at cash provided by operations:			
Depreciation	9,768	10,476	12,180
Amortization	5,931	5,564	4,885
Deferred tax benefit	(3,219)	(660)	(6,840)
Bad debt expense	823	—	568
Loss on sale of Deer Park facility	—	—	9,160
Loss (gain) on sale of property, plant and equipment	801	255	(131)
Environmental cost provision, Deer Park facility	1,543	—	—
Deferred compensation expense	1,661	916	289
Non-cash Employee Stock Ownership Plan compensation expense	4,952	4,330	3,281
Dividends on unallocated Employee Stock Ownership Plan shares	251	272	292
Non-cash compensation expense	37	—	292
Common shares issued for directors' fees	198	140	108
Income tax benefit from stock options and Long-Term Incentive Plan	711	1,134	328
Changes in operating assets and liabilities, excluding effects of acquisitions:			
Accounts receivable	(28,362)	(19,507)	(3,203)
Inventories	(2,309)	(18,134)	1,406
Prepayments and other assets	4,554	3,588	4,032
Contribution to defined benefit pension plan	(6,000)	—	(5,000)
Accounts payable, accrued liabilities and other	(905)	2,744	(5,402)
Contract advances and deposits	28,119	5,501	(12,082)
Cash provided by operations	44,823	25,687	17,574
Net cash provided by discontinued operations	—	—	79
Investing Activities:			
Purchase of plant and equipment	(23,718)	(14,206)	(8,865)
Payments received on notes receivable	300	1,200	1,385
Proceeds from sale of property, plant and equipment	—	—	21,304
Restricted cash	—	—	27,347
Cash (paid) received related to acquisitions, net of cash acquired	(61,078)	301	(94,188)
Cash used by investing activities	(84,496)	(12,705)	(53,017)

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Financing Activities:			
Issuance of 4.0% convertible subordinated notes	195,716	—	—
Redemption of 5.25% convertible subordinated notes	(137,800)	—	—
Proceeds from exercise of stock options	875	1,535	268
Proceeds from management group receivables	81	130	242
Repayments of acquired debt	(6,931)	—	(8,660)
Payment of common share cash dividends	(2,421)	(2,395)	(2,367)
Cash provided (used) by financing activities	49,520	(730)	(10,517)
Net increase (decrease) in cash and cash equivalents	9,847	12,252	(45,881)
Cash and cash equivalents at beginning of year	98,884	86,632	132,513
Cash and cash equivalents at end of year	**$ 108,731**	**$ 98,884**	**$ 86,632**
Supplemental disclosures:			
Cash paid for:			
Interest	$ 8,119	$ 7,234	$ 7,234
Income taxes	$ 15,424	$ 16,278	$ 11,880

See accompanying Notes to Consolidated Financial Statements.

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005, 2004 and 2003

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation and Business

The consolidated financial statements include the accounts of EDO Corporation and all wholly-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company operates in two segments: Engineered Systems and Services and Electronic Systems and Communications.

(b) Cash Equivalents

The Company considers all securities with an original maturity of three months or less at the date of acquisition to be cash equivalents.

(c) Revenue Recognition

Sales under long-term, fixed-price contracts, including pro-rata profits, are generally recorded based on the relationship of costs incurred to date to total projected final costs or, alternatively, as deliveries and other milestones are achieved or services are provided. These projections are revised throughout the lives of the contracts. Adjustments to profits resulting from such revisions are made cumulative to the date of change and may affect current period earnings. Sales on other than long-term contract orders (principally commercial products) are recorded as shipments are made. Our gross profit is affected by a variety of factors, including the mix of products, systems and services sold, production efficiencies, price competition and general economic conditions. Estimated losses on long-term contracts are recorded when identified.

(d) Inventories

Inventories under long-term contracts and programs reflect all accumulated production costs, including factory overhead, initial tooling and other related costs (including general and administrative expenses relating to certain of our defense contracts), less the portion of such costs charged to cost of sales. All other inventories are stated at the lower of cost (principally first-in, first-out method) or market. Inventory costs in excess of amounts recoverable under contracts and which relate to a specific technology or application and which may not have alternative uses are charged to cost of sales when such circumstances are identified.

From time to time, we manufacture certain products prior to receiving firm contracts in anticipation of future demand. Such costs are inventoried and are incurred to help maintain stable and efficient production schedules.

Several factors may influence the sale and use of our inventories, including our decision to exit a product line, technological change, new product development and/or revised estimates of future product demand. If inventory is determined to be overvalued due to one or more of the above factors, we would be required to recognize such loss in value at the time of such determination.

Under the contractual arrangements by which progress payments are received, the United States Government has a title to or a security interest in the inventories identified with related contracts.

(e) Long-Lived Assets, Other than Goodwill and Other Intangibles

Property, plant and equipment are recorded at cost and is generally depreciated on a straight-line basis over the estimated useful lives of such assets. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

In those cases where the Company determines that the useful life of property, plant and equipment should be shortened, the Company would depreciate the net book value in excess of salvage value over its revised remaining useful life thereby increasing depreciation expense. Factors such as technological advances, changes to the Company's business model, changes in the Company's capital strategy, changes in the planned use of equipment, fixtures, software or changes in the planned use of facilities could result in shortened useful lives.

The Company reviews its long-lived assets for impairment in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets". SFAS No. 144 requires the Company to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The estimate of cash flow, which is used to determine recoverability, is based upon, among other things, certain assumptions about future operating performance.

The Company's estimates of undiscounted cash flow may differ from actual cash flow due to such factors including technological advances, changes to the Company's business model, or changes in the Company's capital strategy or planned use of long-lived assets. If the sum of the undiscounted cash flows, excluding interest, is less than the carrying value, we would recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

Costs associated with the acquisition and development of software for internal use are recognized in accordance with Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In 2005 and 2004, the Company capitalized approximately $2.6 million and $0.6 million, respectively, of such costs. These costs are being amortized on a straight-line basis over periods ranging from two to five years.

Deferred financing costs are amortized on a straight-line basis over the life of the related financing. The unamortized balances of $7.5 million and $2.7 million are included in other assets at December 31, 2005 and 2004, respectively. The increase in 2005 is attributable to the costs associated with the issuance of the 4.0% Convertible Subordinated Notes and the costs to enter into the new $300 million Credit Facility.

(f) Business Combinations and Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, goodwill must be tested at least annually for impairment at the reporting unit level. If an indication of impairment exists, we are required to determine if such goodwill's implied fair value is less than the carrying value in order to determine the amount, if any, of the impairment loss required to be recorded. Impairment indicators include, among other conditions, cash flow deficits, an historic or anticipated decline in revenue or operating profits, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire the asset and/or a material decrease in the fair value of some or all of the assets. The Company performs the required impairment tests of goodwill as of October 1 each year. There was no indication of impairment at December 31, 2005 and 2004.

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2005 and 2004 are as follows:

	Engineered Systems and Services	Electronic Systems and Communications	Total
Balance as of January 1, 2005	$37,899	$ 53,752	$ 91,651
Acquisitions in 2005	5,947	54,749	60,696
Balance as of December 31, 2005	$43,846	$108,501	$152,347

Summarized below are intangible assets as of December 31:

	2005	2004	Life
	(In thousands)		
Intangible assets subject to amortization:			
Capitalized non-compete agreements related to acquisitions	$ 3,118	$ 3,118	1-5 years
Purchased technologies related to acquisitions	21,103	17,003	8-25 years
Customer contracts and relationships related to acquisitions	45,698	39,198	6-20 years
Tradename related to acquisitions	2,069	1,569	5-10 years
Other intangible assets related to acquisitions	916	916	2 years
	72,904	61,804	
Less accumulated amortization	(17,379)	(11,448)	
	$ 55,525	$ 50,356	
Intangible assets not subject to amortization:			
Tradename related to acquisitions	400	—	
Balance as of December 31	$ 55,925	$ 50,356	

The amortization expense for the years ended December 31, 2005, 2004 and 2003 amounted to $5.9 million, $5.5 million and $4.9 million, respectively. Amortization expense for 2006, 2007, 2008, 2009, 2010 and thereafter related to these intangible assets is estimated to be $6.5 million, $6.4 million, $5.7 million, $5.7 million, $4.9 million and $26.3 million, respectively.

(g) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Treasury Shares

Common shares held as treasury shares are recorded at cost, with issuances from treasury recorded at average cost. Treasury shares issued for directors' fees are recorded as an expense for an amount equal to the fair market value of the common shares on the issuance date.

(i) Financial Instruments

The net carrying value of notes receivable approximates fair value based on current rates for comparable commercial mortgages. The fair value of the Company's new 4.0% Convertible Subordinated Notes due 2025 (4.0% Notes) at December 31, 2005 was approximately $203.3 million based on recent market transactions compared to a carrying value of $201.2 million. The fair value of the environmental obligation approximates its carrying value since it has been discounted. The fair values of all other financial instruments approximate book values because of the short-term maturities of these instruments.

(j) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from these and other estimates.

(k) Stock-Based Compensation

The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Under APB No. 25, because the exercise price of the Company's stock options is set equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair market value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" whereby compensation expense would be recognized as incurred for stock-based employee compensation. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company did not issue any options during fiscal year 2005, other than to Directors, which when issued were 100% vested and the expense associated with the grants is reflected in the proformas in 2005. The per share weighted-average fair value of stock options granted was $13.06 and $10.63 in 2004 and 2003, respectively, on the dates of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: 2004 — expected dividend yield of 1%, risk free interest rate of 3.8%, expected volatility of 47%, and an expected option life of 6 years; 2003 — expected dividend yield of 1%, risk free interest rate of 3.6%, expected stock volatility of 51%, and an expected option life of 7 ½ years.

	2005	2004	2003
	(In thousands, except per share amounts)		
Earnings:			
As reported	$26,269	$29,068	$13,411
Deferred compensation expense, net of tax	1,002	540	171
Stock compensation expense based on fair value method, net of tax	(2,377)	(2,425)	(1,797)
Pro forma	$24,894	$27,183	$11,785
Basic earnings per common share:			
As reported	$ 1.45	$ 1.64	$ 0.78
Pro forma	1.38	1.54	0.68
Diluted earnings per common share:			
As reported	$ 1.33	$ 1.49	$ 0.76
Pro forma	1.27	1.41	0.67

For the twelve months ended December 31, 2005 and December 31, 2004, the Company issued 83,332 and 164,132 common shares for the exercise of stock options and 110,250 and 116,000 restricted common shares for long-term incentive awards.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) (FAS 123(R)), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. FAS123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in FAS123(R) is similar to the approach described in Statement 123. However, FAS123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. FAS123(R) must be adopted by the Company no later than January 1, 2006.

As permitted by Statement 123, the Company accounted for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options through December 31, 2005.

The Company has adopted FAS123(R) on January 1, 2006, using the "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of FAS123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of FAS123(R) that remain unvested on the effective date.

Accordingly, the adoption of FAS123(R)'s fair value method will have an impact on our result of operations. The impact of the adoption of FAS123(R)cannot be determined at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted FAS123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in this Note to our consolidated financial statements.

FAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future, because they depend on, among other things, when employees exercise stock options and the fair value of the Company's stock on the date of exercise.

(l) Reclassifications

Certain reclassifications have been made to prior year presentations to conform to current year presentations.

(2) Acquisitions

On December 20, 2005, the Company acquired for cash all of the stock of NexGen Communications LLC, a privately-held company specializing in the design and production of communications systems for a diverse set of U.S. government organizations. The acquisition strengthened our fast-growing position in specialized communication products. The acquired company became part of the Company's Electronic Systems and Communications segment. The Company has not yet completed its analysis of the fair value of the acquired assets and liabilities. Consequently, the excess purchase price over the net assets acquired has been temporarily assigned to goodwill, and amounts recorded are subject to change. The excess of the purchase price over the net assets acquired related to NexGen is not deductible for income tax purposes.

On September 19, 2005, we acquired for cash all of the stock of Fiber Innovations, Inc., a privately-held company that is a designer and manufacturer of fiber reinforced-composites. This acquisition has added important complementary design and manufacturing capabilities to EDO's integrated-composite-structures business. The acquired company became part of the Company's Engineered Systems and Services segment. The excess of the purchase price over the net assets acquired related to Fiber Innovations is not deductible for income tax purposes.

On May 2, 2005, we acquired for cash all of the units of EVI Technology, LLC (EVI), a privately-held company. EVI is a designer, manufacturer and integrator of classified intelligence systems. EVI has strengthened and expanded EDO's range of products and engineering expertise in a number of synergistic areas. The acquired company became part of the Company's Electronic Systems and Communications segment. The excess of the purchase price over the net assets acquired related to EVI recorded as goodwill and other intangible assets is deductible for income tax purposes over 15 years.

In June 2003, we acquired all of the stock of Emblem Group Ltd., a privately-held company based in England. Emblem became part of the Company's Engineered Systems and Services segment and reinforced our position as a global leader in aircraft armament-release systems. In the second quarter of 2004 we received $0.3 million from an escrow account resulting in a decrease in purchase price and, therefore, goodwill. The excess of the purchase price over the net assets acquired recorded as goodwill and other intangibles related to Emblem's units located in the UK is deductible for U.S. income tax purposes over 15 years. The excess of the purchase price over the net assets acquired related to Artisan Technologies, Inc. is not deductible for income tax purposes.

In March 2003, we acquired all of the stock of Darlington, Inc., a privately-held defense-communications company. This acquisition significantly expanded our capabilities in defense communications and related services. Darlington became part of the Company's Electronic Systems and Communications segment. The excess of the purchase price over the net assets acquired recorded as goodwill and other intangible assets is deductible for income tax purposes over 15 years.

In February 2003, we acquired all of the stock of Advanced Engineering & Research Associates, Inc. (AERA), a privately-held company which strengthened and expanded our range of professional services. AERA became part of the Company's Engineered Systems and Services segment. The excess of the purchase price over the net assets acquired recorded as goodwill and other intangible assets is deductible for income tax purposes over 15 years.

In July 2002, we acquired, in an auction under section 363 of the U.S. Bankruptcy Code, substantially all of the assets of Condor Systems, Inc., a privately-held defense-electronics company and its subsidiary (together, "Condor"). The acquisition of Condor's business has expanded our defense-electronics capabilities in the areas of reconnaissance and surveillance systems and communications and countermeasures. The assets became part of the Company's Electronic Systems and Communications segment. Associated with the acquisition and included in operating earnings for 2003 is $0.9 million, of acquisition-related costs. The excess of the purchase price over the net assets acquired recorded as goodwill, IPR&D and other intangible assets is deductible for income tax purposes over 15 years.

These acquisitions were accounted for as purchases and, accordingly, their operating results are included in the Company's consolidated financial statements since their respective acquisition dates.

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the allocation of the purchase price to the assets acquired and liabilities assumed at the dates of acquisition.

	2005 Acquisitions
	(In thousands)
Current assets	$ 12,332
Plant and equipment	1,594
Customer contracts and relationships	6,500
Purchased technologies	4,100
Tradename	900
Goodwill	60,696
Liabilities	(15,617)
Total purchase price	$ 70,505

The allocation of the purchase price for two acquisitions have been finalized. There are outstanding amounts held in escrow which, when settled, may result in further adjustments to goodwill.

Unaudited pro forma results of operations, assuming the acquisitions of Emblem, Darlington and AERA had been completed at the beginning of 2003 are summarized below. The results reflect adjustments to net sales, cost of sales, amortization expense, compensation expense, purchased in-process research and development costs, interest income and expense and income tax expense. The interest rate used in determining pro forma adjustments to interest income or expense was based on the average yield of the Company's invested cash and cash equivalents and approximated 1.0% for each of the respective periods presented below.

	Year Ended December 31, 2003
	(In thousands, except per share amounts)
Net sales	$489,531
Earnings available for common shares, before discontinued operations and cumulative effect of a change in accounting principle	$ 15,995
Diluted earnings per common share	$ 0.91

The pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred had these acquisitions been completed at the beginning of the periods, or of the results which may occur in the future.

On a proforma basis, had the three acquisitions made in 2005 taken place as of the beginning of each respective year, the results of operations would not have been materially affected for 2003, 2004 and 2005.

(3) Discontinued Operations

In 2003, we received notification of final settlement of bankruptcy matters pertaining to our former energy business. Upon the discontinuance of such business in 1996, a liability was established pending final settlement of the bankruptcy. This liability was reversed in the second quarter of 2003. Consequently, $1.4 million, net of income tax expense of $1.0 million, was reported as earnings from discontinued operations in the accompanying statement of earnings.

(4) Accounts and Notes Receivable

Accounts receivable included $65.6 million and $51.8 million at December 31, 2005 and 2004, respectively, of unbilled revenues. Substantially all of the unbilled balances at December 31, 2005 will be billed and are expected to be collected during 2006. Total billed receivables due from the United States Government, either directly or as a subcontractor to a prime contractor with the Government, were $92.1 million and $70.9 million at December 31, 2005 and 2004 respectively. Billed accounts receivable are net of an allowance for doubtful accounts of approximately $1.0 million and $0.6 million at December 31, 2005 and 2004, respectively.

Notes receivable consist of the following at December 31:

	2005	2004
	(In thousands)	
Current:		
College Point	$ 100	$ 400
Deer Park	7,000	6,802
Total	$7,100	$7,202

The original notes from the sale of the College Point facility in January 1996 were to be paid in full by December 31, 2004. One note was collected in full in 2004 and the other note was amended and extended to December 31, 2005. The latter note was due in equal quarterly amounts through September 2005 with a final payment of $0.1 million due on December 31, 2005 and bore interest at 7% per annum. The outstanding amount of $0.1 million was collected in January 2006. Also included in notes receivable is the note related to the sale of the Company's Deer Park facility in July 2003. Of the $29.0 million sales price, $22.0 million was in cash and $7.0 million was in the form of a purchase money mortgage and note. The outstanding amount of the College Point facility note was collected in January 2006. The Deer Park facility note is due on the later of October 9, 2005 or the date EDO achieves "Material Closure" defined as the investigation, assessment and remediation of an Environmental Condition sufficient to not cause any material interference with the Buyer's ability to develop, construct, finance or lease the Premises. The Company believes that this note is currently due, but it has not yet been collected.

(5) Inventories

Inventories are summarized by major classification as follows at December 31:

	2005	2004
	(In thousands)	
Raw material and supplies	$11,976	$10,461
Work-in-process	49,829	44,752
Finished goods	1,690	2,043
Less: Unliquidated progress payments	(6,928)	(4,389)
Total	$56,567	$52,867

(6) Property, Plant and Equipment, Net

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

	2005	2004	Life
	(In thousands)		
Land	$ 125	$ 125	
Buildings and improvements	161	1,017	10-30 years
Machinery and equipment	71,710	73,466	3-19 years
Software	12,016	7,190	2-5 years
Leasehold improvements	28,379	16,816	Lesser of useful life or lease term
	112,391	98,614	
Less accumulated depreciation and amortization	(62,817)	(63,784)	
	$ 49,574	$ 34,830	

On June 24, 2003, the Board of Directors of the Company approved the decision to sell the Company's 726,000 square foot facility in Deer Park, NY. The Company recorded a pre-tax impairment loss of $9.2 million in 2003, as the net book value of the assets exceeded the fair value less the costs to sell. The fair value was based on a $29.0 million sales price per the sales agreement entered into in July 2003.

