

INTEGRATED DEFENSE TECHNOLOGIES INC  
Form 10-Q  
November 07, 2002

=====
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 2002 OR

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

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

Commission file number 001-31235

Integrated Defense Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware

13-4027646

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

110 Wynn Drive, Huntsville, Alabama

35805

(Address of principal executive offices)

(Zip Code)

(256) 895-2000

(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

YES X NO \_\_\_\_

Common stock, par value \$.01 per share: 21,327,931 shares
outstanding as of November 7, 2002

INTEGRATED DEFENSE TECHNOLOGIES, INC.
FORM 10-Q
September 27, 2002

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Consolidated Balance Sheets as of September 27, 2002 and December 31, 2001 (unaudited)	2
Consolidated Statements of Operations for the quarters and nine months ended September 27, 2002 and September 28, 2001 (unaudited)	3
Consolidated Statements of Cash Flows for the nine months ended September 27, 2002 and September 28, 2001 (unaudited)	4
Notes to Condensed Financial Statements	5 - 12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13 - 24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	24
Item 4. Controls and Procedures	24
PART II. OTHER INFORMATION	
Item 5: Other information	25
Item 6. Exhibits and Reports on Form 8-K	25
SIGNATURES	26
CERTIFICATIONS	27

### PART I. FINANCIAL INFORMATION

#### ITEM 1.

#### INTEGRATED DEFENSE TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 27, 2002	December 31, 2001
(In thousands except share and per share amounts)		
ASSETS		
Current assets:		
Cash	\$ 17,038	\$ 3,893
Restricted cash	463	769
Accounts receivable, net	127,262	113,863
Inventories, net	12,700	13,567
Prepaid expenses and other current assets	3,358	2,028
Deferred income taxes	6,377	7,068
Total current assets	167,198	141,188
Property and equipment, net	43,662	45,548
Goodwill, net	83,734	83,734

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Other assets	7,676	7,828
-----		
Total Assets	\$302,270	\$278,298
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving credit loan	\$ ---	\$ 8,500
Current portion of long-term debt	4,950	9,164
Accounts payable	19,013	14,802
Accrued compensation	8,425	8,317
Other accrued expenses	10,827	11,030
Derivative liabilities	---	7,326
Billings in excess of costs and earnings	4,413	8,743
-----		
Total current liabilities	47,628	67,882
Long-term debt	78,813	153,561
Pension and other postretirement employee benefits	6,583	6,675
-----		
Total liabilities	133,024	228,118
-----		
Contingencies (Note 11)	---	---
-----		
Stockholders' equity:		
Preferred stock, \$.01 par value per share, 20,000,000 shares authorized, none issued		
Common stock, \$.01 par value per share, 200,000,000 shares authorized, 21,327,931 issued at September 27, 2002 and 13,565,243 issued at December 31, 2001	213	136
Additional paid-in capital	170,955	54,434
Accumulated other comprehensive loss	(2,267)	(6,703)
Retained earnings	345	2,313
-----		
Total stockholders' equity	169,246	50,180
-----		
Total Liabilities and Stockholders' Equity	\$302,270	\$278,298
=====		

The accompanying notes are an integral part of these consolidated financial statements.

INTEGRATED DEFENSE TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Quarter ended		Nin
	September 27, 2002	September 28, 2001	September 2002
-----			
(In thousands except per share amounts)			
Revenue	\$75,723	\$67,868	\$216,21
Cost of revenue	55,599	48,996	153,64
-----			
Gross profit	20,124	18,872	62,57

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Selling, general and administrative expenses	8,022	7,693	27,76
Research and development and bid and proposal expenses	3,294	3,620	11,36
Amortization of debt issuance costs	192	203	59
Amortization of patents and goodwill	9	1,774	2
-----			
Income from operations	8,607	5,582	22,82
Interest expense	(958)	(5,224)	(5,80
Refinancing costs	---	---	(7,57
Other income (expense) - net	(383)	277	( 13
-----			
Income (loss) before income taxes and extraordinary loss	7,266	635	9,30
Income tax expense	(2,652)	(506)	(3,27
-----			
Income (loss) before extraordinary loss	4,614	129	6,03
Extraordinary loss on early extinguishment of debt (net of income tax benefit of \$5,119)	---	---	(8,00
-----			
Net income (loss)	\$4,614	\$129	\$ (1,96
=====			
Basic income (loss) per share:			
Income (loss) before extraordinary loss	\$.23	\$.01	\$.3
Extraordinary loss	---	---	(.4
-----			
Net income (loss)	\$.23	\$.01	\$(.1
=====			
Diluted income (loss) per share:			
Income (loss) before extraordinary loss	\$.22	\$.01	\$.3
Extraordinary loss	---	---	(.4
-----			
Net income (loss)	\$.22	\$.01	\$(.1
=====			
Weighted-average shares outstanding - Basic	20,216	13,565	18,63
Diluted	21,328	15,328	20,07
=====			

The accompanying notes are an integral part of these consolidated financial statements.

