

UNITED DEFENSE INDUSTRIES INC

Form 10-Q

August 02, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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 June 30, 2004

**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)

(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 July 23, 2004 there were 52,854,692 shares outstanding of the Registrant's common stock, par value \$.01 per share.

UNITED DEFENSE INDUSTRIES, INC.

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UNITED DEFENSE INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2003	June 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 286,730	\$ 274,546
Trade receivables, net	168,625	221,848
Long-term contract inventories	389,394	352,277
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Other current assets	20,127	15,700
Total current assets	864,876	864,371
Property, plant and equipment, net	181,283	195,506
Goodwill, net	342,843	363,582
Intangible assets, net	14,222	13,705
Prepaid pension and postretirement benefit cost	128,997	125,810
Restricted cash	12,244	11,676
Other assets	46,699	30,954
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Total assets	\$ 1,591,164	\$ 1,605,604
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LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	\$ 52,043	\$ 48,495
Accounts payable, trade and other	124,502	110,848
Advanced payments	462,304	454,201
Deferred tax liability	16,280	17,852
Accrued and other liabilities	133,963	132,262
	<hr/>	<hr/>
Total current liabilities	789,092	763,658
Long-term liabilities:		
Long-term debt, net of current portion	524,946	498,926
Accrued pension and postretirement benefit cost	51,538	47,531
Deferred tax liability	17,695	20,773
Other liabilities	80,812	80,369
	<hr/>	<hr/>
Total liabilities	1,464,083	1,411,257
Commitments and contingencies		
Stockholders equity:		
Common stock \$.01 par value, 150,000,000 shares authorized; 52,220,189 issued and outstanding at December 31, 2003; 52,839,822 and 51,971,022, issued and outstanding, respectively, at June 30, 2004	522	518
Additional paid-in-capital	183,337	196,768
Deferred compensation	(197)	(4,054)
Retained (deficit) earnings	(54,304)	2,200
Accumulated other comprehensive loss	(2,277)	(1,085)
	<hr/>	<hr/>
Total stockholders equity	127,081	194,347
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Total liabilities and stockholders equity	\$ 1,591,164	\$ 1,605,604
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See accompanying notes.

UNITED DEFENSE INDUSTRIES, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except shares and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Revenue:				
Sales	\$ 553,453	\$ 576,306	\$ 1,019,976	\$ 1,123,383
Costs and expenses:				
Cost of sales	447,180	455,216	809,763	890,303
Selling, general and administrative expenses	41,868	38,372	78,938	77,131
Research and development	4,155	9,225	6,035	15,778
Total expenses	493,203	502,813	894,736	983,212
Income from operations	60,250	73,493	125,240	140,171
Earnings related to investments in foreign affiliates	6,106	560	11,655	6,376
Interest income	983	933	1,897	1,906
Interest expense	(7,213)	(6,448)	(14,701)	(12,902)
Total other expense	(124)	(4,955)	(1,149)	(4,620)
Income before income taxes	60,126	68,538	124,091	135,551
Provision for income taxes	24,050	27,735	49,636	52,865
Net income	\$ 36,076	\$ 40,803	\$ 74,455	\$ 82,686
Earnings per common share-basic	\$ 0.70	\$ 0.78	\$ 1.44	\$ 1.58
Weighted average common shares outstanding	51,887,761	52,405,438	51,809,472	52,402,577
Earnings per common share-diluted	\$ 0.68	\$ 0.765	\$ 1.41	\$ 1.55
Weighted average common shares outstanding	52,783,806	53,338,275	52,696,743	53,349,444

See accompanying notes.

UNITED DEFENSE INDUSTRIES, INC.

CONSOLIDATED STATEMENTS

OF CHANGES IN STOCKHOLDERS EQUITY
(In thousands)

	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained (Deficit) Earnings	Accumulated Other Comprehensive (Loss)/Gain	Total
Balance, December 31, 2003	\$ 522	\$ 183,337	\$ (197)	\$ (54,304)	\$ (2,277)	\$ 127,081
Amortization of deferred stock compensation			657			657
Issuance of restricted stock awards		4,514	(4,514)			
Exercise of stock options	5	7,798				7,803
Tax benefit from stock options		4,105				4,105
Stock repurchased	(9)	(6,028)		(23,140)		(29,177)
Net foreign currency translation					(987)	(987)
Change in fair value of foreign currency and interest rate hedges, net of tax					2,179	2,179
Net income for period ended June 30, 2004				82,686		82,686
Total comprehensive income						83,878
Balance, June 30, 2004	\$ 518	\$ 193,726	\$ (4,054)	\$ 5,242	\$ (1,085)	\$ 194,347

See accompanying notes.