(7) Accrued Liabilities

Accrued liabilities consisted of the following at December 31:

	2005	2004
	(In thousands)	
Employee compensation and benefits	$24,788	$20,066
Deferred revenue and accrual for future costs related to acquired contracts	2,520	8,857
Income taxes payable	5,141	2,950
Accrued rent	3,995	442
Accrued interest	904	1,579
Warranty	1,481	1,354
Current portion of environmental obligation	1,070	280
Other	12,227	12,964
	$52,126	$48,492

(8) Note Payable, Long-Term Debt and Credit Facility

Note Payable

As part of its acquisition of NexGen Communications LLC, the Company issued a $7.0 million note payable to the sellers. The note bears interest at approximately 4.40% and is payable in annual installments of $2.0 million, $2.0 million and $3.0 million due on December 20, 2006, 2007 and 2008, respectively.

4.0% Convertible Subordinated Notes due 2025

In November 2005 the Company completed its offering of $201.2 million of 4.0% Convertible Senior Subordinated Notes ("4.0% Notes") due 2025 and received $195.7 million, net of $5.5 million of commissions. Interest payments are due May 15 and November 15 of each year, commencing on May 15, 2006. Accrued interest payable, included in accrued liabilities on the accompanying consolidated balance sheet, was $0.9 million at December 31, 2005.

The Company used part of the proceeds to redeem its 5.25% Convertible Subordinated Notes that were due in 2007. The payments associated with the redemption were $137.8 million of principal, $2.9 million for a 2.1% premium on the principal amount, and $0.9 million in accrued interest from October 15 through the redemption date of November 29, 2005. Additionally, the Company expensed the remaining unamortized deferred charges in the amount of $1.3 million associated with the 5.25% Notes.

In connection with the offering of the 4.0% Notes, there are $5.7 million of unamortized debt issuance costs at December 31, 2005, which are included in other assets on the accompanying consolidated balance sheet and are being amortized through April 2025.

The 4.0% Notes are convertible, unless previously redeemed or repurchased by the Company, at the option of the holder at any time prior to maturity, into the Company's common stock at an initial conversion price of $34.19 per share, subject to adjustment in certain events. As of December 31, 2005, there had been no such conversions.

Credit Facility

In November 2005, the Company entered into a $300 million revolving credit facility with a consortium of banks, led by Citibank, N.A. as the administrative agent, Fleet National Bank as the syndication agent and Wachovia Bank, N.A. as the documentation agent. This new facility replaced the Company's expiring $200 million facility. In connection with the new credit facility, $1.6 million of deferred finance costs are included in other assets on the accompanying consolidated balance sheet at December 31, 2005 are being amortized over the term of the agreement.

The credit facility provides sub-limits of borrowing up to $100.0 million in standby letters of credit financing. The potential cash borrowing under the facility is reduced by the amount of outstanding letters of credit. Any borrowings under the facility would be priced initially at LIBOR plus a predetermined amount, ranging from 1.25% to 1.75%, depending on the Company's consolidated leverage ratio at the time of the borrowing. At December 31, 2005, LIBOR was approximately 4.39% and the applicable adjustment to LIBOR was 1.50%. The facility requires the Company to pay each lender in the consortium a commitment fee on the average daily unused portion of their respective commitment at a rate equal to 0.25%.

There were no direct borrowings outstanding under the credit facility at December 31, 2005. Letters of credit outstanding at December 31, 2005, pertaining to the credit facility were $32.2 million, resulting in $267.8 million available for borrowings.

In connection with the credit facility, the Company is required to maintain both financial and non-financial covenants and ratios, including, but not limited to, leverage ratio, fixed charge coverage ratio, and senior secured leverage ratio. As of December 31, 2005, the Company was in compliance with its covenants. The credit facility is secured by the Company's accounts receivables, inventory and machinery and equipment.

(9) Employee Stock Ownership Plan and Trust

The Company sponsors an employee stock ownership plan (ESOP) which provides retirement benefits to substantially all employees.

The ESOP has an indirect loan from the Company payable through December 31, 2017. As quarterly payments are made under the indirect loan, unallocated common shares in the ESOP are committed-to-be-released. The allocation to participants is based on (i) a match of 50% of the first 6% of the participants' 401(k) contributions; (ii) a special allocation for employees who meet certain service requirements (iii) a fixed amount per participant chosen annually; and (iv) any remaining distribution is based on participants' relative compensation. The cost basis of the unearned/unallocated shares is initially recorded as a reduction to shareholders' equity. Compensation expense is recorded based on the market value of the Company's common shares as they are committed-to-be-released. The difference between the market value and the cost basis of the shares is recorded as additional paid-in capital. Dividends on unallocated shares are recorded as compensation expense.

In 2005, 2004 and 2003, non-cash ESOP compensation expense recorded by the Company amounted to $5.0 million, $4.3 million, and $3.3 million, respectively. At December 31, 2005, there are 1,991,676 unearned/unallocated shares which have an aggregate market value of $53.9 million and 1,728,538 allocated shares. Total principal and interest payments made in 2005, 2004, and 2003 under the ESOP indirect loan amounted to $1.7 million in each of the three years.

(10) Income Taxes

The 2005, 2004 and 2003 significant components of the provision for income taxes attributable to continuing operations are as follows:

	2005	2004	2003
		(In thousands)	
Federal			
Current	$16,711	$13,375	$12,927
Deferred	(2,926)	(533)	(5,900)
	$13,785	$12,842	$ 7,027
Foreign			
Current	135	(25)	207
Deferred	213	77	82
	$ 348	$ 52	$ 289
State			
Current	$ 1,945	$ 2,876	$ 3,350
Deferred	(506)	(204)	(1,022)
	$ 1,439	$ 2,672	$ 2,328
Total	$15,572	$15,566	$ 9,644

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The reconciliation of income tax attributable to continuing operations computed at the U.S. Federal tax rate to income tax expense is:

	Percent of Pre-tax Earnings		
	2005	2004	2003
Tax at statutory rate	35.0%	35.0%	35.0%
State taxes, net of Federal benefit	2.9	4.7	5.0
Reserve adjustment	(3.5)	(6.2)	—
Non-cash ESOP compensation expense	3.4	1.9	2.0
Foreign sales benefit	(1.0)	(1.1)	(1.3)
Manufacturing exemption	(1.0)	—	—
Other, net	1.4	0.6	1.1
Effective income tax rate	37.2%	34.9%	41.8%

The significant components of deferred tax assets and liabilities as of December 31 are as follows:

	2005	2004
	(In thousands)	
Deferred Tax Assets		
Retirement plans' additional minimum liability	$32,621	$29,521
Post-retirement benefits obligation other than pensions	5,512	5,507
Deferred revenue	743	1,185
Non-qualified plans	5,194	4,145
Inventory valuation	1,310	1,597
Vacation accrual	2,954	1,643
Rent accrual	1,732	181
Other	3,595	1,518
Total deferred tax assets	53,661	45,297
Deferred Tax Liabilities		
Depreciation and amortization	8,801	4,754
Prepaid pension asset	5,530	4,823
Other	747	433
Total deferred tax liabilities	15,078	10,010
Net deferred tax asset	$38,583	$35,287

The Company is subject to ongoing tax examinations in various jurisdictions, which may result in challenges to tax positions taken and, accordingly, the Company may record adjustments to provisions based on the probable outcomes of such matters. However, the Company believes that the resolution of these matters will not have a material effect on its financial position, results of operations or cash flows. The Company recorded an income tax benefit of $1.5 million and $2.8 million for the years ended December 31, 2005 and December 31, 2004, respectively, due to the reversal of income tax contingency reserves which were determined to be no longer needed.

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(11) Shareholders' Equity

At various times beginning in 1983, the Board of Directors has authorized and subsequently increased by amendments, a plan to purchase an aggregate amount of 4,190,000 common shares. As of December 31, 2005, the Company had acquired approximately 4,091,000 common shares in open market transactions at prevailing market prices. Approximately 4,053,000 of these shares have been used for various purposes, including: conversion of preferred shares; contributions of common shares to the EDO ESOP; grants pursuant to the Company's Long-Term Incentive Plans; payment of directors' fees; partial payment of a 50% stock dividend; and stock options exercised. As of December 31, 2005 and 2004, respectively, the Company held 111,317 and 94,585 common shares in its treasury for future use.

At December 31, 2005, the Company had reserved 7,389,522 authorized and unissued common shares for stock option and long-term incentive plans and conversion of the Notes.

(12) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	2005	2004	2003
		(In thousands)	
Numerator:			
Earnings from continuing operations for basic calculation	$26,269	$29,068	$13,411
Effect of dilutive securities:			
Convertible notes	4,404	4,268	—
Numerator for diluted calculation	$30,673	$33,336	$13,411
Denominator:			
Denominator for basic calculation	18,081	17,695	17,308
Effect of dilutive securities:			
Stock options	264	274	253
Convertible notes	4,656	4,408	—
Denominator for diluted calculation	23,001	22,377	17,561

The assumed conversion of the convertible notes was dilutive for 2005 and 2004 and anti-dilutive for 2003.

The following table summarizes, for each year presented, the number of shares excluded from the computation of diluted earnings per share, as their effect upon potential issuance was anti-dilutive.

	For the Years Ended December 31,		
	2005	2004	2003
		(In thousands)	
Convertible Subordinated Notes	—	—	4,408
Unexercised Stock Options	74	2	311
	74	2	4,719

(13) Stock Plans

The Company has granted nonqualified stock options to officers, directors and other key employees under plans approved by the shareholders in 2002 for the purchase of its common shares at the fair market value of the common shares on the dates of grant. Options under the 2002 Long-Term Incentive Plan ("LTIP") generally become exercisable on the third anniversary of the date of the grant and expire on the tenth anniversary of the date of the grant. The 2002 LTIP will expire in 2012. Options under the 2002 Non-Employee Director Stock Option Plan ("NEDSOP"), which pertains only to non-employee directors, are immediately exercisable and expire on the tenth anniversary of the date of the grant. The 2002 NEDSOP will also expire in 2012.

Changes in options outstanding are as follows:

	2005		2004		2003	
	Weighted-Average Exercise Price	Shares Subject to Option	Weighted-Average Exercise Price	Shares Subject to Option	Weighted-Average Exercise Price	Shares Subject to Option
Beginning of year	$15.86	1,083,811	$14.65	1,206,096	$13.59	1,057,143
Options granted	30.68	65,000	24.37	65,000	19.00	224,405
Options exercised	10.50	(83,322)	9.35	(164,135)	6.66	(37,327)
Options expired/cancelled	13.76	(20,450)	23.05	(23,150)	18.53	(38,125)
End of year	$17.25	1,045,039	$15.86	1,083,811	$14.65	1,206,096
Exercisable at year end	$17.08	895,759	$12.33	732,956	$11.26	602,916

The options outstanding as of December 31, 2005 are summarized as follows:

Range of Exercise Prices	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Remaining Life
$5.00	$ 5.00	7,500	1 year or less
$6.13-$9.60	$ 7.86	440,409	4 years
$17.86-$25.01	$20.45	283,280	7 years
$27.02-$31.44	$27.83	313,850	7 years
		1,045,039	

The 2002 LTIP also provides for restricted common share long-term incentive awards as defined under the plan. As of December 31, 2005 plan participants had been awarded 631,250 restricted common shares. Deferred compensation is recorded for the fair value of the restricted common share awards on the date of grant and is amortized over the five-year period the related services are provided. The fair value of a restricted common share award is calculated as the average of the high and low market values of our common shares on the grant date, as reported for such date on a national exchange or nationally recognized system of price quotation. The amount charged to operations in 2005, 2004 and 2003 was $1.7 million, $0.9 million and $0.3 million, respectively. The increase in the expense for 2005 compared to prior years is due to an increase in the amount of shares issued over the past two years compared to prior years. As of December 31, 2005, 458,061 shares are available for additional awards.

(14) Other Employee Benefit Plans

Defined Benefit Plans

The Company maintains a qualified noncontributory defined benefit pension plan covering less than one half of its employees. In November 2002, the plan was amended whereby participation and benefits accrued under the plan were frozen as of December 31, 2002. The Company's funding policy is to make annual contributions to the extent such contributions are at least equal to the minimum required contribution and are tax deductible.

In 2005, 2004 and 2003 the Company recorded pension expense of \$4.3 million, \$2.2 million and \$3.9 million, respectively.

A summary of the weighted-average rate assumptions as of December 31 used in pension calculations follows. (Since the Company froze the defined benefit plan in December 2002, there is no future compensation increase for subsequent years.)

	2005	2004	2003
Discount Rate (for obligations as of December 31)	5.50%	5.75%	6.25%
Expected long-term return on plan assets	8.25%	8.25%	8.75%

The Company uses the building block approach to the estimation of the long-term rate of return on assets. Under this approach, the Company reviewed the publicly available common source data for the range of returns on basic types of equity and fixed income instruments and the differential to those rates provided by active investment management. In consultation with the Company's actuarial and active asset management consultants and taking into account the funds' actual performance and expected asset allocation going forward, the Company selected an overall return rate within the resulting range.

Plan asset investment decisions are made by the Pension Investment Committee of the Board of Directors. This committee utilizes the services of a financial advisor in the selection and monitoring of specific asset managers. At its periodic meetings the committee reviews the performance of various funds against benchmarks and makes investment decisions which are then carried out by the fund trustee. The target asset allocation is 70% equity instruments and 30% fixed income instruments. The assets are invested in a variety of both actively managed and passive funds chosen by the committee. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Our plan investments are diversified to mitigate any adverse results from one security class on the entire investment portfolio. A small amount of excess return is expected from active investment management.

Plan Assets

The assets of the Company's defined benefit plans are managed on a commingled basis in a third party master trust. The investment policy and allocation of the assets in the master trust were approved by the Company's Pension Plans Investment Committee of the Board of Directors, which has oversight responsibility for the Company's retirement plans.

The investment allocation for each major asset class as a percent of plan asset fair value as of December 31 is as follows:

	2005	2004	2003
Equity Securities	70.7%	73.7%	69.7%
Debt Securities	28.7%	25.7%	29.7%
Cash	0.6%	0.6%	0.6%
Total	100.0%	100.0%	100.0%

In 2005, the Company made a \$6.0 million contribution to the plan compared to no contribution in 2004.

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the components of net periodic pension expense follows:

	2005	2004	2003
		(In thousands)	
Interest on projected benefit obligation	(12,354)	(12,151)	(12,727)
Expected return on plan assets	12,722	12,705	12,250
Recognized net actuarial loss	(4,645)	(2,737)	(3,454)
Net pension expense	$ (4,277)	$ (2,183)	$ (3,931)

The following sets forth the funded status of the plan as of December 31:

	2005	2004
	(In thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$221,945	$204,439
Interest cost	12,354	12,151
Benefits paid	(15,270)	(18,959)
Actuarial loss	9,459	24,314
Projected benefit obligation at end of year	$228,488	$221,945
Change in plan assets:		
Fair value of plan assets at beginning of year	$161,294	$164,024
Actual return on plan assets	11,090	16,229
Employer contribution	6,000	—
Benefits paid	(15,270)	(18,959)
Fair value of plan assets at end of year	$163,114	$161,294
Funded status	(65,374)	$(60,651)
Unrecognized net loss	72,861	66,415
Prepaid pension cost	$ 7,487	$ 5,764

Due to the lower discount rate, offset by positive fund performance, the accumulated benefit obligation at December 31, 2005 and 2004 exceeded the fair value of plan assets by $65.4 million and $60.7 million, respectively. The Company recorded an additional minimum liability of $72.9 million and $66.4 million as of December 31, 2005 and 2004, respectively. Consequently, net of tax comprehensive loss of $3.8 and $10.7 million were charged against shareholders' equity in 2005 and 2004, respectively. Amounts recognized in the consolidated balance sheets at December 31 are as follows:

	2005	2004
	(In thousands)	
Prepaid pension cost (included in other assets)	$ 7,487	$ 5,764
Additional minimum liability (included in post-retirement benefits obligations)	$(72,861)	$(66,415)
Accumulated other comprehensive loss (included in shareholders' equity)	$ 72,861	$ 66,415

Estimated Future Benefit Payments

The following table presents estimated future benefit payments:

	(In thousands)
2006	$14,294
2007	$14,567
2008	$14,787
2009	$15,010
2010	$15,174
2011-2015	$76,198

Non-Qualified Plans

The Company has a supplemental retirement plan for officers and certain employees. Benefits are based on years of service and certain compensation that is excluded under the qualified plan. In November 2003 the plan was amended whereby benefits under the plan were frozen for all but two individuals as of December 31, 2003. The plan is unfunded and has no assets.

A summary of the weighted-average assumptions as of December 31 used in pension calculations follows:

	2005	2004	2003
Discount Rate (for obligations as of December 31)	5.50%	5.75%	6.25%
Rate of compensation increase	5.00%	5.00%	5.00%

Total expenses under the non-qualified plans in 2005, 2004 and 2003 were $2.3 million, $1.2 million and $2.6 million, respectively.

A summary of the components of net periodic pension expense follows:

	2005	2004	2003
Service cost	$ 302	$ 220	$ 372
Interest on projected benefit obligation	984	700	802
Amortization of transitional liability	3	3	3
Amortization of prior service cost	63	63	184
Recognized net actuarial loss	963	171	273
Effect of curtailment	—	—	942
Net pension expense	$2,315	$1,157	$2,576

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized below is the funded status of the combined supplemental plans as of December 31:

	2005	2004
	(In thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 17,583	$ 11,641
Service cost	302	219
Interest cost	984	700
Benefits paid	(944)	(892)
Actuarial loss	352	5,915
Projected benefit obligation at end of year	$ 18,277	$ 17,583
Change in plan assets:		
Fair value of plan assets at beginning of the year	$ —	$ —
Employer contribution	944	892
Benefits paid	(944)	(892)
Fair value of plan assets at end of year	$ —	$ —
Funded status	$(18,277)	$(17,583)
Unrecognized net loss	7,470	8,081
Unrecognized prior service cost	434	496
Unrecognized net obligation	—	4
Accrued benefit cost	$(10,373)	$ (9,002)

The accumulated benefit obligation at December 31, 2005 and 2004 exceeded the fair value of plan assets by $17.5 million and $15.1 million, respectively. The Company recorded an additional minimum liability of $7.1 million and $6.1 million as of December 31, 2005 and 2004, respectively. Consequently, a net of tax comprehensive loss of $0.7 million and $2.4 million were charged against shareholders' equity in 2005 and 2004, respectively. Amounts recognized in the consolidated balance sheets at December 31 are as follows:

	2005	2004
	(In thousands)	
Accrued benefit cost (included in post-retirement benefits obligation)	$(10,373)	$(9,002)
Intangible asset (included in other assets)	434	$ 500
Additional minimum liability (included in post-retirement benefits obligations)	$ (7,137)	$(6,088)
Accumulated other comprehensive loss (included in shareholders' equity)	$ 6,703	$ 5,588

Estimated Future Pension Benefit Payments

The following table presents estimated future benefit payments:

	(In thousands)
2006	$1,647
2007	$1,652
2008	$1,633
2009	$1,615
2010	$1,579
2011-2015	$7,552

401(k) Plans

The Company sponsors a 401(k) plan covering substantially all employees which provides for a match by the Company of 50% of the first 6% of employee contributions. The match is provided in the Company's common stock under the ESOP plan.