INTEGRATED DEFENSE TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

Nine months ended	September 27, 2002	September 2 2001
-----		
(In thousands)		
OPERATING ACTIVITIES:		
Net loss	\$( 1,968)	\$(1,753)

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	8,004	7,957
Amortization of debt issuance costs	591	646
Amortization of goodwill and other intangible assets	171	4,833
Extraordinary loss on early extinguishment of debt, net	8,006	---
Other refinancing costs	7,571	---
Deferred income taxes	3,026	1,012
Changes in current assets and liabilities:		
Restricted cash	305	2,821
Accounts receivable, net	(13,558)	(15,018)
Inventories, net	( 56)	201
Other current assets	( 1,204)	3,881
Accounts payable	4,757	3,013
Billings in excess of costs and earnings	( 4,330)	4,425
Other current liabilities	440	(9,174)
<hr style="border-top: 1px dashed black;"/>		
Net cash provided by operating activities	11,755	2,844
<hr style="border-top: 1px dashed black;"/>		
INVESTING ACTIVITIES:		
Purchases of property and equipment	( 6,136)	( 3,492)
Capitalization of internally developed software	( 865)	---
Other	( 253)	( 57)
<hr style="border-top: 1px dashed black;"/>		
Net cash used in investing activities	( 7,254)	( 3,549)
<hr style="border-top: 1px dashed black;"/>		
FINANCING ACTIVITIES:		
Proceeds from sale of common stock, net of issuance costs	116,688	---
Issuance of long-term debt	85,000	---
Repayment of long-term debt	(169,823)	( 5,592)
Payment of debt issuance and other refinancing costs	( 14,721)	---
Net borrowings (repayments) under revolving credit loans	( 8,500)	2,450
<hr style="border-top: 1px dashed black;"/>		
Net cash provided by (used in) financing activities	8,644	( 3,142)
<hr style="border-top: 1px dashed black;"/>		
Net increase (decrease) in cash	13,145	( 3,847)
Cash at beginning of period	3,893	4,938
<hr style="border-top: 1px dashed black;"/>		
Cash at end of period	\$17,038	\$ 1,091
<hr style="border-top: 3px double black;"/>		
Supplemental disclosure of noncash financing activities:		
Unrealized loss on derivative financial instrument	\$ (2,833)	\$ (9,274)

The accompanying notes are an integral part of these consolidated financial statements.

### INTEGRATED DEFENSE TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Integrated Defense Technologies, Inc. and subsidiaries (the "Company") have been prepared on substantially the same basis as the Company's annual consolidated financial statements and should be read in

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

conjunction with the Company's Prospectus dated February 26, 2002 filed with the Securities and Exchange Commission on February 27, 2002 pursuant to Rule 424(b)(1) of the Securities Act of 1933. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring items) necessary for a fair presentation of results for the interim periods presented. The consolidated results for interim periods are not necessarily indicative of the results that may be expected for the full year. Certain prior period amounts have been reclassified to provide comparability with the current presentation.

### NOTE 2: REFINANCING

On February 27, 2002, the Company completed an initial public offering of 6,000,000 shares of common stock at \$22 per share, generating net cash proceeds of \$116,688,000. The majority of these proceeds were used for debt retirement and refinancing. Concurrent with the closing of the offering, the Company repaid the outstanding balances on its revolving credit and term loan agreement and its senior subordinated notes (\$125,836,000 and \$51,250,000, respectively) and replaced the previous revolving credit and term loan facility with a new facility provided by a syndicate of financial institutions. This new facility provided financing of up to \$125,000,000, consisting of a \$40,000,000 five-year revolving credit facility, a \$40,000,000 five-year term loan, and a \$45,000,000 six-year term loan. At September 27, 2002, the Company had outstanding borrowings of \$83,763,000 under the facility, consisting of \$38,875,000 under the five-year term loan and \$44,888,000 under the six-year term loan. The current interest rates on these loans are 4.007% and 4.257%, respectively.

On November 1, 2002, in connection with its acquisition of BAE SYSTEMS Advanced Systems Gaithersburg, Maryland operation (see Note 12), the Company amended and restated its revolving credit and term loan facility. The amendment increased the six-year term loan by \$135,000,000, increased availability under the revolving credit facility by \$5,000,000, and updated the financial covenants to reflect the integration of the Gaithersburg operation into the Company. As of the date of this Form 10-Q filing, the Company had outstanding borrowings of \$225,025,000 under the facility, consisting of \$37,750,000 under the five-year term loan, \$179,775,000 under the six-year term loan, and \$7,500,000 borrowed under the revolving credit facility. The current interest rates on the additional term loan borrowing and on the revolving credit facility are 5.39% and 4.39%, respectively.

Borrowings under the amended facility are secured by a pledge of substantially all of the Company's assets and bear interest at a base rate or LIBOR plus an applicable margin ranging from 2% to 4%. Available borrowings under the revolving credit facility are determined by the Company's borrowing base, as defined in the agreement, which is calculated based upon eligible accounts receivable and inventories.

The amended revolving credit and term loan agreement contains certain financial covenants of the Company, including, among other things, limitations on capital expenditures,

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

investments, and asset sales, and maintenance of certain financial ratios. The Company was in compliance with these covenants as of the date of this Form 10-Q filing.

In connection with the early retirement and refinancing of its prior credit facility in February 2002, the Company incurred one-time charges totaling \$20,696,000, including prepayment penalties, write-offs of capitalized debt issuance costs, a write-off of the unamortized discount on the senior subordinated notes, and payments to terminate interest rate swap agreements associated with the debt. The swap termination payments totaled \$7,571,000 and are reflected as "Refinancing costs" in the Company's consolidated statement of operations for the nine months ended September 27, 2002. The remaining charges are reflected, net of the associated tax benefit of \$5,119,000, as an "Extraordinary loss on early extinguishment of debt" in that statement of operations.

