DRS TECHNOLOGIES INC
Form 10-K
June 28, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED MARCH 31, 2002

COMMISSION FILE NUMBER 1-8533

DRS TECHNOLOGIES, INC.

DELAWARE	13-2632319
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

5 SYLVAN WAY, PARSIPPANY, NEW JERSEY 07054
(973) 898-1500

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.01 par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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 /X/ 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. / /

The market value of shares of common stock held by non-affiliates, based on the closing prices for such stock on the New York Stock Exchange on June 20,

2002, was approximately $714,017,000. The number of shares of common stock outstanding as of June 20, 2002 was 16,859,912.

DOCUMENTS INCORPORATED BY REFERENCE

1. Definitive Proxy Statement, dated June 27, 2002, for the Annual Meeting of Stockholders, incorporated in Part III of this Form 10-K.

DRS TECHNOLOGIES, INC
FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

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ITEM 1. BUSINESS

References in this Annual Report on Form 10-K to "DRS," "we," "our" and "us" are to DRS Technologies, Inc. and its subsidiaries.

GENERAL

DRS Technologies is a leading supplier of defense electronics products and systems. We provide high-technology products and services to all branches of the U.S. military, major aerospace and defense prime contractors, government intelligence agencies, international military forces and consumer markets. Incorporated in 1968, we have served the defense industry for over thirty years. We are a leading provider of thermal imaging devices, combat display workstations, electronic sensor systems, ruggedized computers, communications systems, high-speed digital imaging systems, mission recorders and deployable flight incident recorders. Our products are deployed on a wide range of high profile military platforms such as the DDG-51 Aegis destroyer, CVN aircraft carriers, SSN submarines, the M1A2 Abrams Main Battle Tank, the M2A3 Bradley Fighting Vehicle, the OH-58D Kiowa Warrior helicopter, the AH-64 Apache helicopter and the F/A-18E/F Super Hornet jet fighter, as well as for other military and non-military applications.

Over the past five years, we increased our annual revenues at a compounded annual growth rate of approximately 31% and our operating income at a compounded annual growth rate of approximately 34%. For the year ended March 31, 2002, we had revenues of $517.2 million and operating income of $49.8 million.

COMPANY ORGANIZATION

We operate in three principal business segments on the basis of products and services offered. Each operating segment is comprised of separate and distinct businesses: the Electronic Systems Group, the Electro-Optical Systems Group and the Flight Safety and Communications Group. All other operations are grouped in Other.

Financial information on our reportable business segments is presented in Note 16 to our Consolidated Financial Statements which are included in this Form 10-K (see Item 8. Financial Statements and Supplementary Data). Additional financial data and commentary on the results of operations for the operating segments are included in Management's Discussion and Analysis of Financial Condition and Results of Operations, which is also included in this Form 10-K (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). These data and comments should be referred to in conjunction with the summary description of our operating segments, which follows.

ELECTRONIC SYSTEMS GROUP. Our Electronic Systems Group is a world leader in high-performance combat display systems, digital information processing systems and rugged computer systems for sea, air and land applications. The Electronic Systems Group also produces surveillance, radar and tracking systems, acoustic signal processing and display equipment, and combat control systems for U.S. and

international military organizations. By incorporating advanced commercial computing technology, we provide innovative, rapid and cost-effective defense solutions for dominating the 21st century's digital battlespace. Our Electronic Systems Group is a leading provider of naval computer workstations which are used to process and display integrated combat information. Our electronic systems are compatible with both new and legacy systems and are vital tools used by the military to make strategic command decisions. Various front-line platforms utilize our Electronic Systems Group's products, including the DDG-51 Aegis destroyer, aircraft carriers, submarines and surveillance aircraft. Our Electronic Systems Group's products are also used in the U.S. Army's ongoing battlefield digitization programs. Our Electronic Systems Group also performs field service and depot level repairs for its products, as well as for other manufacturers' systems, and also provides systems and software engineering support to the

U.S. Navy for the testing of shipboard combat systems. We market our products directly to various U.S. government agencies and team with leading corporations, such as Boeing, Lockheed Martin, Northrop Grumman and General Dynamics.

Our Electronic Systems Group's major products include:

- AN/UYQ-70. Under a subcontract with Lockheed Martin, we are the only supplier of AN/UYQ-70 Advanced Display Systems. These systems are supplied to ten customers within the U.S. Navy and are deployed on numerous naval platforms, including the DDG-51 Aegis destroyer, the E-2C Hawkeye, the New Attack Submarine Demonstration Program, CVN carriers and amphibious assault ships. We have provided these systems since 1996 as the sole source provider under an open, indefinite delivery, indefinite quantity contract that does not expire until 2006.

- RUGGED COMPUTER PRODUCTS. Our rugged computer products are used by the U.S. Military and in a number of non-U.S. military programs focused on the digitization of the 21st century's global battlespace and demonstrate the benefit of several years of front-line battlefield operations.

- AN/SPS-67. This radar system forms an integral part of the command and control combat system on the U.S. Navy's new Aegis class ships and the Spanish Navy's F-100 class ships. It also has a potential market application on numerous surface ships in the U.S. Navy's fleet, as well as on aircraft carriers and amphibious operation assault ships as well as other international naval platforms.

- ANTENNA PRODUCTS. We provide positioning equipment for a variety of antenna systems, including the FPS-117, COBRA and SPS-67 radar's and the U.S. Navy's EHF satellite communications system.

Our Electronic Systems Group provides technical support services and electronic manufacturing and systems integration for a range of customers including the U.S. military, General Dynamics, United Defense, Lockheed Martin and Northrop Grumman. These services consist primarily of the following activities:

- TECHNICAL SUPPORT SERVICES. We provide naval support, including integrated logistics support, technical manuals, repair, system installation, drawing packages, training, maintenance planning, configuration management, on-line and phone support and research and development capabilities.

- ELECTRONIC MANUFACTURING AND SYSTEMS INTEGRATION SERVICES. Using our advanced ISO 9000 and AS-9000 Quality System Standards certified manufacturing, testing and system integration facilities, our Electronic

Systems Group specializes in the production of computer workstations, rugged computers, cable and wire harness assembly for tanks and aircraft, printed circuit card production, and full system integration and test services for military and commercial customers.

Our Electronic Systems Group's products and services, their applications and platforms or end-users are summarized in the table below:

PRODUCT	DESCRIPTION	PLATFORMS/CUSTOMERS
Tactical/Sensor Combat Display Systems	AN/UYQ-70 Advanced Display Systems family of products comprised of commercial off-the-shelf-based systems integrating the latest information processing and display technology for combat, command and control, and mission-essential applications.	- U.S. Navy Aegis cruisers/destr - U.S. Navy aircraft carriers - U.S. Navy NSSN, Trident and ot attack submarines - U.S. Navy E-2C Hawkeye surveil aircraft - U.S. Navy LHA Amphibious assau - U.S. Navy/Marine Corps Coopera Engagement Capability platform
Middleware/Software	Shipboard tactical combat system and networking application.	- U.S. Navy Aegis cruisers/desro - Advanced Tactical Display Unit
Rugged Computer Systems and Peripherals	Commercial off-the-shelf-based computers, servers and other peripheral equipment in battlefield-ready hardware that meets reliability and durability standards of harsh environments.	- U.S. Army - U.S. Navy - Range of international militar mobile, airborne, surface, sub platforms - Government intelligence agenci including CIA, FBI, NSA and St Department Tempest application
Radar Products:		
AN/SPS-67(V)3 Radar System	Naval surveillance radar with automatic target detection, digital moving target indications, track-while-scan capability for surface and low flying object detection.	- U.S. Navy Aegis cruisers/destr - Spanish Navy F-100 ships - Other international surface sh
Radar Antennas and Positioning Systems	Antennas, radar pedestals and antenna positioning platforms for shipboard and land-based radar and communications systems.	- AN/SPS-67(V)3 Radar System - International military FPS-117 defense radar - International military Cobra R System - U.S. Navy EHF Satellite progra - Other NATO fixed and mobile applications
Technical Support Services	Naval support, including Integrated Logistics Support, technical manuals, system repair and installation, drawing packages, training, maintenance planning, configuration management, on-line and phone support, R&D capabilities.	- U.S. and international naval b - Worldwide field support
Electronic Manufacturing, System Integration and Testing Services	Value-added electronic manufacturer for our products, including computer workstations and rugged computers, as well as for others, including cable and wire harness assembly, printed circuit cards, full system integration and test services.	- General Dynamics' rugged compu systems for U.S. Army - United Defense M2A3 Bradley Fi Vehicles for U.S. Army - U.S. Navy AN/UYQ-70 Display Sy for Lockheed Martin - Northrop Grumman E-8C Joint ST aircraft for U.S. Air Force

- U.S. Army Grizzly mine clearin
  vehicles

ELECTRO-OPTICAL SYSTEMS GROUP. Our Electro-Optical Systems Group is a leader in second generation electro-optical infrared sighting, targeting and weapons guidance systems, high performance focal plane arrays and infrared uncooled sensors, assemblies and components which are used primarily in the aerospace and defense industries. Our Electro-Optical Systems Group designs, manufactures and markets products that allow operators to detect, identify and target objects based upon their infrared signatures regardless of the ambient light level. Our Electro-Optical Systems Group is one of only two key suppliers to the U.S. government for advanced focal plane array technology and produces other night vision, eye-safe and laser-based products for military and commercial applications. These systems are used on the most critical front-line ground vehicle and weapons systems platforms, such as the M1A2 Abrams Main Battle Tank, the M2A3 Bradley Fighting Vehicle, the OH-58D Kiowa Warrior and the HMMWV scout vehicle and are also used on sea and airborne platforms, such as Aegis class destroyers and OH-58D Kiowa Warrior helicopters. Our Electro-Optical Systems Group is leveraging its technology base by pursuing commercial opportunities, including the manufacture of electro-optical modules used in corrective laser eye surgery.

Our Electro-Optical Systems Group's major products and contracts include:

- HORIZONTAL TECHNOLOGY INTEGRATION SECOND GENERATION FORWARD LOOKING INFRARED (FLIR) THERMAL IMAGING SYSTEMS (HTI). HTI is the U.S. Army's program to provide common second-generation FLIR modules to its ground-based combat platforms. Our Electro-Optical Systems Group is one of the two suppliers of these products to the U.S. Army. This technology extends targeting ranges beyond enemy weapon limits and meets the increasing need to see further on the battlefield.

- IMPROVED BRADLEY ACQUISITION SYSTEM (IBAS). We have provided this system to the U.S. Army since 1997 under a production contract that does not expire until 2005. Using our second generation FLIR technology, the Improved Bradley Acquisition Subsystem integrates a complete fire control system for the Bradley Fighting Vehicle. IBAS uses modules from the HTI program coupled with new optics and electronics to provide thermal imaging capability to the Bradley fighting vehicles.