(15) Post-Retirement Health Care and Life Insurance Benefits

The Company provides certain health care and life insurance benefits to qualified retired employees and dependents at certain locations. These benefits are funded as benefits are provided, with the retiree paying a portion of the cost through contributions, deductibles and coinsurance provisions. The Company has always retained the right to modify or terminate the plans providing these benefits.

In accordance with SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions," the Company recognizes these benefit expenses on an accrual basis as the employees earn them during their employment rather than when they are actually paid.

EDO Post-Retirement Benefit Plan

Post-retirement health care and life insurance expense included the following components:

	2005	2004	2003
	(In thousands)		
Interest cost	$124	$143	$126
Recognized actuarial loss	58	53	—
Total post-retirement health care and life insurance expense	$182	$196	$126

The funded status of the EDO post-retirement health care and life insurance benefits plan is as follows as of December 31:

	2005	2004
	(In thousands)	
Change in accumulated post-retirement benefit obligation:		
Accumulated benefit obligation at beginning of year	$2,322	$2,441
Interest cost	124	143
Benefits paid	(328)	(353)
Participant contributions	35	29
Actuarial loss	81	62
Unfunded accumulated post-retirement benefit obligation at end of year	$2,234	$2,322
Unrecognized net loss	(601)	(578)
Accrued post-retirement benefit cost	$1,633	$1,744

Actuarial assumptions used in determining the accumulated post-retirement benefit obligation include a discount rate of 5.50% at December 31, 2005 and 5.75% at December 31, 2004, and estimated increases in health care costs. The Company has limited its increase in health care costs to 5% per year by requiring the retirees to absorb any costs in excess of 5% and has used such rate to measure its obligation.

The effects of a one percentage point change in the assumed health care cost trend rates would have had the following effects increase/(decrease) in cost and/or obligation on the results for fiscal year 2005:

	1% Point Increase	1% Point Decrease
	(In thousands)	
Benefit obligation at end of year	$ 12	$ (11)
Interest cost	$0.7	$(0.7)

The above 1% increase/decrease trend is based primarily on the change in dental trend rates, since medical plan benefits are capped.

AIL Post-Retirement Benefit Plan

Post-retirement expense included in the consolidated financial statements comprised the following:

	2005	2004	2003
		(In thousands)	
Service cost	$ 201	$ 452	$ 453
Interest cost	446	741	765
Recognized net actuarial (gain) loss	(226)	12	40
Total post-retirement expense	$ 421	$1,205	$1,258

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The funded status of the AIL post-retirement benefit plan is as follows as of December 31:

	2005	2004
	(In thousands)	
Change in accumulated post-retirement benefit obligation:		
Accumulated benefit obligation	$ 8,213	$12,258
Service cost	201	452
Interest cost	446	741
Benefits paid	(296)	(381)
Actuarial gain	(1,642)	(4,857)
Unfunded accumulated post-retirement benefit obligation at end of year	$ 6,922	$ 8,213
Unrecognized gain	4,890	3,474
Accrued post-retirement benefit cost	$11,812	$11,687

Actuarial assumptions used in determining the accumulated post-retirement benefit obligation include a discount rate of 5.50% at December 31, 2005 and 5.75 at December 31, 2004. The accumulated benefit obligation would not be affected by increases in healthcare costs for retirees since such costs are funded by the participants. Healthcare trend costs will only affect the amounts related to disabled participants.

The effects of a one percentage point change in the assumed health care cost trend rates would have had the following effects increase/(decrease) in cost and/or obligation on the results for fiscal year 2004:

	1% Point Increase	1% Point Decrease
	(In thousands)	
Benefit obligation at end of year	$289	$(269)
Interest cost	$ 24	$ (22)

(16) Commitments and Contingencies

In order to aggregate all commitments and contractual obligations as of December 31, 2005, the following table is included. The Company is obligated under building and equipment leases expiring between 2006 and 2019. The aggregate future minimum lease commitments under those obligations with noncancellable terms in excess of one year are shown below. The Company's commitments under letters of credit and advance payment and performance bonds relate primarily to advances received on foreign contracts which would be paid only if the Company failed to perform in accordance with the contract terms. The Company does not expect to have to make payments under these letters of credits or bonds since these obligations are removed as we perform under the related contracts. The amounts for letters of credit and performance bonds represent the amount of commitment expiration per period. Actual pension contributions may differ from amounts presented below and are contingent on cash flow and liquidity.

	Payments Due In:						
Commitments and Contractual Obligations:	Total	2006	2007	2008	2009	2010	2011 and Beyond
	(In millions)						
Note Payable	$ 7.0	$ 2.0	$ 2.0	$ 3.0	$ —	$ —	$ —
4.0% Convertible Subordinated Notes due 2025	201.2	—	—	—	—	—	201.2
Operating leases	138.7	16.8	16.1	15.6	15.5	14.3	60.4
Letters of credit	32.2	12.4	16.6	—	3.2	—	—
Projected pension contributions	23.0	6.0	6.0	6.0	5.0	—	—
Advance payment and performance bonds	1.9	0.2	—	—	1.7	—	—
Total	$404.0	$37.4	$40.7	$24.6	$25.4	$14.3	$261.6

Rental expense for the years ended December 31, 2005, 2004 and 2003 amounted to $16.5 million, $13.6 million and $10.7 million, respectively.

(17) Legal Matters

The Company and three other companies entered into a consent decree in 1990 with the Federal government for the remediation of a Superfund site. The Superfund site has been divided into three operable units. The consent decree relates to two of the operable units. The third operable unit has not been formally studied and, accordingly, no liability has been recorded by the Company. The Company believes that the aggregate amount of the obligation and timing of cash payments associated with the two operable units subject to the consent decree are reasonably fixed and determinable. Accordingly, the environmental obligation has been discounted at five percent. Management estimates that as of December 31, 2005, the discounted liability over the remainder of the twenty years related to these two operable units is approximately $1.6 million of which approximately $0.3 million has been classified as current and is included in accrued liabilities. Approximately $0.6 million of the $1.6 million liability will be incurred over the next five years.

The Company is also involved in other environmental cleanup efforts, none of which management believes is likely to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Additionally, the Company and its subsidiaries are subject to certain legal actions that arise out of the normal course of business. It is management's belief that the ultimate outcome of these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

(18) Business Segments

The Company determines its operating segments based upon an analysis of its products and services, production processes, types of customers, economic characteristics and the related regulatory environment, which is consistent with how management operates the Company. In 2005, the Company revised its reporting segments in line with the evolution of the business. The Company's continuing operations are reflected in two business segments: Engineered Systems and Services and Electronic Systems and Communications. The Company has a disciplined acquisition program which is diversifying its base of major platforms and customers.

Principal products and services by segment are as follows:

Electronic Systems and Communications

- **Electronic Force Protection Systems**
- **Interference Cancellation**
- **Airborne Electronic Warfare Systems**
- **Reconnaissance and Surveillance Systems**
- **Specialized Electronic Systems**
- **Command, Control, Communications, and Computers (C4)**
- **Antenna Products**

Engineered Systems and Services

- **Aircraft Armament Systems**
- **Integrated Composite Structures**
- **Mine Countermeasures Systems**
- **Undersea Warfare Sonar Systems**
- **Professional and Engineering Services**
- **Flight Line Products**

Domestic U.S. Government sales, which include sales to prime contractors of the U.S. Government, amounted to 82%, 79% and 76% of net sales, which were 73%, 72% and 72% of Engineered Systems and Services' net sales, 87%, 87% and 79% of Electronic Systems and Communications' net sales for 2005, 2004 and 2003, respectively. International sales comprised 14%, 14% and 18% of net sales for 2005, 2004 and 2003, respectively.

EDO CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Information by segment on sales, operating earnings, identifiable assets, depreciation and amortization, and capital expenditures is as follows for each of the three years ended December 31:

	2005	2004	2003
		(In thousands)	
Net sales:			
Electronic Systems and Communications	$408,217	$273,306	$221,554
Engineered Systems and Services	240,265	262,867	239,113
	$648,482	$536,173	$460,667
Operating earnings:			
Electronic Systems and Communications	$ 42,071	$ 26,493	$ 18,476
Engineered Systems and Services	12,751	26,308	22,554
Environmental cost provision-Deer Park facility	(1,543)	—	—
Impairment loss on Deer Park facility	—	—	(9,160)
Curtailment loss	—	—	(942)
	$ 53,279	$ 52,801	$ 30,928
Net interest expense	(11,291)	(7,848)	(8,152)
Other (expense) income, net	(147)	(319)	279
Earnings from continuing operations before income taxes	$ 41,841	$ 44,634	$ 23,055
Identifiable assets:			
Electronic Systems and Communications	$296,294	$201,625	$182,968
Engineered Systems and Services	215,121	191,890	186,079
Corporate	175,984	153,174	125,649
	$687,399	$546,689	$494,696
Depreciation and amortization:			
Electronic Systems and Communications	$ 7,180	$ 8,015	$ 10,358
Engineered Systems and Services	7,975	7,648	6,421
Corporate	544	377	286
	$ 15,699	$ 16,040	$ 17,065
Capital expenditures:			
Electronic Systems and Communications	$ 14,316	$ 6,076	$ 2,878
Engineered Systems and Services	6,664	7,490	4,733
Corporate	2,738	640	1,254
	$ 23,718	$ 14,206	$ 8,865

Acquisition-related costs in 2003, including IPR&D, attributable to the Condor acquisition are included in the segments as follows:

	2005	2004	2003
	(In thousands)		
Electronic Systems and Communications	$—	$—	$929
Engineered Systems and Services	—	—	—
Total	$—	$—	$929

(19) Guarantor and Non-Guarantor Subsidiaries

The Company may, from time to time, issue indebtedness, a condition of which would be the guarantee of this indebtedness by certain of its subsidiaries. Presented below is condensed consolidating financial information for the Company and the contemplated subsidiary guarantors and non-guarantors at December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005. Each contemplated subsidiary guarantor is 100% owned, directly or indirectly, by the Company. Any guarantees that may be issued will be full and unconditional, as well as joint and several. In connection with the Company's credit facility, the Company cannot declare or pay any dividend on its outstanding common stock in an amount that exceeds fifty percent of its consolidated net income for the immediately preceding quarter.

On January 1, 2005 the Company merged into itself two wholly owned subsidiaries resulting in three operating units of the former subsidiaries becoming operating units of the Company.

EDO CORPORATION

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2005

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 99,067	$ 4,232	$ 5,432	—	$108,731
Accounts receivable, net	68,603	117,164	3,423	—	189,190
Inventories	17,288	36,147	3,132	—	56,567
Deferred income tax asset, net	8,946	—	—	—	8,946
Notes receivable	7,358	(258)	—	—	7,100
Prepayments and other	2,037	1,438	334	—	3,809
Total current assets	203,299	158,723	12,321	—	374,343
Investment in subsidiaries	317,356	—	—	(317,356)	—
Property, plant and equipment, net	25,946	20,380	3,248	—	49,574
Goodwill	—	143,637	8,710	—	152,347
Other intangible assets, net	—	44,308	11,617	—	55,925
Deferred income tax asset, net	29,637	—	—	—	29,637
Other assets	24,751	822	—	—	25,573
	$600,989	$367,870	$35,896	$(317,356)	$687,399
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	$ 37,942	$ 43,729	$ 3,566	—	$ 85,237
Contract advances and deposits	6,120	36,124	—	—	42,244
Notes payable	2,000	—	—	—	2,000
Total current liabilities	46,062	79,853	3,566	—	129,481
Long-term debt	201,250	—	—	—	201,250
Income taxes payable	6,513	—	—	—	6,513
Deferred income tax liabilities, net	(3,244)	2,891	353	—	—
Post retirement benefits obligations	103,815	—	—	—	103,815
Notes payable	5,000	—	—	—	5,000
Environmental obligation	1,392	—	—	—	1,392
Other long-term liabilities	55	—	—	—	55
Intercompany accounts	—	174,844	24,771	(199,615)	—
Shareholders' equity:					
Preferred shares	—	—	—	—	—
Common shares	20,306	98	—	(98)	20,306
Additional paid-in capital	167,219	25,221	6,418	(31,639)	167,219
Retained earnings	120,103	89,103	953	(90,056)	120,103
Accumulated other comprehensive loss, net of income tax benefit	(46,819)	(88)	(165)	—	(47,072)
Treasury shares	(1,868)	(4,052)	—	4,052	(1,868)
Unearned ESOP shares	(14,789)	—	—	—	(14,789)
Management group receivables	(140)	—	—	—	(140)
Deferred compensation under Long-Term Incentive Plan	(3,866)	—	—	—	(3,866)
Total shareholders' equity	240,146	110,282	7,206	(117,741)	239,893
	$600,989	$367,870	$35,896	$(317,356)	$687,399

EDO CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
December 31, 2005

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Continuing Operations:					
Net Sales	$188,521	$443,069	$29,820	$ (12,928)	$648,482
Costs and expenses:					
Cost of sales	153,307	329,640	20,598	(12,928)	490,617
Selling, general and administrative	16,484	62,816	6,621	—	85,921
Research and development	4,940	11,097	1,085	—	17,122
Environmental cost provision, Deer Park Facility	1,543	—	—	—	1,543
	176,274	403,553	28,304	(12,928)	595,203
Operating Earnings	12,247	39,516	1,516	—	53,279
Non-operating income (expense)					
Interest income	2,006	146	148	—	2,300
Interest expense	(13,591)	—	—	—	(13,591)
Other, net	134	(104)	(177)	—	(147)
	(11,451)	42	(29)	—	(11,438)
Earnings from continuing operations before income taxes	796	39,558	1,487	—	41,841
Income tax (benefit) expense	(1,301)	15,991	882	—	15,572
Earnings from continuing operations	2,097	23,567	605	—	26,269
Equity in undistributed earnings of subsidiaries	24,172	—	—	(24,172)	—
	26,269	23,567	605	(24,172)	26,269
Net earnings	$ 26,269	$ 23,567	$ 605	$ (24,172)	$ 26,269

EDO CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2005

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Activities:					
Earnings from operations	$ 26,269	$ 23,567	$ 605	$(24,172)	$ 26,269
Adjustments to earnings to arrive at cash provided (used) by operations:					
Depreciation	4,100	4,991	677	—	9,768
Amortization	—	4,929	1,002	—	5,931
Deferred tax benefit	(3,446)	227	—	—	(3,219)
Bad debt expense	156	667	—	—	823
Loss on sale of property, plant and equipment	485	3	313	—	801
Environmental cost provision – Deer Park	1,543	—	—	—	1,543
Deferred compensation expense	1,661	—	—	—	1,661
Non-cash Employee Stock Ownership Plan compensation expense	4,952	—	—	—	4,952
Non-cash accelerated vesting option expense	37	—	—	—	37
Dividends on unallocated Employee Stock Ownership Plan shares	251	—	—	—	251
Common shares issued for directors' fees	198	—	—	—	198
Income tax benefit from stock options	711	—	—	—	711
Changes in operating assets and liabilities, excluding effects of acquisitions:					
Equity in earnings of subsidiaries	(24,172)	—	—	24,172	—
Intercompany	36,376	(35,236)	(1,140)	—	—
Accounts receivable	(17,438)	(12,233)	1,309	—	(28,362)
Inventories	(2,631)	(1,020)	1,342	—	(2,309)
Prepayments and other assets	3,647	905	2	—	4,554
Contribution to defined benefit pension plan	(6,000)	—	—	—	(6,000)
Accounts payable, accrued liabilities and other	3,211	(1,779)	(2,337)	—	(905)
Contract advances and deposits	886	27,233	—	—	28,119
Cash provided by operations	30,796	12,254	1,773	—	44,823
Investing Activities:					
Purchase of plant and equipment	(13,600)	(9,336)	(782)	—	(23,718)
Payments received on notes receivable	300	—	—	—	300
Cash paid for acquisitions, net of cash acquired	(61,078)	—	—	—	(61,078)
Cash used by investing activities	(74,378)	(9,336)	(782)	—	(84,496)
Financing Activities:					
Proceeds from exercise of stock options	875	—	—	—	875
Proceeds from management group receivables	81	—	—	—	81
Repayments of acquired debt	(6,931)	—	—	—	(6,931)
Redemption of 5.25% Convertible Subordinated Notes	(137,800)	—	—	—	(137,800)
Issuance of 4.0% Convertible Subordinated Notes	195,716	—	—	—	195,716
Payment of common share cash dividends	(2,421)	—	—	—	(2,421)
Cash provided by financing activities	49,520	—	—	—	49,520
Net increase in cash and cash equivalents	5,938	2,918	991	—	9,847
Cash and cash equivalents at beginning of year	93,129	1,314	4,441	—	98,884
Cash and cash equivalents at end of year	$ 99,067	$ 4,232	$ 5,432	—	$108,731

EDO CORPORATION

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2004

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 93,129	$ 1,314	$ 4,441	—	$ 98,884
Accounts receivable, net	51,321	97,757	4,732	—	153,810
Inventories	14,657	33,736	4,474	—	52,867
Deferred income tax asset, net	5,046	—	—	—	5,046
Notes receivable	7,202	—	—	—	7,202
Prepayments and other	2,029	1,128	336	—	3,493
Total current assets	173,384	133,935	13,983	—	321,302
Investment in subsidiaries	254,311	—	—	(254,311)	—
Property, plant and equipment, net	16,931	14,442	3,457	—	34,830
Goodwill	—	82,941	8,710	—	91,651
Other intangible assets, net	—	37,737	12,619	—	50,356
Deferred income tax asset, net	30,241	—	—	—	30,241
Other assets	17,394	915	—	—	18,309
	$ 492,261	$269,970	$38,769	$(254,311)	$546,689
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	$ 34,490	$ 40,676	$ 5,732	—	$ 80,898
Contract advances and deposits	5,234	8,462	—	—	13,696
Total current liabilities	39,724	49,138	5,732	—	94,594
Long-term debt	137,800	—	—	—	137,800
Income taxes payable, long-term	5,768	—	—	—	5,768
Deferred income tax liabilities, net	(169)	—	169	—	—
Post retirement benefits obligations	94,936	—	—	—	94,936
Environmental obligation	1,663	—	—	—	1,663
Intercompany accounts	—	142,626	25,911	(168,537)	—
Shareholders' equity:					
Preferred shares	—	—	—	—	—
Common shares	20,112	98	—	(98)	20,112
Additional paid-in capital	158,548	25,221	6,418	(31,639)	158,548
Retained earnings	96,004	57,740	349	(58,089)	96,004
Accumulated other comprehensive loss, net of income tax benefit	(42,008)	(801)	190	—	(42,619)
Treasury shares	(1,449)	(4,052)	—	4,052	(1,449)
Unearned ESOP shares	(16,039)	—	—	—	(16,039)
Management group receivables	(221)	—	—	—	(221)
Deferred compensation under Long-Term Incentive Plan	(2,408)	—	—	—	(2,408)
Total shareholders' equity	212,539	78,206	6,957	(85,774)	211,928
	$ 492,261	$269,970	$38,769	$(254,311)	$546,689