In February 2002, the Company capitalized \$4,629,000 of debt issuance costs associated with the revolving credit and term loan agreement, consisting primarily of legal fees and a facility fee paid to the new lenders. These costs are being amortized on a straight-line basis over the six-year term of the agreement. The unamortized balance at September 27, 2002 of \$4,182,000 is included in "Other assets" in the Company's consolidated balance sheet as of that date.

### NOTE 3: INVENTORIES

Inventories consist of the following:

	September 27, 2002	December 31, 2001
-----		
(In thousands)		
Stock materials	\$10,029	\$15,034
Work-in-process	10,014	5,523
Finished goods	9	458
-----		
	20,052	21,015
Less reserve for excess and obsolescence	7,352	7,448
-----		
Inventories, net	\$12,700	\$13,567
=====		

Stock materials, work-in-process and finished goods are stated primarily at the lower of first-in, first-out ("FIFO") cost or market.

Work-in-process and finished goods inventory consist primarily of electronic components for use in fulfilling current and future contracts.

### NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment, net includes allowances for depreciation of \$64,024,000 and \$59,832,000 at September 27, 2002 and December 31, 2001, respectively.

### NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

The Company has from time to time used interest rate swap agreements to manage the risk associated with interest rate fluctuations on its variable rate debt. In October 2000, the Company entered into three such agreements with notional amounts of \$25,000,000, \$10,000,000, and \$60,000,000, under which the Company paid fixed interest rates ranging from 6.39% to 6.75% and received a variable LIBOR-based rate of interest from the holders of the agreements. The difference in the pay and receive rates of interest was charged or credited to interest expense as incurred. These swap agreements increased interest expense by \$939,000 and \$830,000 in the first nine months of 2001 and 2002, respectively.

On January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, ("SFAS 133") which establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Upon adoption of SFAS 133, the Company's interest rate swaps were designated as highly effective cash flow hedges. Accordingly, the Company recognized a one-time transition adjustment to increase other comprehensive loss by \$2,863,000 (\$1,775,000 net of income tax benefit), the fair value of the interest rate swaps at January 1, 2001, representing the approximate cost to the Company of terminating the agreements as of that date. In accordance with SFAS 133, this transition adjustment was reflected as the cumulative effect of a change in accounting principle, net of income taxes, in the Company's other comprehensive loss for the nine months ended September 27, 2001 (see Note 7). At September 28, 2001, the swap agreements had a fair value of \$8,335,000 (\$5,171,000 net of tax benefit), resulting in a component of other comprehensive loss for the first nine months of 2001 of \$5,472,000 (\$3,396,000 net of income tax benefit). The approximate cost to terminate the swaps at December 31, 2001 of \$7,326,000 (\$4,542,000 net of tax benefit) is reflected as "Derivative liabilities" in the Company's consolidated balance sheet as of that date.

On March 4, 2002, in connection with its debt retirement and refinancing (see Note 2), the Company paid \$7,571,000 to terminate its interest rate swaps. The after tax expense for the swap termination of \$4,618,000, along with the after tax expense of \$506,000 associated with payments made during the first quarter of 2002 prior to the termination, is reflected in the Company's consolidated statement of operations for the nine months ended September 27, 2002.

There was no impact to earnings due to hedge ineffectiveness during the nine month periods ended September 27, 2002 or September 28, 2001. The Company does not use derivative financial instruments for speculative or trading purposes.

### NOTE 6: INCOME (LOSS) PER SHARE

Basic income or loss per share is computed using the weighted average number of common shares outstanding. Diluted income or loss per share is computed using the weighted average number of common and equivalent common shares outstanding. Common stock warrants are the Company's only common stock



## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

equivalent and are included in the calculation only if dilutive.

On February 5, 2002, the Company's Board of Directors approved a 198.6359 to 1 common stock split. All share and per share amounts for the quarter and nine months ended September 28, 2001 have been restated to reflect this stock split.

On February 27, 2002, in connection with its initial public stock offering, the Company issued 6,000,000 additional shares of common stock and warrant holders converted outstanding warrants into 235,749 shares of Company common stock. On September 6, 2002, warrant holders converted the remaining outstanding warrants into 1,526,939 shares of restricted common stock. The Company no longer has any common stock warrants outstanding.

The computations of basic and diluted weighted-average shares outstanding for the quarters and nine month periods ended September 27, 2002 and September 28, 2001 are as follows.

	Quarter ended,		Nine months ended,	
	September 27,	September 28,	September 27,	September 28,
	2002	2001	2002	2001
Weighted-average shares outstanding -- basic	20,215,921	13,565,243	18,638,852	13,565,243
Dilutive effect of warrants	1,112,015	1,762,695	1,436,338	---
Weighted-average shares outstanding -- diluted	21,327,936	15,327,938	20,075,190	13,565,243

Anti-dilutive shares were 1,762,695 for the nine months ended September 28, 2001.

### NOTE 7: COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes net income (loss) as well as all other nonowner changes in equity. The components of the Company's comprehensive income (loss) for the quarters and nine month periods ended September 27, 2002 and September 28, 2001 are presented below, net of related income tax effects. See Note 5 for further information regarding the derivative financial instruments used by the Company and the impact of those derivatives on the Company's consolidated financial position and results of operations.

