MEADE®
INSTRUMENTS CORP.

ANNUAL REPORT 2000
Optics for the New Millennium

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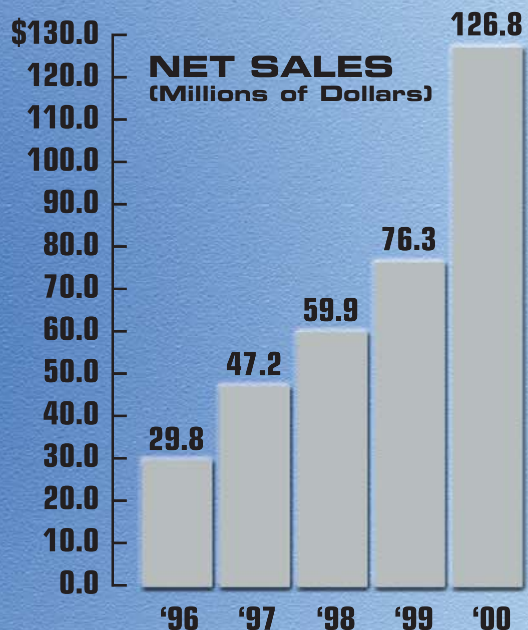
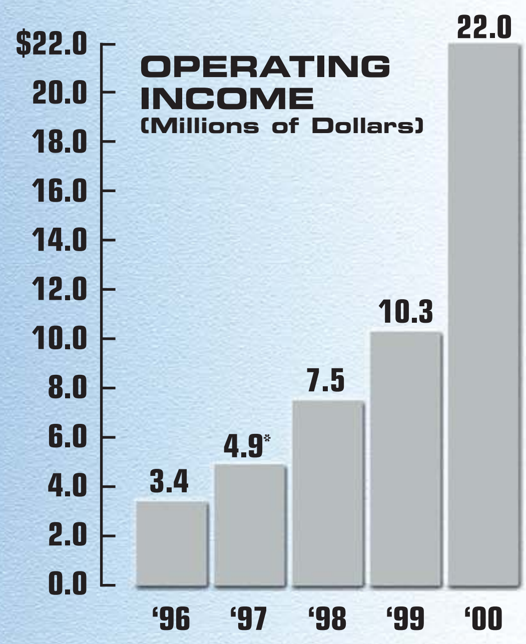
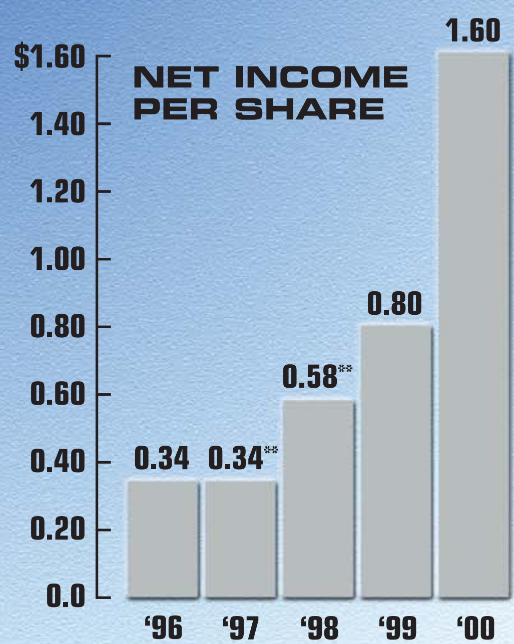
INSTRUMENTS CORP.

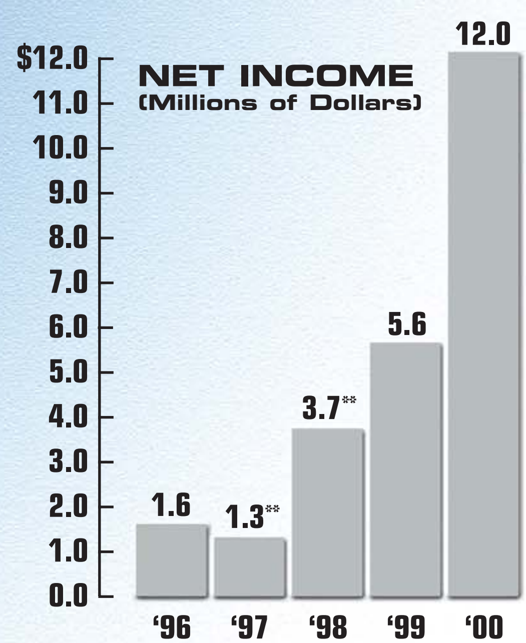




*Before non-recurring ESOP charge of $995,000 in fiscal 1997.



**Before accretion adjustments on preferred stock.



**Before accretion adjustments on preferred stock.

TO OUR STOCKHOLDERS

In last year's Letter we noted that fiscal 1999 was unquestionably the most successful period in the Company's twenty-six year history. Fiscal 2000 was even better.

With the completion on February 29, 2000, of our third year as a public company, Meade Instruments again reported record financial results: cash flow from operations was a record $8.5 million, year-over-year, net sales increased 66% to $126.8 million, operating income increased 113% to $22.0 million, net income increased 114% to $12.0 million, and stockholders equity of $42.7 million was 69% higher than at the end of fiscal 1999.

These results reflect a company that, since our inception, has benefited from a wealth of talent and from a strongly-focused commitment by our employees. Equally important has been an extraordinarily fruitful combination of technological know-how (the back-end of the business) and marketing savvy (the front-end of the business). At Meade both have equal voice. We develop the finest products in our industry and market them successfully to an ever-expanding customer base of our own creation.

BUILDING A BRAND

Engineers and opticians by training, astronomers by avocation, we established Meade Instruments with the initial goal of transforming the commercial telescope from an esoteric object into an educational and entertaining product. Today, the Company is at the dawn of realizing our original goal – to make the finest consumer telescopes easy to use and accessible to virtually everyone.

Historically, our Company has moved forward with both ends of the business in sync. We have proven our ability to integrate the back-end mindset of the engineer with the front-end mindset of the marketing professional. In melding the two we have established a record of creating consistently successful products –

products with levels of optical and mechanical sophistication that are designed for a broadly-based audience. As a result, we offer telescopes of extraordinary value. That is, affordable telescopes which offer exceptional performance and functionality.


From Sky & Telescope July 1972

declination circle, whereas most texts use hour circle. Others have also equated

Brooklyn, N. Y. 11214 Dept. A
Telephone 212-256-2134

ADVERTISING IS EXPENSIVE

If we spent a lot of money on advertising we couldn't sell first-rate refractors at the prices we do. These fine telescopes are shipped *complete* with eyepieces and a full complement of accessories. There is no gimmick whatsoever. Our guarantee is simple: we warrant these instruments to be *at least* equal (both optically and mechanically) to any production refractors sold in the United States. If not utterly satisfied, our instant refund policy is at your disposal. But we know you'll be thrilled to join the many thousands of individuals and educational institutions who have purchased these very same refractors with total satisfaction. SEND FOR OUR FREE ILLUSTRATED CATALOG 72A.

MODEL 210 2″ ALTAZIMUTH $49
MODEL 225 2.4″ ALTAZIMUTH $69
MODEL 264 2.4″ DELUXE ALTAZIMUTH $99
MODEL 290 2.4″ EQUATORIAL $159
MODEL 300 3″ EQUATORIAL $259

MEADE INSTRUMENTS
P.O. Box 326, Canoga Park, Calif. 91303

MODEL 300 Phone: 213-883-3055

New Transparent Terrestrial

When we started the Company in 1972, we were at first a front-end driven enterprise. Recognizing a demand for quality products at reasonable prices, we began by importing inexpensive telescopes and selling them at prices as low as $49 – not a great sum even at that time. It soon became apparent, however, that the market demanded something more, and within five years we had designed and produced our first in-house manufactured telescopes, a line of 6″ and 8″ reflectors that were immediately successful. These telescopes, in an updated format, continue in manufacture to this day.

In 1980 came the Model 2080, an 8″ Schmidt-Cassegrain telescope that clearly established Meade as a force to be reckoned with in the world of commercial telescope manufacturers. Throughout the decade of the 1980s we developed additional telescopes with ever more features: in 1984 the LX3 Series featured automatic electronic tracking; in 1986 the LX5 Series provided for a smaller and more reliable electronic package with additional pushbutton controls; and in 1988 the LX6 Series included the Company's first microprocessor control system.

All of these telescopes led to the development in 1992 of one of the most important telescopes in the history of amateur astronomy: the Meade LX200 Schmidt-Cassegrain. With a level of optical performance and electronic sophistication never before available to the serious amateur astronomer at anything approaching its price, the LX200 permitted the observer to locate, automatically and with uncanny precision, any celestial object in the sky. To this day Meade LX200 telescopes, marketed in over 30 countries, are the largest-selling serious telescopes in the world.

A REVOLUTION

Not only did the LX200 establish Meade Instruments as a leader among manufacturers of commercial telescopes, it marked the beginning of a revolution: the LX200 demonstrated the remarkable degree to which innovative technology, when applied to an existing optical system, could enhance functionality and overall performance while at the same time dramatically reducing cost.

Although it whet the appetite of many a novice, the Meade LX200 was nonetheless beyond the reach of many beginning amateur astronomers. It did, however, serve as an inspiration for the first of the ETX telescopes. Conceived in 1994 as Everyone's Telescope, the original ETX, later denoted the ETX-90RA Astro Telescope (90 mm aperture, Right Ascension drive), appeared in early 1996 to universal acclaim. Heralded as "the hottest scope ever" by *Sky & Telescope* magazine, the ETX-90RA brought a previously unheard of level of user-friendliness and high-resolution optical performance to a telescope that, thanks to its compact Maksutov-Cassegrain mirror-lens design, was easily portable and well within the budget of a huge number of amateur astronomers and casual observers. Within a year of its introduction, the ETX-90RA was the largest-selling modern telescope in the world.

The ETX-90RA was followed in three years by the re-engineered ETX-90EC (90 mm aperture, Electronic Control). The ETX-90EC incorporated electronic drives for both right ascension and declination and included a hand-held electronic controller as standard equipment; attached to a motorized drive in the telescope's base, the controller greatly simplified the tracking of both terrestrial and celestial objects.

AN AMATEUR'S GUIDE TO THE HEAVENS

In the original ETX-90RA the Company created a telescope that was supremely functional in the sense that its extraordinary optical performance was very forgiving of a user's inexperience. With the addition of multi-speed dual-axis tracking capabilities in its successor, the ETX-90EC, finding and tracking objects became even easier.