EDO CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
December 31, 2004

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Continuing Operations:					
Net Sales	$206,778	$313,544	$29,062	$(13,211)	$536,173
Costs and expenses:					
Cost of sales	159,885	225,225	21,062	(13,211)	392,961
Selling, general and administrative	22,720	49,735	6,336	—	78,791
Research and development	4,548	5,635	1,437	—	11,620
	187,153	280,595	28,835	(13,211)	483,372
Operating Earnings	19,625	32,949	227	—	52,801
Non-operating income (expense) Interest income	1,041	134	96	—	1,271
Interest expense	(9,119)	—	—	—	(9,119)
Other, net	(55)	20	(284)	—	(319)
	(8,133)	154	(188)	—	(8,167)
Earnings from continuing operations before income taxes	11,492	33,103	39	—	44,634
Income tax expense	2,182	13,146	238	—	15,566
(Loss) earnings from continuing operations	9,310	19,957	(199)	—	29,068
Equity in undistributed earnings of subsidiaries	19,758	—	—	(19,758)	—
	29,068	19,957	(199)	(19,758)	29,068
Earnings from discontinued operations	—	—	—	—	—
Net earnings (loss)	$ 29,068	$ 19,957	$ (199)	$(19,758)	$ 29,068

EDO CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2004

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Activities:					
Earnings (loss) from continuing operations	$29,068	$19,957	$ (199)	$(19,758)	$29,068
Adjustments to earnings to arrive at cash provided (used) by continuing operations:					
Depreciation	4,718	4,912	846	—	10,476
Amortization	—	4,561	1,003	—	5,564
Deferred tax benefit	(650)	(10)	—	—	(660)
Loss (gain) on sale of property, plant and equipment	226	29	—	—	255
Deferred compensation expense	916	—	—	—	916
Non-cash Employee Stock Ownership Plan compensation expense	4,330	—	—	—	4,330
Dividends on unallocated Employee Stock Ownership Plan shares	272	—	—	—	272
Common shares issued for directors' fees	140	—	—	—	140
Income tax benefit from stock options	1,134	—	—	—	1,134
Changes in operating assets and liabilities:					
Equity in earnings of subsidiaries	(19,758)	—	—	19,758	—
Intercompany	5,992	(5,525)	(467)	—	—
Accounts receivable	(2,741)	(16,018)	(748)	—	(19,507)
Inventories	2,769	(19,718)	(1,185)	—	(18,134)
Prepayments and other assets	2,444	1,150	(6)	—	3,588
Accounts payable, accrued liabilities and other	(1,733)	3,860	617	—	2,744
Contract advances and deposits	(1,890)	7,391	—	—	5,501
Cash provided (used) by continuing operations	25,237	589	(139)	—	25,687
Investing Activities:					
Purchase of plant and equipment	(6,713)	(6,905)	(588)	—	(14,206)
Payments received on notes receivable	1,200	—	—	—	1,200
Cash received from Emblem escrow settlement	301	—	—	—	301
Cash used by investing activities	(5,212)	(6,905)	(588)	—	(12,705)
Financing Activities:					
Proceeds from exercise of stock options	1,535	—	—	—	1,535
Proceeds from management group receivables	130	—	—	—	130
Payment of common share cash dividends	(2,395)	—	—	—	(2,395)
Cash (used) provided by financing activities	(730)	—	—	—	(730)
Net increase (decrease) in cash and cash equivalents	19,295	(6,316)	(727)	—	12,252
Cash and cash equivalents at beginning of year	73,834	7,630	5,168	—	86,632
Cash and cash equivalents at end of year	$93,129	$ 1,314	$ 4,441	$ —	$98,884

EDO CORPORATION

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2003

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 73,834	$ 7,630	$ 5,168	—	$ 86,632
Accounts receivable, net	48,580	81,740	3,984	(1)	134,303
Inventories	17,426	14,018	3,289	—	34,733
Deferred income tax asset, net	4,836	—	—	—	4,836
Notes receivable	1,600	—	—	—	1,600
Prepayments and other	2,171	1,853	330	—	4,354
Total current assets	148,447	105,241	12,771	(1)	266,458
Investment in subsidiaries	240,846	—	—	(240,846)	—
Property, plant and equipment, net	15,161	12,479	3,715	—	31,355
Notes receivable	6,538	—	—	—	6,538
Goodwill	—	82,919	9,608	—	92,527
Other intangible assets, net	—	42,276	13,622	—	55,898
Deferred income tax asset, net	20,532	—		—	20,532
Other assets	20,026	1,362	—	—	21,388
	$451,550	$244,277	$39,716	$(240,847)	$494,696
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	$ 40,786	$ 35,759	$ 6,004	$ (1)	82,548
Contract advances and deposits	7,124	1,071	—	—	8,195
Total current liabilities	47,910	36,830	6,004	(1)	90,743
Income taxes payable, long-term	2,195	—	—	—	2,195
Long-term debt	137,800	—	—	—	137,800
Deferred income tax liabilities, net	(82)	—	82	—	0
Post retirement benefits obligations	71,898	—	—	—	71,898
Environmental obligation	1,728	—	—	—	1,728
Intercompany accounts	—	105,222	26,611	(131,833)	—
Shareholders' equity:					
Preferred shares	—	—	—	—	—
Common shares	19,832	99		(99)	19,832
Additional paid-in capital	150,097	25,221	6,486	(31,707)	150,097
Retained earnings	69,059	80,878	548	(81,426)	69,059
Accumulated other comprehensive loss, net of income tax benefit	(29,512)	79	(15)	167	(29,281)
Treasury shares	(1,255)	(4,052)	—	4,052	(1,255)
Unearned ESOP shares	(17,290)	—	—	—	(17,290)
Management group receivables	(351)	—	—	—	(351)
Deferred compensation under Long-Term Incentive Plan	(479)	—	—	—	(479)
Total shareholders' equity	190,101	102,225	7,019	(109,013)	190,332
	$451,550	$244,277	$39,716	$(240,847)	$494,696

EDO CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
December 31, 2003

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Continuing Operations:					
Net Sales	$205,517	$257,209	$16,047	$(18,106)	$460,667
Costs and expenses:					
Cost of sales	158,501	189,567	8,297	(18,106)	338,259
Selling, general and administrative	21,112	44,440	6,303	—	71,855
Research and development	4,967	3,213	414	—	8,594
Acquisition-related costs	250	679	—	—	929
Benefit plan curtailment loss	942	—	—	—	942
Impairment loss on Deer Park facility	9,160	—	—	—	9,160
	194,932	237,899	15,014	(18,106)	429,739
Operating Earnings	10,585	19,310	1,033	—	30,928
Non-operating income (expense)					
Interest income	706	206	29	—	941
Interest expense	(9,093)	—	—	—	(9,093)
Other, net	(11)	290	—	—	279
	(8,398)	496	29	—	(7,873)
Earnings from continuing operations before income taxes	2,187	19,806	1,062	—	23,055
Income tax expense	1,523	7,607	514	—	9,644
Earnings from continuing operations	664	12,199	548	—	13,411
Equity in undistributed earnings of subsidiaries	12,747	—	—	(12,747)	—
	13,411	12,199	548	(12,747)	13,411
Earnings from discontinued operations	1,398	—	—	—	1,398
Net earnings	$ 14,809	$ 12,199	$ 548	$(12,747)	$ 14,809

EDO CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2003

	EDO Corporation Parent Company Only	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Activities:					
Earnings from continuing operations	$ 13,411	$ 12,199	$ 548	$(12,747)	$ 13,411
Adjustments to earnings to arrive at cash provided (used) by continuing operations:					
Depreciation	6,122	5,708	350	—	12,180
Amortization	—	4,466	419	—	4,885
Deferred tax benefit	(6,095)	(745)	—	—	(6,840)
Bad debt expense	—	568	—	—	568
Loss (gain) on sale of property, plant and equipment	61	(192)	—	—	(131)
Impairment loss on assets held for sale	9,160	—	—	—	9,160
Deferred compensation expense	289	—	—	—	289
Non-cash Employee Stock Ownership Plan compensation expense	3,281	—	—	—	3,281
Non-cash stock option compensation expense	292	—	—	—	292
Dividends on unallocated Employee Stock Ownership Plan shares	292	—	—	—	292
Common shares issued for directors' fees	108	—	—	—	108
Income tax benefit from stock options	328	—	—	—	328
Changes in operating assets and liabilities, excluding effects of acquisitions:					
Equity in earnings of subsidiaries	(12,747)	—	—	12,747	—
Intercompany	(3,240)	17	3,223	—	—
Accounts receivable	(1,253)	(3,030)	1,080	—	(3,203)
Inventories	(2,691)	3,653	444	—	1,406
Prepayments and other assets	5,150	(1,111)	(7)	—	4,032
Contribution to defined benefit pension plan	(5,000)	—	—	—	(5,000)
Accounts payable, accrued liabilities and other	10,328	(15,369)	(361)	—	(5,402)
Contract advances and deposits	(6,547)	(5,535)	—	—	(12,082)
Cash provided by continuing operations	11,249	629	5,696	—	17,574
Net cash provided by discontinued operations	79	—	—	—	79
Investing Activities:					
Purchase of plant and equipment	(4,079)	(4,258)	(528)	—	(8,865)
Proceeds from sale of property, plant and Equipment	21,304	—	—	—	21,304
Payments received on notes receivable	300	1,085	—	—	1,385
Restricted cash	27,347	—	—	—	27,347
Cash paid for acquisitions, net of cash acquired	(92,854)	(1,334)	—	—	(94,188)
Cash used by investing activities	(47,982)	(4,507)	(528)	—	(53,017)
Financing Activities:					
Proceeds from exercise of stock options	268	—	—	—	268
Proceeds from management group receivables	242	—	—	—	242
Repayments of acquired debt	(8,660)	—	—	—	(8,660)
Payment of common share cash dividends	(2,367)	—	—	—	(2,367)
Cash used by financing activities	(10,517)	—	—	—	(10,517)
Net (decrease) increase in cash and cash equivalents	(47,171)	(3,878)	5,168	—	(45,881)
Cash and cash equivalents at beginning of year	121,005	11,508	—	—	132,513
Cash and cash equivalents at end of year	$ 73,834	$ 7,630	$5,168	$ —	$ 86,632

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
EDO Corporation Inc.

We have audited the accompanying consolidated balance sheets of EDO Corporation Inc. and Subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EDO Corporation Inc. at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY
February 24, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
EDO Corporation.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that EDO Corporation and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). EDO Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Nexgen, Fiber Innovations and EVI (the "acquisitions") which are included in the 2005 consolidated financial statements of EDO Corporation and Subsidiaries and constituted $87.4 million and $7.7 million of total and net assets, respectively, as of December 31, 2005 and $22.7 million of net sales for the year then ended. Our audit of internal control over financial reporting of EDO Corporation Inc. also did not include an evaluation of the internal controls over financial reporting of the acquisitions.

In our opinion, management's assessment that EDO Corporation and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, EDO Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of EDO Corporation Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005 and our report dated February 24, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY
February 24, 2006

QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table sets forth unaudited quarterly financial information for 2005 and 2004 (in thousands, except per share amounts).

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2005	2004	2005	2004	2005	2004	2005	2004
Net sales	$116,508	$110,877	$156,112	$126,290	$175,884	$129,875	$199,978	$169,131
Earnings	2,908	3,857	6,089	4,176	9,841	6,874	7,431	14,161
Earnings per share:								
Basic:	0.16	0.22	0.34	0.24	0.54	0.39	0.41	0.79
Earnings — Basic	0.16	0.22	0.34	0.24	0.54	0.39	0.41	0.79
Diluted:								
Earnings — Diluted	0.16	0.22	0.31	0.23	0.48	0.35	0.38	0.68

Item 9. ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K the Company carried out an evaluation, under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Financial Officer, as well as members of the Board of Directors, of the effectiveness of the design and operation of the Company's disclosure controls and procedures.

The Company's conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the acquisitions in 2005 of Nexgen Communications LLC, Fiber Innovations, Inc. and EVI Technology, LLC, (the "acquisitions") which are included in the 2005 consolidated financial statements of EDO Corporation and Subsidiaries.

Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in EDO's internal controls over financial reporting during EDO's last fiscal quarter that have materially affected, or likely to materially affect internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. We have excluded from this assessment the operations of EVI, Fiber Innovations and NexGen. These businesses were acquired during 2005 and constituted $87.4 million and $7.7 million of total and net assets, respectively, as of December 31, 2005 and $22.7 million of net sales for the year then ended. Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst and Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Item 9B. ***Other Information***

None.

PART III

Item 10. *Directors and Executive Officers*

The information called for by Item 10 (except to the extent set forth in this Item) is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Shareholders anticipated to be held on April 25, 2006.

EXECUTIVE OFFICERS

Name	Age	Position, Term of Office and Prior Positions
James M. Smith	64	Chairman of the Board (since May 2002) President and Chief Executive Officer (since April 2000).
Jon A. Anderson	63	Senior Vice President, Washington Operations (since October 2005); prior thereto, Vice President, Washington Operations (since April 2001); previously Director of Government Relations and Washington Regional Manager of AIL Systems, Inc.
Frederic B. Bassett	59	Senior Vice President-Finance, (since October 2005) Chief Financial Officer and Treasurer (since January 2003); prior thereto, he was Vice President (since September 2002). From December 2000-July 2002 he was Vice President, Treasurer and Chief Financial Officer of Condor Systems, Inc. Prior thereto, he was U.S. Operations Controller for the Howmet Division of Alcoa.
Patricia D. Comiskey	55	Senior Vice President-Human Resources (since October 2005) and Assistant Secretary; prior thereto, she was Vice President-Human Resources (since June 2001) and Assistant Secretary (since September 2000). Previously, she was Director — Corporate Human Resources.
George Fox	63	Vice President — Electronic Systems Group (since May 2000).
Milo Hyde	52	Vice President — Systems & Analysis Group (since April 2000).
Frank Otto	56	Senior Vice President, Strategic Development (since March 2005); prior thereto, Executive Vice President (since September 2002) and Chief Operating Officer (since February 2004); prior thereto, he was Vice President — Integrated Systems and Structures Group (since January 2001).
Lisa M. Palumbo	47	Senior Vice President, General Counsel and Secretary (since October 2005); prior thereto, Vice President, General Counsel and Assistant Secretary (since April 2002). Previously, she was Senior Vice President, General Counsel and Secretary of Moore Corporation Ltd. (from March to September 2001), and prior thereto, Vice President and General Counsel of Rayonier, Inc.

Each officer is either elected by the board of directors or, as provided in our By-Laws, appointed by the Chief Executive Officer and holds office until the first meeting of the board following the next succeeding annual meeting of shareholders, and thereafter until a successor is appointed and qualified, unless the executive officer dies, is disqualified, resigns or is removed in accordance with our By-Laws.

Item 11. ***Executive Compensation***

The information called for by Item 11 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Shareholders anticipated to be held on April 25, 2006.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information called for by Item 12 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Shareholders anticipated to be held on April 25, 2006.

Item 13. ***Certain Relationships and Related Transactions***

The information called for by Item 13 is incorporated in this Report by reference to the Company's definitive proxy statement relating to the Annual Meeting of Shareholders anticipated to be held on April 25, 2006.

Item 14. ***Principal Accountant Fees and Services***

Information appearing under the captions "Fees to Independent Registered Public Accountants for fiscal 2005 and 2004" in the 2006 Proxy Statement is hereby incorporated by reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) Financial Statements and Financial Statement Schedules and Exhibits

1. Financial Statements.

Consolidated Balance Sheets as of December 31, 2005 and 2004

Consolidated Statements of Earnings for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

Report of Ernst & Young LLP

2. Financial Statement Schedules.

See Schedule II — Valuation and Qualifying Accounts below. All other schedules have been omitted because they are not applicable.

Schedule II — Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Net Write-offs/ Deductions	Balance at End of Period
			(In thousands)		
Year ended December 31, 2005:					
Allowance for doubtful accounts	$ 616	823	0	(469)	$ 970
Year ended December 31, 2004:					
Allowance for doubtful accounts	$1,359	0	0	(743)	$ 616
Year ended December 31, 2003:					
Allowance for doubtful accounts	$1,023	568	216(a)	(448)	$1,359

(a) Amounts acquired as a result of purchase of Emblem Group Ltd. on June 16, 2003, Darlington, Inc. on March 10, 2003, and Advanced Engineering & Research Associates, Inc. on February 5, 2003.

3. Exhibits

Exhibit Number	Exhibit
2(a)	Amended and Restated Asset Purchase Agreement and Amendment 1 thereto, dated as of May 31, 2002, between EDO Acquisition IV Inc., a wholly-owned subsidiary of the Company, as Buyer and Condor Systems Inc. and CEI Systems, Inc. as Seller (incorporated herein by reference to the Company's Current Report on Form 8-K dated July 26, 2002, Exhibits 2.1 and 2.2).
2(b)	Stock Purchase Agreement, dated as of February 5, 2003, between EDO Professional Services Inc, a wholly-owned subsidiary of the Company, as Buyer and four individuals as Sellers (incorporated herein by reference to the Company's Current Report on Form 8-K dated February 5, 2003, Exhibit 2.1).
2(c)	Stock Purchase Agreement, dated as of March 10, 2003, by the Company, as Buyer, and three individuals as Sellers (incorporated by reference to the Company's Current Report on Form 8-K dated March 10, 2003, Exhibit 2.1).
3(a)	Restated Certificate of Incorporation of the Company as amended May 10, 2004 (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 26, 2004 Exhibit 3(a)(2)).
3(b)	By-Laws of the Company as amended October 26, 2004 (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 25, 2004 Exhibit 3(b)).
4(a)	Form of 4.0% Convertible Senior Subordinate Notes due 2025 (incorporated herein by reference to the Company's Current Report on Form 8-K, dated November 21, 2005 Exhibit 4(g)).
4(b)	Indenture, dated as of November 21, 2005, by and between the Company and HSBC Bank, USA, as trustee (incorporated herein by reference to the Company's Current Report on Form 8-K, dated November 21, 2005, Exhibit 4(e)).
4(b)(1)	First Supplemental Indenture, dated as of November 21, 2005, by and between the Company and HSBC Bank, USA, as trustee (incorporated herein by reference to the Company's Current Report on Form 8-K, dated November 21, 2005, Exhibit 4(f)).
10(a)	Credit Agreement, dated as of November 4, 2005, by and among the Company, Citicorp U.S.A, Inc., Wachovia Bank, N.A. and Bank of America, N.A., et al. (incorporated herein by reference to the Company's Current Report on Form 8-K, dated November 10, 2005, Exhibit 10(a)(6)).
10(b)	EDO Corporation 1996 Long-Term Incentive Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, Exhibit 10(a)).