UNITED DEFENSE INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30,	
	2003	2004
Operating activities		
Net income	\$ 74,455	\$ 82,686
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	13,410	14,367
Amortization of software	2,415	2,532
Amortization of other intangibles	6,595	3,674
Amortization of financing costs	1,549	1,622
Deferred tax provision	30,280	4,728
Changes in assets and liabilities:		
Trade receivables	4,713	(47,978)
Inventories	63,480	42,508
Other assets	(777)	20,944
Prepaid pension and postretirement benefit cost	(2,150)	3,187
Accounts payable, trade and other	(30,501)	(10,441)
Advanced payments	(54,933)	(10,340)
Accrued and other liabilities	(13,091)	1,130
Accrued pension and postretirement benefit cost	3,355	(3,334)
Cash provided by operating activities	<u>98,800</u>	<u>105,285</u>
Investing activities		
Capital expenditures	(23,762)	(19,662)
Purchase of Kaiser Compositek, Cercom and Hawaii Shipyards		(44,412)
Cash used in investing activities	<u>(23,762)</u>	<u>(64,074)</u>
Financing activities		
Payments on long-term debt		(29,569)
Proceeds from sale of common stock	1,592	7,803
Common stock repurchased		(29,177)
Cash provided (used in) financing activities	<u>1,592</u>	<u>(50,943)</u>
Effect of exchange rate changes on cash	<u>4,424</u>	<u>(2,452)</u>
Increase (decrease) in cash and cash equivalents	81,054	(12,184)
Cash and cash equivalents, beginning of year	<u>106,802</u>	<u>286,730</u>
Cash and cash equivalents, end of period	<u>\$ 187,856</u>	<u>\$ 274,546</u>

See accompanying notes.

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

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, 2003 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 June 30, 2004 and the results of operations for the three months and six months ended June 30, 2004 and cash flows for the six months ended June 30, 2004. The results of operations are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

2. Summary of Significant Accounting Principles

Revenue and Profit Recognition for Contracts-in-Progress

We use different techniques for estimating and recording revenues depending on the type and characteristics of the contract. Sales are recognized on most fixed-price production contracts when the risks and rewards of ownership have been transferred to the customer. For our DoD production contracts, those criteria are typically met when the manufacture of the product is completed and the customer has certified it as meeting the contract specifications and as having passed quality control tests. For our foreign production contracts, sales are generally recorded upon shipment of products to the customer, which corresponds to when the risks and rewards of ownership transfer. Gross margin on each unit delivered or accepted is recognized, based on an estimate of the margin that will be realized over the life of the related contract. We evaluate estimates of gross margin on production contracts and recognize changes in estimates of gross margins during the period in which those changes are determined. Sales under fixed-price ship repair and maintenance contracts are recognized as work is performed. Under this method, contract costs are expensed as incurred and sales are recognized simultaneously based on the ratio of direct labor inputs and other costs incurred to date compared to estimated total direct labor inputs and total costs. Sales under cost reimbursement contracts for research, engineering, prototypes, ship repair and maintenance and certain other contracts are recorded as costs are incurred and include estimated fees in the proportion that costs incurred to date bear to total estimated costs. Award fees are recorded as revenue when the award is earned. We charge any anticipated losses on a contract to operations as soon as those losses are determined.

Stock-Based Compensation

At June 30, 2004, we had a stock-based employee compensation plan, which is described more fully in our Form 10K for the year ended December 31, 2003. On April 13, 2004 our stockholders approved an amendment and restatement of our stock-based plan, renamed the Incentive Award Plan, in order to (i) reserve an additional 2,000,000 shares for use under the plan, (ii) qualify the plan for certain awards pertaining to Sec. 162(m) of the Internal Revenue Code, and (iii) add the ability to make grants of other equity-based compensation. 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. On January 20, 2004, the Board of Directors authorized issuance of 141,000 shares of restricted stock and new stock options to purchase 500,000 common shares at an exercise price of \$31.80. The compensation recorded in the financial

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statements reflects the amortization based on vesting of stock options and restricted stock. The following table illustrates the effect on net income and earnings per share if we had elected to apply the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2003
	(In thousands, except per share data)			
Reported net income	\$ 36,076	\$ 40,803	\$ 74,455	\$ 82,686
Add back: Compensation expense recorded, net of related tax effects				