	Quarter ended,		Nine mo
	September 27,	September 28,	September 2
	2002	2001	2002

(In thousands)

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Net income (loss)	\$4,614	\$129	\$ (1,968)
Other comprehensive income (loss):			
Cumulative effect of change in accounting principle with respect to derivative financial instruments	---	---	---
Unrealized loss on derivative financial instruments	---	(2,620)	(582)
Realized loss on derivative financial instruments charged to net income (loss)	---	274	5,124
Minimum pension liability adjustment	(81)	---	(106)
-----	-----	-----	-----
Comprehensive income (loss)	\$4,533	\$ (2,217)	\$2,468
=====	=====	=====	=====

NOTE 8: SEGMENT INFORMATION

The Company's business consists of three operating segments: Electronic Combat Systems, Diagnostics & Power Systems, and Communications & Surveillance Systems. These reportable segments are defined primarily by their economic characteristics, the nature of their products and services, and by their class of customer.

The Electronic Combat Systems segment designs, integrates, manufactures, and sells electronics and avionics equipment primarily to the U.S. Government for military, civil and governmental uses, and designs, manufactures and supports advanced test and evaluation systems, rangeless air combat training systems, threat simulation equipment, high power transmitters, and control subsystems for both guided bombs and missile launching systems for the U.S. Department of Defense, major defense prime contractors and foreign government defense agencies.

The Diagnostics & Power Systems segment is a contractor primarily to the U.S. Government and foreign governments, and designs, manufactures and supports test equipment, vehicle electronics systems and energy management systems primarily for military combat vehicle applications.

The Communications & Surveillance Systems segment designs and manufactures meteorological surveillance and analysis systems, more commonly known as Doppler weather radar systems, and designs and produces advanced electronics systems, subsystems, components and radio transmission products for the defense, aerospace and communications industries for U.S. and foreign government agencies and commercial customers.

The Company evaluates performance of the operating segments based on revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA"), calculated as income from operations plus depreciation and amortization. The accounting policies of the operating segments are consistent across segments and are the same as those used in preparation of the consolidated financial statements of the Company. (See Note 2 of Notes to Consolidated Financial Statements included in the Company's Prospectus dated February 26, 2002 filed with the Securities and Exchange Commission on February 27, 2002 pursuant to Rule 424(b)(1) of the Securities Act of 1933.) Sales among the operating segments are insignificant. With the exception of debt issuance cost amortization related to the Company's new revolving credit and

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

term loan facility, the Company's corporate expenses are allocated in full to the segments on the basis of relative employment, revenue, and selected assets. Corporate assets and expenses are included in "All other" in the following tables.

The following table sets forth revenue and EBITDA by operating segment for the quarters and nine month periods ended September 27, 2002 and September 28, 2001.

	Quarter ended,		Nine mon
	September 27, 2002	September 28, 2001	September 27, 2002
(In thousands)			
REVENUES FROM UNAFFILIATED CUSTOMERS:			
Electronic Combat Systems	\$37,165	\$30,199	\$105,290
Diagnostics & Power Systems	23,012	22,448	64,599
Communications & Surveillance Systems	15,585	15,090	46,070
All other	(39)	131	256
Total	\$75,723	\$67,868	\$216,215

### OTHER FINANCIAL INFORMATION:

EBITDA:			
Electronic Combat Systems	\$ 6,811	\$ 5,399	\$18,441
Diagnostics & Power Systems	3,179	3,474	7,466
Communications & Surveillance Systems	1,457	1,401	5,981
All other	23	(1)	(295)
Total	\$11,470	\$10,273	\$31,593

EBITDA is not a presentation made in accordance with accounting principles generally accepted in the United States, and as such, it should not be considered in isolation or as a substitute for net income (loss), cash flows from operating activities or other income or cash flow statement data prepared in accordance with accounting principles generally accepted in the United States or as a measure of profitability or liquidity. The Company monitors EBITDA by segment to determine each segment's ability to satisfy its debt service, capital expenditures and working capital requirements and because certain covenants in the Company's revolving credit and term loan facility are based upon similar measures. The Company's EBITDA is not necessarily comparable to other similarly titled captions used by other companies. A reconciliation of the Company's EBITDA to income (loss) before income taxes and extraordinary loss is presented in the table below.

### RECONCILIATION OF EBITDA TO INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY LOSS:

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

	Quarter ended,		Nine mon
	September 27, 2002	September 28, 2001	September 27, 2002
(In thousands)			
EBITDA	\$11,470	\$10,273	\$31,593
Less: Depreciation and amortization expense	2,863	4,691	8,766
Interest expense	958	5,224	5,808
Refinancing costs	---	---	7,571
Other expense (income) - net	383	(277)	139
Income (loss) before income taxes and extraordinary loss	\$ 7,266	\$ 635	\$ 9,309

The following table presents total assets for each of the Company's operating segments as of September 27, 2002 and December 31, 2001. The December 31, 2001 asset balances have been reclassified to reflect the reallocation of goodwill in accordance with SFAS 142.

	September 27, 2002	December 31, 2001
(In thousands)		
Total assets:		
Electronic Combat Systems	\$152,236	\$151,748
Diagnostics & Power Systems	57,644	51,373
Communications & Surveillance Systems	58,575	58,452
All other	33,815	16,725
Total	\$302,270	\$278,298

The increase in "All other" assets (essentially corporate) is due primarily to the Company's first quarter 2002 refinancing activities (see Note 2). Corporate assets have been increased by the net cash generated from the Company's public offering, by cash generated from the Company's operations during the first nine months of 2002, by capitalized debt issuance costs, and by an increase in deferred tax assets associated with the extraordinary loss and other refinancing costs incurred in first quarter 2002. Prior to the first quarter 2002 refinancing, capitalized debt issuance costs had been allocated to the segments on a similar basis as corporate expenses. The write-off of capitalized debt issuance costs associated with the debt that was retired in first quarter 2002 reduced the assets of Electronic Combat Systems, Diagnostics & Power Systems, and Communications & Surveillance Systems by \$3,100,000, \$600,000, and \$1,300,000, respectively.