But what made the ETX-90EC truly revolutionary was the fact that it was designed to accept the optional hand-held Autostar Computer Controller. When plugged into the base of the ETX-90EC, Autostar used its database of over 14,000 astronomical objects (and almost a megabyte of compressed text) to serve as a celestial tour guide the likes of which no amateur astronomer had previously seen. What the LX200 had done for the serious amateur astronomer, the ETX-90EC with Autostar did for the beginner: overnight, astronomy itself became accessible to virtually everyone. With Autostar as its brain, the ETX-90EC (along with its slightly larger sister telescope, the ETX-125EC, introduced in May, 1999) has replicated the phenomenal success of the original ETX.

How important are Meade ETX telescopes with Autostar? As part of a detailed review in the May, 1999, issue of *Sky & Telescope* magazine, the Editor-in-Chief stated, "A prediction: The ETX/Autostar concept will go down as the greatest happening in amateur astronomy yet. Indeed, I believe it will grow the hobby on a scale heretofore unimagined."

TELESCOPES FOR THE MASSES

Although we knew the introduction of the ETX-90EC would be a tough act to follow, the Company scored another success this past year with the addition of the DS (Digital Electronic Series) line of refracting and reflecting telescopes. DS telescopes offer, either as standard equipment or as available options, a level of microprocessor technology and sophisticated electromechanical design never before utilized in this class of telescope. The new DS line currently includes four refractors and two Newtonian reflectors, all with well-proven optics. With the DS Series the decision to own a telescope has little to do with price but instead is concerned with functionality and ease of use.

S&T test report

A "Hot" Telescope Gets Even Hotter

"Oh joy, rapture! I've got a brain."
— (Scarecrow in the movie *The Wizard of Oz*)

Meade sets a new standard by providing user-friendly capabilities never before available from an inexpensive telescope. | **By Dennis di Cicco**

When we reviewed Meade's 90-millimeter ETX Maksutov-Cassegrain in the January 1997 issue, we called it the hottest telescope ever. Well, it just got hotter. A *lot* hotter!

Meade has introduced its new ETX-90/EC, with the EC designating electronic control. (By the way, the ET in ETX is from Meade's founder, John Diebel, who envisioned *Everyone's Telescope*.) Retailing for the same $595 price as its predecessor, the ETX-90/EC has built-in motor drives and a push-button hand controller.

As welcome as these features are, the real excitement surrounds the optional Autostar controller. For $149 you can skip a trip to Oz and buy the ETX-90/EC a brain. And what a brain it is! Foremost among Autostar's features is the ability to automatically point the scope to more than 12,000 targets stored in an internal database. But it does much more than that. In fact, the Autostar-equipped ETX-90/EC can do things no commercial telescope has ever done before.

Within days of the ETX-90/EC's unveiling last January, *Sky & Telescope* obtained the first unit Meade loaned for review. While the scope was a production unit (manufacturing had been under way for several months in anticipation of initial demand), the Autostar was still being tweaked (I tested version 1.0c).

Meade's New ETX-90/EC

ETX-90/EC
90-mm Maksutov-Cassegrain with motor drives and optional computer controller

Meade Instruments Corporation
(sold through dealers)
www.meade.com

Price:
$595 basic telescope
$149 Autostar controller
$199.95 Field tripod

Outwardly similar to its predecessor, Meade's new ETX-90/EC 3½-inch Maksutov-Cassegrain now has motor drives on both axes and a push-button hand controller (an optional computerized controller is available). The optical tube is identical to that of the original ETX, including the same fine optics and a threaded aluminum lens cap. All Sky & Telescope photographs are by Chuck Baker.

Sky & Telescope May 1999 41

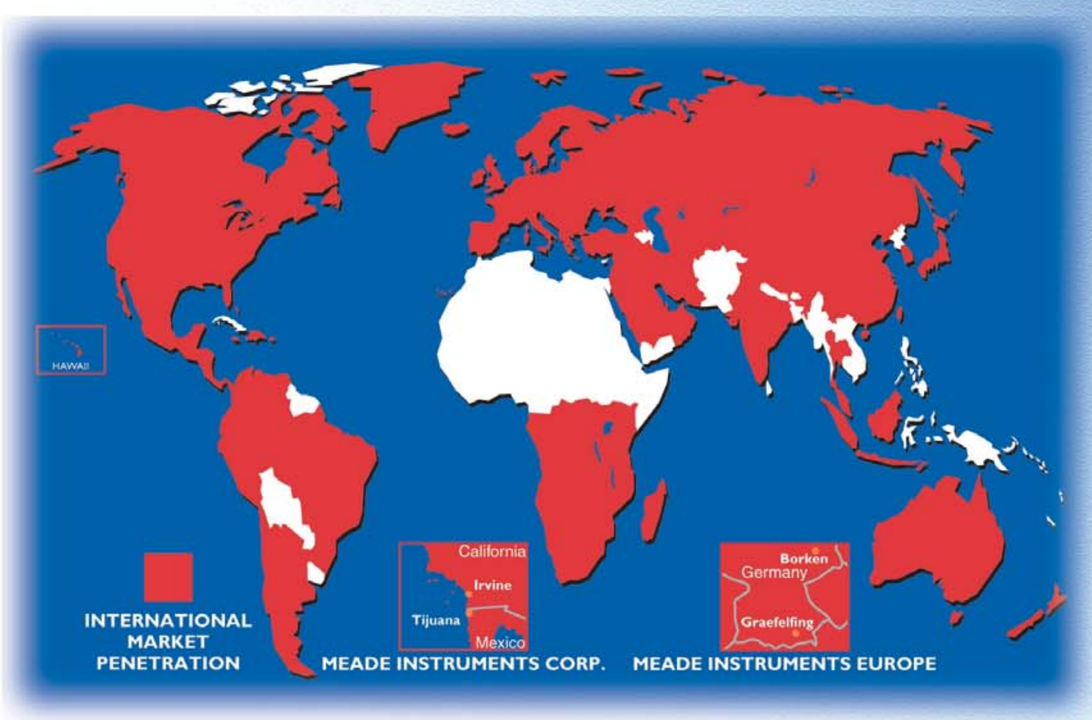
As exciting and successful as the DS line has been, this Series only served as a prelude for the product Meade Instruments introduced during the first quarter of FY2001. An entry-level DS series telescope, complemented by an Autostar with a database of more than 1400 celestial objects, sells for roughly half the price of an ETX-

90EC with Autostar. But what if consumers could have that affordable 60mm refractor in the format of an ETX? Now they can.

Following on the heels of the DS Series is the addition to the ETX line that promises to bring the concept of Everyone's Telescope to its fullest realization: the ETX-60AT. A short-focus refractor, the ETX-60AT is scarcely longer than the mirror-lens ETX-90EC but with performance equal to that of a comparable-aperture DS telescope. And, at a suggested retail price of only $299, the ETX-60AT includes an Autostar hand controller with a database of approximately 1400 celestial objects. If that were not enough, like the ETX-90EC, both the DS Autostar Series and the ETX-60AT incorporate software that can be updated through a visit to the Meade website at www.meade.com.

GLOBAL EXPANSION

We have never expected our telescopes to sell themselves (although the ETX-60AT may come close). From the beginning, we have built our brand name and continue to promote our product line in a way that will expand our international market presence. Meade Instruments now advertises domestically in over two dozen publications – including such prestigious magazines as *National Geographic, Discover, Smithsonian, Popular Science* and *Scientific American*. We are also negotiating a campaign of television and radio promotions for the fall season 2000, and we are looking to place print advertisements in many major-market daily newspapers.



We anticipate that marketing costs in the current year will significantly exceed, perhaps by as much as $5 million, the $6 million budget of the previous fiscal year.

Although much of this marketing allocation will be used to promote specific products, notably the ETX and DS product lines, some part of the marketing budget for the current year will be broadly aimed at further establishing Meade's brand name among consumers not yet familiar with the Company or our products.

Fully leveraging this marketing investment requires that we continue our quest to become a truly global company – global in terms of breadth of product offerings and in terms of geographic footprint. Both of these aims were significantly advanced with the completion last year of two acquisitions.

In September, 1999, we acquired (for $5 million in cash and approximately $2 million in stock) privately-held Bresser Optik GmbH & Co. KG, one of the largest distributors of binoculars in the world and one of Europe's largest distributors of less-expensive telescopes. In addition to broadening Meade's product line immediately (Bresser Optik also distributes microscopes and other optical products), the acquisition provided a platform on which to build a more comprehensive European distribution system for our existing products, notably for Meade computer-controlled DS, ETX and LX200 telescopes. Shortly after the Bresser Optik acquisition we acquired certain assets of Astrocom GmbH, a long-time European distributor of high-end Meade telescopes, primarily in Germany. With a combined total of approximately 40 employees, the two operations (which have been absorbed into Meade Instruments Europe, a wholly owned subsidiary of the Company) give us a strong presence on the Continent.

OPTICS FOR THE NEW MILLENNIUM

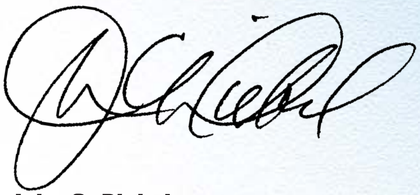
From the $8000 in revenue that Meade Instruments achieved in our first year, 1972, to the nearly $127 million achieved in the year ended February 29, 2000, we have traversed a long, and not always easy, path. Much of what we have accomplished could not have been predicted in 1972, for no one could have known the extraordinary degree to which commercial telescopes, along with countless other consumer products, would be transformed through technological innovation.

Nor could one have predicted the ex-

tent to which optics could be applied to telecommunications and the pursuit of ever faster and more efficient data transmission. A case in point is Meade's announcement (made shortly after the close of our fiscal year 2000) that we have entered into a long-term agreement with Seattle-based TeraBeam Corporation, under which we will supply key components for TeraBeam's optical wireless broadband solution to the so-called "last mile" problem associated with fiberoptic infrastructures.

The full effect of our association with TeraBeam (by far Meade's most significant initiative to date outside the world of amateur astronomy) is at this point difficult to gauge. At the very least it affords us an important opportunity to diversify the Company's customer base while capitalizing on our experience in the design and construction of precision optical systems.

