

UNITED DEFENSE INDUSTRIES INC

Form 10-Q

November 07, 2003

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-16821

**UNITED DEFENSE INDUSTRIES, INC.**

*(Exact Name of Registrant as Specified in its charter)*

**Delaware**  
*(State or other jurisdiction of incorporation)*

**52-2059782**  
*(IRS Employer Identification No.)*

**1525 Wilson Boulevard, Suite 700**  
**Arlington, Virginia**  
*(Address of Principal Executive Offices)*

**22209**  
*(Zip Code)*

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**(703) 312-6100**  
*(Registrant's telephone number, including area code)*

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At October 31, 2003, there were 52,134,384 shares outstanding of the Registrant's common stock, par value \$.01 per share.

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**UNITED DEFENSE INDUSTRIES, INC.**

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## UNITED DEFENSE INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS  
(In thousands)

	December 31, 2002	September 30, 2003
		(Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 106,802	\$ 241,114
Trade receivables, net	192,166	200,662
Inventories	399,189	330,652
Deferred tax asset	25,436	
Other current assets	15,458	15,765
	<hr/>	<hr/>
Total current assets	739,051	788,193
Property, plant and equipment, net	170,378	179,009
Goodwill, net	341,962	341,962
Intangible assets, net	32,624	21,041
Prepaid pension and postretirement benefit cost	120,987	124,439
Restricted cash	10,120	11,333
Other assets	38,848	43,960
	<hr/>	<hr/>
Total assets	\$1,453,970	\$1,509,937
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Current portion of long-term debt	\$ 13,011	\$ 39,032
Accounts payable, trade and other	121,801	98,099
Advanced payments	491,217	457,797
Accrued and other liabilities	140,914	125,732
	<hr/>	<hr/>
Total current liabilities	766,943	720,660
Long-term liabilities:		
Long-term debt, net of current portion	576,989	537,957
Accrued pension and postretirement benefit cost	51,964	58,822
Deferred tax liability	15,124	23,002
Other liabilities	72,655	84,139
	<hr/>	<hr/>
Total liabilities	1,483,675	1,424,580
Commitments and contingencies		
Stockholders' (deficit) equity:		
Common stock \$.01 par value, 150,000,000 shares authorized; 51,695,109 and 52,095,884 issued and outstanding at December 31, 2002 and September 30, 2003, respectively	517	521
Additional paid-in-capital	177,740	180,027
Deferred compensation	(547)	(487)
Retained deficit	(194,952)	(83,107)
Accumulated other comprehensive loss	(12,463)	(11,597)
	<hr/>	<hr/>
Total stockholders' (deficit) equity	(29,705)	85,357
	<hr/>	<hr/>
Total liabilities and stockholders' equity (deficit)	\$1,453,970	\$1,509,937

See accompanying notes.

## UNITED DEFENSE INDUSTRIES, INC.

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except shares and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
<b>Revenue:</b>				
Sales	\$ 529,701	\$ 507,915	\$ 1,204,182	\$ 1,527,891
<b>Costs and expenses:</b>				
Cost of sales	426,976	400,298	971,672	1,210,061
Selling, general and administrative expenses	37,528	38,065	98,013	117,003
Research and development	7,640	10,717	22,854	16,752
<b>Total expenses</b>	<b>472,144</b>	<b>449,080</b>	<b>1,092,539</b>	<b>1,343,816</b>
Income from operations	57,557	58,835	111,643	184,075
<b>Other income (expense):</b>				
Earnings (loss) related to investments in foreign affiliates	(561)	5,003	6,652	16,658
Interest income	1,188	1,012	3,346	2,909
Interest expense	(12,611)	(7,100)	(25,246)	(21,801)
<b>Total other expense</b>	<b>(11,984)</b>	<b>(1,085)</b>	<b>(15,248)</b>	<b>(2,234)</b>
Income before income taxes	45,573	57,750	96,395	181,841
Provision for income taxes	493	20,360	5,000	69,996
<b>Net income</b>	<b>\$ 45,080</b>	<b>\$ 37,390</b>	<b>\$ 91,395</b>	<b>\$ 111,845</b>
<b>Earnings per common share-basic</b>	<b>\$ 0.88</b>	<b>\$ 0.72</b>	<b>\$ 1.78</b>	<b>\$ 2.16</b>
Weighted average common shares outstanding	51,513,743	52,029,410	51,239,233	51,883,593
<b>Earnings per common share-diluted</b>	<b>\$ 0.85</b>	<b>\$ 0.71</b>	<b>\$ 1.73</b>	<b>\$ 2.12</b>
Weighted average common shares outstanding	52,759,182	52,994,910	52,706,671	52,802,260

See accompanying notes.