The increase in Diagnostics & Power Systems assets is due primarily to a \$5,630,000 increase in the segment's accounts receivable, reflecting the growth in the segment's revenues.

NOTE 9: GOODWILL AND OTHER INTANGIBLE ASSETS

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Effective January 1, 2002, the Company adopted the provisions of FASB Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), under which the Company's goodwill is no longer amortized and is instead subject to annual impairment tests using a new fair value based approach. The Company's other recorded intangible assets, which are immaterial with respect to its consolidated financial position and results of operations, continue to be amortized over their estimated useful lives.

With the adoption of SFAS 142, on January 1, 2002, the Company ceased amortization of its goodwill. The following table presents the pro forma results of the Company for the quarters and nine month periods ended September 27, 2002 and September 28, 2001 on a comparable basis:

	Quarter ended,		Nin
	September 27,	September 28,	September
	2002	2001	2002
(In thousands except per share amounts)			
Reported income (loss) before extraordinary loss	\$4,614	\$ 129	\$6,0
Add back: Goodwill amortization, net of tax	---	1,448	-
Adjusted income before extraordinary loss	\$4,614	\$1,577	\$6,0
Reported net income (loss)	\$4,614	\$ 129	\$(1,9
Add back: Goodwill amortization, net of tax	---	1,448	-
Adjusted net income (loss)	\$4,614	\$1,577	\$(1,9
Basic income (loss) per share:			
Reported income (loss) before extraordinary loss	\$.23	\$.01	\$ .
Goodwill amortization, net of tax	---	.11	-
Adjusted income before extraordinary loss	\$.23	\$.12	\$ .
Reported net income (loss)	\$.23	\$.01	\$(.
Goodwill amortization, net of tax	---	.11	-
Adjusted net income (loss)	\$.23	\$.12	\$(.
Diluted income (loss) per share:			
Reported income (loss) before extraordinary loss	\$.22	\$.01	\$ .
Goodwill amortization, net of tax	---	.09	-

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Adjusted income before extraordinary loss	\$.22	\$.10	\$ .
=====			
Reported net income (loss)	\$.22	\$.01	\$ (.
Goodwill amortization, net of tax	---	.09	-
-----			
Adjusted net income (loss)	\$.22	\$.10	\$ (.
=====			

For impairment testing purposes, the Company determined the value of its individual business units using a discounted cash flow model, a guideline company model, and a transaction model, and by observation of demonstrable fair values of comparable entities. The Company has determined that there is no impairment of its goodwill as of the January 1, 2002 implementation date of SFAS 142.

### NOTE 10: RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, the Company adopted FASB Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale. The adoption of SFAS 144 did not have a material effect on the Company's consolidated operating results or financial position.

### NOTE 11: CONTINGENCIES

As further described in the Company's Prospectus dated February 26, 2002 filed with the Securities and Exchange Commission on February 27, 2002 pursuant to Rule 424(b)(1) of the Securities Act of 1933, the Company is involved in various legal actions arising in the normal course of its business, including a National Park Service investigation regarding the presence of residual radioactive materials and contamination at a uranium mine previously owned by a predecessor of one of the Company's subsidiaries. Although the ultimate costs of these matters cannot be predicted with certainty, the outcomes of such legal actions are not expected, either individually or in the aggregate, to result in a material adverse effect on the Company's business, results of operations, or financial condition. There were no material developments with respect to these matters during the first nine months of 2002.

### NOTE 12: SUBSEQUENT EVENT

On November 1, 2002, Signia-IDT, Inc. (formerly known as IDT Acquisition Co.), a wholly-owned subsidiary of the Company, acquired substantially all of the assets and assumed certain of the liabilities of BAE SYSTEMS Advanced Systems Gaithersburg, Maryland operation for \$146,000,000 in cash, \$11,000,000 of which was taken from the Company's cash reserves and the remainder of which was financed through an add-on to the Company's revolving credit and term loan facility. See Note 2 of Notes to Financial Statements contained in this Form 10-Q for details of the Company's credit facility and a summary of the November 1, 2002 amendment.

The acquisition will be accounted for using the purchase method and accordingly, the purchase price, including direct acquisition costs, will be allocated to the assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Independent appraisals will be used to determine the estimated fair values of the assets acquired and the liabilities assumed, and any excess of cost over the fair value of the acquired net assets will be recorded as goodwill.

The BAE SYSTEMS Gaithersburg operation (now known as "Signia-IDT") employs over 300 people and designs and manufactures high performance radio frequency surveillance equipment used in communications intelligence and signals intelligence applications. The operation will be integrated into the Company's Communications & Surveillance Systems segment in the fourth quarter of 2002.

ITEM 2.

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

GENERAL

Integrated Defense Technologies, Inc. (the "Company") is a designer and developer of advanced electronics and technology products to the defense and intelligence industries. The Company's products are installed on or used in support of a broad array of military platforms in order to enhance their operational performance or extend their useful life. The Company's customers include all branches of the military services, major domestic prime defense contractors such as The Boeing Company, General Dynamics Corporation, Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company and United Defense Industries, Inc., foreign defense contractors, foreign governments and U.S. Government agencies.