- MAST MOUNTED SIGHT (MMS). MMS is a multisensor, fully integrated electro-optical sighting system with visible and infrared capability. Designed to be mounted above a helicopter's rotor or on a ground combat vehicle, MMS increases survivability through its capacity to identify and target potential threats in day, night, and adverse weather conditions. MMS uses a combination of high-resolution television camera, thermal imaging sensors and a laser rangefinder/designator to accomplish its mission. The imaging sensor package provides detection and recognition at night and in inclement weather, while the laser rangefinder/designator achieves precise target designation for laser-guided weapons. Mounted above the rotor of a helicopter, MMS provides natural stealth and extended standoff range by allowing the craft to hide behind existing terrain while maintaining 360-degree surveillance.

- LONG RANGE ADVANCED SCOUT SURVEILLANCE SYSTEM (LRAS3). LRAS3 provides real-time detection, recognition, identification and pinpointing of distant target locations for the U.S. Army's scout vehicles. LRAS3 bridges the gap between currently fielded systems and the Future Scout and Cavalry System. In contrast to obsolete systems that forced scouts to come within

direct-fire range of the detected threat, this system provides for long-range surveillance capabilities, increasing troop survivability.

- THERMAL IMAGING SENSOR SYSTEM (TISS). TISS is a second generation forward looking infrared targeting system for detecting threats, including floating mines, swimmers, speedboats and low flying aircraft. It features an advanced stabilization technology that results in exceptional stability, even when exposed to dynamic environments. TISS is useful in navigation and search-and-seizure operations, as well as in threat location and identification. It can provide high-

quality video for surveillance and 3-D targeting data for use with existing weapon control systems.

- STANDARD ADVANCED DEWAR ASSEMBLY II DETECTOR (SADA II). Our Electro-Optical Systems Group has been chosen to provide the SADA II as the functional cooler dewar assembly for the U.S. Army's Horizontal Technology Integration program. This program further solidifies our position as a key supplier for the Army's thermal imaging equipment.

- STANDARD ADVANCED DEWAR ASSEMBLY I DETECTOR (SADA I). Similar to the HTI, SADA I provides the common cooler dewar system for use in helicopters, including the AH-64 Apache and AH-66 Comanche.

- SURVEILLANCE AND TARGETING SYSTEMS. Our Electro-Optical Systems Group has delivered over 500 surveillance and targeting systems for the U.S. Army, Navy and Air Force and international military helicopters, surface ships and patrol boats. It is a market leader in high-resolution surveillance and targeting systems, which include exceptionally stabilized surveillance and targeting systems mounted on airborne and naval platforms.

- INFRARED UNCOOLED SENSORS. Our Electro-Optical Systems Group has established a position in the uncooled focal plane array market segment by employing advanced technology to create uncooled focal plane arrays that provide high-resolution imaging with software that makes costly cryogenic cooling unnecessary. These lower-cost sensors are used in commercial and military applications.

- DAY/NIGHT VISION BINOCULARS. Since 1995, our Electro-Optical Systems Group has been under contract to develop and manufacture these units for the U.S. and international militaries, including U.S. border patrol and special forces. As of March 31, 2002 we had approximately 1,450 units in the field. We have become recognized as one of the leaders in night vision technology.

- IMPROVED TOW ACQUISITION SYSTEM (ITAS). Our Electro-Optical Systems Group is currently the only U.S. qualified producer of two of the three critical assemblies in the TOW. The complex electro-optical system produced by our Electro-Optical Systems Group is an essential component of this premier ground antitank weapons system used by the U.S. Army and Marine Corps.

- INFRARED FOCAL PLANE ARRAYS. Focal plane arrays are the basis of many of our Electro-Optical Systems Group's products. Our Electro-Optical Systems Group has provided infrared focal plane arrays for various platforms, including the Defense Support Program satellites that were used during the Persian Gulf War. In addition to surveillance, early warning, identification and tracking, focal plane arrays are utilized in a variety of non-military space applications, such as remote sensing, earth observations and astronomy. We have the unique ability to design and manufacture focal plane arrays directly for our products, which provides

us with both a cost and technological advantage over our competition.

- LADARVISION-REGISTERED TRADEMARK-. Our Electro-Optical Systems Group is the exclusive manufacturer of electro-optical modules for the LADARVision-Registered Trademark- System manufactured by Alcon Laboratories, an international leader in laser vision correction systems. Only the LADARVision-Registered Trademark- System combines a laser radar eye tracker with narrow-beam shaping technology for the correction of near-sightedness and astigmatism. It is the only FDA-approved laser system to incorporate an eye tracker during surgery. This partnership is an example of our ability to find commercial applications for our technology.

Our Electro-Optical Systems Group's products, their applications and platforms or end-users are summarized in the table below:

PRODUCT	DESCRIPTION	PLATFORMS/CUSTOMERS
Horizontal Technology Integration Second Generation FLIR Thermal Imaging Systems	Second Generation Forward Looking Infrared thermal imaging and sighting systems providing common thermal imaging technology across ground vehicles using SADA II.	- U.S. Army and Marine Corps M1 Battle Tanks - U.S. Army M2 Bradley Fighting - U.S. Army M1025 and M1114 Long Scouts
Improved Bradley Acquisition System	Second Generation targeting system with FLIR, TV, laser range finder and tracker.	- U.S. Army Bradley M2A3 vehicle
Mast-Mounted Sight	First Generation surveillance and targeting system for detecting, identifying and destroying enemy targets during reconnaissance missions.	- U.S. Army OH-58D Kiowa Warrior helicopter fleet
Long Range Advanced Scout Surveillance System (LRAS3)	Long-range multi-sensor system for the U.S. Army's scout vehicles, which provide real- time detection, recognition, identification and location of ground targets.	- U.S. Army HMMWV Scout
AN/SAY-1 Thermal Imaging Sensor System	Second Generation Forward Looking Infrared surveillance and targeting system for detecting threats, including floating mines, swimmers, speedboats and low flying aircraft.	- U.S. Navy frigates and other s combatants - U.S. Special Operations Comman non-U.S. navies, special opera and patrol boats
Standard Advanced Dewar Assembly I (SADA I)	Detector Dewar cooler module for U.S. Army's Thermal Imaging equipment.	- U.S. Army AH-64 Apache, Apache and RAH-66 Comanche helicopter
Standard Advanced Dewar Assembly II (SADA II)	Detector Dewar cooler assembly for U.S. Army's HTI program, used in Second Generation thermal imaging equipment upgrades.	- U.S. Army HTI program for grou combat vehicles (M1 tanks and combat vehicles)
Nightstar-Registered Trademark- Day/Night Vision Binoculars	Binoculars that incorporate an image intensifier tube, laser range finder and digital compass.	- U.S. Army ground troops an operations units - Border patrol forces
Improved Tow Acquisition System (ITAS)	Tracker, electronics unit and eye-safe laser range finder.	- U.S. Army TOW missile system
Focal Plane Arrays (FPAs)	Infrared sensor components for sighting, targeting, weapons systems.	- Scanning and staring FPAs used cooler assemblies of thermal ima systems - FPAs used in heat seeking miss guidance systems and missile w systems

LADARVision-Registered	Trademark- Upper optics modules of the LADARVision-Registered Trademark- System used in laser vision correction surgery.	- Alcon Laboratories optical pro company

PRODUCT	DESCRIPTION	PLATFORMS/CUSTOMERS
NightHawk	Second Generation Forward Looking Infrared surveillance and targeting system for detecting, identifying and destroying enemy targets during armed helicopter reconnaissance missions.	- Korean Light Helicopter - Mast-Mounted Sight Upgrade for replacement of MMS on Kiowa Wa helicopter
Virtual Imaging System for Approach and Landing	Aircraft carrier surveillance and tracking system for aircraft takeoffs and landings.	- U.S. Navy aircraft carriers an amphibious operation ships
Space-Based Sensors	Focal plane arrays for strategic space applications.	- NASA platforms, such as the Hu Space Telescope, weather satel and surveillance satellites fo sensing missions
Uncooled Focal Plane Arrays	Affordable infrared sensors for commercial and military applications involving the detection of heat, temperature maintenance and short-range surveillance.	- Various customers and various applications, including resear organizations, fire department short- range military surveill targeting systems, gunsights a soldier systems
Staring Mid-Wave FLIRs	Major subsystem for surveillance and targeting systems for military airborne and surface ships.	- U.S. Navy Aegis destroyers (DD class) providing surveillance MK-46 weapon system

FLIGHT SAFETY AND COMMUNICATIONS GROUP. Our Flight Safety and Communications Group is a leader in deployable flight incident recorders and emergency locator beacon systems used by military and commercial search/rescue aircraft to locate downed aircraft. Deployable recorders eject automatically from an aircraft prior to impact so they can easily be located by search and rescue teams. These complete emergency avionics systems combine the functionality of a crash locator beacon with a flight incident recorder for search, recovery and crash analysis. Our Flight Safety and Communications Group also produces high-performance cockpit video and mission recording systems, integrated shipboard and data link communications systems, ultra high-speed digital imaging systems and other advanced electronics primarily for defense and aerospace tactical, reconnaissance and training applications. Our Flight Safety and Communications Group uses commercial technology in the design and manufacture of multi-sensor digital, analog and video data capture and recording products, as well as high-capacity data storage devices for harsh aerospace and defense environments. In addition, we provide electronics manufacturing services, often with value-added engineering content, to the defense and space industries.

Our Flight Safety and Communications Group major products and services include:

- DEPLOYABLE FLIGHT INCIDENT RECORDERS AND AIRCRAFT CRASH LOCATOR BEACONS. Designed to avoid the destruction associated with an aircraft crash. Deployable flight incident recorders and crash locator beacons enable the rapid location of downed aircraft, timely rescue of survivors, as well as provide for readily recoverable data from the recorders. These

systems present a significant market opportunity as an increasing number of aircraft incorporate these advanced systems.

- INTEGRATED SHIPBOARD COMMUNICATIONS SYSTEMS. These systems form the basis for the voice and data backbone of future shipboard communication systems. They handle shipboard interior communications and exterior communications with other aircraft, surface and undersea vessels and UHF/VHF and broadband communications via satellite with shore stations and cooperating units in battle groups. These systems provide enabling technology for battlefield systems integration by providing data links to components and systems, modems, digital telephone and radar surveillance systems.

- MULTIPLE PLATFORM BORESIGHTING EQUIPMENT (MPBE). The MPBE is the product of 20 years of experience with boresighting technology. With deployment on platforms such as the U.S. Army's AH-64 Apache and Apache Longbow helicopters, the Marine Corps' Cobra helicopters, the Air Force's AC-130 Spectre gunship and the F-16, the MPBE is evidence of our ability to leverage products and solutions across multiple high priority platforms.