Meade Instruments' record of accomplishment would not have been possible without the unwavering efforts of our employees, suppliers and marketing partners. We are, in addition, deeply appreciative of the trust that Meade stockholders, many of whom have been with us since our initial public offering in 1997, have placed in our company. We shall continue our efforts to develop innovative products, market them effectively, and compete aggressively. We believe the best is yet to come.



John C. Diebel
Chairman and
Chief Executive Officer

Steven G. Murdock
President, Chief Operating Officer,
and Secretary

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SELECTED CONSOLIDATED FINANCIAL INFORMATION
(in thousands of dollars, except per share and weighted average share amounts)

The following data have been derived from the Company's audited consolidated financial statements, including the consolidated balance sheets at February 28 (29), 2000 and 1999 and the consolidated statements of income for the three years ended February 29, 2000 and the notes thereto appearing elsewhere herein.

	Year Ended February 28 (29),				
	2000	**1999**	**1998**	**1997**	**1996**
Income Statement Data:					
Net sales	**$ 126,808**	$ 76,321	$ 59,905	$ 47,151	$ 29,770
Cost of sales	**75,780**	44,255	38,245	31,845	20,054
Gross profit	**51,028**	32,066	21,660	15,306	9,716
Selling expenses	**15,471**	12,268	6,771	4,759	2,832
General and administrative expenses	**10,355**	7,325	5,464	5,970	2,951
ESOP contribution expense	**1,861**	1,200	1,100	-	-
Research and development expenses	**1,361**	978	854	628	518
Operating income	**21,980**	10,295	7,471	3,949	3,415
Interest expense	**977**	473	1,034	1,657	659
Income before income taxes	**21,003**	9,822	6,437	2,292	2,756
Income taxes	**9,048**	4,223	2,702	960	1,200
Net income before accretion	**11,955**	5,599	3,735	1,332	1,556
Accretion on redeemable preferred stock(1)	**-**	-	(374)	(4,310)	-
Net income (loss) available to common stockholders	**$ 11,955**	$ 5,599	$ 3,361	$ (2,978)	$ 1,556
Per share information:					
Net income before adjustment to net income available per common share — basic	**$ 1.69**	$ 0.82	$ 0.58	$ 0.34	$ 0.34
Accretion on redeemable preferred stock(1)	**-**	-	(0.06)	(1.10)	-
Net income (loss) per share available to common stockholders — basic	**$ 1.69**	$ 0.82	$ 0.52	$ (0.76)	$ 0.34
Net income (loss) per share available to common stockholders — diluted	**$ 1.60**	$ 0.80	$ 0.52	$ (0.76)	$ 0.34
Weighted average common shares outstanding – basic	**7,056,000**	6,859,000	6,410,000	3,938,000	4,571,000
Weighted average common shares outstanding – diluted	**7,472,000**	7,035,000	6,458,000	3,938,000	4,571,000
Balance Sheet Data:					
Working capital	**$ 36,553**	$ 21,388	$ 15,417	$ 6,252	$ 4,183
Total assets	**64,091**	34,624	24,592	20,524	13,035
Total current liabilities	**16,485**	9,134	5,829	11,775	7,364
Long-term debt, net of current portion	**4,500**	-	-	6,599	450
Redeemable preferred stock	**-**	-	-	6,490	-
Stockholders' equity (deficit)	**42,665**	25,267	18,422	(4,952)	4,771

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(1) Represents accretion reflecting original issue discount and accrued dividends on the redeemable preferred stock. In January 1997 the Company entered into a binding agreement to redeem its redeemable preferred stock earlier than the original mandatory redemption date. The accretion was accelerated in the fiscal year ended February 28, 1997 to reflect the new redemption date (April 14, 1997) and the Company recorded an additional $3.4 million in accelerated accretion on the redeemable preferred stock pursuant to the redemption agreement (resulting in an aggregate $4.3 million accretion for fiscal 1997). The Company recorded a final accretion adjustment of approximately $374,000 during the first quarter of fiscal 1998 related to the redemption of the redeemable preferred stock.

General Business Overview

Meade Instruments Corp. is a multinational consumer optics company that designs, manufactures, imports and distributes telescopes, telescope accessories, binoculars and other optical products. Meade's dedication to product innovation has led to the successful introduction of a wide range of products, resulting in what the Company believes to be the broadest and most complete line of telescopes and telescope accessories available. The Company offers more than 50 different telescope models with several different optical configurations, as well as more than 250 accessory products. The Company's telescopes range in aperture from 2 to 16 inches and in retail price from less than $100 to more than $15,000.

Since its founding in 1972, Meade has strived to develop a reputation for providing the amateur astronomer with technically sophisticated products at competitive prices. Meade manufactures nearly the complete line of its advanced astronomical telescopes in Irvine, California, including the production of all of the advanced optical systems, which are critical components of telescopes. Combining its manufacturing expertise with its dedication to innovation, quality and value, Meade has developed and produced some of the industry's most technologically advanced consumer telescopes at affordable prices. Although professional and institutional applications of Meade's telescopes are not Meade's primary market, the Company's Schmidt-Cassegrain telescopes are used by many universities, scientific laboratories and aerospace companies, including the University of California, Los Alamos National Laboratory, Lawrence Livermore Laboratory, National Radio Astronomy Observatory and NASA/Aames Research. The Company has capitalized on its brand name recognition among serious amateur astronomers and its ability to bring advanced technology to lower price points to market successfully its less-expensive telescopes to beginning and intermediate amateur astronomers. Meade has become a major supplier of telescopes to such retailers as Discovery Channel Stores (formerly The Nature Company), Wal-Mart, Natural Wonders, Costco, Sam's Club and Store of Knowledge.

Meade was sold by its founder and current Chief Executive Officer to an investor in 1986 and was then reacquired by the Company's senior management in 1991. After the reacquisition, management emphasized a business plan that concentrated on new product development, securing a reliable supplier of less-expensive telescopes, effective targeted marketing and customer service. To those ends the Company committed nearly $1.4 million to research and development during fiscal 2000 and has, over the last five fiscal years, committed nearly $4.4 million in the aggregate to research and development. These research and development expenditures were centered on the development of technologically advanced less-expensive telescopes. A majority of the Company's less-expensive telescopes are manufactured under proprietary designs by a Taiwanese company (the "Taiwanese Factory") with which the Company has an exclusive supply arrangement. The Company's business plan complements its efforts in new product development with an aggressive marketing plan. The Company's marketing plan includes print advertising in astronomy related magazines, in general consumer magazines and as a key component of extensive co-operative advertising campaigns with many of the Company's key retail partners. Meade publishes a comprehensive, full-color, high-quality product catalog that provides significant product exposure to the serious amateur astronomer. Meade also publishes an abridged version of its product catalog aimed at the casual observer or general consumer with an interest in astronomy.

On September 1, 1999 the Company acquired 100% of the stock and equity interests in Bresser Optik GmbH & Co. KG, and Bresser Optik Geschaftsfuhrung und Verwaltungs GmbH (collectively "Bresser"), for $5.0 million in cash and 100,915 shares of the Company's common stock valued at approximately $2.0 million. Bresser is a German distributor of binoculars, telescopes, microscopes and other consumer optical products. To fund the cash portion of the purchase price the Company borrowed $5.0 million under the Term Loan on August 31, 1999 (See "Liquidity and Capital Resources"). The Company views Bresser as not only a going concern with products and services that are similar to Meade's traditional business, but as a beachhead from which the Company will bring Meade's latest computer-guided, affordably-priced telescopes to Europe. Further to that end, in January 2000, the Company purchased what was formerly its German distributor for approximately $1.1 million cash.

In the United States and Canada, the Company distributes its products through a network of more than 500 specialty retailers and mass merchandisers, which offer Meade's products in more than 3,000 retail store locations. The Company also sells certain of its telescope models to selected national mail order dealers. In addition to products sold through the Bresser channels, Meade sells its products internationally through a network of over 30 foreign distributors, many of which service retail locations in their respective countries. Revenues from customers outside North America accounted for approximately 22.5% of the Company's net sales for the fiscal year ended February 29, 2000 (See Note 8 of Notes to Consolidated Financial Statements). The Company intends to continue to pursue an integrated strategy of product line expansion, aggressive marketing, and expansion of the Company's domestic and international distribution networks.

Following the close of fiscal 2000, the Company announced that it will be an original equipment manufacturer for TeraBeam Corporation ("TeraBeam"), an emerging service provider for gigabit IP connectivity in metropolitan areas. Meade will supply the Seattle-based company with key components for TeraBeam's optical wireless network. The components use existing Meade telescope technology and are currently in limited production by Meade. The ultimate quantities and timing of the products ordered by TeraBeam will depend upon TeraBeam's market roll-out.

Market for the Registrant's Common Equity and Related Stockholder Matters

The Company's initial public offering was completed on April 14, 1997 (the "Offering"), and from that date to the present, the Company's common stock has been listed on the Nasdaq National Market under the symbol "MEAD." The high and low sales prices on a per share basis for the Company's common stock during each quarterly period for the fiscal years ended February 29, 2000 and February 28, 1999 were:

Year ended February 29, 2000:	High	Low	Year ended February 28, 1999:	High	Low
Fourth quarter	$ 30.25	$ 23.63	Fourth quarter	$ 13.63	$ 10.75
Third quarter	$ 30.50	$ 20.00	Third quarter	$ 11.00	$ 9.25
Second quarter	$ 20.50	$ 14.00	Second quarter	$ 11.00	$ 9.38
First quarter	$ 13.88	$ 10.63	First quarter	$ 11.13	$ 9.13

The reported closing sales price of the Company's common stock on the Nasdaq National Market on May 25, 2000 was $43.31. As of May 25, 2000, there were 48 holders of record of the Company's common stock.

Other than dividends paid to the Company's ESOP in August 1996, the Company has not paid any cash dividends on its common stock and does not anticipate declaring or paying any cash dividends on its common stock in the foreseeable future. Although the Company intends to make future contributions to the ESOP upon Board approval, no dividends (other than dividends paid to all holders of common stock) will be paid to the ESOP with respect to future periods.

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

The following discussion and analysis of the Company's financial condition and results of operations is qualified in its entirety by, and should be read in conjunction with, the more detailed information and consolidated financial statements, including the notes thereto, appearing elsewhere in this Report.

Results of Operations

The following table sets forth, for the periods indicated, certain items from the Company's statements of income as a percentage of net sales for the periods indicated.