Exhibit Number	Exhibit
10(c)	EDO Corporation 2002 Long-Term Incentive Plan as amended January 1, 2004 (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, Exhibit 10(c)).
10(d)	Executive Life Insurance Plan Agreements, as amended through January 23, 1990, between the Company and 28 employees and retirees (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, Exhibit 10(g)).
10(e)	Form of Directors' and Officers' Indemnity Agreements between the Company and 20 current Company directors and officers (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, Exhibit 10(d)).
10(f)	EDO Corporation Nonqualified Deferred Compensation Plan I effective January 1, 2004 (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 27, 2004, Exhibit 10(b)).
10(f)(1)	EDO Corporation Nonqualified Deferred Compensation Plan II effective January 1, 2004 (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 27, 2004, Exhibit 10(c)).
10(g)	EDO Corporation 1997 Non-Employee Director Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, File No. 333-77865, dated May 6, 1999).
10(h)	EDO Corporation 2002 Non-Employee Director Stock Option Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10(h)).
10(i)	EDO Corporation Compensation Plan for Directors (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, Exhibit 10(g)).
10(j)	Supplemental Executive Retirement Plan, dated July 1, 2001 (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10(i)).
10(k)	Amended and Restated Employment Agreement, dated as of October 1, 2004, by and between EDO Corporation and James M. Smith (incorporated herein by reference to the Company's Current Report on Form 8-K dated October 28, 2004, Exhibit 10).
10(l)	Change in Control Agreement dated March 3, 2003 between the Company and Frederic B. Bassett (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10(l)).
10(m)	Change in Control Agreement dated March 21, 2003 between the Company and Patricia D. Comiskey (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10(m)).
10(n)	Change in Control Agreement dated March 25, 2003 between the Company and George P. Fox, Jr. (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10(n)).
10(o)	Change in Control Agreement dated July 8, 2003 between the Company and Jon A. Anderson (incorporated herein by reference to the Company's Current Report on Form 8-K, dated February 1, 2006 Exhibit 10(b)).
10(p)	Change in Control Agreement dated March 22, 2003 between the Company and Milo Hyde (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10(p)).
10(q)	Change in Control Agreement dated March 26, 2003 between the Company and Frank W. Otto (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10(r)).
10(r)	Change in Control Agreement dated May 1, 2003 between the Company and Lisa M. Palumbo (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Exhibit 10(s)).

Exhibit Number	Exhibit
10(s)	Form of Amendment to the Change in Control Agreement (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10(s)).
10(s)(1)	Form of Amendment to the Change in Control Agreement (incorporated herein by reference to the Company's Current Report on Form 8-K, dated February 1, 2006, Exhibit 10(a)).
10(t)(1)	2004 Restricted Share and Retention Incentive Award Agreement between the Company and Frederic B. Bassett (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10(t)(1)).
10(t)(2)	2004 Restricted Share and Retention Incentive Award Agreement between the Company and Patricia D. Comiskey (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10(t)(2)).
10(t)(4)	2004 Restricted Share and Retention Incentive Award Agreement between the Company and Frank W. Otto (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10(t)(4)).
10(t)(5)	2004 Restricted Share and Retention Incentive Award Agreement between the Company and Lisa M. Palumbo (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10(t)(5)).
10(u)	Form of 2003 Stock Option Agreement (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, Exhibit 10(v)).
10(v)	Consent Decree, entered on November 25, 1992, amongst the United States, the Company, Plessey, Inc., Vernitron Corporation and Pitney Bowes, Inc. Incorporated by reference to Exhibit 10(e) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.
10(w)	Agreement for Sale of Deer Park facility dated July 31, 2003 (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, Exhibit 10(w)).
10(x)*	EDO Corporation Share Incentive Plan, dated July 6, 2005.
10(y)	EDO Corporation 2004 Non-Employee Director Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, File No. 333-129353, dated November 1, 2005).
14	EDO Corporation Standards Ethical Business Conduct for all EDO Employees (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, Exhibit 14).
21*	List of Subsidiaries.
23*	Consent of Independent Registered Public Accounting Firm.
24*	Powers of Attorney (included on the signature page).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

(b) Reports on 8-K

The following reports on 8-K were filed during the three months ended on December 31, 2005:

Date of Report	Items Reported
October 27, 2005	Earnings Release dated October 27, 2005, announcing financial results for the quarter ended September 24, 2005.
November 10, 2005	Entered into a $300 million credit facility by and among the Company, Citigroup USA, Wachovia Bank and Bank of America, N.A.
November 14, 2005	In connection with the filing of a prospectus supplement, the Company is updating certain risk factors affecting its business and securities.
November 15, 2005	On November 15, 2005, EDO Corporation (the "Company") entered into an Underwriting Agreement (the "Underwriting Agreement"), by and among the Company and Citigroup Global Markets Inc., acting for itself and as representative of Wachovia Capital Markets, LLC (the "Underwriters") in connection with the proposed underwritten public offering of $175 million principal amount of 4.0% Convertible Subordinated Notes due 2025 (the "Notes"). The Underwriters have an option to purchase up to an additional $26.25 million principal amount of the Notes to cover over-allotments.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, its principal executive officer and principal financial officer, thereunto duly authorized.

EDO Corporation (Registrant)

By: /s/ James M. Smith

James M. Smith
President and Chief Executive Officer

/s/ Frederic B. Bassett

Frederic B. Bassett
Sr. Vice President — Finance,
Treasurer and Chief Financial Officer

Dated: March 1, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James M. Smith and Lisa M. Palumbo, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to the Annual Report on Form 10-K for the Company's 2005 fiscal year, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or their or his substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 20, 2006 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
/s/ James M. Smith (James M. Smith)	Chairman, President, Chief Executive Officer and Director (principal executive officer)
/s/ Robert E. Allen (Robert E. Allen)	Director
/s/ Robert Alvine (Robert Alvine)	Director
/s/ Dennis C. Blair (Dennis C. Blair)	Director

Signature	Title
/s/ ROBERT M. HANISEE (Robert M. Hanisee)	Director
/s/ MICHAEL J. HEGARTY (Michael J. Hegarty)	Director
/s/ LESLIE F. KENNE (Leslie F. Kenne)	Director
/s/ PAUL J. KERN (Paul J. Kern)	Director
/s/ RONALD L. LEACH (Ronald L. Leach)	Director
/s/ JAMES ROTH (James Roth)	Director
/s/ ROBERT S. TYRER (Robert S. Tyrer)	Director
/s/ ROBERT WALMSLEY (Robert Walmsley)	Director

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Phone: (212)924-5500 Operator: BNY99999T Date: 3-MAR-2006 09:21:30.77
Name: EDO CORPORATION (B) Validation: Y Lines: 21 BNY Y17970 723.17.00.00 0/3
[E/O] CRC: 64556
Queue: BNY_CPS
Description: Exhibit 10 (x)

Exhibit 10(x)

TRUST DEED AND RULES

OF THE

EDO CORPORATION SHARE INCENTIVE PLAN

DATED
6TH JULY 2005

APPROVED BY THE
INLAND REVENUE ON
______________2005

under reference A1978/SY

pp003 - SIP Deed Rules FINAL Clean

TRUST DEED AND
RULES OF THE
EDO CORPORATION SHARE INCENTIVE PLAN

TRUST DEED AND RULES

TRUST DEED AND RULES

<TABLE>

</TABLE>

TRUST DEED

THIS TRUST DEED is made the 6th day of July 2005

BETWEEN

(1) EDO Corporation whose registered office is at 60 East 42nd Street, 42nd Floor, New York, NY 10165 ('the Company');

(2) Killik & Co Trustees Limited (registered no: 3929253) whose registered office is at 46 Grosvenor Street, London, W1K 3HN ('the Trustees')

together the 'Original Parties'

WHEREAS

(A) The Company wishes to establish an employee share ownership plan approved in accordance with the provisions of Schedule 2 to ITEPA.

(B) The Plan shall constitute an employees' share scheme as that term is defined in Section 743 of the Companies Act 1985 for the provision by the Company of funds for the acquisition by the Trustees of Shares or any shares representing the same.

[SEAL]

(C) The Trustees have agreed to be the first trustees of the Plan.

NOW THIS DEED WITNESSETH as follows:

1. DEFINITIONS AND INTERPRETATION

The words and expressions used in this Deed shall where the context permits, have the meaning set out in Rule 1 to Schedule 1 to this Deed.

2. OBJECT OF THE TRUST

The purpose of this Deed is to establish a trust for the Plan that satisfies Schedule 2 to ITEPA.

3. THE PLAN

The Plan consists of this Deed and the attached Schedules and Appendices. The definitions in the Rules apply to this Deed. The Company from time to time determines which of parts A to D of the Rules shall have effect. Where the Company determines that part B shall have effect it shall also specify whether there is to be an Accumulation Period of up to twelve months, which shall apply equally to all Qualifying Employees in the Plan.

4. DECLARATION OF TRUST

4.1 The Company and the Trustees have agreed that all the Shares and other assets that are issued to or transferred to the Trustees are to be held on the trusts declared by this Deed, and subject to the terms of the Rules. When Shares or assets are transferred to the Trustees by the Company with the intention of being held as part of the Plan they shall be held upon the trusts and provisions of this Deed and the Rules.

4.2 The Trustees shall hold the Trust Fund upon the following trusts namely:

(a) as to Unawarded Shares to allocate those Shares in accordance with the terms of this Deed and the Rules,

(b) as to Shares which have been awarded to a Participant upon trust for the benefit of that Participant on the terms and conditions set out in the Rules,

(c) as to Partnership Share Money upon trust to acquire Shares for the benefit of the contributing Qualifying Employee in accordance with the Rules or to appropriate Unawarded Shares to such Qualifying Employee, and

(d) as to Surplus Assets upon trust to use them to acquire further Shares to be held on the trusts declared in (a) above, at such time during the Trust Period and on such terms as the Trustees in their absolute discretion think fit.

4.3 The income of Unawarded Shares and Surplus Assets shall be accumulated by the Trustees and added to, and held upon the trusts applying to, Surplus Assets.

4.4 The income of Plan Shares and Partnership Share Money shall be dealt with in accordance with the Rules.

4.5 The perpetuity period in respect of the trusts and powers declared by this Deed and the Rules shall be the period of eighty years from the date of this Deed.

5. NUMBER OF TRUSTEES

Unless a corporate Trustee is appointed, there shall always be at least two Trustees. Where there is no corporate Trustee, and the number of Trustees falls below two, the continuing Trustee has the power to act only to achieve the appointment of a new Trustee.

6. INFORMATION

The Trustees shall be entitled to rely without further enquiry on all information supplied to them by the Company and Participating Companies for the purposes of the Plan. In particular, but without prejudice to the generality of the foregoing, any notice given by the Company or a Participating Company to the Trustees in respect of the eligibility of any person to become or remain a Participant in the Plan shall be conclusive in favour of the Trustees.

7. RESIDENCE OF TRUSTEES

At all times the Trustees shall be a body of persons resident in the UK pursuant to paragraph 71(1) of Schedule 2. The Company shall immediately remove any Trustee who ceases to be so resident and, if necessary, appoint a replacement.

8. CHANGE OF TRUSTEES

The Company has the power to appoint or remove any Trustee for any reason, the Company shall execute a deed to effect the change of Trustee. Any Trustee may resign on one month's notice given in writing to the Company, provided that there will be at least two Trustees or a corporate Trustee immediately after the retirement.

9. INVESTMENT AND DEALING WITH TRUST ASSETS

(a) Save as otherwise provided for by the Plan the Trustees shall not sell or otherwise dispose of Plan Shares.

(b) The Trustees shall obey any directions given by a Participant in accordance with the Rules in relation to his Plan Shares and any rights and income relating to those Shares. In the absence of any such direction, or provision by the Plan, the Trustees shall take no action.

(c) The Company and the Participating Companies shall, as soon as practicable after deduction from Salary, pass the Partnership Share Money to the Trustees who will put the money into an account with:

(i) a person falling within section 840A(l)(b) of ICTA 1988;

(ii) a building society; or

(iii) an institution falling within section 840A(l)(c) of ICTA 1988,

until it is either used to acquire Partnership Shares (or appropriate Unawarded Shares) on the Acquisition Date, or, in accordance with the Plan, returned to the individual from whose Salary the Partnership Share Money has been deducted.

(d) The Trustees shall pass on any interest arising on this invested money to the individual from whose Salary the Partnership Share Money has been deducted.

(e) The Trustees may either retain or sell Unawarded Shares at their absolute discretion. The proceeds of any sale of Unawarded Shares shall form part of Surplus Assets.

(f) The Trustees shall have all the powers of investment of a beneficial owner in relation to Surplus Assets.

(g) The Trustees shall be under no duty to invest Surplus Assets.

(h) The Trustees shall not be under any liability to the Participating Companies or to current or former Qualifying Employees by reason of a failure to diversify investments, which results from the retention of Plan or Unawarded Shares.

(i) The Trustees may allow any Shares to be registered in the name of an appointed nominee provided that such Shares shall be registered in a designated account. Such registration shall not divest the Trustees of their responsibilities under this Deed or Schedule 2.

(j) The Trustees may at any time, and shall if the Company so directs, revoke any delegation made under this Clause or require any Plan assets held by another person to be returned to the Trustees, or both.

(k) The Trustees may place the documents of title to any securities for the time being in its possession that relate to the Plan or the trusts hereof in any bank or safe deposit. At any time when there is more than one Trustee, the Trustees shall be entitled to procure that any one or more of them may be registered as proprietor of any property held by them upon the trusts of this deed.

(l) Notwithstanding any of the clauses within this Deed, the Schedule to this Deed or any other agreements governing the operation of the Plan, and to the extent permissible under any applicable law, the Trustee and any Participant may acquire, deal with or dispose of a fraction of a Share provided that any such acquisition, dealing or disposal is in all other respects in accordance with this Deed and the Plan and any reference in this Deed to a right or entitlement, liability of obligation in relation to a Share shall be construed as including, without limitation, a reference to an equivalent right, entitlement, liability or obligation in relation to a fraction of a Share.

10. LOANS TO TRUSTEES

The Trustees shall have the power to borrow money for the purpose of:

(a) acquiring Shares; and

(b) paying any other expenses properly incurred by the Trustees in administering the Plan,

on such terms as it thinks fit.

11. SHARES FROM QUALIFYING SHARE OWNERSHIP TRUSTS

Where Shares are transferred to the Trustees by a qualifying transfer in accordance with paragraph 78(1) of Schedule 2, they shall award such Shares only as Free and Matching Shares, and in priority to other available Shares.

12. TRUSTEES’ OBLIGATIONS UNDER THE PLAN

NOTICE OF AWARD OF FREE AND MATCHING SHARES

12.1 As soon as practicable after Free and Matching Shares have been awarded to a Participant, the Trustees shall give the Participant a notice stating:

(a) the number and description of those Shares;

(b) their Initial Market Value on the Award Date; and

(c) the Holding Period applicable to them.

NOTICE OF AWARD OF PARTNERSHIP SHARES

12.2 As soon as practicable after any Partnership Shares have been awarded to a Participant, the Trustees shall give the Participant a notice stating:

(a) the number and description of those Shares;

(b) the amount of money applied by the Trustees in acquiring those Shares on behalf of the Participant; and

(c) the Market Value at the Acquisition Date.

NOTICE OF DIVIDEND SHARES

12.3 As soon as practicable after Dividend Shares have been acquired on behalf of a Participant, the Trustees shall give the Participant a notice stating:

(a) the number and description of those Shares;

(b) their Market Value on the Acquisition Date;

(c) the Holding Period applicable to them; and

(d) any amount not reinvested and carried forward for acquisition of further Dividend Shares.

MAINTENANCE OF TRUST RECORDS

12.4 The Trustees shall maintain proper records and in particular:

(a) The Trustees shall make proper arrangements for the preparation and preservation of all necessary accounts (including the accounts of individual employees) records and other documents necessary to carry out their obligations concerning the proper administration of the Plan. The Participating Companies hereby undertake to make available to the Trustees all facilities and information necessary to ensure that full compliance is made with the provisions of the Plan.

(b) For the purposes of Rules 5.3 - 5.5, the Trustees shall maintain records of any Participant who in any Tax Year has been awarded shares under another plan approved under Schedule 2 and established by the Company or a Connected Company.

(c) Without limitation to the generality of the foregoing the Trustees shall maintain such records as may be necessary for the purposes of their own PAYE and NIC obligations or the PAYE and NIC obligations of the Employer Company (being the company of which the Participant is an employee at the time when any Plan Shares to which the Participant is entitled cease to be subject to the Plan and to whom the PAYE regulations, within the meaning of section 685 of ITEPA, at that time apply).

(d) The Trustees shall submit to the Company such reports or other information as it may reasonably require for ensuring that the Plan is properly administered. Without prejudice to the generality of the foregoing, the Trustees shall submit to the Company copies of all documents including the annual returns which have been supplied to the Board of Inland Revenue.

(e) The Company and its proper officers shall at all times be entitled on service of proper notice to inspect all accounts documents and records whatsoever maintained by the Trustees for the purposes of the Plan. The Company may at any time and at its absolute discretion audit or cause to be audited those accounts documents and records.

13. RESTRICTIONS DURING THE HOLDING PERIOD

13.1 During the Holding Period the Trustees shall not dispose of any Free, Matching or Dividend Shares (whether by transfer to the employee or otherwise) unless the Participant has at that point ceased to be in Relevant Employment except as allowed by the following paragraphs of Schedule 2:

(a) paragraph 37(1) (power of Trustees to accept general offers etc.);

(b) paragraph 77(1) (power of Trustees to raise funds to subscribe for rights issue);

(c) paragraph 79(1) (meeting PAYE obligations); and

(d) paragraph 90(5) (termination of plan: early removal of Shares with participant's consent).

PAYE LIABILITY ETC.

13.2 This Rule applies where the Trustees become liable to account for PAYE.

(a) The Trustees may dispose of a Participant's Shares or accept a sum from the Participant in order to meet any PAYE liability as a result of a Participant's Shares ceasing to be subject to the Plan, including a liability arising in the circumstances provided in Sections 510 to 512 ITEPA (PAYE: Payment by Trustees to employer company on Shares ceasing to be subject to the plan).

(b) Where the Trustees receive a sum of money which constitutes a Capital Receipt in respect of which a Participant is chargeable to income tax under ITEPA, the Trustees shall pay to the employer a sum equal to that on which income tax is so payable.

(c) The Trustees shall maintain the records necessary to enable them to carry out their PAYE obligations, and the PAYE obligations of the employer company so far as they relate to the Plan.

(d) Where the Participant becomes liable to income tax under ITEPA, or Case V of Schedule D, or Schedule F, the Trustees shall inform the Participant of any facts that are relevant to determining that liability.