Our Flight Safety and Communications Group's products, their applications and platforms or end-users are summarized in the table below:

PRODUCT	DESCRIPTION	PLATFORMS/CUSTOMERS
EAS 3000 Emergency Avionics Systems	Deployable, crash-survivable systems for helicopters incorporating flight data recorder, cockpit voice recorder and emergency locator beacon.	- U.K. Royal Air Force & U.K. Na EH-101 Merlin and variants - Canadian Cormorant search and helicopters - Italian MMI helicopter - Tokyo metropolitan police heli
ELB 3000 Emergency Locator Beacon	Variant of the EAS 3000 enabling rapid location of downed aircraft and timely rescue of survivors.	- U.S. Army Sikorsky S-92 helico - Various helicopters flown by commercial North Sea heavy lift operators
Deployable Flight Incident Recorders Systems	Deployable systems for fixed-wing aircraft incorporating flight data recorder, cockpit voice recorder and emergency locator beacon; variant used for cockpit voice recording.	- U.S. Navy and international F/ Hornet strike aircraft - German Air Force/Navy Tornado - U.S. Air Force RC-135 surveill aircraft - Canadian CP-140 Aurora patrol
Aircraft Crash Locator Beacons	Deployable systems for fixed-wing aircraft incorporating radio transmitter and power source to alert search and rescue operators.	- Wide variety of military aircr including P-3, EA-3, AWACS, C-13 others
Cockpit Video Recorders	Capture various sensor and video input to provide airborne and ground imagery.	- U.S. Air Force A-10 Thunderbol - U.S. Army OH-58D Kiowa Warrior Helicopters
Mission Recorders	Digital recorders with ground-based relay stations that capture and record mission sensor data, including sonar, radar, sonobuoy data.	- U.S. Navy P-3C Orion and S-3 V patrol aircraft - Japanese Navy SH-60F Inner Zon helicopters - Canadian armored reconnaissanc vehicles
Multiplexed Airborne Video Analysis System	System for replay and reconstruction of mission data.	- U.K. Ministry of Defence for t Tornado aircraft
Airborne Separation Video System	Digital Imaging System designed to replace high-speed film cameras in weapons release testing.	- U.S. Navy F/A-18 Hornet aircra - U.S. Air Force F-16 and F-15 - Republic of Korea Air Force

Common Boresight System	DRS proprietary laser-based triaxial measurement system with aircraft-specific adapters.	- U.S. Army, Marine Corps and U. Force aircraft - Various Boeing-produced aircra - Various BAE-produced aircraft - NATO militaries

PRODUCT	DESCRIPTION	PLATFORMS/CUSTOMERS
Integrated Shipboard Communications Sys-tems	Tactical and secure interior ship communication systems.	- USS George Washington - Canadian patrol frigates, Trum destroyers and AOR supply ship - Venezuelan Mariscal Sucre clas - U.S. Navy Aegis class ships
Communications Data Links	Data terminal sets and data modems for tactical network interconnections.	- NATO ships and aircraft
Coastal Border Sur-veillance Systems	Surveillance systems and radar equipment for non-portable and vehicle platform use, comprising radar, thermal imaging and other sensor equipment.	- U.S. government foreign milita funding programs associated with Republic of China, Greece, Egy Israel
Sensor Signal Process-ing/Electro-Optical Imaging	Sophisticated sensor signal processing subsystems for naval infrared search-and- track and thermal observation devices.	- Joint Dutch/Canadian SIRIUS pr - Canadian Department of Nationa Defence - Republic of Korea
Framing and Ballistic Range Cameras	Ultra high-speed cameras used primarily for capturing images relating to electrical breakdown/discharge, ballistics, detonics combustion and automated high-speed manufacturing.	- Wide variety of military, indu and scientific research laborato
Electronic Manufac-turing and Integration Services	Electronic manufacture of DRS products and turn-key manufacturing services for other manufacturers in the aerospace, defense and space markets.	- Boeing spacecraft - Smiths Industries for F/A-18 a aircraft - Eastman Kodak spacecraft - General Motors Defense Light A Vehicle - Northrop Grumman - Lockheed Martin - Honeywell - L-3 Communications

OTHER. "Other" includes the activities of DRS Corporate Headquarters, DRS Ahead Technology and certain of our non-operating subsidiaries. DRS Ahead produces magnetic head components used in the manufacturing process of computer disk drives, which burnish and verify the quality of disk surfaces. DRS Ahead also services and manufactures video heads used in broadcast television equipment (DRS Ahead Technology was sold on May 29, 2002. See Subsequent Events below).

BUSINESS STRATEGY

Our goal is to continually improve our position as a leading supplier of defense electronics products and systems. Our strategies to achieve our objectives include:

- LEVERAGE INCUMBENT RELATIONSHIPS. We intend to leverage our relationships with government and industry decision-makers by continuing to deliver high levels of performance on our existing contracts. Our experience has shown that strong performance on existing contracts greatly enhances our ability to obtain additional business with existing customers. To accomplish this, we intend to continue to position ourselves as the "best value" provider for our customers. Our strong internal revenue growth rate over the past five years reflects our ability to generate repeat business from existing customers.

- DEVELOP AND EXPAND EXISTING TECHNOLOGIES. Through a combination of customer-funded research and development and our own internal research and development efforts, we intend to continue to focus on the development and commercialization of our technology. Customer-funded development contracts enable us to work with our customers to design and manufacture new systems and components, while minimizing financial risk. In fiscal year 2002, our total research and development spending was $45.8 million, with $36.2 million funded by our customers.

- PURSUE STRATEGIC ACQUISITIONS. We plan to continue participating in the ongoing consolidation of the aerospace and defense industry. Through selective acquisitions, we aim to broaden our existing product base and enhance our ability to enter new markets. Through teaming agreements, joint ventures and strategic alliances, we intend to continue to exploit specific programs and product opportunities to obtain new contracts and expand our global reach. Our recent acquisition of the Sensors and Electronic Systems business from The Boeing Company is consistent with this strategy.

- CONTINUE TO REACT QUICKLY TO THE CHANGING DEFENSE ENVIRONMENT. In addition to being well positioned for conventional warfare roles, we intend to continue to adapt our products, such as thermal imaging, ruggedization and communication products, to address evolving military requirements such as rapid deployment and containment of non-conventional threats such as terrorism.

- PURSUE SELECTIVE COMMERCIAL OPPORTUNITIES. We seek to identify and pursue commercial applications for selected products and technologies where we can add value based on our related technological and manufacturing expertise. An example of this is our LADARVision-Registered Trademark- program that was developed through our Electro-Optical Systems Group.

RECENT ACQUISITIONS

On September 28, 2001, we acquired certain assets and assumed certain liabilities of the Sensors and Electronic Systems business of The Boeing Company (SES Business), for approximately $60.1 million in cash, net of a $7.0 million favorable working capital adjustment received in the fourth quarter of fiscal 2002, and $4.0 million in acquisition-related costs. Production, engineering and management of the contracts acquired in the SES acquisition have been assigned, based on operational synergies, to two previously existing Electro-Optical Systems Group operating units, as well as to a new

operating unit called DRS Sensors & Targeting Systems, Inc. (DRS STS). DRS STS was created as a result of the SES Acquisition, and it is also an operating unit of EOSG.

SES designs, manufactures and services helicopter and surface ship mounted surveillance and targeting systems designed for use by the U.S. and allied governments. SES produces state-of-the-art focal plane arrays, dewar assemblies

and forward-looking infrared sensors. Key programs include:

- Mast Mounted Sight--a sensor system mounted atop the Kiowa Warrior scout helicopter;

- Thermal Imaging Sensor System--an electro-optical surveillance and targeting system used on surface ships;

- Virtual Imaging System for Approach and Landing--provides aircraft carriers with imaging capabilities; and

- Directed Infrared Countermeasures--a cooperative effort between the U.S. Department of Defense and the United Kingdom Ministry of Defense to defend aircraft against guided missile threats.

SES' products are also used in remote sensing applications for military and commercial space missions, as well as in other classified applications.

On August 22, 2001, we acquired certain assets and liabilities of the Electro-Mechanical Systems Unit of Lockheed Martin Corporation for approximately $4.0 million in cash, subject to adjustment. This unit now operates as DRS Surveillance Support Systems, Inc. (DRS SSS), a unit of our Electronic Systems Group, and is located in Largo, Florida. DRS SSS produces pedestals and support systems and antennae for radar and other surveillance sensor systems. This acquisition provides certain product synergies and vertical business integration opportunities for us.

SUBSEQUENT EVENTS

On May 28, 2002, we announced that we signed a definitive agreement to acquire the assets and certain liabilities of the Navy Controls Division of Eaton Corporation (NCD) for $92.2 million in cash. We will finance the acquisition with existing cash on hand. NCD, located in Milwaukee, Wisconsin, and Danbury, Connecticut, is a leading supplier of high-performance power conversion and instrumentation and control systems for the U.S. Navy's combatant fleet, including nuclear-powered and conventionally powered ships, in addition to specialized customers. Products include ship electric propulsion equipment, power electronics equipment, high-performance networks, shipboard control equipment and control panels, tactical displays and specialty reactor instrumentation and control equipment. NCD will be managed as a part of our Electronic Systems Group. The acquisition is subject to customary closing conditions, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act. We expect to complete the acquisition in June or July of fiscal 2003.

On May 29, 2002, we announced that we sold the assets of our DRS Ahead Technology operating unit. DRS Ahead Technology contributed approximately 2% of consolidated revenues in fiscal 2002, 2001 and 2000, and recorded operating (losses)/income of $(369,000), $70,000 and $(749,000) in fiscal 2002, 2001 and 2000, respectively. The operating unit was sold at book value.

CUSTOMERS

We sell a significant portion of our products to agencies of the U.S. government, primarily the Department of Defense, to foreign government agencies or to prime contractors or their subcontractors. Approximately 78%, 78% and 80% of total consolidated revenues for fiscal 2002, 2001 and 2000, respectively, were derived directly or indirectly from defense contracts for end use by the U.S. government and its agencies. See Foreign Operations and Export Sales below for information concerning sales to foreign governments.

BACKLOG

The following table sets forth our backlog by major product group (including enhancements, modifications and related logistics support) at the dates indicated. Backlog refers to the aggregate revenues remaining to be earned at a specified date under contracts held by us, including, for U.S. government contracts, the extent of the funded amounts under such a contract, which have been appropriated by Congress and allotted to the contract by the procuring government agency. Our backlog does not include the full value of contract awards nor does it include the sales value of unexercised options that may be exercised in the future. Backlog also includes all firm orders for commercial products. Fluctuations in backlog generally relate to the timing and amount of defense contract awards.

	MARCH 31,		
	2002	2001	2000
	(IN THOUSANDS)		
U.S. government	$468,931	$363,777	$303,600
Foreign government	93,557	55,388	56,200
	562,488	419,165	359,800
Commercial products	32,780	37,339	28,300
	$595,268	$456,504	$388,100

RESEARCH AND DEVELOPMENT

We conduct research and development programs to maintain and advance our technology base. Our research and development efforts are funded by both internal sources and as part of customer-funded development contracts. We recorded revenues for customer-sponsored research and development of approximately $36.2 million, $32.9 million, and $23.5 million for fiscal 2002, 2001 and 2000, respectively. Such customer-sponsored activities are primarily the result of contracts directly or indirectly with the U.S. government. We also invest in internal research and development. Such expenditures were approximately $9.5 million, $8.0 million and $9.9 million for fiscal 2002, 2001 and 2000, respectively.