	Year Ended February 28 (29),		
	2000	1999	1998
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**59.8**	58.0	63.8
Gross profit	**40.2**	42.0	36.2
Operating expenses:			
Selling expenses	**12.2**	16.0	11.3
General and administrative expenses	**8.2**	9.6	9.1
ESOP contribution expense	**1.4**	1.6	1.9
Research and development expenses	**1.1**	1.3	1.4
Total operating expenses	**22.9**	28.5	23.7
Income from operations	**17.3**	13.5	12.5
Interest expense	**0.8**	0.6	1.8
Income before income taxes	**16.5**	12.9	10.7
Provision for income taxes	**7.1**	5.5	4.5
Net income	**9.4**	7.4	6.2

Fiscal 2000 Compared to Fiscal 1999

Net sales increased from $76.3 million in fiscal 1999 to $126.8 million in fiscal 2000, an increase of 66.2%. This increase was primarily due to increases in unit sales of less-expensive telescopes including those manufactured domestically and those manufactured in Taiwan and continuing strong sales of telescope accessories. Approximately $13.0 million of the increase in net sales was attributable to the Bresser acquisition.

Gross profit increased from $32.1 million (42.0% of net sales) in fiscal 1999 to $51.0 million (40.2% of net sales) in fiscal 2000, an increase of 59.1%. While gross margin for the Company's core business experienced little change from the previous year, overall gross margin declined due to the acquisition of Bresser. As a distributor only of optical products, Bresser is subject to gross margins that are typically lower than the margins the Company, as a manufacturer and distributor, has experienced in the past.

Selling expenses increased from $12.3 million (16.0% of net sales) in fiscal 1999 to $15.5 million (12.2% of net sales) in fiscal 2000, an increase of 26.1%. This dollar increase principally reflects higher freight costs, higher commissions and other selling costs to support higher sales volumes in fiscal 2000 as compared to fiscal 1999.

General and administrative expenses increased from $7.3 million (9.6% of net sales) in fiscal 1999 to $10.4 million (8.2% of net sales) in fiscal 2000, an increase of 41.4%. This dollar increase was generally due to increases in personnel and benefit related costs.

ESOP contribution expense increased from $1.2 million (1.6% of net sales) in fiscal 1999 to $1.9 million (1.4% of net sales) in fiscal 2000, an increase of 55.1%. The increase in this non-cash charge was due to increases in the average market price of the Company's stock allocated to the Employee Stock Ownership Plan during fiscal 2000. To the extent that the market value of the Company's common stock continues to increase, the non-cash ESOP contribution expense is expected to continue to increase.

Research and development expenses increased from $978,000 (1.3% of net sales) in fiscal 1999 to $1.4 million (1.1% of net sales) in fiscal 2000, an increase of 39.2%. This dollar increase was due to higher personnel related costs and higher outside consulting costs during fiscal 2000 as compared to the prior fiscal year.

Interest expense increased from $473,000 for the fiscal year ended February 28, 1999 to $977,000 for fiscal 2000, an increase of 106.6%. This increase was principally due to interest expense on the $5.0 million Term Loan and interest expense on short-term bank borrowings in Germany for the period.

Fiscal 1999 Compared to Fiscal 1998

Net sales increased from $59.9 million in fiscal 1998 to $76.3 million in fiscal 1999, an increase of 27.4%. This increase was primarily due to (i) an increase of approximately $11.0 million in net sales of entry-level telescopes, reflecting demand for smaller aperture more affordable telescopes and (ii) a combined increase of approximately $6.0 million in net sales of advanced telescopes and telescope accessories offset by approximately $1.0 million decrease in binocular sales.

Gross profit increased from $21.7 million (36.2% of net sales) in fiscal 1998 to $32.1 million (42.0% of net sales) in fiscal 1999, an increase of 47.9%. Gross profit as a percentage of net sales improved due to a sales mix that favored more profitable lines of domestically manufactured products, increased sales of accessories which generally have a higher gross profit margin than many of the Company's other products and downward cost pressure on purchases from Asia.

Selling expenses increased from $6.8 million (11.3% of net sales) in fiscal 1998 to $12.3 million (16.0% of net sales) in fiscal 1999, an increase of 80.9%. This increase principally reflects (i) higher advertising and marketing expenses to support higher sales volumes for the 1999 fiscal year as compared to the 1998 fiscal year, (ii) higher provisions for bad debts prompted by the bankruptcy of a significant customer (iii) higher freight and other shipping costs due to higher sales volumes in fiscal 1999 as compared to fiscal 1998 and (iv) higher selling and shipping personnel expenses for fiscal 1999 as compared to fiscal 1998.

General and administrative expenses increased from $5.5 million (9.1% of net sales) in fiscal 1998 to $7.3 million (9.6% of net sales) in fiscal 1999, an increase of 34.1%. This increase was generally due to increases in personnel related costs, and increases in consulting and professional fees.

ESOP contribution expense increased from $1.1 million (1.9% of net sales) in fiscal 1998 to $1.2 million (1.6% of net sales) in fiscal 2000, a 9.1% increase. The slight increase in this non-cash charge was due to increases in the average market price of the Company’s stock allocated to the Employee Stock Ownership Plan during fiscal 1999.

Research and development expenses increased from $854,000 (1.4% of net sales) in fiscal 1998 to $978,000 (1.3% of net sales) in fiscal 1999, an increase of 14.5%. This increase was due to higher personnel related costs and higher outside consulting costs during fiscal 1999 as compared to the prior fiscal year.

Interest expense decreased from $1.0 million for the fiscal year ended February 28, 1998 to $473,000 for the 1999 fiscal year, a decrease of 52.7%. Included in interest expense for the 1998 fiscal year was approximately $400,000 recognized pursuant to the write-off of previously capitalized debt issuance costs related to bank term debt that was retired with the proceeds of the Offering in April 1997. Interest expense in fiscal 1999 decreased 25.4% compared to interest expense for the 1998 fiscal year before the write-off of $400,000 of debt issuance costs. This decrease was due to lower average interest rates on the Company's line of credit during fiscal 1999 as well as the elimination of long-term bank debt that was retired with the proceeds of the Offering in early fiscal 1998.

Seasonality and Quarterly Results of Operations

The Company has experienced, and expects to continue to experience, substantial fluctuations in its sales, gross margins and profitability from quarter to quarter. Factors that influence these fluctuations include the volume and timing of orders received, changes in the mix of products sold, market acceptance of the Company's products, competitive pricing pressures, the Company's ability to meet increasing demand and delivery schedules, the timing and extent of research and development expenses, the timing and extent of product development costs and the timing and extent of advertising expenditures. In addition, a substantial portion of the Company's net sales and operating income typically occurs in the third quarter of the Company's fiscal year primarily due to disproportionately higher customer demand for less-expensive telescopes during the holiday season. The Company has recently experienced increased sales to mass merchandisers. Mass merchandisers, along with specialty retailers, purchase a considerable amount of their inventories to satisfy such seasonal customer demand. These purchasing patterns have caused the Company to increase its level of inventory during its second and third quarters in response to such demand or anticipated demand. As a result, the Company's working capital requirements have correspondingly increased at such times.

The following tables (in thousands of dollars) present unaudited financial results for each of the eight quarters in the period ended February 29, 2000. The Company believes that all necessary adjustments have been included to present fairly the quarterly information when read in conjunction with the consolidated financial statements and notes included elsewhere in this Report. The operating results for any quarter are not necessarily indicative of the results for any subsequent quarter.

	Fiscal 2000				Fiscal 1999			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	**$ 17,101**	**$ 24,134**	**$ 63,725**	**$ 21,848**	$ 14,821	$ 15,412	$ 31,247	$ 14,841
Gross profit	**7,117**	**10,137**	**24,764**	**9,010**	6,080	6,511	13,291	6,184
Operating income	**1,957**	**3,957**	**14,256**	**1,810**	1,015	1,352	7,065	863
Net income	**1,144**	**2,216**	**7,696**	**899**	554	690	3,896	459

Quarterly results can be affected by a number of factors including the timing of orders, production delays or inefficiencies, and raw materials availability.

Liquidity and Capital Resources

The Company funded its operations with internally generated cash flow and borrowings from banks. Internally generated cash flow from net income adjusted for non-cash charges and decreases in accounts receivable exceeded increases in inventories and deferred taxes during the year generating approximately $8.5 million in cash from operations. Close credit management contributed to the decrease in accounts receivable (down $2.9 million from February 28, 1999). Inventories increased (up $10.3 million from February 28, 1999) to support the higher sales volume. Net working capital totaled approximately $36.6 million at February 29, 2000, up significantly from $21.4 million at February 28, 1999. Working capital requirements fluctuate during the year due to the seasonal nature of the business. These requirements are typically financed through a combination of internally generated cash flow from operating activities and short-term bank borrowings.

On September 1, 1999 the Company acquired 100% of the stock and equity interests in Bresser for $5.0 million in cash and 100,915 shares of the Company's common stock valued at approximately $2.0 million. Bresser is a German distributor of binoculars, telescopes, microscopes and other consumer optical products. To fund the cash portion of the purchase price the Company borrowed $5.0 million under the Term Loan on August 31, 1999. The Company views Bresser as not only a going concern with products and services that are similar to Meade's traditional business, but as a beachhead from which the Company will bring Meade's latest computer-guided, affordably-priced telescopes to Europe. Further to that end, in January 2000, the Company purchased what was formerly its German distributor for approximately $1.1 million cash.

On August 31, 1999 the Company entered into a new loan agreement (the "Loan Agreement") with a bank, replacing its existing credit facilities. The Loan Agreement provides the Company with an aggregate $40.0 million credit facility consisting of a five year $35.0 million revolving credit line (the "Revolving Loan") and a five year $5.0 million term loan (the "Term Loan"). The Term Loan is subject to quarterly amortization payments of $250,000 beginning September 30, 2000. The Term Loan is also subject to mandatory prepayments upon the happening of certain events. Amounts outstanding under the Revolving Loan and Term Loan bear interest, at the Company's option, at a base rate or eurodollar rate plus an applicable margin. The Company's obligations under the Loan Agreement are guaranteed by each of the Company's domestic subsidiaries and are secured by substantially all of the assets of the Company and its domestic subsidiaries. The Loan Agreement contains certain financial covenants and customary affirmative and negative covenants and events of default. In connection with the acquisition of Bresser, the Company borrowed $5.0 million under the Term Loan on August 31, 1999.