The Company's contracts typically fall into two categories: cost-plus and fixed-price contracts. Contracts for research, engineering, prototypes, and repair and maintenance are typically cost-plus arrangements. Customer-funded research and development costs are typically included in the Company's contracts and booked as revenue and cost of revenue.

In a fixed-price contract, the price is not subject to adjustment based on cost incurred to perform the required work under the contract. In a cost-plus contract, the Company is reimbursed for allowable incurred costs plus a fee, which may be fixed or variable. The price on a cost-plus contract is based on allowable cost incurred, but generally is subject to contract funding limitations. Under fixed-price contracts the Company agrees to perform for a predetermined contract price. Although fixed-price contracts generally permit the Company to keep profits if costs are less than projected, the Company bears the risk that increased or unexpected costs may reduce profit or cause the Company to sustain losses on the contracts. Generally, fixed-price contracts offer higher margins than cost-plus type contracts.

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

All of the Company's domestic U.S. Government contracts and subcontracts are subject to audit and various cost controls and include standard provisions for termination at the convenience of the U.S. Government. The Department of Defense generally has the right to object to the costs as not allowable or as unreasonable, which can increase the level of costs the Company bears. Multi-year U.S. Government contracts and related orders are subject to cancellation if funds for contract performance for any subsequent year are not available. Foreign government contracts generally include comparable provisions relating to termination at the convenience of the foreign government.

The Company uses the percentage-of-completion method of accounting for fixed-price and cost-plus contracts and, therefore, matches revenue with the cost incurred on each unit produced at the time the Company recognizes its sale based on the estimate of gross profit margin the Company expects to receive over the life of the contract. The Company currently evaluates its estimates of gross margin on a monthly basis. In addition, the Company uses the cumulative catch-up method to recognize its changes in estimates of sales and gross margins during the period in which those changes are determined. The Company charges any anticipated losses on a contract to operations as soon as those losses are determined. The principal components of the Company's contract cost of revenue are materials, subcontractor costs, labor and overhead. The Company charges all of these costs to the respective contracts as incurred.

The Company expenses operating costs such as selling, general and administrative, independent research and development costs and bid and proposal costs in the period incurred. The major components of these costs are compensation and overhead. Capitalized debt issuance costs, software development costs and patents are amortized over their useful lives, with the amortization of capitalized software development costs included as a component of the Company's cost of revenue. Since January 1, 2002, the Company has been subject to a new accounting standard under which it no longer amortizes goodwill, although it must test its goodwill periodically for impairment.

The Company's results of operations, particularly its revenue and gross profits, and its cash flows may vary significantly from period to period depending upon the timing of delivery of finished products, the terms of contracts and the level of export sales. As a result, period-to-period comparisons may show substantial changes disproportionate to the Company's underlying business activity. Accordingly, the Company does not believe that its quarterly results of operations are necessarily indicative of results for future periods.

### FORWARD LOOKING STATEMENTS

The information contained in this report, other than historical information, includes forward-looking statements, including in particular statements about plans, strategies and prospects under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Words such as "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend" and similar expressions in this report identify forward-looking statements. These forward-looking statements are based on current views with respect to future events and financial performance of the Company and of Signia-IDT based, in part, on assumptions made by



## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

management or other persons believed by management to be reliable. Actual results could differ materially from those projected in the forward-looking statements. You should also refer to those factors disclosed under "Risk Factors" in the Company's Prospectus, dated February 26, 2002, filed with the Securities and Exchange Commission on February 27, 2002 pursuant to Rule 242(b)(1) of the Securities Act of 1933.

The Company's forward-looking statements are subject to risks and uncertainties, including:

- o the Company's dependence on the defense industry and the business risks peculiar to that industry, including changing priorities or reductions in the U.S. Government defense budget;
- o the Company's ability to obtain future government contracts on a timely basis;
- o the availability of government funding and customer requirements;
- o the potential development of new and competing technologies and the Company's ability to compete technologically
- o difficulties encountered in the integration of acquired businesses; and
- o general economic conditions, the competitive environment of the defense industry, international business and political conditions and timing of awards and contracts.

As for the forward-looking statements that relate to future financial results and other projections, actual results could be different due to the inherent uncertainty of estimates, forecasts and projections and may be better or worse than anticipated. Given these uncertainties, you should not place any reliance on forward-looking statements. Forward-looking statements represent the Company's estimates and assumptions only as of the date they were made. The Company expressly disclaims any duty to provide updates to forward-looking statements and the estimates and assumptions associated with them, except to the extent required by applicable securities laws.

### RECENT DEVELOPMENTS

On September 23, 2002, the Company announced the appointment of John J. Sciuto as Chief Operating Officer of the corporation. In this newly-created position, Mr. Sciuto will have direct responsibility for the operations of all of the Company's operating segments. Mr. Sciuto was formerly the Chairman, President and Chief Executive Officer of Comptek Research Inc., a niche supplier of highly specialized electronic defense systems and services. He is a retired Naval Officer, with Bachelors degrees in Aviation Electronics and Corporate Finance.