MONEY'S WORTH RECEIVED BY TRUSTEES

13.3 The Trustees shall pay over to the Participant as soon as is practicable, any money or money's worth received by them in respect of or by reference to any Shares, other than money's worth consisting of new shares within paragraph 87 of Schedule 2 ('Company Reconstructions').

This is subject to:

(e) the provisions of paragraph 62 of Schedule 2 (dividend reinvestment);

(f) the Trustees obligations under paragraphs 510 to 514 ITEPA (PAYE: Shares ceasing to be subject to the Plan, and obligations to make payments to employer etc); and

(g) the Trustees' PAYE obligations.

GENERAL OFFERS ETC.

13.4 If any offer, compromise, arrangement or scheme is made which affects the Free Shares or Matching Shares the Trustees shall notify Participants. Each Participant may direct how the Trustees shall act in relation to that Participant's Plan Shares. In the absence of any direction, the Trustees shall take no action.

14. POWER OF TRUSTEES TO RAISE FUNDS TO SUBSCRIBE FOR A RIGHTS ISSUE

If instructed by Participants in respect of their Plan Shares the Trustees may dispose of some of the Rights under a rights issue arising from those Shares to obtain enough funds to exercise the remaining Rights. The Rights referred to are rights to acquire additional shares or rights in the same company.

15. POWER TO AGREE MARKET VALUE SHARES

Where the Market Value of Shares falls to be determined for the purposes of Schedule 2, the Trustees may agree with the Inland Revenue that it shall be determined by reference to such date or dates, or to an average of the values on a number of dates, as specified in the agreement.

16. PERSONAL INTEREST OF TRUSTEES

16.1 Trustees, and directors, officers or employees of a corporate Trustee, shall not be liable to account for any benefit accruing to them by virtue of their:

(a) participation in the Plan as a Qualifying Employee;

(b) ownership, in a beneficial or fiduciary capacity, of any shares or other securities in any Participating Company;

(c) being a director or employee of any Participating Company, being a creditor, or being in any other contractual relationship with any such Company.

PERMITTED DEALINGS OF TRUSTEES

16.2 A Trustee and any director or other officer of a company acting as Trustee shall not be precluded from acquiring holding or dealing with any debentures, debenture stock shares or securities whatsoever of any Participating Company or any other company in which the Trustees may be interested. Such a person shall not be precluded from making any contract or other transaction with any Participating Company or any such other company. Such a person shall not be in any way liable to account to any Participant, any Participating Company, or such other company for any profits made or benefits obtained in connection therewith.

17. ADMINISTRATION OF THE TRUST

17.1 (a) A Trustee being a company may in its capacity as a Trustee hereof act by its officers and may by such officers have and exercise all powers trusts and discretion vested in it hereunder.

(b) The Trustees may employ and act on the advice or opinion of any solicitor, broker, actuary, accountant or other professional or business person whether such advice was obtained by the Trustees or by the Company and shall not be responsible for any loss occasioned by its so acting, the Company shall meet the expenses of such advice or opinions to the extent that it, in its sole discretion, considers such expenses reasonable.

(c) The Trustees may employ on such terms as the Company may agree as to remuneration any agent or agents to transact all or any business of whatsoever nature required to be done in the proper administration of the trusts powers and provisions hereof.

17.2 The Trustees shall hold meetings as often as is necessary for the administration of the Plan. There shall be at least two Trustees present at a meeting, except where the sole Trustee is a corporate Trustee, and the Trustees shall give due notice to all the Trustees of such a meeting. Decisions made at such a meeting by a majority of the Trustees present shall be binding on all the Trustees. A written resolution signed by all the Trustees shall have the same effect as a resolution passed at a meeting.

18. NOTICE OF ANY FOREIGN TAX DEDUCTED BEFORE DIVIDEND PAID

Where any foreign cash dividend is received in respect of Plan Shares held on behalf of a Participant, the Trustees shall give the Participant notice of the amount of any foreign tax deducted from the dividend before it was paid.

19. SUBSIDIARY COMPANIES

19.1 Any Subsidiary may with the agreement of the Company become a Participating Company by executing a Deed of Adherence agreeing to be bound by the Deed and Rules, in the form of Appendix 1 hereto or in such other form as agreed in advance with the Board of the Inland Revenue. However, any Subsidiary that is an Original Party to this Deed shall be a Participating Company and shall not be required to execute a deed of adherence.

19.2 Any company, which ceases to be a Subsidiary, shall cease to be a Participating Company.

19.3 The Plan shall cease to apply to any Participating Company, other than the Company, upon issue of a written notice by the Company to the Trustees that the relevant Company shall cease to be a Participating Company.

20. DUTIES OF PARTICIPATING COMPANIES

20.1 If and so long as any company is a Participating Company it shall:

(a) contribute and pay to the Trustees such sums as are required by the Trustees to acquire such Plan Shares as may be necessary or required for the purpose of discharging the Trustees' duties and obligations under the Plan together with that proportion of the sums required to meet the reasonable expenses of the Trustees in operating and administering the Plan in respect of the Qualifying Employees of that Participating Company;

(b) provide the Trustees with all information reasonably required from it for the purposes of the administration and operation of the Plan in such form as the Trustees may reasonably require; and

(c) at all times comply with the Rules.

20.2 Any company, which ceases to be a Participating Company, shall remain liable to meet its fair proportion of the expenses of the Trustees in respect of any period whether or not arising while it was a Participating Company.

20.3 The rights of Participants employed by any company which ceases to be a Participating Company in relation to Plan Shares Awarded to them whilst that Company was a Participating Company shall not be affected.

21. EXPENSES OF PLAN

The Participating Companies shall meet the costs of the preparation and administration of this Plan.

22. TRUSTEES' LIABILITY AND INDEMNITY

22.1 INDEMNITY FOR TRUSTEE: Subject to clause 22.2, the Participating Companies jointly and severally covenant with the Trustee that they shall keep the Trustee indemnified against any actions, claims and demands arising out of anything lawfully done or caused to be done by the Trustee unless such actions, claims and demands shall be attributable to the fraud or dishonesty of the Trustee (or to the negligence of any professional trustee) in the exercise of the powers and discretions vested in them by this Deed or otherwise arising out of or in connection with this Deed. In addition, the Trustee shall have the benefit of all indemnities conferred upon trustees generally by law and by the Trustee Act 1925 (as modified by statute or re-enacted); and

22.2 PROTECTIONS AGAINST ACTS OF OTHERS: Every Trustee not being a professional corporate trustee or individual Trustee engaged in the business of providing trustee services for a fee is answerable only for losses arising from his own fraud or wilful default and it not answerable for any act, neglect or default of his co-Trustees or co-Trustee.

22.3 The Trustee is not liable for any neglect or default of any Solicitor, accountant, banker, valuer, or other agent employed/appointed by the Trustees.

22.4 Any Trustee, who for the purposes of the Plan:

22.4.1 pays or transfers to his co-Trustee or Trustees; or

22.4.2 does any act or thing, or makes any omission in relation to:

any monies or other property, is not bound to see to their due application and will not be subsequently rendered liable by any express notice of the misapplication of any monies or property.

22.5 A non-remunerated Trustee may insure the Plan out of the Trust Fund against any loss caused by him or any of his employees, officers, agents or delegates.

23. TRUSTEES POWER OF DELEGATION

23.1 The Trustees may, to the extent permitted by law, delegate any of their powers and duties under the Plan to any person or company. No delegation made under this Clause shall divest the Trustees of their responsibilities under this Deed or under Schedule 2.

23.2 The Trustees may execute and may authorise any of their directors, officers or employees to execute on their behalf any documents in such manner as may be appropriate and not being inconsistent with the terms of the Plan.

24. REMUNERATION OF TRUSTEES

24.1 Any individual Trustee shall be entitled to receive and retain as remuneration for his services hereunder such sum or sums as a Participating Company may from time to time resolve to pay to him therefore notwithstanding that he is also an officer or employee of a Participating Company. Such a person shall not be disqualified from voting or taking part in any decision of the Trustees on any matter by virtue of any personal or beneficial interest (actual or prospective) therein.

24.2 Any Trustee being a solicitor, broker, actuary, accountant, or other person engaged in any profession or business shall be entitled to be paid all usual professional or proper charges for business transacted time expended and acts done by him or by any employee or partner of his firm in connection with the Plan including acts which a Trustee not being in any profession or business could have done personally.

24.3 Any Trustee being a company may charge and be paid such reasonable remuneration or charges as shall from time to time be agreed in writing between the Company and such company. Any such company (being a bank) shall be entitled, subject to the written consent of the Company, to act as banker and perform any services in relation to the Plan on no less favourable terms than would be made with a customer in the ordinary course of its business as a banker without accounting for any resultant profit including, without prejudice to the generality of the foregoing clause, retention of its customary share of brokerage commission.

24.4 Any Trustee may be employed by or be appointed an officer of the Company or any Subsidiary and shall be entitled to keep for his benefit such fees perquisites and remuneration as he may receive by virtue of such position without having to account therefore and whether or not his position might be by virtue of the fact that he is a Trustee.

25. ACCEPTANCE OF GIFTS

The Trustees may accept gifts of Shares and other assets, which shall be held upon the trusts declared by this Deed.

26. TRUSTEES' LIEN

The Trustees' lien over the Trust Fund in respect of liabilities incurred by them in the performance of their duties (including the repayment of borrowed money and tax liabilities) shall be enforceable subject to the following restrictions:

(a) the Trustees shall not be entitled to resort to Partnership Share Money for the satisfaction of any of their liabilities; and

(b) the Trustees shall not be entitled to resort to Plan Shares for the satisfaction of their liabilities except to the extent that this is permitted by the Plan.

27. AMENDMENTS TO THE PLAN

The Company may, with the Trustees' written consent, from time to time amend the Plan provided that

(a) The Company may not make any amendment that would adversely prejudice to a material extent the rights attaching to any Plan Shares awarded to or acquired by Participants.

(b) The Company may not make any alteration that would give to Participating Companies a beneficial interest in Plan Shares.

(c) If the Plan is approved by the Inland Revenue at the time of an amendment or addition, any amendment or addition to a "key feature" (as defined in paragraph 84(6) of Schedule 2) of the Plan shall not have effect unless and until the approval of the Inland Revenue has been obtained.

28. SUSPENSION OF THE PLAN

The Company may at any time resolve to suspend the operation of the Plan. Any decision to suspend the operation of the Plan will not affect the subsisting rights of Participants.

29. TERMINATION OF THE PLAN

29.1 The Plan shall terminate on the earliest of:

(a) the date on which the Plan is declared to terminate by a Plan Termination Notice issued by the Company to the Trustees under paragraph 89 of Schedule 2, or

(b) if earlier, the expiry of the Trust Period.

29.2 The Company shall without delay upon executing a Plan Termination Notice provide a copy of the notice to the Trustees, the Inland Revenue and each individual who has Plan Shares or who has entered into a Partnership Share Agreement which was in force immediately before the Plan Termination Notice was issued.

29.3 Upon the issue of a Plan Termination Notice or upon the expiry of the Trust Period, paragraph 90 of Schedule 2 shall have effect.

29.4 Any Shares or other assets which remain undisposed of after the requirements of paragraph 90 of Schedule 2 have been complied with shall be held by the Trustees upon trust to pay or apply them to or for the benefit of the Participating Companies as at the termination date in such proportion, having regard to their respective contributions, as the Trustees shall in their absolute discretion consider appropriate.

30. EVENTS ON WHICH A PLAN TERMINATION NOTICE MAY BE GIVEN

The Company will issue a Plan Termination Notice on the earliest of the following dates:

(a) on the date when an order for the winding up of the Company is made or a resolution is passed for the voluntary winding up of the Company, or,

(b) on any other date determined at the discretion of the Company.

31. NOTICES

Any notice or other communication under, or in connection with, the Plan may be given by personal delivery, electronic communication or by sending the same by post, in the case of a company to its registered office, and in the case of an individual to his last known address, or, where he is a director or employee of the Company or a Participating Company, either to his last known address or to the address of the place of business at which he performs the whole or substantially the whole of the duties of his office or employment. Where a notice or other communication is given by first-class post, it shall be deemed to have been received by 10am on the second Business Day after it was put into the post properly addressed and stamped. If any notice or other communication would otherwise have become effective on a non-Business Day or after 5 p.m. on a Business Day, it shall instead become effective at 10 a.m. on the next Business Day.

32. GOVERNING LAW

This Deed shall be governed by and construed in accordance with the laws of England.

33. JURISDICTION

The parties agree that they shall submit to the exclusive jurisdiction of the English courts.

34. CONSTRUCTION OF THIS DEED

Schedule 1, but not any other Schedules or Appendices, shall be treated as part of this Deed.

35. COUNTERPARTS

This Deed may be executed in any number of counterparts each of which when executed and delivered is an original and all of which together constitute the same document.

SCHEDULE 1:

THE PLAN RULES

1. DEFINITIONS

1.1 The following words and expressions have the following meanings:

"ACCUMULATION PERIOD"	in relation to Partnership Shares, the period during which the Trustees accumulate a Qualifying Employee's Partnership Share Money before acquiring Partnership Snares or repaying it to the employee
"THE COMPANY"	EDO Corporation
"ACQUISITION DATE"	(a) in relation to Partnership Shares, where there is no Accumulation Period, the meaning given by paragraph 50(4) of Schedule 2 (b) in relation to Partnership Shares, where there is an Accumulation Period, the meaning given by paragraph 52(5) of Schedule 2; and (c) in relation to Dividend Shares, the meaning given by paragraph 66(4) of Schedule 2
"ASSOCIATED COMPANY"	the same meaning as in paragraph 94 of Schedule 2
"AWARD DATE"	in relation to Free Shares or Matching Shares, the date on which such Shares are awarded
"AWARD"	(a) in relation to Free Shares and Matching Shares, the appropriation of Free Shares and Matching Shares in accordance with the Plan; and (b) in relation to Partnership Shares, the acquisition of Partnership Shares on behalf of Qualifying Employees in accordance with the Plan or, as the case may be, the appropriation of Unawarded Shares already held by the Trustees
"BUSINESS DAY"	any day (other than a Saturday or a Sunday) when clearing banks are open for business in the City of London for the transaction of normal banking business;
"CAPITAL RECEIPT"	the same meaning as in section 501 ITEPA
"CLAUSE"	a clause of the Deed

"CLOSE COMPANY"	a company that is a close company within the meaning of section 414 of ICTA 1988, but disregarding section 414(1)(a) and section 415 of ICTA 1988
"CONNECTED COMPANY"	the same meaning as in paragraph 18(3) of Schedule 2
"CONTROL"	the same meaning as in section 840 of ICTA 1988
"DEALING DAY"	a day on which the New York Stock Exchange is open for the transaction of business
"DEED OF ADHERENCE"	A deed whereby a company agrees to become a Participating Company and be bound by the terms of the Deed substantially in the form set out as Appendix 1 to Schedule 1
"DEED"	The EDO Corporation Share Incentive Plan Trust Deed
"DIRECTORS"	the board of directors of the Company or a duly authorised committee thereof
"DIVIDEND SHARES"	Shares acquired on behalf of a Participant from reinvestment of dividends under Part D of the Plan and which are subject to the Plan
"EMPLOYEE SHARE SCHEME"	an employees' share scheme as defined in section 743 of the Companies Act 1985
"FORFEITURE PERIOD"	any period specified by the Company during which Free and Matching Shares may be subject to forfeiture
"FREE SHARE AGREEMENT"	an agreement setting the terms of the Award with respect to an Award of Free Shares in such form as may be approved by the Inland Revenue from time to time
"FREE SHARES"	Shares awarded under Part A of the Plan which are subject to the Plan

"HOLDING PERIOD"	(a) in relation to Free Shares, the period during which the Participant shall be bound by the terms of the Free Share Agreement specified by the Company as mentioned in Rule 7.16; (b) in relation to Matching Shares, the period during which the Participant shall be bound by the terms of the Partnership Share Agreement specified by the Company as mentioned in Rule 9.5; and (c) in relation to Dividend Shares, the period of three years from the Acquisition Date
"ICTA 1988"	the Income and Corporation Taxes Act 1988
"INITIAL MARKET VALUE"	the Market Value of a Share on an Award Date. Where the Share is subject to a restriction or risk of forfeiture, the market value shall be determined without reference to that restriction or risk
"ITEPA"	The Income Tax (Earnings and Pensions) Act 2003
"MARKET VALUE"	(a) if and for so long as the Shares are listed on the New York Stock Exchange, (i) if, and only if all the Shares acquired for allocation to Participants on an Acquisition Date or an Award Date are purchased and allocated to all Participants on the same day, the average of the prices paid by the Trustees for those Shares; or (ii) if all the Shares acquired for Participants are not purchased on the same day, the quotation of a share as derived from the Wall Street Journal for the immediately preceding Dealing Day; or (b) if paragraph (a) above does not apply, its market value determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 and agreed for the purposes of the Plan with the Inland Revenue Shares Valuation on or before that day
"MATCHING SHARES"	Shares awarded under Part C of the Plan and which are subject to the Plan
"MATERIAL INTEREST"	the same meaning as in paragraph 20 of Schedule 2

"NICS"	National Insurance Contributions
"NEW SHARES"	the meaning given by Rule 11.3 of the Plan
"NEW YORK STOCK EXCHANGE"	The New York Stock Exchange or any successor or body carrying on the business of the New York Stock Exchange.
"PARTICIPANT"	an individual who has received under the Plan an Award of Free Shares, Matching Shares or Partnership Shares, or on whose behalf Dividend Shares have been acquired
"PARTICIPATING COMPANY"	the Company and such of its Subsidiaries which are either Original Parties to the Deed or have executed deeds of adherence to the Plan under Clause 19 of the Deed
"PARTNERSHIP SHARE AGREEMENT"	an agreement setting the terms of the Award with respect to an Award of Partnership Shares in such form as may be approved by the Inland Revenue from time to time
"PARTNERSHIP SHARE MONEY"	money deducted from a Qualifying Employee's Salary pursuant to a Partnership Share Agreement and held by the Trustees to acquire Partnership Shares or to be returned to such a person
"PARTNERSHIP SHARES"	Shares awarded under Part B of the Plan and which are subject to the Plan
"PERFORMANCE CRITERIA "	the criteria which may be used in accordance with Schedule 2 to determine: (a) whether or not Free Shares are awarded; or (b) the number or value of Free Shares to be awarded
"PLAN SHARES"	- Free Shares, Matching Shares or Partnership Shares awarded to Participants; - Dividend Shares acquired on behalf of Participants; and - shares in relation to which paragraph 87(2) (company reconstructions: new shares) of Schedule 2 applies and that remain subject to the Plan