Capital expenditures, including financed purchases of equipment, aggregated $2.7 million, $2.1 million and $3.1 million for the fiscal years ended February 28(29), 2000, 1999 and 1998, respectively. Included in purchases of equipment for fiscal 1999 is approximately $1.3 million for equipment sold and leased back under operating leases. The Company had no material capital expenditure commitments as of February 29, 2000. The Company is expanding its Mexico facility from approximately 26,000 sq. ft. to approximately 50,000 sq. ft. Capital expenditures for the expansion in Mexico are not expected to be material to the Company's financial position or results of operations.

In April 1997 the Company completed the Offering which generated net proceeds to the Company of approximately $18.0 million upon the sale of 2,875,500 shares of Common Stock by the Company.

Contributions to the Company's Employee Stock Ownership Plan ("ESOP") are accounted for as a contribution expense on the Company's income statement and are accrued quarterly based upon the expected annual contribution amount. As quarterly contributions are accrued, the corresponding number of shares are added to the Weighted Average Common Shares Outstanding and Unearned ESOP Shares on the Company's Balance Sheet are reduced. The ESOP uses the contributions to repay amounts due on the ESOP Loan. The ESOP contribution expense is a net non-cash charge that is added back to net income to arrive at cash flows provided by operating activities. As the Company makes these non-cash contributions to the ESOP to fund the repayment of the ESOP Loan, the Company will realize cash tax savings equal to the product of the tax basis of the contributions, multiplied by the applicable statutory tax rates in effect at the time.

Following the close of fiscal 2000, the Company announced that it will be an original equipment manufacturer for TeraBeam, an emerging service provider for gigabit IP connectivity in metropolitan areas. Meade will supply the Seattle-based company with key components for TeraBeam's optical wireless network. The components use existing Meade telescope technology and are currently in limited production by Meade. The ultimate quantities and timing of the products ordered by TeraBeam will depend on upon TeraBeam's market roll-out.

The Company believes that internally generated cash flow and borrowing ability will be sufficient to meet its operating, working capital and capital expenditure requirements through the near term. In the event that the Company requires more capital than is presently anticipated, the Company's remaining cash balances may be consumed and additional sources of liquidity, such as debt or equity financings, may be required to meet its capital needs. There can be no assurance that additional capital beyond the amounts the Company currently requires will be available on reasonable terms, if at all.

Inflation

The Company does not believe that inflation has had a material effect on the results of operations during the past three years. There can be no assurance that the Company's business will not be affected by inflation in the future.

New Accounting Pronouncements

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133; Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). SFAS 133 is required to be adopted in fiscal years beginning after June 15, 2000 and establishes accounting and reporting standards for derivative instruments and for hedging activities. The Company does not anticipate that the adoption of SFAS 133 will have a material impact on its financial position or results of operations.

Year 2000

To date, the Company has not experienced any material Year 2000 problems with its enterprise information system software, or its internal software applications, products, machinery, equipment or operating systems. The third parties with whom the Company has material relationships have not, to date, reported to the Company any material Year 2000 problems. The Company will continue to monitor the Year 2000 compliance of its enterprise information system and other computer systems. Latent Year 2000 related issues may arise as the computer systems are more fully utilized. Accordingly, there can be no assurance that the Company will not in the future experience any Year 2000 problems. The Company's total incremental costs of addressing Year 2000 issues during fiscal 2000 were not material. Monitoring costs past January 1, 2000 are not expected to be material.

Forward-Looking Information

The preceding "Management's Discussion and Analysis of Financial Condition and Results of Operations" section contains various "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, which represent the Company's reasonable judgment concerning the future and are subject to risks and uncertainties that could cause the Company's actual operating results and financial position to differ materially, including the following: the Company's ability to expand the markets for telescopes, binoculars and other optical products as a result of its increased advertising and marketing efforts; the Company's ability to continue to develop and bring to market new and innovative products; the Company's ability to integrate and develop its wholly-owned manufacturing facility in Mexico in combination with its existing manufacturing capabilities; the Company expanding its distribution network; the Company's ability to integrate and further develop the business of Bresser in combination with the Company's existing business; the Company experiencing fluctuations in its sales, gross margins and profitability from quarter to quarter consistent with prior periods; the extent to which Meade will supply key components for TeraBeam; and the Company's expectation that it will have sufficient funds to meet any working capital requirements during the foreseeable future with internally generated cash flow and borrowing ability.

In addition to other information in this report, the Company cautions that certain factors, including, without limitation, the following, should be considered carefully in evaluating the Company and its business and that such factors may cause the Company's actual operating results to differ materially from those set forth in the forward looking statements described above or to otherwise be adversely affected: any significant decline in general economic conditions or uncertainties affecting consumer spending; any general decline in demand for the Company's products; any inability to continue to design and manufacture products that will achieve and maintain commercial success; any failure of the Company to penetrate the binocular market and achieve meaningful sales; any unexpected termination or interruption of the Company's manufacturing arrangements, both internally and at the Taiwanese Factory; greater than anticipated competition; any loss of, or the failure to replace, any significant portion of the sales made to any significant customer of the Company; the inherent risks associated with international sales, including variations in local economies, fluctuating exchange rates (including conversion to Euros), increased difficulty of inventory management, greater difficulty in accounts receivable collections, increasing ESOP charges in the event the market price of the Company's stock increases, costs and risks associated with localizing products for foreign countries, changes in tariffs and other trade barriers, adverse foreign tax consequences, cultural differences affecting product demand and customer service and burdens of complying with a variety of foreign laws; and the inherent risks associated with products manufactured or assembled outside of the United States, including, among other things, imposition of quotas or trade sanctions, fluctuating exchange rates, shipment delays or political instability and any material effect on the Company's business and operations by the advent of the Year 2000.

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to certain levels of market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates.

The Company conducts business overseas in a number of foreign currencies, principally in Europe. These currencies have been relatively stable against the U.S. dollar for the past several years. As a result, foreign currency fluctuations have not had a material impact historically on Meade's revenues or results of operations. There can be no assurance that European currencies will remain stable relative to the U.S. dollar or that future fluctuations in the value of foreign currencies will not have a material adverse effect on the Company's business, operating results, revenues and financial condition. The Company has and will continue to consider the adoption of a foreign currency hedging program.

The Company does not enter into derivatives or other financial instruments for trading, speculative purposes or to manage its interest rate risk. The Company's financial instruments consist of cash, accounts receivable, accounts payable, and long-term obligations. The Company's exposure to market risk for changes in interest rates relates primarily to short-term investments and short-term obligations. As a result, the Company does not expect fluctuations in interest rates to have a material impact on the fair value of these instruments.