### RESULTS OF OPERATIONS

The following tables summarize the Company's operating information as a percentage of revenue and its segment data for the quarters and nine month periods ended September 27, 2002 and September 28, 2001:

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

	Quarter ended		Nine
	September 27, 2002	September 28, 2001	September 2002
STATEMENT OF OPERATIONS AND OTHER FINANCIAL INFORMATION:			
Revenue	100.0%	100.0%	100.0%
Cost of revenue	73.4	72.2	71.1
Gross profit	26.6	27.8	28.9
Selling, general and administrative expenses	10.6	11.4	12.8
Research and development and bid and proposal expenses	4.3	5.3	5.2
Amortization of patents, debt issuance costs and goodwill	.3	2.9	.3
Income from operations	11.4%	8.2%	10.6%
EBITDA (1)	15.1%	15.1%	14.6%
OPERATIONS INFORMATION BY SEGMENT AND OTHER FINANCIAL INFORMATION: (In millions)			
Revenue:			
Electronic Combat Systems	\$37.1	\$30.2	\$105.3
Diagnostics & Power Systems	23.0	22.5	64.6
Communications & Surveillance Systems	15.6	15.1	46.1
Other	---	.1	.2
Total revenue	\$75.7	\$67.9	\$216.2
Gross profit:			
Electronic Combat Systems	\$10.6	\$ 9.6	\$32.8
Diagnostics & Power Systems	5.3	5.2	14.5
Communications & Surveillance Systems	4.2	3.8	15.2
Other	---	.3	.1
Total gross profit	\$20.1	\$18.9	\$62.6
EBITDA (1) :			
Electronic Combat Systems	\$ 6.8	\$ 5.4	\$18.4
Diagnostics & Power Systems	3.2	3.5	7.5
Communications & Surveillance Systems	1.5	1.4	6.0
Other	---	---	(.3)
Total EBITDA	\$11.5	\$10.3	\$31.6

(1) The Company's EBITDA represents income from operations plus depreciation and amortization. EBITDA is not a presentation made in accordance with accounting principles generally accepted in the United States, and as such, it should not be considered in isolation or as a substitute for net income (loss), cash flows from operating activities or other income or cash flow statement data prepared in accordance with accounting principles generally

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

accepted in the United States or as a measure of profitability or liquidity. The Company monitors EBITDA by segment to determine each segment's ability to satisfy its debt service, capital expenditure and working capital requirements and because certain covenants in the Company's revolving credit and term loan facility are based upon similar measures. The Company's EBITDA is not necessarily comparable to other similarly titled captions used by other companies.

RESULTS OF OPERATIONS. In third quarter 2002, the Company earned net income of \$4.6 million on revenues of \$75.7 million, compared to a second quarter 2002 net income of \$4.5 million on revenues of \$72.1 million and third quarter 2001 net income of \$.1 million on revenues of \$67.9 million. For the first nine months of 2002, the Company incurred a net loss of \$2.0 million on revenues of \$216.2 million, compared to a comparable prior year period net loss of \$1.8 million on revenues of \$189.3 million.

On February 27, 2002, the Company completed an initial public offering of 6 million shares of common stock at \$22 per share, generating net cash proceeds of approximately \$116.7 million. The majority of these proceeds were used for debt retirement and refinancing. Concurrent with the closing of the offering, the Company repaid the outstanding balances on its revolving credit and term loan agreement and its senior subordinated notes, and replaced the previous revolving credit and term loan facility with a new facility provided by a syndicate of financial institutions. See "Liquidity and Capital Resources" following for further discussion of the debt refinancing, as well as of terms and covenants associated with the new revolving credit and term loan facility.

The Company incurred charges related to its early debt retirement and refinancing totaling \$20.7 million, including prepayment penalties, write-offs of capitalized debt issuance costs, a write-off of unamortized discount on its senior subordinated notes, and payments to terminate interest rate swaps associated with its revolving credit and term loan facility. The swap termination payments totaled approximately \$7.6 million and are reflected as "Refinancing costs" in the Company's consolidated statement of operations for the first nine months of 2002. The remaining costs are reflected, net of the associated tax benefit of \$5.1 million, as an "Extraordinary loss on early extinguishment of debt" in the consolidated statement of operations for that same period. The Company's net losses for the first quarter and first nine months of 2002 were primarily the result of these charges, which totaled approximately \$12.6 million net of the associated tax benefits.

PRO FORMA RESULTS OF OPERATIONS. Excluding the impact on earnings of these debt retirement and refinancing charges, the Company earned a pro forma net income in the first nine months of 2002 of \$10.7 million (\$.53 per share), compared to a net loss of \$1.8 million (\$.13 per share) in the same prior year period. Approximately \$4.8 million of the improvement from the prior year period was the result of adoption of the goodwill amortization provisions of SFAS 142 effective January 1, 2002. (See Note 9 of Notes to Consolidated Financial Statements contained in this Form 10-Q.) The remainder of the improvement was due primarily to a 14% revenue increase and a \$9.1 million decline in interest expense as the result of the Company's debt refinancing, partially offset by an 11% increase in operating expenses.

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

**REVENUE.** Revenue for third quarter 2002 was \$75.7 million, up 5% from the second quarter 2002 level and 12% from the same prior year period. Year to date revenues are \$216.2 million, up 14% from the comparable prior year period.

The Company's Electronic Combat Systems segment earned revenues of \$37.2 million in third quarter 2002, up 4% and 23%, respectively, from the second quarter 2002 and third quarter 2001 levels. Year to date revenues were \$105.3 million, up 15% from the same prior year period. The increase in revenue from the prior year periods was primarily the result of strong bookings in fourth quarter 2001 and in the first half of 2002, including a large fourth quarter 2001 order from the U.S. Navy Fiber Optics Data Management System program and several orders for the segment's airborne instrumentation pods under the Air Force P4 Refurbishment Contract (P4RC). Activity on the P4RC program began to accelerate in the third quarter as the planning and engineering phases were completed and production efforts were increased to meet the 2003 delivery schedule.