"PLAN TERMINATION NOTICE"	a notice to terminate the Plan issued by the Company under paragraph 89 of Schedule 2
"PLAN"	The EDO Corporation Share Incentive Plan established under Schedule 2 as constituted by this Deed and Rules in their present form or as amended from time to time in accordance with the provisions hereof
"QUALIFYING COMPANY"	in relation to any individual means (a) the Company; or (b) a company that when the individual was employed by it was an Associated Company (i) of the Company, or (i) of another company qualifying under this paragraph
"QUALIFYING CORPORATE BOND"	the same meaning as in section 117 of the Taxation of Chargeable Gains Act 1992
"QUALIFYING EMPLOYEE"	an employee who must be invited to participate in an award in accordance with Rule 5.6 and any employee whom the Company has invited in accordance with Rule 5.7
"QUALIFYING PERIOD"	(a) in the case of Free Shares a period not exceeding 18 months before the Award is made; (b) in the case of Partnership Shares and Matching Shares where there is an Accumulation a period not exceeding six months before the start of the Accumulation Period; and (c) in the case of Partnership Shares and Matching Shares where there is no Accumulation Period a period not exceeding 18 months before the deduction of Partnership Share Money relating to the Award

"QUALIFYING REASON"	A Participant ceases to be in Relevant Employment for a Qualifying Reason if the Participant ceases to be an employee (a) because of injury or disability (b) on being dismissed by reason of Redundancy (c) by reason of a transfer to which the Transfer of Undertakings (Protection of Employment) Regulations 1981 apply (d) by reason of a change of control or other circumstances whereby the Participating Company that employs him ceases to be an Associated Company of the Company (e) by reason of his retirement on or after he reaches Retirement Age or (f) on his death
"REDUNDANCY"	the same meaning as in the Employment Rights Act 1996
"RELEVANT EMPLOYMENT"	employment by the Company or any Associated Company
"RETIREMENT AGE"	65
"RIGHTS"	rights conferred in respect of Plan Shares to be allotted, on payment, other shares or securities or rights of any description in the Company
"RULES"	the rules of the Plan set out as Schedule 1 to the Deed and a reference to a 'Rule' shall be construed accordingly
"SALARY"	the same meaning as in paragraph 43(4) of Schedule 2
"SCHEDULE 2"	Schedule 2 to ITEPA
"SHARES"	Ordinary shares in the capital of EDO Corporation which comply with the conditions set out in paragraphs 25 to 33 of Schedule 2
"SUBSIDIARY"	any company which is for the time being under the Control of the Company

"SURPLUS ASSETS"	any assets comprised in the Trust Fund other than Unawarded Shares, Plan Shares and Partnership Share Money
"TAX YEAR"	a year beginning on 6 April and ending on the following 5 April
"TRUST FUND"	all assets transferred to the Trustees to be held on the terms of the Deed and the assets from in to time representing such assets, including any accumulations of income
"TRUST PERIOD"	the period of 80 years beginning with the date of the Deed
"TRUSTEES"	the trustees or trustee for the time being of the Plan
"UNAWARDED SHARES"	Shares comprised in the Trust Fund that have not been awarded to Participants

1.2 References to any Act, or Part, Chapter, or section (including ICTA 1988 and ITEPA) shall include any statutory modification, amendment or re-enactment of that Act, for the time being in force.

1.3 Words of the masculine gender shall include the feminine and words in the singular shall include the plural and vice versa unless, in either case, the context otherwise requires or it is otherwise stated.

1.4 Headings and subheadings are for ease of reference only and shall not affect the interpretation of any Rule or Clause.

2. PURPOSE OF THE PLAN

The purpose of the Plan is to enable employees of Participating Companies to acquire Shares, which give them a continuing stake in the company.

3. PLAN SHARES

For the avoidance of doubt, the Company may not issue Shares to satisfy Awards under this Plan.

4. ADMISSION TO THE PLAN

4.1 For each Award, the Company shall determine whether and to what extent Qualifying Employees shall be invited to apply for Free Shares, Partnership Shares or Matching Shares subject to the terms and conditions of the Deed and these Rules.

4.2 If the Company determines that Qualifying Employees shall be invited to apply then the Company shall also determine:

(a) any Qualifying Period;

(b) whether there shall be an Accumulation Period in respect of any Award of Partnership Shares;

(c) whether there shall be any Performance Criteria in respect of any Award of Free Shares;

(d) the Holding Period in respect of any Award of Free Shares, Matching Shares or Dividend Shares;

(e) maximum and minimum Partnership Share Money deductions;

(f) the maximum number of Shares to be included in an Award of Partnership Shares; and

(g) whether there shall be a Forfeiture Period in respect of any Award of Free or Matching Shares.

5. ELIGIBILITY OF INDIVIDUALS

5.1 Subject to Rule 5.4, individuals are eligible to participate in an Award only if:

(a) they are employees of a Participating Company;

(b) they have been employees of a Qualifying Company at all times during any Qualifying Period;

(c) they are eligible on the date(s) set out in paragraph 14(1) of Schedule 2; and

(d) they do not fail to be eligible under any of Rules 5.2, 5.3 or 5.4.

5.2 Individuals are not eligible to participate in an Award of Shares if they have, or within the preceding twelve months have had, a Material Interest in:

(a) a Close Company whose Shares may be awarded under the Plan; or

(b) a company which has Control of such a company or is a member of a consortium which owns such a company.

5.3 Individuals are not eligible to participate in an Award of Free Shares if in that Tax Year they are to receive at the same time an award under another plan established by the Company or a Connected Company and approved under Schedule 2, or if they would have received such an award but for their failure to meet a performance target (see Rule 7.6).

5.4 Individuals are not eligible to participate in an Award of Partnership Shares or Matching Shares if in that Tax Year they receive at the same time an award under another plan established by the Company or a Connected Company and approved under Schedule 2, or if they would have received such an award but for their failure to meet a performance target (see Rule 7.6).

5.5 If an individual participates in an Award of Shares under the Plan in a Tax Year in which they have already received an award under another plan established by the

Company or a Connected Company and approved under Schedule 2, the limit specified in Rules 7.4, 8.5, 8.6 and 10.6 apply as if the Plan and any other plan were a single plan.

EMPLOYEES WHO MUST BE INVITED TO PARTICIPATE IN AWARDS

5.6 Individuals shall be eligible to receive an Award of Shares under the Plan if they meet the requirements in Rule 5.1 AND are a UK resident tax payer within the meaning of para 8(2) of Schedule 2.

5.7 In this case, they shall be invited to participate in any Awards of Free Shares, Partnership Shares and Matching Shares, and acquisition of Dividend Shares, in accordance with the Rules of the Plan.

EMPLOYEES WHO MAY BE INVITED TO PARTICIPATE IN AWARDS

5.8 The Company may also invite any employee who meets the requirements in Rule 5.1 to participate in any Award or acquisition of Dividend Shares in accordance with the rules of the Plan.

6. PARTICIPATION ON SAME TERMS

6.1 Every Qualifying Employee shall be invited to participate in an Award on the same terms. All who do participate in an Award shall do so on the same terms.

6.2 The Company may make an Award of Free Shares to Qualifying Employees by reference to their remuneration, length of service or hours worked. However, if the Company makes such an Award by reference to more than one of these factors, it shall do so on the basis that each factor gives rise to a separate entitlement and the total entitlement is the sum of those separate entitlements.

6.3 The Company may make an Award of Free Shares to Qualifying Employees by reference to their performance as set out in Rule 7.6.

PART A

7. FREE SHARES

7.1 Every Qualifying Employee shall make an agreement with the Company (a "Free Share Agreement") in such form as agreed in advance with the Board of the Inland Revenue.

7.2 The Trustees, acting with the prior consent of the Company, may from time to time award Free Shares.

7.3 The number of Free Shares to be awarded by the Trustees to each Qualifying Employee on an Award Date shall be determined by the Company in accordance with this Rule.

MAXIMUM ANNUAL AWARD

7.4 The Initial Market Value of the Shares awarded to a Qualifying Employee in any Tax Year shall not exceed (Pound) 3,000.

QUALIFYING PERIOD FOR AWARD OF FREE SHARES

7.5 The Company may stipulate a Qualifying Period in respect of the Award of Free Shares. Any such Qualifying Period shall be the same for all Qualifying Employees in relation to the same Award, but may be different for different Awards.

ALLOCATION OF FREE SHARES BY REFERENCE TO PERFORMANCE

7.6 The Company may stipulate that the number of Free Shares (if any) to be awarded to each Qualifying Employee on a given Award Date shall be determined by reference to Performance Criteria.

7.7 If Performance Criteria are used, they shall apply to all Qualifying Employees.

7.8 Performance Criteria shall be determined by reference to such fair and objective criteria (performance targets) relating to business results as the Company shall determine over such period as the Company shall specify.

7.9 Performance targets must be set for performance units of one or more employees.

7.10 For the purposes of an Award of Free Shares, an employee must not be a member of more than one performance unit.

7.11 Where the Company decides to use Performance Criteria it shall, as soon as reasonably practicable:

(a) notify each employee participating in the Award of the performance targets and measures which, under the Plan, shall be used to determine the number or value of Free Shares awarded to him; and

(b) notify all Qualifying Employees of any Participating Company, in general terms, of the performance targets and measures to be used to determine the number or value of Free Shares to be awarded to each Participant in the Award.

7.12 The Company shall determine the number of Free Shares (if any) to be awarded to each Qualifying Employee by reference to performance using Method 1 or Method 2 set out below. The same method shall be used for all Qualifying Employees for each Award.

PERFORMANCE CRITERIA: METHOD 1

7.13 By this Method:

(a) at least 20% of Free Shares awarded in any performance period shall be awarded without reference to performance;

(b) the remaining Free Shares shall be awarded by reference to performance; and

(c) the highest Award made to an individual by reference to performance in any period shall be no more than four times the highest Award to an individual without reference to performance.

7.14 If this Method is used:

(a) the Free Shares awarded without reference to performance (paragraph (a) above) shall be awarded on the same terms mentioned in Rule 6; and

(b) the Free Shares awarded by reference to performance (paragraph (b) above) need not be allocated on the same terms mentioned in Rule 6.

PERFORMANCE CRITERIA: METHOD 2

7.15 By this Method:

(a) some or all Free Shares shall be awarded by reference to performance;

(b) the Award of Free Shares to Qualifying Employees who are members of the same performance unit shall be made on the same terms, as mentioned in Rule 6; and

(c) Free Shares awarded for each performance unit shall be treated as separate Awards.

HOLDING PERIOD FOR FREE SHARES

7.16 The Company shall, in relation to each Award Date, specify a Holding Period throughout which a Participant shall be bound by the terms of the Free Share Agreement.

7.17 The Holding Period shall, in relation to each Award, be a specified period of not less than three years nor more than five years, beginning with the Award Date and shall be the same for all Participants who receive an Award at the same time. The Holding Period shall not be increased in respect of Free Shares already awarded under the Plan.

7.18 A Participant may during the Holding Period direct the Trustees:

(a) to accept an offer for any of his Free Shares if the acceptance or agreement shall result in a new holding being equated with those Shares for the purposes of capital gains tax; or

(b) to accept an offer of a Qualifying Corporate Bond (whether alone or with other assets or cash or both) for his Free Shares if the offer forms part of such a general offer as is mentioned in paragraph (c); or

(c) to accept an offer of cash, with or without other assets, for his Free Shares if the offer forms part of a general offer which is made to holders of Shares of the same class as their Shares, or to holders of Shares in the same company and which is made in the first instance on a condition such that if it is satisfied the person making the offer shall have control of that company, within the meaning of section 416 of ICTA 1988; or

(d) to agree to a transaction affecting their Free Shares or such of them as are of a particular class, if the transaction would be entered into pursuant to a compromise, arrangement or scheme applicable to or affecting;

(i) all of the ordinary share capital of the Company or, as the case may be, all the Shares of the class in question; or

(ii) all the Shares, or all the Shares of the class in question, which are held by a class of shareholders identified otherwise than by reference to their employment or their participation in a plan approved under Schedule 2.

FORFEITURE PERIOD FOR FREE SHARES

7.19 The Company shall, in relation to each Award Date, determine whether a Forfeiture Period shall apply to the Free Shares. Any Forfeiture Period so determined shall be specified in the Free Share Agreement and shall not be more than three years. If the Company so determines, then a Participant who ceases to be in Relevant Employment during the Forfeiture Period for a reason that is not a Qualifying Reason shall cease to be beneficially entitled to those Free Shares.

PART B

8. PARTNERSHIP SHARES

8.1 The Company may at any time invite every Qualifying Employee to enter into an agreement with the Company (a "Partnership Share Agreement") in the terms of the draft appended to these Rules, or on such other terms as agreed in advance with the Board of the Inland Revenue.

8.2 References in Rule 8 to the Trustees acquiring Partnership Shares on behalf of a Participant include their appropriating to a Participant Unawarded Shares already held by them.

8.3 Partnership Shares shall not be subject to any provision under which they may be forfeited.

QUALIFYING PERIOD

8.4 The Company may stipulate a Qualifying Period in respect of the Award of Partnership Shares. Any such Qualifying Period shall be the same for all Qualifying Employees in relation to the same Award, but may be different for different Awards.

MAXIMUM AMOUNT OF DEDUCTIONS

8.5 The amount of Partnership Share Money deducted from an employee's Salary shall not exceed (Pound) 1500 (or such other amount as may be permitted by Schedule 2 from time to time) in any Tax Year. The Company may set a lower limit under Rule 4.2 (e) (which may be framed in accordance with paragraph 46 (4A) of Schedule 2)

8.6 The amount of Partnership Share Money deducted from an employee's Salary for any Tax Year must not exceed 10% of that Participant's Salary for the Tax Year, or any other limit as amended by legislation from time to time.

8.7 Any amount deducted in excess of that allowed by Rule 8.5 or 8.6 shall be paid over to the employee, subject to both deduction of income tax under PAYE and NICs, as soon as practicable.

8.8 A Participant may only be a party to one Partnership Share Agreement authorising one or more deductions from Salary in any given month but Directors may, from time to time, and subject to Rules 8.5 and 8.6, invite all Participants to vary the amount of deductions authorised to be made.

MINIMUM AMOUNT OF DEDUCTIONS

8.9 The minimum amount to be deducted under the Partnership Share Agreement in any month shall be the same in relation to all Partnership Share Agreements entered into in response to invitations issued on the same occasion. It shall not be greater than (Pound) 10, or any other limit as amended by legislation from time to time.

NOTICE OF POSSIBLE EFFECT OF DEDUCTIONS ON BENEFIT ENTITLEMENT

8.10 Every Partnership Share Agreement shall contain a notice under paragraph 48 of Schedule 2 in respect of the possible effect of deductions on benefit entitlement on salary related state benefits such as statutory sick pay and maternity pay, the Company shall provide each participant in the Plan with a statement detailing the effects on such benefits of participation in the Plan. The Inland Revenue are empowered to make regulations prescribing the form of such a notice.

RESTRICTION IMPOSED ON NUMBER OF SHARES AWARDED

8.11 The Company may specify the maximum number of Shares to be included in an Award of Partnership Shares.

8.12 The Partnership Share Agreement shall contain an undertaking by the Company to notify each Qualifying Employee of any restriction on the number of Shares to be included in an Award.

8.13 The notification in Rule 8.11 above shall be given:

(a) if there is no Accumulation Period, before the deduction of the Partnership Share Money relating to the Award; and

(b) if there is an Accumulation Period, before the beginning of the Accumulation Period relating to the Award.

PLAN WITH NO ACCUMULATION PERIOD

8.14 The Trustees shall acquire Shares on behalf of the Qualifying Employee using the Partnership Share Money. They shall acquire the Shares on the Acquisition Date. The number of Shares awarded to each employee shall be determined in accordance with the Market Value of the Shares on that date.

PLAN WITH ACCUMULATION PERIOD

8.15 If there is an Accumulation Period, the Trustees shall acquire Shares on behalf of the Qualifying Employee, on the Acquisition Date, using the Partnership Share Money.

8.16 The number of Shares acquired on behalf of each Participant shall be determined by reference to the lower of:

(a) the Market Value of the Shares at the beginning of the Accumulation Period; and

(b) the Market Value of the Shares on the Acquisition Date.

8.17 All subsisting Accumulation Periods shall immediately come to an end:

(a) with effect from the date specified in a notice to terminate the operation of the Plan given in accordance with clause 29 of the Deed;

(b) if notice is given to shareholders of the Company of a resolution being proposed for the voluntary winding up of the Company;

(c) upon the commencement of a winding up of the Company;

(d) if a general offer is made to acquire the whole of the issued ordinary share capital of the Company which is made on a condition such that if it is satisfied the person making the offer will have control of the Company when that condition is satisfied;

(e) if a general offer is made to acquire all the shares in the Company of the same class as the Shares, when any condition subject to which the offer is made has been satisfied;

(f) if any person becomes entitled or bound to acquire shares in the Company under sections 428 to 430F (inclusive) of the Companies Act 1985.

SURPLUS PARTNERSHIP SHARE MONEY

8.18 Any surplus Partnership Share Money remaining after the acquisition of Shares by the Trustees:

(a) may, with the agreement of the Participant, be carried forward to the next Accumulation Period or deduction, as appropriate; and

(b) in any other case, shall be paid over to the Participant, subject to both deduction of income tax under PAYE and NICs, as soon as practicable.

SCALING DOWN

8.19 If the Company receives applications for Partnership Shares exceeding the Award maximum determined in accordance with Rule 8.11 then the following steps shall be taken in sequence until the excess is eliminated.

Step 1. the excess of the monthly deduction chosen by each applicant over (pound)10 shall be reduced pro rata;

Step 2. all monthly deductions shall be reduced to (pound)10

Step 3. applications shall be selected by lot, each based on a monthly deduction of (pound)10.

8.20 Each application shall be deemed to have been modified or withdrawn in accordance with the foregoing provisions, and each employee who has applied for Partnership Shares shall be notified of the change.

WITHDRAWAL FROM PARTNERSHIP SHARE AGREEMENT

8.21 An employee may withdraw from a. Partnership Share Agreement at any time by notice in writing to the Company. Unless a later date is specified in the notice, such a notice shall take effect 30 days after the Company receives it. Any Partnership Share Money then held on behalf of an employee shall be paid over to that employee as soon as practicable. This payment shall be subject to income tax under PAYE and NICs.

8.22 If an employee ceases to be in Relevant Employment during an Accumulation Period, any Partnership Share Money then held on behalf of that employee shall be paid over to that employee as soon as practicable. This payment shall be subject to tax under PAYE and NICs.

8.23 When Partnership Shares have been Awarded to a Participant, the Participant may at any time withdraw any or all of his Partnership Shares from the Plan.

8.24 An employee may at any time give notice in writing to the Company to stop deductions in pursuance of a Partnership Share Agreement. An employee who has stopped deductions may subsequently give notice in writing to the Company to restart deductions in pursuance of the agreement, but may not make-up deductions that have been missed. Unless a later date is specified in the notice the Company will ensure that within 30 days of receiving the notice no further deductions are made under the Partnership Share Agreement. The Company on receiving a notice to restart deductions under the Partnership Share Agreement, will do so no later than the re-start date. The re-start date shall be the date of first deduction due under the Partnership Share Agreement and not more than 30 days after the receipt of the notice to re-start the deductions.