Consolidated Balance Sheets

ASSETS

	February 29, 2000	February 28, 1999
Current assets:		
Cash	$ **2,180,000**	$ 1,283,000
Accounts receivable, less allowance for doubtful accounts of $3,861,000 in 2000 and $2,243,000 in 1999	**8,451,000**	10,864,000
Inventories	**34,311,000**	14,191,000
Deferred income taxes	**7,770,000**	3,928,000
Prepaid expenses and other current assets	**326,000**	256,000
Total current assets	**53,038,000**	30,522,000
Other assets	**4,087,000**	274,000
Property and equipment, net	**6,966,000**	3,828,000
	$ **64,091,000**	$ 34,624,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 29, 2000	February 28, 1999
Current liabilities:		
Bank line of credit	$ **2,784,000**	$ -
Accounts payable	**3,889,000**	1,503,000
Accrued liabilities	**6,479,000**	5,386,000
Income taxes payable	**2,550,000**	1,991,000
Current portion of long-term debt and capital lease obligations	**783,000**	254,000
Total current liabilities	**16,485,000**	9,134,000
Long-term bank debt	**4,500,000**	-
Long-term capital lease obligations, net of current portion	**441,000**	223,000
Commitments and contingencies		
Stockholders' equity:		
Common stock; $0.01 par value; 20,000,000 shares authorized; 8,107,000 and 7,882,000 shares issued and outstanding at February 29, 2000 and February 28, 1999, respectively	**81,000**	79,000
Additional paid-in capital	**26,830,000**	21,803,000
Retained earnings	**22,457,000**	10,502,000
Accumulated other comprehensive income	**(333,000)**	-
	49,035,000	32,384,000
Unearned ESOP shares	**(6,370,000)**	(7,117,000)
Total stockholders' equity	**42,665,000**	25,267,000
	$ **64,091,000**	$ 34,624,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Year Ended February 28 (29),		
	2000	**1999**	**1998**
Net sales	$ **126,808,000**	$ 76,321,000	$ 59,905,000
Cost of sales	**75,780,000**	44,255,000	38,245,000
Gross profit	**51,028,000**	32,066,000	21,660,000
Selling expenses	**15,471,000**	12,268,000	6,771,000
General and administrative expenses	**10,355,000**	7,325,000	5,464,000
ESOP contribution expense	**1,861,000**	1,200,000	1,100,000
Research and development expenses	**1,361,000**	978,000	854,000
Operating income	**21,980,000**	10,295,000	7,471,000
Interest expense	**977,000**	473,000	1,034,000
Income before income taxes	**21,003,000**	9,822,000	6,437,000
Provision for income taxes	**9,048,000**	4,223,000	2,702,000
Net income before accretion	**11,955,000**	5,599,000	3,735,000
Accretion on redeemable preferred stock	**-**	-	374,000
Net income available to common stockholders	$ **11,955,000**	$ 5,599,000	$ 3,361,000
Net income per share available to common stockholders — basic	$ **1.69**	$ 0.82	$ 0.52
Net income per share available to common stockholders — diluted	$ **1.60**	$ 0.80	$ 0.52
Weighted average common shares outstanding — basic	**7,056,000**	6,859,000	6,410,000
Weighted average common shares outstanding — diluted	**7,472,000**	7,035,000	6,458,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Series A and B Common Stock		Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Unearned	
	Shares	Amount	Shares	Amount	Capital	Income (Loss)	Earnings	ESOP Shares	Total
Balance at February 28, 1997	5,000,000	$ 3,511,000	-	-	-	-	$ 1,542,000	$ (10,005,000)	$ (4,952,000)
Issuance of common stock at initial public offering, net of offering costs	-	-	2,875,500	$ 29,000	$ 21,345,000	-	-	-	21,374,000
Conversion of Series A and B common stock to common stock	(5,000,000)	(3,511,000)	5,000,000	50,000	-	-	-	-	(3,461,000)
Release of ESOP shares	-	-	-	-	100,000	-	-	2,000,000	2,100,000
Net income available to common stockholders	-	-	-	-	-	-	3,361,000	-	3,361,000
Balance at February 28, 1998	-	-	7,875,500	79,000	21,445,000	-	4,903,000	(8,005,000)	18,422,000
Exercise of stock options	-	-	6,500	-	46,000	-	-	-	46,000
Release of ESOP shares	-	-	-	-	312,000	-	-	888,000	1,200,000
Net income available to common stockholders	-	-	-	-	-	-	5,599,000	-	5,599,000
Balance at February 28, 1999	-	-	7,882,000	79,000	21,803,000	-	10,502,000	(7,117,000)	25,267,000
Exercise of stock options	-	-	124,000	1,000	933,000	-	-	-	934,000
Tax benefit of stock options exercised	-	-	-	-	937,000	-	-	-	937,000
Release of ESOP shares	-	-	-	-	1,114,000	-	-	747,000	1,861,000
Shares issued in Bresser acquisition	-	-	101,000	1,000	2,043,000	-	-	-	2,044,000
Comprehensive income:									
Currency translation adjustment	-	-	-	-	-	(333,000)	-	-	(333,000)
Net income available to common stockholders	-	-	-	-	-	-	11,955,000	-	11,955,000
Total comprehensive income	-	-	-	-	-	-	-	-	11,622,000
Balance at February 29, 2000	-	$ -	8,107,000	$ 81,000	$ 26,830,000	$ (333,000)	$22,457,000	$ (6,370,000)	$ 42,665,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended February 28 (29),		
	2000	1999	1998
Cash flows from operating activities:			
Net income before accretion	$ **11,955,000**	$ 5,599,000	$ 3,735,000
Adjustments to reconcile net income to net cash			
provided by (used in) operating activities:	**-**	-	-
Depreciation and amortization	**1,296,000**	755,000	513,000
Debt issuance costs	**-**	-	400,000
ESOP contribution	**1,861,000**	1,200,000	1,100,000
Allowance for doubtful accounts	**1,567,000**	1,758,000	-
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	**2,854,000**	(6,598,000)	(1,194,000)
Inventories	**(10,318,000)**	(2,281,000)	167,000
Deferred income taxes	**(3,357,000)**	(2,504,000)	(539,000)
Prepaid expenses and other current assets	**44,000**	(17,000)	(8,000)
Other assets	**92,000**	87,000	303,000
Accounts payable	**454,000**	177,000	(869,000)
Accrued liabilities	**737,000**	2,694,000	1,334,000
Income taxes payable	**1,324,000**	385,000	544,000
Net cash provided by operating activities	**8,509,000**	1,255,000	5,486,000
Cash flows from investing activities:			
Capital expenditures	**(1,911,000)**	(2,921,000)	(2,130,000)
Acquisition of Bresser Optik net of cash acquired	**(4,968,000)**	-	-
Acquisition of certain assets of Astrocom	**(1,147,000)**	-	-
Proceeds from the sale and lease back of equipment	-	1,323,000	-
Net cash used in investing activities	**(8,026,000)**	(1,598,000)	(2,130,000)
Cash flows from financing activities:			
Payments on long-term debt	**(183,000)**	-	(8,183,000)
Proceeds from long-term loan	**5,000,000**	-	-
Net payments under bank line of credit	**(4,926,000)**	-	(4,358,000)
Net proceeds from issuance of common stock	**-**	46,000	17,913,000
Redemption of preferred stock	**-**	-	(6,864,000)
Exercise of stock options	**934,000**	-	-
Payments under capital lease obligations	**(367,000)**	(69,000)	(219,000)
Net cash provided by (used in) financing activities	**458,000**	(23,000)	(1,711,000)
Effect of exchange rate changes on cash	**(44,000)**	-	-
Net increase (decrease) in cash	**897,000**	(366,000)	1,645,000
Cash at beginning of year	**1,283,000**	1,649,000	4,000
Cash at end of year	$ **2,180,000**	$ 1,283,000	$ 1,649,000
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ **789,000**	$ 503,000	$ 500,000
Income taxes	$ **11,038,000**	$ 6,342,000	$ 2,699,000
Non-cash financing activities:			
Capital lease obligations	$ **614,000**	$ 170,000	-
Accretion on redeemable preferred stock	**-**	-	$ 374,000

See accompanying notes to consolidated financial statements.

1. The Company and Summary of Significant Accounting Policies

The Company

Meade Instruments Corp. (the "Company"), a Delaware corporation, is a multinational consumer optics company that designs, manufactures, imports and distributes telescopes, telescope accessories, binoculars and other optical products. The Company has operations in the United States, Germany and Mexico.

In April 1997 the Company completed an initial public offering of 3,875,500 shares of common stock (including the underwriters' over-allotment option). The offering included 2,875,500 newly issued shares of common stock and 1,000,000 shares of common stock held by the Company's then preferred stockholder. The offering raised approximately $18,000,000 for the Company (after underwriting discounts and offering expenses). Net proceeds from the offering were used to redeem approximately $6,900,000 of outstanding Series A preferred stock, including accrued dividends, and to repay approximately $11,100,000 of existing bank term and revolving debt. Prior to the closing of the offering, the Company reincorporated into a Delaware corporation pursuant to a merger with and into a newly-formed and wholly-owned Delaware subsidiary, with the Delaware subsidiary being the surviving corporation. All of the outstanding shares of the Series A and Series B common stock and Series A preferred stock of the Company were exchanged on a ratio of one for one with shares of Series A and Series B common stock and Series A preferred stock of the Delaware subsidiary as part of the reincorporation. All shares of Series A and Series B common stock were converted into shares of common stock upon completion of the initial public offering.

Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its 100%-owned subsidiaries and reflect the elimination of all significant intercompany account balances and transactions.

Revenue recognition

Sales are recorded when products are shipped.

Foreign currency translation

The assets and liabilities of the Company's foreign operations are translated at end of period exchange rates. Revenues and expenses are translated at the average exchange rates prevailing during the period. The effects of unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated in stockholders' equity as a component of other comprehensive income.

Allowance for doubtful accounts

The Company evaluates the collectibility of its accounts receivable at least quarterly, based upon various factors including the financial condition and payment history of major customers and an overall review of collections experience on other accounts and economic factors or events expected to affect the Company's future collections experience.

Inventories

Inventories are stated at the lower of cost, as determined using the first-in, first-out ("FIFO") method, or market. Costs include materials, labor and manufacturing overhead. The Company evaluates the carrying value of its inventories at least quarterly, taking into account such factors as historical and anticipated future sales compared with quantities on hand and the price the Company expects to obtain for its products in their respective markets compared with historical costs.

Property and equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Buildings and related improvements are depreciated over seven to twenty-five years. All other property and equipment, except property held under capital lease, is depreciated over three to seven years. Properties held under capital leases are recorded at the present value of the noncancellable lease payments over the term of the lease and are amortized over the shorter of the lease term or the estimated useful lives of the assets.

Goodwill and intangibles

The difference between the purchase price and the fair value of net assets acquired (goodwill) at the date of acquisition is included in the accompanying consolidated balance sheets in other assets. Goodwill and intangible assets are amortized over the estimated period to be benefited which ranges from seven to fifteen years. Goodwill and intangible assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company reviews the recoverability by comparing the estimated future cash flows on an undiscounted basis to the net book value of the assets. In the event that projected undiscounted cash flows are less than the net book value of the assets, the carrying value of the assets are written down to their fair value, less costs to sell. Fair value is generally based on a discounted cash flow analysis. Assets that are to be disposed of are measured at the lower of cost or fair value, less costs to sell.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. The Company files its tax return for the year ending August 31, rather than for the financial reporting period ending the last day of February.

Advertising

The Company expenses the production costs of advertising as incurred. For the years ended February 28(29), 2000, 1999 and 1998, the Company incurred advertising expenses of approximately $6,400,000, $6,300,000 and $3,000,000, respectively.

Research and development

Expenditures for research and development costs are charged to expense as incurred.

Net income per share

Basic earnings per share amounts exclude the dilutive effect of potential common shares. Basic earnings per share is based upon the weighted-average number of common shares outstanding. Diluted earnings per share is based upon the weighted-average number of common shares and dilutive potential common shares outstanding. Potential common shares are outstanding stock options under the Company's stock incentive plan which are included under the treasury stock method.

The following is a reconciliation of the denominators of the basic and diluted earnings per share computations for net income available to common stockholders for the fiscal years ended February 28 (29), 2000, 1999 and 1998.

	Year Ended February 28 (29),		
	2000	**1999**	**1998**
Net income available to common stockholders	$ **11,955,000**	$ 5,599,000	$ 3,361,000
Shares outstanding-basic	**7,056,000**	6,859,000	6,410,000
Effect of dilutive securities:			
Stock options	**416,000**	176,000	48,000
Shares outstanding-diluted	**7,472,000**	7,035,000	6,458,000
Net income available to common stockholders-basic	$ **1.69**	$ 0.82	$ 0.52
Net income available to common stockholders-diluted	$ **1.60**	$ 0.80	$ 0.52

Comprehensive income

Comprehensive income is defined as a change in the equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. In the accompanying financial statements, the only component of comprehensive income other than net income is currency translation adjustments.

Concentration of credit risk

Financial instruments which potentially subject the Company to concentration of credit risk are principally accounts receivable. The Company maintains an allowance for doubtful accounts at a level deemed appropriate by management based on historical and other factors that affect collectibility. One of the Company's significant customers filed for voluntary reorganization during fiscal year 1999. Based upon the Company's assessment of the recoverability of the receivable from this customer and in the opinion of management, the Company has established adequate provisions related to this receivable.

Fair value of financial instruments

The carrying amounts of cash, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued liabilities, and short-term loans approximate fair value due to the short maturity of these instruments.

Use of estimates in the preparation of financial statements

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

Stock-based compensation

The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123 for stock options issued to employees. Compensation cost for stock-based compensation issued to employees has been measured using the intrinsic value method provided by Accounting Principles Board No. 25.

Accounting pronouncements

In June 1998 the Financial Accounting Standards Board issued SFAS No. 133; Accounting for Derivative Instruments and Hedging Activities. SFAS 133 is required to be adopted in fiscal years beginning after June 15, 2000 and establishes accounting and reporting standards for derivative instruments and for hedging activities. Management does not expect the adoption of SFAS 133 to have a material impact on the Company’s financial position or results of operations.