## UNITED DEFENSE INDUSTRIES, INC.

**UNAUDITED CONSOLIDATED STATEMENTS  
OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)**  
(In thousands)

	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained Deficit	Accumulated Other Comprehensive (Loss)/Gain	Total
<b>Balance, December 31, 2002</b>	\$ 517	\$ 177,740	\$(547)	\$(194,952)	\$(12,463)	\$ (29,705)
Amortization of deferred stock compensation			60			60
Exercise of stock options	4	2,287				2,291
Net foreign currency translation					1,270	1,270
Change in fair value of foreign currency and interest rate hedges, net of tax					(404)	(404)
Net income for the nine months ended September 30, 2003				111,845		111,845
<b>Total comprehensive income</b>						<b>112,711</b>
<b>Balance, September 30, 2003</b>	<b>\$ 521</b>	<b>\$ 180,027</b>	<b>\$(487)</b>	<b>\$ (83,107)</b>	<b>\$(11,597)</b>	<b>\$ 85,357</b>

See accompanying notes.



## UNITED DEFENSE INDUSTRIES, INC.

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Nine months ended September 30,	
	2002	2003
<b>Operating activities</b>		
Net income	\$ 91,395	\$ 111,845
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	17,664	20,170
Amortization of software	4,131	3,585
Amortization of other intangibles	6,444	11,261
Amortization of financing costs	2,481	2,524
Net loss from early extinguishment of debt	1,859	
Deferred tax provision		33,314
Changes in assets and liabilities:		
Trade receivables	(53,827)	(6,733)
Inventories	19,845	71,006
Other assets	(6,220)	(7,719)
Prepaid pension and postretirement benefit cost	(2,185)	(3,452)
Accounts payable, trade and other	(10,184)	(24,626)
Advanced payments	44,321	(37,572)
Accrued and other liabilities	(35,334)	(6,635)
Accrued pension and postretirement benefit cost	(4,665)	5,252
Cash provided by operating activities	<u>75,725</u>	<u>172,220</u>
<b>Investing activities</b>		
Capital expenditures	(13,174)	(32,247)
Purchase of Cell ITS, net of \$0.2 million cash acquired	(4,135)	
Purchase of USMR, net of \$7.3 million cash acquired	(307,404)	
Cash used in investing activities	<u>(324,713)</u>	<u>(32,247)</u>
<b>Financing activities</b>		
Payments on long-term debt	(90,900)	(13,011)
Proceeds from senior secured facility	300,000	
Proceeds from sale of common stock	3,281	2,291
Payments for financing and transaction cost	(5,470)	
Cash provided by (used in) financing activities	<u>206,911</u>	<u>(10,720)</u>
Effect of exchange rate changes on cash	6,312	5,059
(Decrease) increase in cash and cash equivalents	(35,765)	134,312
Cash and cash equivalents, beginning of year	90,535	106,802
Cash and cash equivalents, end of period	<u>\$ 54,770</u>	<u>\$ 241,114</u>

See accompanying notes.



## UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003**1. Basis of Presentation**

The financial information presented as of any date other than December 31 has been prepared from the books and records without audit. Financial information as of December 31, 2002 presented in this quarterly report has been derived from the audited financial statements of United Defense Industries, Inc., but does not include all the associated disclosures required by generally accepted accounting principles. In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments (consisting of normal, recurring adjustments) necessary to present fairly our financial position as of September 30, 2003 and the results of operations for the three months and nine months ended September 30, 2002 and 2003 and cash flows for the nine months ended September 30, 2002 and 2003. The results of operations are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These unaudited consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, and June 30, 2003.

**2. Summary of Significant Accounting Principles***Stock-Based Compensation*

At September 30, 2003, we had a stock-based employee compensation plan, which is described more fully in our Form 10-K for the year ended December 31, 2002. We account for the plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, we record compensation expense over the vesting period in our consolidated statements of operations if the option price is less than fair value of the common stock at the date an option is granted. The compensation expense recorded in the financial statements reflects the amortization based on vesting of stock options. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>
	<b>(In thousands, except per share data)</b>			
Net income, as reported	\$45,080	\$37,390	\$91,395	\$111,845
Add back: Compensation expense recorded, net of related tax effects	15	12	45	37
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(220)	(1,127)	(660)	(3,225)