CONTRACTS

A significant portion of our revenue is derived from strategic, long-term programs and from programs for which we are the incumbent supplier or have been the sole or dual supplier for many years. A large percentage of our revenue is derived from programs that are in the production phase. These contracts provide us with a strong basis for projecting future business and the ability to control our cost structure.

We have a diverse business mix with limited dependence on any single program. Only one program, the AN/UYQ-70, at approximately 20%, represented more than 15% of our revenue in the year ended March 31, 2002. The AN/UYQ-70 program is diversified, with over 50 unique products manufactured under it which are used by a diverse group of ten platforms, or customers, each of which has its own budget and requirements.

Our contracts are normally for production, service or development. Production and service contracts are typically of the fixed-price variety with development contracts currently of the cost-type variety. For the fiscal year ended March 31, 2002, 87% of our revenues came from fixed-price contracts and 13% from cost-type contracts. The consistent percentage and continued predominance of firm fixed-price contracts are reflective of the fact that production contracts comprise a significant portion of our U.S. government contract portfolio.

Fixed-price contracts may provide for a firm fixed price or they may be fixed-price incentive contracts. Under the firm fixed-price contracts, we agree to perform for an agreed-upon price. Accordingly, we derive benefits from cost savings, but bear the risk of cost overruns. Under the fixed-price incentive contracts, if actual costs incurred in the performance of the contracts are less than estimated costs for the contracts, the savings are apportioned between the customer and us. If actual costs under such a contract exceed estimated costs, however, excess costs are apportioned between the customer and us, up to a ceiling. We bear all costs that exceed the ceiling.

Cost-type contracts typically provide for reimbursement of allowable costs incurred plus a fee (profit). Unlike fixed-price contracts in which we are committed to deliver without regard to cost, cost-type contracts normally obligate us to use our best efforts to accomplish the scope of work within a specified time and a stated contract dollar limitation. In addition, U.S. government procurement regulations mandate lower profits for cost-type contracts because of our reduced risk. Under cost-plus-incentive-fee contracts, the incentive may be based on cost or performance. When the incentive is based on cost, the contract specifies that we are reimbursed for allowable incurred costs plus a fee adjusted by a formula based on the ratio of total allowable costs to target cost. Target cost, target fee, minimum and maximum fee and adjustment formulae are agreed upon when the contract is negotiated. In the case of performance-based incentives, we are reimbursed for allowable incurred costs plus an incentive, contingent upon meeting or surpassing stated performance targets. The contract provides for increases in the fee to the extent that such targets are surpassed and for decreases to the extent that such targets are not met. In some instances, incentive contracts also may include a combination of both cost and performance incentives. Under cost-plus-fixed-fee contracts, we are reimbursed for costs and receive a fixed fee, which is negotiated and specified in the contract. Such fees have statutory limits.

The percentages of revenues during fiscal 2002, 2001 and 2000 attributable to our contracts by contract type were as follows:

	FISCAL YEARS ENDED MARCH 31,		
	2002	2001	2000
Firm fixed-price	87%	94%	88%
Cost-type	13%	6%	12%

We negotiate for and generally receive progress payments from our customers of between 75-90% of allowable costs incurred on the previously described contracts. Included in our reported revenues are certain amounts which we have not billed to customers. These amounts, approximately $20.4 million, $9.5 million and $13.7 million as March 31, 2002, 2001 and 2000, respectively,

consist of costs and related profits, if any, in excess of progress payments for contracts on which revenues are recognized on a percentage-of-completion basis.

Under accounting principles generally accepted in the United States, contract costs, including applicable general and administrative expenses, are charged to work-in-progress inventory and are written off to costs and expenses as revenues are recognized. The Federal Acquisition Regulations, incorporated by reference in U.S. government contracts, provide that internal research and development costs are allowable general and administrative expenses. To the extent that general and administrative expenses are included in inventory, research and development costs also are included. Unallowable costs, pursuant to the Federal Acquisition Regulations, are excluded from costs accumulated on U.S. government contracts. Work-in-process inventory included general and administrative costs (which include internal research and development costs) of $16.3 million and $14.5 million at March 31, 2002 and 2001, respectively.

Our defense contracts and subcontracts are subject to audit, various profit and cost controls, and standard provisions for termination at the convenience of the customer. Multi-year U.S. government contracts and related orders are subject to cancellation if funds for the contract for any subsequent

year become unavailable. In addition, if certain technical or other program requirements are not met in the developmental phases of the contract, then the follow-on production phase may not be realized. Upon termination other than for a contractor's default, the contractor normally is entitled to reimbursement for allowable costs, but not necessarily all costs, and to an allowance for the proportionate share of fees or earnings for the work completed.

Upon the termination of a contract with the U.S. government, a defense contractor is entitled to reimbursement for allowable costs and an allowance for the proportionate share of fees or earnings for the work completed if the contract was not terminated due to the contractor's default. International defense contracts generally also contain comparable provisions relating to termination at the convenience of the customer.

COMPETITION

Our products are sold in markets containing competitors which are substantially larger than we are, devote substantially greater resources to research and development and generally have greater financial resources. Certain competitors are also our customers and suppliers. The extent of competition for any single project generally varies according to the complexity of the product and the dollar volume of the anticipated award. We believe that we compete on the basis of:

- the performance and flexibility of our products;

- reputation for prompt and responsive contract performance;

- accumulated technical knowledge and expertise; and

- breadth of our product line.

Our future success will depend in large part upon our ability to improve existing product lines and to develop new products and technologies in the same or related fields.

In the military sector, we compete with large and mid-tier defense contractors on the basis of product performance, cost, overall value, delivery and reputation. As the size of the overall defense industry has decreased in

recent years, the number of consolidations and mergers of defense suppliers has increased. We expect this consolidation trend to continue. As the industry consolidates, the large defense contractors are narrowing their supplier base and awarding increasing portions of projects to strategic mid- and lower-tier suppliers, and, in the process, are becoming oriented more toward systems integration and assembly. We believe that we have benefited from this trend, as evidenced by the formation of strategic alliances with several large suppliers.

PATENTS AND LICENSES

We have patents on certain of our commercial and data recording products, semi-conductor devices, rugged computer related items, and electro-optical and focal plane array products. We have certain registered trademarks, none of which are considered significant to our current operations. We believe our patent position and intellectual property portfolio, in the aggregate, is valuable to our operations. We do not believe that the conduct of our business as a whole is materially dependent on any single patent, trademark or copyright.

MANUFACTURING AND SUPPLIES

Our manufacturing processes for most of our products, include the assembly of purchased components and testing of products at various stages in the assembly process. Purchased components include integrated circuits, circuit boards, sheet metal fabricated into cabinets, resistors, capacitors, semiconductors, silicon wafers and other conductive materials, insulated wire and cables.

In addition, many of our products use machine castings and housings, motors and recording and reproducing heads. Many of the purchased components are fabricated to our designs and specifications. The manufacturing process for certain of our optic products includes the grinding, polishing and coating of various optical materials and the machining of metal components.

Although materials and purchased components generally are available from a number of different suppliers, several suppliers are our sole source of certain components. If a supplier should cease to deliver such components, other sources probably would be available; however, added cost and manufacturing delays might result. We have not experienced significant production delays attributable to supply shortages, but occasionally experience quality and other related problems with respect to certain components, such as semiconductors and connectors. In addition, with respect to our optical products, certain materials, such as germanium, zinc sulfide and cobalt, may not always be readily available.

INTERNATIONAL OPERATIONS AND EXPORT SALES

We currently sell several of our products and services internationally, such as sales to Canada, Israel, the Republic of China, Spain, Australia, and other countries in Europe and Southeast Asia. International sales are subject to export licenses granted on a case-by-case basis by the United States Department of State. Our international contracts generally are payable in United States dollars. Export sales accounted for 10% or less of total revenues in the fiscal years ended March 31, 2001 and 2000.

We operate outside the United States through our Flight Safety and Communications Group in Canada and the United Kingdom and through our Electronic Systems Group primarily in the United Kingdom.

The addition of international businesses involves additional risks for us, such as exposure to currency fluctuations, future investment obligations and changes in international economic and political environments. In addition,

international transactions frequently involve increased financial and legal risks arising from stringent contractual terms and conditions and widely different legal systems, customs and practices in foreign countries.

EXECUTIVE OFFICERS OF THE REGISTRANT

EXECUTIVE OFFICERS

The names of our executive officers, their positions and offices with us, and their ages are set forth below:

NAME	AGE	POSITION
Mark S. Newman.....	52	Chairman of the Board, President and Chief Executive Of
Paul G. Casner, Jr.....	64	Executive Vice President, Chief Operating Officer
Nina Laserson Dunn.....	55	Executive Vice President, General Counsel and Secretary
Robert F. Mehmel.....	39	Executive Vice President, Business Operations and Strat
Richard A. Schneider.....	49	Executive Vice President, Chief Financial Officer and T

MARK S. NEWMAN joined us in 1973 and was named Vice President-Finance, Chief Financial Officer and Treasurer in 1980 and Executive Vice President in 1987. In May 1994, Mr. Newman became the President and Chief Executive Officer of DRS and in August 1995 he became Chairman of the Board. Mr. Newman is a director of Congoleum Corporation, SSG Precision Optronics, Inc., Opticare Health Systems, Inc., the American Electronics Association, the New Jersey Technology Council and is a member of the Board of Governors of the Aerospace Industries Association.

PAUL G. CASNER, JR. joined us in 1993 as President of Technology Applications and Service Company, now DRS Electronic Systems, Inc. In 1994, he became one of our Vice Presidents and President of the

DRS Electronic Systems Group. In 1998, he became Executive Vice President, Operations, and in May 2000 he became our Executive Vice President, Chief Operating Officer. Mr. Casner has over 30 years of experience in the defense electronics industry and has held positions in engineering, marketing and general management.

NINA LASERSON DUNN joined us as Executive Vice President, General Counsel and Secretary in July 1997. Prior to joining us, Ms. Dunn was a Director in the corporate law department of Hannoch Weisman, a Professional Corporation, where she served as our outside legal counsel. Ms. Dunn is admitted to practice law in New York and New Jersey and is a member of the American, New York State and New Jersey State Bar Associations.

ROBERT F. MEHMEL joined us as Executive Vice President, Business Operations and Strategy, in January 2001. Before joining us, he was Director, Corporate Development, at Jabil Circuit, Inc. Prior to that, he was Vice President, Planning, at L-3 Communications Corporation from its inception in April 1997 until June 2000. Earlier, Mr. Mehmel held various positions in divisional and corporate financial management with Lockheed Martin Corporation, Loral Corporation and Lear Siegler, Inc.

RICHARD A. SCHNEIDER joined us in 1999 as Executive Vice President, Chief Financial Officer and Treasurer. He held similar positions at NAI Technologies, Inc. (NAI) and was a member of its board of directors prior to its acquisition

by us in February 1999. Mr. Schneider has over 20 years of experience in corporate financial management, including ten years with NAI.