Reclassifications

Certain reclassifications have been made to conform prior year information to the fiscal 2000 presentation.

2. Acquisitions

On September 1, 1999 the Company acquired 100% of the stock and equity interests in Bresser Optik GmbH & Co. KG, and Bresser Optik Geschaftsfuhrung und Verwaltungs GmbH (collectively “Bresser”), for $5,000,000 in cash and 100,915 shares of the Company’s common stock valued at $2,044,000. Bresser is a German distributor of binoculars, telescopes, microscopes and other consumer optical products. To fund the cash portion of the purchase price the Company borrowed $5,000,000 under the Term Loan on August 31, 1999. The acquisition of Bresser was accounted for using the purchase method of accounting. The purchase price allocation was based upon appraisals, evaluations and other studies of fair value of the assets acquired. The excess of the purchase price over the fair value of net assets acquired is included in other assets at February 29, 2000 and is being amortized on a straight-line basis over the period to be benefited which is estimated to be fifteen years.

The following table presents unaudited consolidated pro forma financial information for the two years ended February 29, 2000, as though the acquisition occurred on March 1, 1998.

	Year ended February 28 (29), 2000	1999
	(Unaudited)	
Net sales	$ **133,023,000**	$ 101,507,000
Operating income	$ **22,095,000**	$ 11,802,000
Net income	$ **11,768,000**	$ 5,660,000
Earnings per share		
Basic	$ **1.66**	$ 0.82
Diluted	$ **1.58**	$ 0.80

The unaudited pro forma financial information is presented for information purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisitions taken place on March 1, 1998. In addition, the pro forma results are not intended to be a projection of the future results and do not reflect any synergies that might be achieved from the combined operations.

A summary of the purchase price allocation of the acquisition is as follows:

Current assets (excluding cash of $32,000)	$ 12,251,000
Property, plant and equipment	1,782,000
Trademark	1,398,000
Goodwill	2,325,000
Current liabilities	(10,744,000)
Total purchase price	$ 7,012,000

In January 2000 the Company's German subsidiary acquired certain assets of Astrocom GmbH, formerly the Company's German distributor. For consideration of approximately $1,100,000 cash the Company acquired certain property and equipment, inventory and customer accounts. The acquisition is not material to the results of operations or the financial position of the Company.

3. Bank Debt

On August 31, 1999 the Company entered into a new loan agreement (the "Loan Agreement") with a bank, replacing its existing credit facilities. The Loan Agreement provides the Company with an aggregate $40,000,000 credit facility consisting of a five year $35,000,000 revolving credit facility (the "Revolving Loan") and a five year $5,000,000 term loan (the "Term Loan"). The Term Loan is subject to quarterly principal amortization payments of $250,000 beginning September 30, 2000. The Term Loan is also subject to mandatory prepayments upon the happening of certain events. Amounts outstanding under the Revolving Loan and Term Loan bear interest, at the Company's option, at a base rate (9.0% at February 29, 2000) or eurodollar rate plus an applicable margin. The Company's obligations under the Loan Agreement are guaranteed by each of the Company's domestic subsidiaries and are secured by substantially all of the assets of the Company and its domestic subsidiaries. The Loan Agreement contains certain financial covenants and customary affirmative and negative covenants and events of default. In connection with the acquisition of Bresser Optik (see Note 2), the Company borrowed $5,000,000 under the Term Loan on August 31, 1999. At February 29, 2000 the Company guaranteed up to approximately $4,000,000 of indebtedness of its German operating subsidiary. Short-term bank borrowings at the German subsidiary, totaling $2,784,000 at February 29, 2000, bear interest at the banks' base rates (ranging from 5.1% to 7.5% at February 29, 2000).

4. Commitments and Contingencies

In December 1996 the Company executed a lease commencing October 1, 1997 for its corporate office and manufacturing facilities. The lease term is ten years, extendable for an additional ten years (two terms of five years each) at the Company's option. Lease commitments for this lease are subject to 9% increases at the beginning of the months 31, 61 and 91. In February 2000, the Company entered into a lease for warehouse space located near the Company's corporate headquarters. The warehouse lease expires in 2003.

In August 1999, the Company entered into a lease for an assembly facility in Tijuana, Mexico. The lease term is five years with three, five year renewal options. In January 2000, the Company entered into a lease for an office, repair and distribution facility in Graefelfing, Germany. The lease expires in August 2002.

Aggregate future minimum commitments under noncancellable leases and other agreements at February 29, 2000 that have remaining terms in excess of one year are as follows:

Fiscal Year	Capital	Operating
2001	$ 335,000	$ 2,065,000
2002	279,000	2,132,000
2003	176,000	1,897,000
2004	32,000	1,108,000
2005		1,070,000
Thereafter		2,918,000
Net minimum lease payments	822,000	$ 11,190,000
Less amount representing interest	98,000	
Capital lease obligations	$ 724,000	

For the fiscal years ended February 28(29), 2000, 1999 and 1998, the Company incurred rent expense of $1,521,000, $1,207,000 and $698,000, respectively.

On April 2, 1998 a complaint was filed against the Company alleging infringement of a U.S. patent by the Company. On April 29, 1999, the Company filed a motion requesting summary judgment that the Company has not infringed the patent and a motion requesting summary judgment that the patent is invalid. On June 30, 1999, the court granted the motion for summary judgment of non-infringement. On July 2, 1999, the court held that the Company has not infringed the patent. On July 27, 1999 the opposing party filed a Notice of Appeal with respect to the summary judgment motion. The Company intends to vigorously defend the judgment before the appellate court. The ultimate liability of the Company under this action is not presently determinable. After discussion with counsel, and in light of the summary judgment, it is the opinion of management that such liability is not expected to have a material effect on the Company's financial position or results of operations.

The Company is involved from time to time in litigation incidental to its business. Management believes that the outcome of current litigation will not have a material adverse effect on the Company.

5. Redeemable Preferred Stock

At February 28, 1997 the Series A preferred stock had a cumulative 14% dividend per annum payable quarterly. In January 1997 the Company entered into a binding agreement to accelerate the redemption date to April 14, 1997 from the original date of April 23, 2001. For the year ended February 28, 1997 the Company recorded $3,400,000 in accelerated accretion of the Series A preferred stock pursuant to the new redemption agreement. Upon redemption of the Series A preferred stock on April 14, 1997, the Company recorded a final accretion adjustment of $374,000.

6. Employee Stock Ownership Plan

Adoption of the ESOP was effective March 1, 1996 and covers all employees of the Company who meet certain service and eligibility requirements. A participant becomes 100% vested in his ESOP account if, while employed at the Company, the participant (i) reaches his 60th birthday, (ii) becomes disabled (as defined), (iii) dies, or (iv) achieves three years of credited service (as defined). Distributions of a participant's vested account are directed by the ESOP's Administrative Committee. The Company provides a put option to any participant who receives a distribution of Company stock, unless the stock is readily tradable on an established market.

In April 1996 the ESOP purchased all of the outstanding shares of the Company's Series B common stock (1,500,000 shares) held by the existing stockholders for $11,000,000. The Series B common stock had a cumulative dividend of $0.513 per share and a liquidation preference over the Series A common stock. The ESOP financed the purchase of the Series B common stock (the "financed shares") with the proceeds of an $11,000,000 term loan (the "acquisition loan") from the Company (all shares of Series A and B common stock were converted into shares of common stock upon the completion of the initial public offering, Note 1). The financed shares are held by the Meade Instruments Corp. Employee Stock Ownership Trust (the "ESOP trust"). The ESOP pledged the financed shares to the Company as security for the acquisition loan. The financed shares were initially credited to a suspense account on the books of the ESOP and will be allocated to the accounts of individual ESOP participants, as of each plan year end, for payments made on the acquisition loan. The acquisition loan has a twenty year term and bears interest at 6% per annum. Principal and interest is due annually, subject to the Company making contributions to the ESOP to fund the principal and interest payments. The release of financed shares from collateral is based on a formula defined in the plan. The Company accounts for its ESOP in accordance with Statement of Position 93-6. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the balance sheet. As shares are committed to be released from collateral, the Company records compensation expense, and the shares become outstanding for net income per share purposes. Any dividends on allocated shares are recorded as a reduction of retained earnings; any dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

For the years ended February 28 (29), 2000, 1999 and 1998, the Company recognized ESOP contribution expense of $1,861,000, $1,200,000 and $1,100,000, respectively

As of February 29, 2000 approximately 501,000 shares in the ESOP trust have been allocated to individual participants. Allocation to individual participant accounts are made in the ratio that the compensation of each participant bears to the total compensation of all such participants. There are approximately 102,000 shares committed to be released as of February 29, 2000. Shares in suspense at February 29, 2000 are 999,000.

The fair value of the common stock upon purchase from the existing stockholders in April 1996 was determined to be $7.33 per share. Under the terms of the ESOP, the fair value of the common stock at any plan year end is to be determined by an independent appraiser so long as the stock is not readily tradable on an established market. The fair value of the shares held by the ESOP at February 29, 2000 was $23.62 per share, the market price as determined by the Nasdaq National Market. At February 29, 2000, there was no repurchase obligation.

7. Income Taxes

Pretax income from continuing operations for each of the three years ended February 28 (29), 2000, 1999 and 1998 consists of the following:

	Year Ended February 28 (29),		
	2000	**1999**	**1998**
Domestic	**$ 19,474,000**	$ 9,822,000	$ 6,437,000
Foreign	**1,529,000**	-	-
	$ 21,003,000	$ 9,822,000	$ 6,437,000

Significant components of the provision for income taxes are as follows:

	Year Ended February 28 (29),		
	2000	**1999**	**1998**
Current:			
Federal	**$ 9,753,000**	$ 5,250,000	$ 2,729,000
State	**1,976,000**	1,477,000	512,000
Foreign	**676,000**	-	-
	12,405,000	6,727,000	3,241,000
Deferred:			
Federal	**(2,886,000)**	(1,982,000)	(454,000)
State	**(575,000)**	(522,000)	(85,000)
Foreign	**104,000**	-	-
	(3,357,000)	(2,504,000)	(539,000)
	$ 9,048,000	$ 4,223,000	$ 2,702,000

The provision for income taxes differed from the amount computed by applying the U.S. federal statutory rate to income before income taxes due to the effects of the following:

	Year Ended February 28 (29),		
	2000	**1999**	**1998**
Federal income tax rate	**35.0%**	34.0%	34.0%
State income taxes, net of federal income tax benefit	**5.7**	6.1	6.1
Other	**2.4**	2.9	1.9
	43.1%	43.0%	42.0%

The significant components of the net deferred tax asset were as follows:

	February 29, 2000	**February 28, 1999**
Sales returns	$ **2,640,000**	$ 1,131,000
Inventory and accounts receivable	**2,368,000**	1,791,000
Accrued liabilities	**2,412,000**	790,000
Other	**350,000**	216,000
	$ **7,770,000**	$ 3,928,000

8. Business Segments, Geographic Data and Major Customers

The Company is a multinational consumer optics company that designs, manufactures, imports and distributes telescopes, telescope accessories, binoculars and other optical products. The Company is organized and operates as one segment in two principal geographic locations - North America and Europe. The following tables present information about product sales and geographic data for the fiscal years ended February 28 (29), 2000, 1999 and 1998.