REPAYMENT OF PARTNERSHIP SHARE MONEY ON WITHDRAWAL OF APPROVAL OR TERMINATION

8.25 If approval to the Plan is withdrawn or a Plan Termination Notice is issued in respect of the Plan, any Partnership Share Money held on behalf of employees shall be repaid to them as soon as practicable after notice of withdrawal is given to the Company or after the Plan Termination Notice is notified to the Trustees, as the case may be, subject to deduction of income tax under PAYE and NICs.

8.26 The authority to make deductions from Salary granted by a Participant pursuant to a Partnership Share Agreement shall lapse upon the occurrence of any of the events specified in Rule 8.18 or, if earlier, upon the effective date of a Participant's withdrawal from a Partnership Share Agreement as mentioned in Rules 8.21, 8.22 and 8.24.

PART C

9. MATCHING SHARES

9.1 The Partnership Share Agreement sets out the basis on which a Participant is entitled to Matching Shares in accordance with this Part of the Rules.

GENERAL REQUIREMENTS FOR MATCHING SHARES

9.2 Matching Shares shall:

(a) be Shares of the same class and carrying the same rights as the Partnership Shares to which they relate;

(b) subject to Rule 9.4, be awarded on the same day as the Partnership Shares to which they relate are acquired on behalf of the Participant; and

(c) be awarded to all Participants on exactly the same basis.

RATIO OF MATCHING SHARES TO PARTNERSHIP SHARES

9.3 The Partnership Share Agreement shall specify the ratio of Matching Shares to Partnership Shares for the time being offered by the Company and that ratio shall not exceed two for one. The Company may vary the ratio before Partnership Shares are acquired. Employees shall be notified of the terms of any such variation before the Partnership Shares are awarded under the Partnership Share Agreement.

9.4 If the Partnership Shares on that day are not sufficient to produce a Matching Share, the match shall be made when sufficient Partnership Shares have been acquired to allow at least one Matching Share to be appropriated.

HOLDING PERIOD FOR MATCHING SHARES

9.5 The Company shall, in relation to each Award Date, specify a Holding Period throughout which a Participant shall be bound by the terms of the Partnership Share Agreement.

9.6 The Holding Period shall, in relation to each Award, be a specified period of not less than three years nor more than five years, beginning with the Award Date and shall be the same for all Participants who receive an Award at the same time. The Holding Period shall not be increased in respect of Matching Shares awarded under the Plan.

9.7 A Participant may during the Holding Period direct the Trustees:

(a) to accept an offer for any of his Matching Shares if the acceptance or agreement shall result in a new holding being equated with those original Shares for the purposes of capital gains tax; or

(b) to accept an offer of a Qualifying Corporate Bond (whether alone or with other assets or cash or both) for their Matching Shares if the offer forms part of such a general offer as is mentioned in paragraph (c); or

(c) to accept an offer of cash, with or without other assets, for his Matching Shares if the offer forms part of a general offer which is made to holders of Shares of the same class as their Shares or to the holders of Shares in the same company, and which is made in the first instance on a condition such that if it is satisfied the person making the offer shall have control of that company, within the meaning of section 416 of ICTA 1988; or

(d) to agree to a transaction affecting his Matching Shares or such of them as are of a particular class, if the transaction would be entered into pursuant to a compromise, arrangement or scheme applicable to or affecting;

(i) all of the ordinary share capital of the Company or, as the case may be, all the Shares of the class in question; or

(ii) all the Shares, or all the Shares of the class in question, which are held by a class of shareholders identified otherwise than by reference to their employment or their participation in a plan approved under Schedule 2.

FORFEITURE PERIOD FOR MATCHING SHARES

9.8 The Company shall, in relation to each Award Date, determine whether a Forfeiture Period shall apply to the Matching Shares. Any Forfeiture Period so determined shall be specified in the Partnership Share Agreement and shall not be more than three years. If the Company so determines, then a Participant who ceases to be in Relevant Employment during the Forfeiture Period for a reason that is not a Qualifying Reason shall cease to be beneficially entitled to those Matching Shares. The Company may additionally determine that a Participant who withdraws the Partnership Shares in respect of which the Matching Shares were awarded from the Plan during the Forfeiture Period shall cease to be beneficially entitled to those Matching Shares.

PART D

10. DIVIDEND SHARES

REINVESTMENT OF CASH DIVIDENDS

10.1 The Free Share Agreement or Partnership Share Agreement, as appropriate, shall set out the rights and obligations of Participants receiving Dividend Shares under the Plan.

10.2 The Company may direct that any cash dividend in respect of Plan Shares held on behalf of Participants may be applied in acquiring further Plan Shares on their behalf.

10.3 Dividend Shares shall be Shares:

(a) of the same class and carrying the same rights as the Shares in respect of which the dividend is paid; and

(b) which are not subject to any provision for forfeiture. 10.4 The Company may decide to:

(a) apply all Participants' dividends, up to the limit specified in Rule 10.6, to acquire Dividend Shares;

(b) to pay all dividends in cash to all Participants; or

(c) to offer Participants the choice of either (a) or (b) above.

10.5 The Company may revoke any direction for reinvestment of cash dividends.

10.6 The amount applied by the Trustees in acquiring Dividend Shares shall not exceed (pound)1,500 in each Tax Year.

10.7 If the amounts received by the Trustees exceed the limit in Rule 10.6, the balance shall be paid to the Participant as soon as practicable.

10.8 If dividends are to be applied to acquire Dividend Shares, the Trustees shall apply all the cash dividend to acquire Shares on behalf of the Participant on the Acquisition Date. The number of Dividend Shares acquired on behalf of each Participant shall be determined by the Market Value of the Shares on the Acquisition Date.

10.9 References in Rule 10 to the Trustees acquiring Dividend Shares on behalf of a Participant include their appropriating to a Participant Unawarded Shares already held by them.

CERTAIN AMOUNTS NOT REINVESTED TO BE CARRIED FORWARD

10.10 Subject to Rule 10.7, any amount that is not reinvested:

(a) because the amount of the cash dividend is insufficient to acquire a Share; or

(b) because there is an amount remaining after acquiring the Dividend Shares;

may be retained by the Trustees and carried forward to be added to the amount of the next cash dividend to be reinvested.

10.11 If, during the period of three years beginning with the date on which the dividend was paid:

(a) it is not reinvested; or

(b) the Participant ceases to be in Relevant Employment; or

(c) a Plan Termination Notice is issued

the amount shall be paid to the Participant as soon as practicable. On making such a payment, the Participant shall be provided with the information specified in paragraph 80(4) of Schedule 2.

HOLDING PERIOD FOR DIVIDEND SHARES

10.12 The Holding Period shall be a period of three years, beginning with the Acquisition Date.

10.13 A Participant may during the Holding Period direct the Trustees:

(a) to accept an offer for any of his Dividend Shares if the acceptance or agreement shall result in a new holding being equated with those Shares for the purposes of capital gains tax; or

(b) to accept an offer of a Qualifying Corporate Bond (whether alone or with other assets or cash or both) for their Dividend Shares if the offer forms part of such a general offer as is mentioned in paragraph (c); or

(c) to accept an offer of cash, with or without other assets, for their Dividend Shares if the offer forms part of a general offer which is made to holders of Shares of the same class as their Shares or to holders of Shares in the same company, and which is made in the first instance on a condition such that if it is satisfied the person making the offer shall have control of that company, within the meaning of section 416 of ICTA 1988; or

(d) to agree to a transaction affecting their Dividend Shares or such of them as are of a particular class, if the transaction would be entered into pursuant to a compromise, arrangement or scheme applicable to or affecting;

(i) all of the ordinary share capital of the Company or, as the case may be, all the shares of the class in question; or

(ii) all the Shares, or all the Shares of the class in question, which are held by a class of shareholders identified otherwise than by reference to their employment or their participation in a plan approved under Schedule 2.

10.14 Where a Participant is charged to tax in the event of their Dividend Shares ceasing to be subject to the Plan, they shall be provided with the information specified in paragraph 80(4) of Schedule 2.

11. COMPANY RECONSTRUCTIONS

11.1 The following provisions of this Rule apply if there occurs in relation to any of a Participant's Plan Shares (referred to in this Rule as "the Original Holding"):

(a) a transaction which results in a new holding (referred to in this Rule as "the New Holding") being equated with the Original Holding for the purposes of capital gains tax; or

(b) a transaction which would have that result but for the fact that what would be the new holding consists of or includes a Qualifying Corporate Bond.

11.2 If an issue of Shares of any of the following description (in respect of which a charge to income tax arises) is made as part of a company reconstruction, those Shares shall be treated for the purposes of this Rule as not forming part of the New Holding:

(a) redeemable shares or securities issued as mentioned in section 209(2)(c) of ICTA 1988;

(b) share capital issued in circumstances such that section 210(1) of ICTA 1988 applies; or

(c) share capital to which section 249 of ICTA 1988 applies.

11.3 In this Rule:

"Corresponding Shares" in relation to any New Shares, means the Shares in respect of which the New Shares are issued or which the New Shares otherwise represent;

"New Shares" means shares comprised in the New Holding which were issued in respect of, or otherwise represent, shares comprised in the Original Holding.

11.4 Subject to the following provisions of this Rule, reference in this Plan to a Participant's Plan Shares shall be respectibely construed, after the time of the company reconstruction, as being or, as the case may be, as including references to any New Shares.

11.5 For the purposes of the Plan:

(a) a company reconstruction shall be treated as not involving a disposal of Shares comprised in the Original Holding; and

(b) the date on which any New Shares are to be treated as having been appropriated to or acquired on behalf of the Participant shall be that on which Corresponding Shares were so appropriated or acquired.

11.6 In the context of a New Holding, any reference in this Rule to shares includes securities and rights of any description which form part of the New Holding for the purposes of Chapter II of Part IV of the Taxation of Chargeable Gains Act 1992.

12. RIGHTS ISSUES

12.1 Any shares or securities allotted under Clause 14 of the Deed shall be treated as Plan Shares identical to the Shares in respect of which the rights were conferred. They shall be treated as if they were awarded to or acquired on behalf of the Participant under the Plan in the same way and at the same time as those Shares.

12.2 Rule 12.1 does not apply:

(a) to shares and securities allotted as the result of taking up a rights issue where the funds to exercise those rights were obtained otherwise than by virtue of the Trustees disposing of rights in accordance with this Rule; or

(b) where the rights to a share issue attributed to Plan Shares are different from the rights attributed to other ordinary shares of the Company.

13. FRACTIONAL ENTITLEMENTS

PROPORTIONATE ALLOCATION

13.1 Where the Trustees receive additional rights or securities in respect of Plan Shares under a capitalisation or rights issue or similar offer or invitation, the Trustees shall allocate those rights or securities amongst the Participants concerned on a proportionate basis. Subject to 13.2 below, if that allocation gives rise to a fraction of a security or of a transferable unit of a security (in this Rule "unit"), the Trustees shall round the allocation down to the next whole unit and aggregate the fractions not allocated. The Trustees shall use their best endeavours to sell any rights or units which are not allocated and distribute the net proceeds of sale (after deducting from them any expenses of sale and any taxation which may be payable in respect of them) proportionately among the Participants whose allocation was rounded down, but so that any sum of less than (Pound) 3 otherwise distributable to a particular Participant may be retained by the Trustees and used for the purposes of the Plan.

13.2 If the Trustees receive additional Shares in accordance with Rule 13.1 above and the allocation of those Shares amongst Participants gives rise to a fraction of a Share then the Trustees may either:

13.2.1 round the allocation of Shares down to the next whole Share and aggregate the fractions not allocated. The Trustees shall use their best endeavours to sell any Shares which are not allocated and distribute the net proceeds of sale (after deducting from them any expenses of sale and any taxation which may be payable in respect of them) proportionately amongst the Participants whose allocation was rounded down, but so that any sum of less than (Pound) 3 otherwise distributable to a particular Participant may be retained by the Trustees and used for the purposes of the Plan; or

13.2.2 allocate the fractions of a Share amongst Participants in a proportionate basis. The Trustees shall use their best endeavours to sell any fractions of Shares not so allocated,

so long as all Participants are treated on the same terms.

ALLOCATION BY REFERENCE TO TIME OF APPROPRIATION

13.3 In any circumstances in which the Trustees receive New Shares which form part of a Participant's Plan Shares, the Trustees shall allocate the New Shares to the Participant by reference to the relative Award Date or Acquisition Date of his Plan Shares to which they relate. If that allocation gives rise to a fraction of a New Share, the Trustees may, subject to ITEPA, round the allocation up or down to the next whole unit or allocate the fraction of a New Share to each Participant pro-rata to their allocation as they, in their discretion, think fit.

14. ALTERATIONS

No modification alteration or amendment to these Rules shall be made except in accordance with Clause 27 of the Deed.

15. DISPUTES

If any matter arises on or in connection with this Plan or its operation for which specific provision is not made in the Rules or in the Deed to which they are scheduled or in any Deed supplemental to it such matter shall be resolved, dealt with or provided for in such manner as the Directors shall in their absolute discretion consider appropriate after taking into account the respective interests of the relevant Participating Company and of the Participants.

APPENDIX 1 - DEED OF ADHERENCE

DEED OF ADHERENCE

TO

THE EDO CORPORATION SHARE INCENTIVE PLAN
TRUST

THIS TRUST DEED is made the   day of   2005

BETWEEN

(1) EDO Corporation, whose registered office is at 60 East 42nd Street, 42nd Floor, New York, NY 10165 ('the Company')

(2) [Participating Company], whose registered office is at [registered office] ('the Subsidiary');

(3) Killik & Co Trustees Limited (registered no: 3929253), whose registered office is at 46 Grosvenor Street, London, W1K 3HN ('the Trustees')

SUPPLEMENTAL to a Deed ("the Deed") dated the   day of   2005 made between (1) the Company, (2) the Trustees.

WHEREAS the Subsidiary is a subsidiary of the Company within the meaning of Section 736 of the Companies Act 1985 and is desirous of becoming a Participating Company (as defined in the Deed).

NOW THIS DEED WITNESSETH as follows:

- The Subsidiary HEREBY AGREES to be bound in all respects by the provisions of the Deed
- the Company and the Trustees HEREBY CONSENT to the Subsidiary becoming a Participating Company

IN WITNESS WHEREOF this document has been duly executed as a deed and has been duly delivered on the day and year first above written.

Signed as a deed by __________________ and ___________________ for and on behalf of EDO Corporation

(Director/Secretary)   (Director)

Signed as a deed by _____________________ and _____________________ for and on behalf of [Participating Company]

(Director/Secretary)   (Director)

THE COMMON SEAL OF
KILLIK & CO TRUSTEES LIMITED
Was hereunto affixed in the presence of:-   ________________________________
Authorised Signatory

EXECUTION

IN WITNESS WHEREOF this document has been duly executed as a deed and has been duly delivered on the day and year first above written.

Signed as a deed by /s/ LISA M. PALUMBO and /s/ PATRICIA D. COMISKEY for and on behalf of EDO Corporation

(Director/Secretary) (Director)

THE COMMON SEAL OF
KILLIK & CO TRUSTEES LIMITED
Was hereunto affixed in the presence of:- /s/ [ILLEGIBLE]

Authorised Signatory

EXHIBIT 21

EDO CORPORATION'S SUBSIDIARIES

ACTIVE SUBSIDARIES

<TABLE>
<CAPTION>

SUBSIDIARY	STATE OR COUNTRY OF INCORPORATION OR ORGANIZATION	NAMES UNDER WHICH SUBSIDIARY DOES BUSINESS
<S>	<C>	<C>
Darlington Inc.	Delaware	Darlington of Virginia, Inc.
EDO Artisan Inc.	New Jersey	
EDO Communications and Countermeasures Systems Inc.	California	
EVI Technology, LLC	Delaware	EDO EVI
EDO MBM Technology Limited	United Kingdom	
EDO MTech Inc.	Pennsylvania	EDO M. Tech
EDO Professional Services Inc.	Virginia	Advanced Engineering & Research Associates Which Will Do Business In California As Virginia AERA, Inc AERA Incorporated AERA, Inc.
EDO Reconnaissance and Surveillance Systems, Inc.	Delaware	EDO Communications and Countermeasures Systems
EDO Rugged Systems Limited	United Kingdom	
EDO (UK) Limited	United Kingdom	
EDO Western Corporation	Utah	EDO Electro-Ceramic Products
Fiber Innovations, Inc.	Massachusetts	
NexGen Communications LLC	Virginia	
Specialty Plastics, Inc.	Louisiana	EDO Specialty Plastics

</TABLE>

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 2-69243) pertaining to the EDO Corporation 1996 Long-term Incentive Plan and the EDO Corporation 1980 Stock Option Plan, the Registration Statement (Form S-8 No. 33-01526) pertaining to the EDO Corporation 1996 Long-term Incentive Plan and the EDO Corporation 1985 Stock Option Plan, the Registration Statement (Form S-8 No. 33-28020) pertaining to the EDO Corporation 1983 Long-term Incentive Plan, the EDO Corporation 1988 Long-term Incentive Plan, the EDO Corporation 1988 Stock Option Plan and the EDO Corporation 1996 Long-term Incentive Plan, the Registration Statement (Form S-8 No. 33-77865) pertaining to the EDO Corporation Compensation Plan for Directors, the EDO Corporation 1997 Non-employee Director Stock Option Plan and the EDO Corporation 1996 Long-term Incentive Plan, the Registration Statement (Form S-8 No. 333-105265) pertaining to the EDO Corporation 2002 Non-Employee Director Stock Option Plan and the EDO Corporation 2002 Long-term Incentive Plan of EDO Corporation, the Registration Statement (Form S-3 No. 333-111483) pertaining to the Universal Shelf, as amended, the Registration Statement (Form S-8 No. 333-129353) pertaining to the Non-Employee Director Stock Option Plan and in the related Prospectus of our reports dated February 24, 2006, with respect to the consolidated financial statements and schedule of EDO Corporation, EDO Corporation management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of EDO Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

New York, New York
February 24, 2006

Exhibit 31.1

CERTIFICATION PURSUANT TO 15 U.S.C. SECTION 10A,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, James M. Smith, certify that:

1. I have reviewed this Annual Report on Form 10-K of EDO Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect this amended report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 1, 2006

/s/ JAMES M. SMITH

James M. Smith
Chairman, President and Chief
Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO 15 U.S.C. SECTION 10A,
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Frederic B. Bassett, certify that:

1. I have reviewed this Annual Report on Form 10-K of EDO Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect this amended report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 1, 2006

/s/ FREDERIC B. BASSETT

Frederic B. Bassett
Senior Vice President - Finance, Treasurer
and Chief Financial Officer

EXHIBIT 32

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that (1) this Annual Report of EDO Corporation (the "Company") on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or Rule 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES M. SMITH

James M. Smith
Chief Executive Officer
March 1, 2006

/s/ FREDERIC B. BASSETT

Frederic B. Bassett
Chief Financial Officer
March 1, 2006

EDO corporation
GLOBAL TECHNOLOGY REACH

EDO Corporation
60 East 42nd Street, New York, NY 10165
www.edocorp.com