EMPLOYEES

As of March 31, 2002, we had approximately 2,780 employees, approximately 2,330 of whom are located in the United States. None of our our employees are represented by labor unions, and we have experienced no work stoppages. Approximately 70 manufacturing employees at our Anaheim, California facility were represented by the United Autoworkers, Local 887 until April 17, 2002, when the employees voted to decertify the union. The employees were formerly employed by The Boeing Company at our Anaheim facility and represented by the union. 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.

ITEM 2. PROPERTIES

We lease the following properties:

LOCATION	ACTIVITIES	DIVISION	APPROXIMATE SQUARE FOOTAGE	EX
Parsippany, New Jersey.....	Corporate Headquarters	Corporate	18,900	Fi
Arlington, Virginia.....	Administrative	Corporate	4,300	Fi
Mineral Wells, Texas.....	Administrative, Engineering and Product Development	Corporate	40,000	Fi
Gaithersburg, Maryland.....	Administrative, Engineering and Manufacturing	ESG	42,500	Fi
Johnstown, Pennsylvania.....	Administrative and Manufacturing	ESG	130,000	Fi
San Diego, California.....	Engineering Support Services	ESG	7,200	Fi
Chesapeake, Virginia.....	Field Service and Engineering Support	ESG	22,000	Fi
Columbia, Maryland.....	Administrative, Engineering and Manufacturing	ESG	25,000	Fi
Farnham, Surrey, United Kingdom.....	Administrative, Engineering and Manufacturing	ESG	26,000	Fi
Gaithersburg, Maryland.....	Administrative, Engineering and Product Development	ESG	10,700	Fi
Palm Bay, Florida.....	Administrative, Engineering and Manufacturing	EOSG	85,200	Fi
Melbourne, Florida.....	Administrative, Engineering and Manufacturing	EOSG	104,800	Fi
Dallas, Texas.....	Administrative, Engineering and Manufacturing	EOSG	117,000	Fi
Torrance, California.....	Administrative, Engineering and Manufacturing	EOSG	33,800	Fi
Anaheim, California.....	Administrative, Manufacturing and Engineering	EOSG	61,200	Fi
Anaheim, California.....	Administrative, Manufacturing and Engineering	EOSG	106,500	Fi
Nepean, Ontario, Canada.....	Administrative and Engineering	FSCG	21,200	Fi
Kanata, Ontario, Canada.....	Administrative and Engineering	FSCG	62,000	Fi
Wyndmoor, Pennsylvania.....	Administrative and Manufacturing	FSCG	92,200	Fi
Oakland, New Jersey.....	Administrative, Engineering and	FSCG	61,000	Fi

San Jose, California.....	Manufacturing Administrative, Product Development and Manufacturing	Other	32,000	Fi

We own the following properties:

LOCATION	ACTIVITIES	DIVISION	APP S F
Largo, Florida.....	Administrative and Manufacturing	ESG	1
Carleton Place, Ontario, Canada.....	Administrative and Manufacturing	FSCG	1
Tring, Hertfordshire, United Kingdom...	Administrative, Engineering and Manufacturing	FSCG	

We believe that all our facilities are in good condition, adequate for our intended use and sufficient for our immediate needs. It is not certain whether we will negotiate new leases as existing leases expire. Such determinations will be made as existing leases approach expiration and will be based on an assessment of our requirements at that time. Further, we believe that we can obtain additional space, if necessary, based on prior experience and current real estate market conditions.

Substantially all of our assets, including those properties identified above, are pledged as collateral on our borrowings (See Note 10 to our Consolidated Financial Statements in this Form 10-K).

ENVIRONMENTAL PROTECTION

We believe that our manufacturing operations and properties are, in all material respects, in compliance with existing federal, state and local provisions enacted or adopted to regulate the discharge of materials into the environment or otherwise protect the environment. Such compliance has been achieved without material effect on our earnings or competitive position.

ITEM 3. LEGAL PROCEEDINGS

We are party to various legal actions and claims arising in the ordinary course of our business. In our opinion, we have adequate legal defenses for each of the actions and claims, and believe that their ultimate disposition will not have a material adverse effect on our consolidated financial position or results of operations.

In April and May 1998, subpoenas were issued to us by the United States Attorney for the Eastern District of New York seeking documents related to a governmental investigation of certain equipment manufactured by DRS Photronics, Inc. (DRS Photronics). These subpoenas were issued in connection with United States v. Tress, a criminal complaint against a then employee of DRS Photronics, alleging that improper test data was provided in connection with boresighting equipment furnished to the U.S. Army. On June 26, 1998, the complaint against the employee was dismissed without prejudice. Additional subpoenas were issued to us on August 12, 1999 and May 10, 2000, relating to the ongoing investigation of DRS Photronics and one or more of its then employees. On May 17, 2002, DRS Photronics announced that it had entered into a global settlement with the government, resolving all potential allegations related to the investigation.

Under the terms of the settlement, DRS Photronics agreed to pay $2.5 million in restitution and pleaded guilty to a violation of the False Claims Act.

We are currently involved in a dispute with Spar Aerospace Ltd. (Spar) with respect to the working capital adjustment, if any, provided for in the purchase agreement between us and Spar dated as of September 19, 1997, pursuant to which we acquired, through certain of our subsidiaries, certain assets of Spar. On January 11, 2002, we were notified that an arbitrator awarded Spar $4,616,000 Canadian (or approximately $2,890,000 U.S.) plus interest in respect of such working capital adjustment. As of March 31, 2002, we had accrued approximately $3.9 million, including interest, associated with the potential award. On February 5, 2002, we filed a notice of appeal of such arbitral award with the Ontario Superior Court of Justice.

On October 3, 2001, a lawsuit was filed in the United States District Court of the Eastern District of New York by Miltope Corporation, a corporation of the State of Alabama, and IV Phoenix Group, Inc., a corporation of the State of New York, against DRS Technologies, Inc., DRS Electronic Systems, Inc. and a number of individual defendants, several of whom are employed by DRS Electronic Systems, Inc. The plaintiffs allege claims against us of infringement of a number of patents, breach of a confidentiality agreement, misappropriation of trade secrets, unjust enrichment and unfair competition. The claims relate generally to the activities of certain former employees of IV Phoenix Group and the hiring of some of those employees by us. The plaintiffs seek damages of not less than $5.0 million for each of the claims. The plaintiffs also allege claims for tortious interference with business relationships, tortious interference with contracts and conspiracy to breach fiduciary duty. The plaintiffs seek damages of not less than $47.1 million for each claim. In addition, plaintiffs seek punitive and treble damages, injunctive relief and attorney's fees. In its answer, the Company has denied the plaintiffs' allegations and intends to vigorously defend this action. In February 2002, plaintiffs filed an amended complaint, which eliminated the patent infringement claims and added claims related to statutory and common law trademark infringement, which superseded plaintiffs' original complaint. Although this action is in its early stages, we believe we have meritorious defenses and we do not believe the action will have a material adverse effect on our earnings or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

We have not paid any cash dividends since 1976. We intend to retain future earnings for use in our business and do not expect to declare cash dividends on our Common Stock in the foreseeable future. The indenture relating to our bank borrowings restricts our ability to pay dividends or make other distributions on our Common Stock. See Note 10 to our Consolidated Financial Statements in this Form 10-K for information concerning restrictions on the declaration or payment of dividends. Any future declaration of dividends will be subject to the discretion of our Board of Directors. The timing, amount and form of any future dividends will depend, among other things, on our results of operations, financial condition, cash requirements, plans of expansion and other factors deemed relevant by our Board of Directors.

Effective April 30, 2002, the Company's Common Stock is traded on the New York Stock Exchange (NYSE) under the symbol "DRS". Prior to April 30, 2002, the Company's Common Stock traded on the American Stock Exchange. The following

table sets forth, for the periods indicated, the high and low reported sale price per share for DRS's Common Stock.

	FISCAL 2002		FISCAL 2001	
	HIGH	LOW	HIGH	LOW
First Quarter	$23.65	$14.50	$12.25	$ 9.88
Second Quarter	$40.00	$18.50	$16.25	$10.25
Third Quarter	$46.10	$29.80	$16.50	$12.63
Fourth Quarter	$43.10	$33.20	$18.90	$12.25

The closing sale price of our Common Stock as reported by the New York Stock Exchange on June 20, 2002 was $42.35 per share. As of that date there were 459 holders of record of the Company's Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED MARCH 31,				
	2002	2001	2000	1999	199
	(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE DATA)				
Summary of Earnings					
Revenues	$517,200	$427,606	$391,467	$265,849	$180,
Operating income	$ 49,769	$ 37,531	$ 26,178	$ 15,301	$ 14,
Earnings from continuing operations before income taxes and extraordinary item	$ 38,361	$ 24,954	$ 12,832	$ 5,780	$ 9,
Earnings from continuing operations before extraordinary item	$ 20,331	$ 11,978	$ 7,661	$ 3,865	$ 6,
Net earnings	$ 20,331	$ 11,978	$ 4,310	$ 680	$ 6,
Per-Share Data from Continuing Operations(1),(2)					
Basic earnings per share	$ 1.52	$ 1.14	$ 0.83	$ 0.58	$ 1
Diluted earnings per share	$ 1.41	$ 1.01	$ 0.76	$ 0.57	$ 0
Summary of Financial Position					
Working capital	$165,237	$ 43,686	$ 21,384	$ 13,491	$ 42,
Property, plant and equipment, net	$ 50,481	$ 37,639	$ 29,006	$ 32,124	$ 20,
Total assets	$601,091	$334,940	$320,098	$329,639	$162,
Long-term debt, excluding current installments	$138,060	$ 75,076	$ 97,695	$102,091	$ 56,
Total stockholders' equity	$257,235	$111,947	$ 78,184	$ 73,442	$ 44,
Financial Ratios and Supplemental Information					
EBIT(3)	$ 48,171	$ 36,213	$ 25,232	$ 14,787	$ 14,
EBITDA(3)	$ 61,960	$ 52,338	$ 42,302	$ 26,388	$ 20,
Free cash flow(4)	$ 14,266	$ 17,690	$ 1,217	$ 8,527	$ (6,
Net cash provided by (used in) operating activities	$ 27,849	$ 33,875	$ 7,427	$ 15,081	$ (
Capital expenditures	$ 13,583	$ 16,185	$ 6,210	$ 6,554	$ 6,
Depreciation and amortization	$ 13,789	$ 16,245	$ 17,070	$ 11,601	$ 6,
Internal research and development	$ 9,535	$ 8,027	$ 9,867	$ 5,104	$ 3,
Net debt(5)	$ 21,713	$ 79,969	$ 99,616	$ 97,904	$ 54,
Interest coverage ratio(6)	5.7x	4.6x	3.4x	2.8x	4

Long-term debt to total capitalization.....	35.1%	42.2%	51.9%	56.6%	5
Long-term debt to EBITDA.....	2.4x	1.6x	2.4x	4.1x	3
Net debt to EBITDA.....	0.4x	1.5x	2.3x	3.7x	2

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(1) Earnings per share and financial ratios from continuing operations are presented and calculated before extraordinary item in fiscal 1999.