	Year ended February 28 (29),		
	2000	**1999**	**1998**
Product sales:			
Telescope and telescope accessories	$ **117,393,000**	$ 74,031,000	$ 56,910,000
Binoculars	**8,135,000**	2,290,000	2,995,000
Other	**1,280,000**	-	-
	$ **126,808,000**	$ 76,321,000	$ 59,905,000

	Year ended February 28 (29),		
	2000	**1999**	**1998**
Geographic data – product sales:			
North America	$ **98,309,000**	$ 64,721,000	$ 48,605,000
Germany	**15,734,000**	2,115,000	3,497,000
Other foreign	**12,765,000**	9,485,000	7,803,000
	$ **126,808,000**	$ 76,321,000	$ 59,905,000

	Year ended February 28 (29),		
	2000	**1999**	**1998**
Geographic data – long-lived assets:			
North America	$ **5,461,000**	$ 3,828,000	$ 2,985,000
Germany	**5,093,000**	-	-
	$ **10,554,000**	$ 3,828,000	$ 2,985,000

No single customer accounted for 10% or more of the Company's revenue for the year ended February 29, 2000. The Company generated 14% and 12% of its revenue from one customer during the years ended February 28, 1999 and 1998, respectively, and 14% of its revenue from another customer during the year ended February 28, 1998.

9. Stock Incentive Plan

In February 1997, the Company's Board of Directors adopted the 1997 Stock Incentive Plan (the "Plan"). The Plan provides for the grant of incentive and non-qualified stock options, restricted stock, stock appreciation rights ("SARs"), and performance share awards to certain key employees (including officers, whether or not directors) of the Company or its subsidiaries. The Company has received director and stockholder approval to grant options and other awards with respect to 2,000,000 shares of common stock under the Plan. Awards under the Plan generally vest after six months and become exercisable over a four-year period, or as determined by the Compensation Committee of the Board of Directors. Stock options generally remain exercisable for a period of ten years from the date of grant. The Board of Directors has also granted non-qualified stock options to purchase common stock to each of the Company's non-employee directors. The non-employee directors are granted 5,000 options each when elected and 5,000 each upon their re-election to the Board of Directors at the Company's Annual Meeting each year. The directors' options vest in equal annual amounts over three years. Option activity during fiscal years 2000 and 1999 was as follows:

	Option Shares	Weighted Average Exercise Price
Options outstanding at February 28, 1998	625,000	7.86
Granted	268,000	9.49
Exercised	(6,000)	7.14
Forfeited	(18,000)	8.16
Options outstanding at February 28, 1999	869,000	8.36
Granted	470,000	11.14
Exercised	(124,000)	7.53
Forfeited	(32,000)	10.18
Options outstanding at February 29, 2000	1,183,000	9.84

	Options Outstanding			Options Exercisable	
Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 7.00- $ 7.25	216,500	7.2 years	$ 7.06	124,500	$ 7.06
$ 7.63 - $ 7.81	23,500	7.5 years	7.69	6,500	7.76
$ 8.88 - $ 9.75	505,000	8.0 years	9.13	218,000	9.08
$ 10.63 - $ 12.94	388,000	9.1 years	10.66		
$ 20.63 - $ 24.25	50,000	9.7 years	23.76		
	1,183,000			349,000	

The exercise price of options granted to employees was equal to the market price at the grant date. Those options become exercisable 25% after one year and ratably over the following 36 months. At February 29, 2000, outstanding options for common stock held by Company employees totaled 1,183,000 of which 1,132,000 were vested. The option prices range from $7.00 to $24.25 per share and are exercisable over periods ending no later than 2010.

The Company has adopted the disclosure only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the fixed stock option plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method prescribed by SFAS No. 123, the Company's net income available to common stockholders and earnings per share would have been reduced to the pro forma amounts indicated below.

	Year Ended February 28 (29),		
Pro forma:	**2000**	1999	1998
Net income available to common stockholders	$ **11,362,000**	$ 5,311,000	$ 3,243,000
Earnings per share-basic	**1.62**	0.77	0.51
Earnings per share-diluted	**1.46**	0.77	0.51

The pro forma disclosures are not representative of the effects on net income available to common stockholders and earnings per share in future years. All per share amounts have been adjusted to reflect the two-for-one stock split declared on May 5, 2000.

The fair value of the Company's stock options used to compute pro forma net income and earnings per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended February 28 (29)		
	2000	**1999**	**1998**
Weighted average life (years)	**4.0**	4.0	4.0
Volatility	**38.6%**	30.2%	32.4%
Risk-free interest rate	**6.64%**	5.25%	6.5%
Expected dividends	**None**	None	None
Weighted average fair value of options granted	$ **4.56**	$ 2.67	$ 2.77

10. Composition of Certain Balance Sheet Accounts

The composition of inventories is as follows:

	February 29, 2000	February 28, 1999
Raw materials	$ **7,335,000**	$ 3,417,000
Work in process	**6,600,000**	1,514,000
Finished goods	**20,376,000**	9,260,000
	$ **34,311,000**	$ 14,191,000

The composition of other assets is as follows:

	February 29, 2000	February 28, 1999
Goodwill	$ **2,325,000**	$ -
Trademarks	**1,398,000**	-
Other long-term assets	**504,000**	274,000
	4,227,000	
Accumulated amortization	**(140,000)**	-
	$ **4,087,000**	$ 274,000

The composition of property and equipment is as follows:

	February 29, 2000	February 28, 1999
Land	$ **168,000**	-
Buildings	**1,728,000**	-
Molds and dies	**3,354,000**	1,924,000
Machinery and equipment	**2,776,000**	1,885,000
Furniture and fixtures	**1,636,000**	945,000
Autos and trucks	**153,000**	130,000
Leasehold improvements	**1,066,000**	1,015,000
	10,881,000	5,899,000
Less accumulated depreciation and amortization	**(3,915,000)**	(2,071,000)
	$ **6,966,000**	$ 3,828,000

The gross value of assets under capital leases included above are $1,700,000 and $1,100,000 at February 29, 2000, and February 28, 1999, respectively. For the fiscal years ended February 28(29), 2000, 1999 and 1998, the Company incurred depreciation expense of $1,156,000, $755,000 and $408,000, respectively.

The composition of accrued liabilities is as follows:

	February 29, 2000	February 28, 1999
Salaries, wages, bonuses and other associated payroll costs	$ **3,039,000**	$ 1,384,000
Advertising, cooperative advertising, shows and convention expenses	**1,131,000**	1,354,000
Professional fees	**999,000**	957,000
Other	**1,310,000**	1,691,000
	$ **6,479,000**	$ 5,386,000

11. Subsequent Event (unaudited)

On May 5, 2000 the Company declared a two-for-one split of the Company's common stock, to be effected in the form of a dividend payable on June 22, 2000 for stockholders of record on May 22, 2000. Had the additional shares resulting from the proposed stock split been outstanding throughout all of fiscal years 2000, 1999 and 1998, net income per basic and diluted share would have been as follows:

	Year Ended February 28 (29),		
Pro forma:	2000	1999	1998
Earnings per share -- basic	$ 0.85	$ 0.41	$ 0.26
Earnings per share -- diluted	0.80	0.40	0.26

Financial information contained elsewhere in this report has not been adjusted to reflect the impact of the proposed common stock split.

Report of Independent Accountants

To the Board of Directors and Stockholders of Meade Instruments Corp.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Meade Instruments Corp. and Subsidiaries at February 28 (29), 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended February 29, 2000, in conformity with accounting principles generally accepted in the United States. These consolidated financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers

Costa Mesa, California
April 19, 2000

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Corporate Information

Board of Directors
John C. Diebel
Chairman of the Board
and Chief Executive Officer

Steven G. Murdock
President,
Chief Operating Officer
and Secretary

Joseph A. Gordon, Jr.
Senior Vice President – North American Sales

Timothy C. McQuay
Director, Meade Instruments Corp.
Managing Director, A.G. Edwards & Sons, Inc.

Harry L. Casari
Director, Meade Instruments Corp.
Retired Partner, Ernst & Young LLP

Michael P. Hoopis
Director, Meade Instruments Corp.
President and Chief Executive Officer,
Waterpik Technologies, Inc.

Executive Officers
John C. Diebel
Chairman of the Board
and Chief Executive Officer

Steven G. Murdock
President,
Chief Operating Officer
and Secretary

Joseph A. Gordon, Jr.
Senior Vice President – North American Sales

Brent W. Christensen
Vice President – Finance and Chief Financial Officer

Mark D. Peterson
Vice President and General Counsel

Kenneth W. Baun
Vice President – Engineering

Robert A. Wood III
Vice President – Manufacturing

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(949) 451-1450 phone
(949) 451-1460 fax
www.meade.com

Annual Meeting
Thursday, July 13, 2000, at 10:00 a.m.
Irvine Marriott Hotel
18000 Von Karman Avenue
Irvine, CA 92612
Phone (949) 553-0100

Annual Report on Form 10-K
The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (excluding exhibits) is available at no charge upon written request to Meade's Stockholders' Communications Department.

Stock Listing
Nasdaq National Market Symbol: MEAD

Independent Accountants
PricewaterhouseCoopers LLP
Costa Mesa, CA

Corporate Counsel
O'Melveny & Myers LLP
Newport Beach, CA

Stock Transfer Agent
U.S. Stock Transfer Corporation

Stockholders' Communications Department
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