(2) No cash dividends have been distributed in any of the years in the five-year period ended March 31, 2002.

(3) Earnings from continuing operations before extraordinary item, net interest and related expenses (primarily amortization of debt issuance costs), income taxes (EBIT), depreciation and amortization (EBITDA). EBIT and EBITDA are not substitutes for operating income, net earnings or cash flows from operating activities, as determined in accordance with accounting principles generally accepted in the United States of America, or as a measure of our profitability or liquidity. We present EBIT and EBITDA as additional information because we believe it to be a useful indicator of our ability to meet debt service and capital expenditure requirements. EBIT and EBITDA, as we define them, may differ from similarly named measures used by other entities.

(4) Net cash provided by (used in) operating activities less capital expenditures.

(5) Long-term debt net of cash balance.

(6) Ratio of EBITDA to interest and related expenses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of the consolidated financial condition and results of operations of DRS Technologies, Inc. and Subsidiaries (hereinafter, we, us, our, the Company or DRS) as of March 31,2002 and 2001, and for each of the fiscal years in the three-year period ended March 31, 2002. This discussion should be read in conjunction with the audited consolidated financial statements and related notes.

FORWARD-LOOKING STATEMENTS

The following discussion and analysis contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this report are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Persons reading this report are cautioned that risks and uncertainties are inherent in forward-looking statements. Accordingly, our actual results could differ materially from those suggested by such statements. Risks include, without limitation: the effect of our acquisition strategy on future operating results; the uncertainty of acceptance of new products and successful bidding for new contracts; the effect of technological changes or obsolescence relating to our products and services; the effects of government regulation or shifts in government policy, as they may relate to our products and services; competition; and other matters referred to in this report.

OVERVIEW

We are a leading supplier of defense electronic products and systems. We provide high-technology products and services to all branches of the U.S. military, major aerospace and defense prime contractors, government intelligence agencies, international military forces and consumer markets. Incorporated in 1968, DRS has served the defense industry for over thirty years. We are a leading provider of thermal imaging devices, combat display workstations, electronic sensor systems, ruggedized computers, mission recorders and deployable flight incident recorders. Our products are deployed on a wide range of high-profile military platforms, such as the DDG-51 Aegis destroyer, the M1A2 Abrams Main Battle Tank, the M2A3 Bradley Fighting Vehicle, the OH-58D Kiowa Warrior helicopter, the AH-64 Apache helicopter and the F/A-18E/F Super Hornet jet fighter, as well as in other military and non-military applications.

We have increased our annual revenues and operating income at compounded annual growth rates of 31% and 34%, respectively, over the last five years. In addition, from fiscal 2001 to fiscal 2002, operating income increased approximately 33% and net earnings increased approximately 70%. For the year ended March 31, 2002, we generated sales of $517.2 million and operating income of $49.8 million.

Funded backlog increased substantially in fiscal 2002, primarily as a result of our acquisitions. At March 31, 2002, our funded backlog was approximately $595.3 million, an increase of 30% from March 31, 2001. As of March 31, 2002, approximately 53% and 23% of our backlog related to products and services for the U.S. Army and U.S. Navy, respectively, as compared with 41% and 30% at March 31, 2001.

COMPANY ORGANIZATION AND PRODUCTS

We operate in three principal operating segments on the basis of products and services offered. Each operating segment is comprised of separate and distinct businesses: the Electronic Systems Group, the Electro-Optical Systems Group and the Flight Safety and Communications Group. All other operations are grouped in Other.

Our Electronic Systems Group (ESG) is a supplier of computer workstations used to process and display integrated combat information. ESG produces rugged computers and peripherals, surveillance, radar and tracking systems, radar support and antennae systems, acoustic signal processing and display equipment, and combat control systems. The Group's products are used on front-line platforms, including Aegis destroyers and cruisers, aircraft carriers, submarines and surveillance aircraft. ESG's products also are used in U.S. Army and international battlefield digitization programs

ESG provided $206.6 million, or 40% of total sales, for the year ended March 31, 2002.

Our Electro-Optical Systems Group (EOSG) produces systems and subsystems for infrared night vision and targeting on the U.S. Army's Abrams Main Battle Tanks, Bradley Fighting Vehicles, OH-58D Kiowa Warrior helicopters, Aegis destroyers and cruisers, and High-Mobility Multipurpose Wheeled Vehicle Scouts. EOSG designs, manufactures and markets these and other products that allow operators to detect, identify and target objects based upon their infrared signatures, regardless of the ambient light level. The Group is one of two key suppliers to the U.S. government for advanced focal plane array technology. In addition to the Group's military applications, EOSG also manufactures electro-optical modules for commercial devices used in corrective laser eye surgery and provides system integration for retinal scanning and imaging devices.

EOSG provided $208.2 million, or 40% of total sales, for the year ended March 31, 2002.

Our Flight Safety and Communications Group (FSCG) is a manufacturer of airborne deployable recorders and surveillance and communications systems. FSCG's products are used by U.S. and international militaries, as well as commercial customers. FSCG produces integrated naval ship communications systems, information management systems, mission recorders, coastal and border radar surveillance systems, ultra high-speed digital imaging systems for F/A-18 aircraft and industrial purposes, and multi ple-platform weapons calibration systems for air platforms, such as the AH-64 Apache attack helicopter and the AC-130U gunship. FSCG also provides electronics manufacturing services to the defense and space industries.

FCSG provided $93.2 million, or 18% of total sales, for the year ended March 31, 2002.

Other includes the activities of DRS Corporate Headquarters, DRS Ahead Technology and certain non-operating subsidiaries of the Company. DRS Ahead Technology produces magnetic head components used in the manufacturing process of computer disk drives, which burnish and verify the quality of disk surfaces. DRS Ahead Technology also services and manufactures magnetic video recording heads used in broadcast television equipment (DRS Ahead Technology was sold on May 29, 2002. See "Subsequent Events").

SUBSEQUENT EVENTS

On May 28, 2002, we announced that we signed a definitive agreement to acquire the assets and certain liabilities of the Navy Controls Division of Eaton Corporation (NCD) for $92.2 million in cash. We will finance the acquisition with existing cash on hand. NCD, located in Milwaukee, Wisconsin, and Danbury, Connecticut, is a leading supplier of high-performance power conversion and instrumentation and control systems for the U.S. Navy's combatant fleet, including nuclear-powered and conventionally powered ships, in addition to specialized customers. Products include ship electric propulsion equipment, power electronics equipment, high-performance networks, shipboard control equipment and control panels, tactical displays and specialty reactor instrumentation and control equipment. NCD will be managed as a part of our Electronic Systems Group. The acquisition is subject to customary closing conditions, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act. We expect to complete the acquisition in June or July of fiscal 2003.

On May 29, 2002, we announced that we sold the assets of our DRS Ahead Technology operating unit. DRS Ahead Technology contributed approximately 2% of consolidated revenues in fiscal 2002,

2001 and 2000, and recorded operating (losses)/income of $(369,000), $70,000 and $(749,000) in fiscal 2002, 2001 and 2000, respectively. The operating unit was sold at book value.

DISCONTINUED OPERATIONS

On May 18, 2000, our Board of Directors approved an agreement to sell our magnetic tape head business units located in St. Croix Falls, Wisconsin, and Razlog, Bulgaria. These operations produced primarily magnetic tape recording heads for transaction products that read data from magnetic cards, tapes and ink. In fiscal 2000, in anticipation of the sale, we recorded a $2.1 million charge, net of tax, on the disposal of these operations. The magnetic tape head business units recorded a $1.3 million loss from discontinued operations for the

fiscal year ended March 31, 2000. On August 31, 2000, we completed the sale of these business units. The sale of the magnetic tape head business was a strategic decision by us to focus our resources on our core defense businesses. All financial information presented in this discussion and analysis reflects these business units as discontinued operations.

BUSINESS COMBINATIONS

The following summarizes certain business combinations and transactions we completed which significantly affect the comparability of the period-to-period results presented in this discussion and analysis.

The acquisitions discussed below have been accounted for using the purchase method of accounting. Accordingly, the results of operations of the acquired businesses were included in our reported operating results from their respective effective dates of acquisition.

FISCAL 2002 TRANSACTIONS On September 28, 2001, we acquired certain assets and liabilities of the Sensors and Electronic Systems business of The Boeing Company (SES business). We paid approximately $60.1 million in cash, net of a $7.0 million favorable working capital adjustment received in the fourth quarter of fiscal 2002, and $4.0 million in acquisition-related costs. Based upon preliminary allocations, we have estimated the goodwill and acquired intangible assets to be approximately $64.6 million and $14.0 million, respectively. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (see Critical Accounting Policies below), goodwill is no longer amortized. The acquired intangible assets with finite lives are being amortized on a straight-line basis over approximately 17 years. The purchase price allocation is subject to change, as we are in the process of refining our estimates to complete on certain acquired contracts. We will finalize the purchase price allocation in the second quarter of fiscal 2003.

SES, located in Anaheim, California, is a leading provider of advanced electro-optical airborne and naval surveillance and targeting systems, high-performance military infrared cooled sensor systems, and infrared uncooled sensor products for military and commercial applications. Production, engineering and management of the contracts acquired in the SES acquisition have been assigned, based on operational synergies, to two previously existing Electro-Optical Systems Group operating units, as well as to a new operating unit called DRS Sensors & Targeting Systems, Inc. (DRS STS). DRS STS was created as a result of the SES acquisition, and it is also an operating unit of EOSG. This acquisition broadens the product lines and customer base of EOSG, particularly in those areas associated with naval and air-based applications, and provides a strong complement to our existing products in ground-based Forward Looking Infrared technology.

On August 22, 2001, we acquired certain assets and liabilities of the Electro Mechanical Systems unit of Lockheed Martin Corporation for approximately $4.0 million in cash, subject to adjustment, and approximately $300,000 in acquisition-related costs. This unit now operates as DRS Surveillance Support Systems, Inc. (DRS SSS), a unit of our Electronic Systems Group, and is located in Largo, Florida. DRS SSS produces pedestals, support systems and antennae for radar and other surveillance

sensor systems. This acquisition provides certain product synergies and vertical business integration opportunities for us.

FISCAL 2001 TRANSACTION On June 14, 2000, we acquired the assets of General Atronics Corporation for $7.5 million in cash and $4.0 million in stock (approximately 355,000 shares of our common stock), and approximately $420,000

in acquisition-related costs. Located in Wyndmoor, Pennsylvania, and now operating as DRS Communications Company, LLC, the company designs, develops and manufactures military data link components and systems, high-frequency communication modems, tactical and secure digital telephone components and radar surveillance systems for U.S. and international militaries. We recorded approximately $6.8 million of goodwill in connection with this acquisition.

FISCAL 2000 TRANSACTION On July 21, 1999, we acquired Global Data Systems Ltd. and its wholly-owned subsidiary, European Data Systems Ltd., for approximately $7.8 million in cash. The company designs and develops rugged computers and peripherals primarily for military applications. We recorded approximately $8.7 million in goodwill in connection with this acquisition.

We selectively target acquisition candidates that complement or expand our product lines, services or technical capabilities. We continue to seek acquisition opportunities consistent with our overall business strategy.

RESTRUCTURING

During the third and fourth quarters of fiscal 2000, we announced plans to restructure our operations, which resulted in restructuring charges totaling approximately $2.2 million. Our restructuring initiatives impacted our FSCG operating segment and DRS Corporate. FSCG recorded restructuring charges totaling approximately $1.6 million at its DRS Photronics, Inc., DRS Hadland Ltd. and DRS Precision Echo, Inc. operating units for facility consolidation, severance and other employee-related costs. In addition, DRS Corporate recorded a restructuring charge of approximately $560,000 for severance and other employee-related costs. Severance and other employee costs were recorded in connection with the termination of 13 employees. As of March 31, 2000, all terminations had occurred.

	LIABILITY AT MARCH 31, 2000	FISCAL 2001 CHARGES	UTILIZED IN FISCAL 2001	LIABILITY AT MARCH 31, 2001
			(IN THOUSANDS)	
Estimated lease commitments and related facility costs.....	$ 328	$525	$396	$457
Severance/employee costs.....	690	--	434	256
Total.....	$1,018	$525	$830	$713

In the third quarter of fiscal 2001, we revised estimate relating to our facility consolidation efforts and recorded an additional charge of $525,000 at FSCG. table above reconciles the restructuring liability at March 31, 2000 to the restructuring liability at March 31, 2002 The balance of the restructuring liability at March 31, 2002 will be utilized in the first quarter of fiscal 2003.

CRITICAL ACCOUNTING POLICIES

The SEC recently issued disclosure guidance for "critical accounting policies." The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following is not intended to be a comprehensive list of all of our accounting policies. Our significant accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

We have identified the following accounting policies as critical to us:

REVENUE RECOGNITION ON CONTRACTS AND CONTRACT ESTIMATES Revenues related to long-term, firm fixed-price contracts, which principally provide for the manufacture and delivery of finished units, are recognized as shipments are made and, in certain circumstances, when all applicable revenue recognition criteria are met, prior to shipment to the customer. The estimated profits applicable to shipments are recorded pro rata based upon estimated total profit at completion of the contracts.

Revenues on contracts with significant engineering as well as production requirements are recorded using the percentage-of-completion method measured by the costs incurred on each contract to estimated total contract costs at completion (cost-to-cost) with consideration given for risk of performance and estimated profit.

Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions, which increase or decrease earnings based solely on a single significant event, generally are not recognized until the event occurs.

Recognition of profit on long-term contracts requires estimates of: the contract value or total contract revenue; the total cost at completion; and the measurement of progress towards completion. The estimated profit or loss on a contract is equal to the difference between the contract value and the estimated total cost at completion. Due to the long-term nature of our programs, developing the estimated total cost at completion often requires significant judgment. Factors that must be considered in estimating the work to be completed include labor productivity and availability of labor, the nature and complexity of the work to be performed, availability of materials, the impact of delayed performance, availability and timing of funding from the customer, and the recoverability of claims included in any estimate to complete.

We review cost performance and estimates to complete on our ongoing and acquired contracts at least quarterly and in many cases more frequently. If the estimated cost to complete a contract changes from the previous estimate, we will record a positive or negative adjustment to earnings in the current period. We record contracts acquired in connection with a business combination at remaining contract value less our estimate of costs to complete and a profit margin commensurate with the profit margin we earn on similar contracts. Revisions to cost estimates subsequent to the date of acquisition may be recorded as an adjustment to goodwill or earnings, depending on the nature and timing of the revision. A significant change in an estimate on one or more programs could have a material effect on our statement of financial position and results of operations.

We provide for future warranty costs upon product delivery with warranty periods generally ranging up to one year. Because our products are manufactured, in many cases, to customer specifications requiring significant engineering, we

historically have experienced minimal warranty costs. We expect that this trend will continue.

We often enter into contracts that provide for significant engineering as well as the production of finished units with the expectation that we will incur substantial up-front costs to engineer the product to meet customer specifications. These arrangements typically provide us the opportunity to be awarded

add-on contracts requiring the delivery of additional finished units. Our ability to recover up-front costs and earn a reasonable overall profit margin often is contingent on our ability to recover the up-front costs over multiple deliverable awards. Prior to entering into such arrangements, we estimate the amount of up-front costs to be incurred and evaluate the likelihood of being awarded the add-on contracts. Inaccurate estimates of upfront costs, coupled with the failure to obtain or delays in obtaining add-on contracts, could have a material effect on the timing of revenue and/or profit recognition.

GOODWILL AND INTANGIBLE ASSETS In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires that goodwill and identifiable intangible assets with indefinite useful lives no longer be amortized, but tested for impairment annually. SFAS 142 also requires the amortization of identifiable intangible assets with finite lives, although the statement no longer limits the amortization period to 40 years. Identifiable intangible assets that are subject to amortization are to be tested for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long- Lived Assets" (see Long-lived Assets and Intangible Assets below). As of March 31, 2002, we had $142.6 million of net goodwill and $34.1 million of net acquired identifiable intangible assets subject to amortization and no identifiable intangible assets with indefinite lives. In accordance with SFAS 142, goodwill is to be tested for impairment at a level of reporting referred to as a "reporting unit."

We elected to early-adopt the provisions of SFAS 142 as of April 1, 2001 and have identified our reporting units to be our operating segments. We have determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of April 1, 2001. In connection with our adoption of SFAS 142, we were required to perform a transitional goodwill impairment assessment within six months of adoption. We completed the transitional goodwill impairment assessment with no adjustment to the carrying value of our goodwill as of April 1, 2001. The annual impairment test is performed after completion of our annual financial operating plan, which occurs in the fourth quarter of our fiscal year. We completed our annual impairment test with no adjustment to the carrying value of our goodwill as of March 31, 2002.

The annual goodwill impairment assessment involves estimating the fair value of the reporting unit and comparing it with its carrying amount. If the carrying value of the reporting unit exceeds its fair value, additional steps are followed to recognize a potential impairment loss. Calculating the fair value of the reporting units requires significant estimates and assumptions by management. Should our estimates and assumptions regarding the fair value of our reporting units prove to be incorrect, we may be required to record an impairment loss to our goodwill in future periods and such impairment loss could be material. We estimate the fair value of our reporting units by applying third party market value indicators to the reporting unit's projected revenues, earnings before net interest and taxes (EBIT), and earnings before net interest, taxes, depreciation and amortization (EBITDA), and calculating an average of the three extended market values.

LONG-LIVED ASSETS AND ACQUIRED INTANGIBLE ASSETS We assess the recoverability of our long-lived assets and acquired identifiable intangible assets with finite useful lives whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Factors we consider important which could trigger an impairment review include:

- Significant under performance relative to expected historical performance or projected future operating results;

- Significant changes in the manner or use of the acquired assets or the strategy of our overall business;

- Significant adverse changes in the business climate in which we operate; and

- Loss of a significant contract.

If we determine that the carrying value of the long- lived assets and identifiable intangible assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we would measure any impairment based on the projected undiscounted cash flows, less the carrying amount of the asset. If the expected future cash flows were less than the carrying value of the asset, we would record an impairment loss based on the difference between the estimated fair value and the carrying value.

VALUATION OF DEFERRED TAX ASSETS AND LIABILITIES At March 31, 2002, we had net deferred tax assets of $13.9 million representing net operating loss carryforwards, which are subject to various limitations and will expire if unused within their respective carryforward periods. As of March 31, 2002, we have provided a $5.4 million valuation allowance against our net deferred tax assets. Deferred taxes are determined separately for each of our tax paying entities in each tax jurisdiction. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback and carryforward periods available under the tax law. Based on our estimates of the amounts and timing of future taxable income, we believe we will realize our recorded net deferred tax assets. A change in the ability of our operations to continue to generate future taxable income could affect our ability to realize the future tax deductions underlying our net deferred tax assets and require us to increase our valuation allowance against our net deferred tax assets. Such changes, if significant, could have a material impact on our effective tax rate, results of operations and financial position in any given period.

MANAGEMENT ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent expenses during the reporting period. Some of the more significant estimates made by management involve percentage of completion on long-term contracts, recoverability of long-lived and intangible assets, and the valuation of deferred tax assets and liabilities, as discussed above. We also make estimates regarding the recoverability of assets, including accounts receivable and inventories and for litigation and contingencies.

A substantial majority of our revenues and, consequently, our outstanding accounts receivables are directly or indirectly with the United States government. Therefore, our risk of not collecting amounts due us under such arrangements is minimal. We generally require letters of credit or deposit

payments prior to the commencement of work or obtain progress payments upon the achievement of certain milestones from our other commercial customers. In addition, our revenues are supported by contractual arrangements specifying the timing and amounts of payments. Consequently, we historically have experienced and expect to continue to experience a minimal amount of uncollectible accounts receivable. Changes in the underlying financial condition of our customers or changes in the industry in which we operate necessitating revisions to our standard contractual terms and conditions could have an impact on our results of operations in the future.

Our inventory consists of work-in-process, raw materials and finished goods, including subassemblies principally for use in our products. We continually evaluate the adequacy of our reserves on our raw materials and finished goods inventory by reviewing historical rates of scrap, on-hand quantities, as compared with historical and projected usage levels and other anticipated contractual requirements.

We record a liability pertaining to pending litigation based on our best estimate of potential loss, if any, or at the minimum end of the range of loss in circumstances where the range of loss reasonably

can be estimated. Because of uncertainties surrounding the nature of litigation and the cost to us, if any, we continually revise our estimated losses as additional facts become known.

RESULTS OF OPERATIONS

Our operating cycle is long-term and involves various types of production contracts and varying production delivery schedules. Accordingly, operating results of a particular year, or year-to-year comparisons of recorded revenues and earnings, may not be indicative of future operating results. The following comparative analysis should be viewed in this context.

FISCAL YEAR ENDED MARCH 31, 2002 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2001

Revenues and operating income for the year ended March 31, 2002 were $517.2 million and $49.8 million, respectively, increasing approximately $89.6 million and $12.2 million, respectively, as compared with the prior fiscal year. The increase in revenues was driven by our fiscal 2002 second quarter acquisitions of the SES business and DRS SSS, increased shipments of our second generation infrared sighting and targeting systems, and combat display workstations, as well as a complete fiscal year of revenues generated by DRS Communications Company, which we acquired at the end of the first quarter of fiscal 2001. The 33% increase in operating income was due primarily to the overall increase in revenues and the impact of our fiscal 2002 first quarter adoption of SFAS 142 (see Note 3 of Notes to Consolidated Financial Statements). In accordance with the provisions of these standards, we ceased amortizing goodwill effective April 1, 2001. The adoption of SFAS 142 contributed approximately $4.7 million to our fiscal 2002 operating income. Had SFAS 142 been effective in the prior year, our operating income would have been $5.3 million higher for the year ended March 31, 2001. Partially offsetting the increase in operating income was the impact of certain charges at our operating segments (see discussion of operating segments below for additional information).

Interest income increased approximately $942,000 to $1.1 million for the year ended March 31, 2002, as compared with the prior fiscal period. The increase in interest income reflects a higher average cash and cash equivalents balance in fiscal 2002, due to our secondary common stock offering in the third quarter of this fiscal year.

Interest and related expenses decreased approximately $507,000 for the year ended March 31, 2002, as compared with the prior fiscal year period. The decrease in interest expense in fiscal 2002 was primarily the result of an overall decrease in average working capital borrowings outstanding during the year, the favorable impact of the conversion of all of our 9% Senior Subordinated Convertible Debentures during the second half of fiscal 2001 and an overall decrease in weighted average interest rates in fiscal 2002, as compared with fiscal 2001. The overall decrease in average working capital borrowings in fiscal 2002 was due to our repayments of amounts outstanding under our revolving credit line with proceeds from our secondary common stock offering. As of March 31, 2002, we had no borrowings outstanding under our revolving credit facility. Partially offsetting the overall decrease in interest and related expenses were interest charges of approximately $1.6 million associated with actual and estimated working capital adjustments in connection with certain previous acquisitions (See Note 3 of Notes to Consolidated Financial Statements).

Minority interest was approximately $1.6 million and $1.4 million in fiscal 2002 and 2001, respectively. The increase was due to higher operating income generated by ESG's DRS Laurel Technologies unit, in which we have an 80% interest.

The provision for income taxes for the year ended March 31, 2001 reflects an annual estimated effective income tax rate of approximately 47%, as compared with 52% in the prior fiscal year. The decrease in our effective tax rate is primarily due to the cessation of goodwill amortization pursuant to the adoption of SFAS 142. It is anticipated that our effective tax rate will decline moderately in future years as we continue to grow.

EBITDA for the year ended March 31, 2002 was $62.0 million, an increase of approximately 18% over the prior fiscal year. EBITDA is not a substitute for operating income, net earnings or cash flows from operating activities, as determined in accordance with accounting principles generally accepted in the United States of America, or as measures of our profitability or liquidity. We present EBITDA as additional information because we believe it to be a useful indicator of our ability to meet debt service and capital expenditure requirements. EBITDA, as we define it, may differ from similarly named measures used by other entities.

FISCAL YEAR ENDED MARCH 31, 2001 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2000

Revenues and operating income for the year ended March 31, 2001 increased approximately $36.1 million and $11.4 million, respectively, as compared with the prior fiscal year. The increase in revenues was primarily attributable to increased shipments of infrared detectors, search and navigation radar systems, increased volume in electro-optical contract manufacturing and military display workstation engineering services, as well as $17.8 million in revenues from our fiscal 2001 acquisition of DRS Communications Company. These increases in revenues were partially offset by a decrease in shipments of certain rugged computers and peripherals in Europe, decreased orders for high-speed cameras and later-than-anticipated orders received for certain mission data recording systems. The 43% increase in operating income was driven by the overall increase in revenues, $1.6 million contributed by DRS Communications Company and the year-over-year net impact of changes in estimated profitability on certain long-term contracts. Partially offsetting the fiscal 2001 increase in operating income was the impact of certain charges at our operating segments (see discussion of operating segments below for additional information).

Interest and related expenses decreased approximately $1.1 million for the year ended March 31, 2001, as compared with the corresponding prior-year period.

This decrease was primarily the result of a 56% decrease in average working capital borrowings outstanding during the year ended March 31, 2001, as compared with the corresponding prior-year period and the favorable impact of the fiscal 2001 conversion of $19.1 million of our previously outstanding 9% Senior Subordinated Convertible Debentures into approximately 2.2 million shares of our common stock. Partially offsetting the decrease in interest expense was a non-cash charge of $305,000 relating to the conversion of $8.7 million of the debentures during the second quarter of fiscal 2001.

Our effective tax rate from continuing operations was 52% and 40% in the fiscal years ended March 31, 2001 and 2000, respectively. The increase in the effective tax rate for fiscal 2001 was primarily due to the following: the continued increase in domestic earnings, which are taxed at higher overall rates in comparison with our foreign tax jurisdictions; losses in our U.K. operations for which the full tax benefit has not yet been recognized; the effects of non-deductible goodwill and lobbying expenses; and the impact of certain domestic and foreign tax benefits utilized in fiscal 2000.

Minority interest was approximately $1.4 million and $1.3 million in fiscal 2001 and 2000, respectively. The increase was due to higher operating income generated by ESG's DRS Laurel Technologies unit, in which we have an 80% interest.

EBITDA for the year ended March 31, 2001 was $52.5 million, an increase of approximately 24% over the prior fiscal year.

OPERATING SEGMENTS

The following tables set forth, by operating segment, revenues, operating income, operating margin, depreciation and amortization, and the percentage increase or decrease of those items, as compared with the prior period:

	YEAR ENDED MARCH 31,			PERCENT CHANGES	
	2002	2001	2000	2002 VS. 2001	2001 20
	(DOLLARS IN THOUSANDS)				
ESG					
Revenues*	$206,617	$186,474	$187,794	10.8%	(
Operating income	$ 18,053	$ 15,336	$ 14,593	17.7%	
Operating margin	8.7%	8.2%	7.8%	6.2%	
Depreciation and amortization	$ 1,914	$ 3,447	$ 3,813	(44.5)%	(
EOSG					
Revenues*	$208,221	$148,162	$130,661	40.5%	1
Operating income	$ 27,365	$ 23,646	$ 13,893	15.7%	7
Operating margin	13.1%	16.0%	10.6%	(17.7)%	5
Depreciation and amortization	$ 7,153	$ 6,972	$ 7,336	2.6%	(
FSCG					
Revenues*	$ 93,153	$ 83,319	$ 64,656	11.8%	2
Operating income	$ 5,090	$ (747)	$ 273	781.4%	(37
Operating margin	5.5%	(0.9)%	0.4%	709.5%	(31
Depreciation and amortization	$ 2,907	$ 4,029	$ 3,632	(27.8)%	1
OTHER					
Revenues*	$ 9,209	$ 9,651	$ 8,356	(4.6)%	1
Operating (loss)	$ (739)	$ (704)	$ (2,581)	(5.0)%	7
Operating margin	(8.0)%	(7.3)%	(30.9)%	(10.0)%	7

Depreciation and amortization.....	$ 1,815	$ 1,797	$ 2,289	1.0%	(2

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* Revenues are net of intersegment eliminations.

FISCAL YEAR ENDED MARCH 31, 2002 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2001

ELECTRONIC SYSTEMS GROUP Revenues increased $20.1 million, or 11%, to $206.6 million in fiscal 2002, as compared with the corresponding prior-year period. Operating income increased $2.7 million, or 18%, to $18.1 million. Revenues increased primarily as a result of internal growth from our combat display workstations and components, as well as the inclusion of $8.0 million of revenue contributed by DRS SSS, which we acquired during the second quarter of fiscal 2002. These increases were partially offset by decreases in revenues from certain search and navigation radar systems and rugged computers and peripherals sold to international militaries. The increase in fiscal 2002 operating income resulted from the net increase in revenues and the favorable impact of the elimination of $1.8 million in goodwill amortization due to the adoption of SFAS 142, partially offset by operating margin decreases on certain search and navigation radar systems. DRS SSS contributed $926,000 to fiscal 2002 operating income. Had SFAS 142 been effective in the prior fiscal year, ESG's fiscal 2001 operating income would have been $1.9 million higher.

ELECTRO-OPTICAL SYSTEMS GROUP Revenues increased $60.1 million, or 41%, to $208.2 million in fiscal 2002, as compared with the corresponding prior-year period. Operating income increased $3.7 million to $27.4 million. The increase in revenues was driven by growth in our second generation infrared targeting and imaging systems programs and $45.1 million in revenues generated by programs acquired with our purchase of the SES business at the end of the second quarter of fiscal 2002. The increase in fiscal 2002 operating income, as compared with the corresponding prior-year period, was primarily due to $4.3 million of operating income contributed by the SES business, as well as the positive impact of the elimination of $1.5 million of goodwill amortization. Fiscal 2002 and 2001 operating income reflects $1.7 million and $7.0 million, respectively, of net favorable program adjustments on certain long-term programs. Had SFAS 142 been effective in the prior fiscal year, EOSG's fiscal 2001 operating income would have been $2.1 million higher.

FLIGHT SAFETY & COMMUNICATIONS GROUP Revenues increased $9.8 million, or 12%, to $93.2 million in fiscal 2002, as compared with the corresponding prior-year period. Operating income increased $5.8 million to $5.1 million. The revenue increase was driven primarily by the inclusion of a full year of revenues generated by DRS Communications Company, which we acquired at the end of the first quarter of fiscal 2001, greater volume of contract manufacturing services, and shipments of infrared search and tracking systems. The year-over-year growth in operating income was a result of the overall increase in revenues and the elimination of $1.4 million of goodwill amortization. Fiscal 2002 operating income reflects charges of $2.5 million, $1.3 million and $1.2 million for the settlement of litigation (see Industry/Business Considerations below), cost growth on a mission data recorder program and costs incurred in connection with closing FSCG's Santa Clara, California production and engineering facility, respectively. Fiscal 2001 charges of $4.2 million included accruals for a contract pricing dispute, which was settled in the first quarter of fiscal 2003, and certain program issues (see FSCG prior-year discussion below). Had SFAS 142 been effective in the prior fiscal year, FSCG's fiscal 2001 operating income would have been $1.3 million higher.

OTHER Revenues in fiscal 2002 decreased 5%, as compared with the

corresponding prior-year period. The overall fiscal 2002 operating loss was relatively flat, as compared with fiscal 2001. Fiscal 2001 operating income included a $1.1 million charge for a potentially uncollectible note receivable. DRS Ahead Technology, an operating unit included in "Other", was sold on May 29, 2002 (see Subsequent Events above).

FISCAL YEAR ENDED MARCH 31, 2001 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2000

ELECTRONIC SYSTEMS GROUP Our Electronic Systems Group's revenues decreased $1.3 million, or 1%, to $186.5 million in fiscal 2001, as compared with the corresponding prior-year period. Lower revenues for the year ended March 31, 2001 were due primarily to a decrease in shipments of certain rugged computers and peripherals in the U.K. This decrease was partially offset by increases in revenues from shipments of search and navigation radar systems and military display workstations, in addition to engineering services for display workstation product lines. Operating income and operating margin increased 5% and 6%, respectively, in fiscal 2001, as compared with the prior fiscal year. The increases in operating income and operating margin were driven by a change in product mix to higher margin programs, coupled with operating efficiencies and the cost savings derived from the closure of the Longmont, Colorado production facility. The Longmont facility ceased operations on March 31, 2000, and production was moved into our new electronic manufacturing facility in Johnstown, Pennsylvania in fiscal 2001.

ELECTRO-OPTICAL SYSTEMS GROUP Our Electro-Optical Systems Group's revenues increased $17.5 million, or 13%, to $148.2 million in fiscal 2001, as compared with the c