Revenues for the Company's Diagnostics & Power Systems segment were \$23.0 million for the quarter, up 16% and 3%, respectively, from the second quarter 2002 and the same prior year period levels. Year to date revenues were \$64.6 million, up 24% from the comparable prior year period. Current year revenues for the Diagnostics & Power Systems segment have been strong due to strong fourth quarter 2001 orders for embedded diagnostics, additions to the scope of the Abrams Systems Technical Support program, earlier than expected booking of the Common Support Function Module program, and an early contract award for the 10th Year Power Supplies and Displays program. First quarter 2002 revenues were high due to accelerated production on the embedded diagnostics orders received in fourth quarter 2001. Embedded diagnostics revenues declined consecutively in the second and third quarters as these projects began nearing completion. However, in the third quarter, this negative revenue impact was more than offset by revenues earned on the 10th Year Power Supplies and Displays program and on the hybrid electric High Mobility Multipurpose Wheeled Vehicle program.

Revenues for the Company's Communications & Surveillance Systems segment were \$15.6 million, down 4% from the second quarter 2002 level, but up 3% from the same prior year period. Year to date revenues were \$46.1 million, up 3% from the comparable prior year period. Though up from the prior year level, current year revenues have been less than expected due to the first quarter loss of a weather radar system booking in Turkey. Second quarter revenues were strong due to the completion and shipment of the first phase of the segment's largest program.

**GROSS PROFIT.** The Company's gross profit for third quarter was \$20.1 million, down from \$22.3 million in second quarter 2002, but up from \$18.9 million in third quarter 2001. The dollar increase in gross profit against the same prior year period resulted primarily from the Company's increased revenues, primarily in its Electronic Combat Systems segment. As a percentage of revenue, gross profit for the quarter was 26.6%, down from 31% in second quarter 2002 and 27.8% in the same prior year period. Third quarter 2002 margin was negatively impacted by the volume decline in the Company's Communications & Surveillance Systems segment and by low margin earned on start-up programs in the Diagnostics & Power Systems segment.

The Company's gross profit for the first nine months of 2002

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

was \$62.6 million, up from \$55 million in the first nine months of 2001, due to across the board revenue increases in the Company's operating segments. As a percentage of revenue, gross profit was flat with the prior year level at approximately 29%. One of the largest revenue increases from the prior year occurred in the Company's Diagnostics & Power Systems segment, which has a higher proportion of cost-plus business than the other segments. As such, its margins will generally be lower, and may limit improvement in the consolidated margin percentage in periods of increased Diagnostics revenue relative to total revenue. Other factors impacting 2002 margins include start-up production costs resulting from continued investment in the hybrid electric business and in the Sidecar program by Diagnostics & Power Systems, and cost and volume issues in a portion of the Electronic Combat Systems segment. However, these negative factors were offset by the benefits resulting from the Company's periodic downsizing and continuing cost control efforts, primarily in its Communications & Surveillance Systems segment.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** The Company's selling, general and administrative expenses for third quarter 2002 were \$8.0 million, down 18% from the second quarter 2002 level and up 4% from the same prior year period. Expenses for the first nine months of 2002 were \$27.8 million, up 9% from the prior year to date level. The expense increases from the prior year levels have resulted primarily from additional administrative expenses associated with operating as a publicly-held company. These expenses may continue to increase, particularly in 2003, as the result of new corporate governance legislation and the increasing costs of compliance with new regulations, including but not limited to, increased legal and accounting fees and increasing costs of obtaining directors and officers liability insurance.

In comparison to the second of quarter 2002, expenses have declined in all of the Company's operating segments as the result of ongoing cost reduction efforts and the timing of various selling efforts from quarter to quarter. The Company has an aggressive cost-cutting plan which was put into effect during second quarter 2002, primarily related to its general and administrative expenses. The most significant expense decline has occurred in the Electronic Combat Systems segment, where selling, general, and administrative expenses declined by \$1.2 million, or 24%, from the second quarter level. This decline was primarily the result of second quarter reductions in force in a portion of the segment, the benefits of which began to accrue in the third quarter. Second quarter expenses for this segment were also inflated by the severance costs associated with these staff reductions.

Selling, general, and administrative expenses also continue to decline as a percentage of the Company's revenue. Third quarter 2002 expenses were 10.6% of revenue, down from 13.6% in second quarter 2002 and 11.4% in third quarter 2001. Year to date expenses have declined from 13.5% of revenue in first nine months of 2001 to 12.8% in the current year period.

**RESEARCH AND DEVELOPMENT AND BID AND PROPOSAL EXPENSES.** The Company's research and development and bid and proposal expenses were \$3.3 million for third quarter 2002, down 27% from the second quarter 2002 level and 9% from the same prior year period. As a percentage of revenue, research and development and bid and proposal expenses were 4.3% for the quarter, down from 6.2% in second quarter 2002 and 5.3% in third quarter 2001. Second quarter 2002 expenses

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

were inflated by an acceleration of bid and proposal expenses of approximately \$.6 million in an effort to win bookings on several large forthcoming projects. These expenses have declined to more normal levels in the third quarter as many of the major proposals have now been submitted. Research and development efforts also increased in the second quarter as programs were accelerated to support potential new products.

Year to date research and development and bid and proposal expenses were \$11.4 million, up 16% from the same prior year period. However, as a percentage of revenue, research and development and bid and proposal expenses remain relatively flat with the prior period at 5.2%. Electronic Combat Systems' and Diagnostics & Power Systems' expenses increased by \$1.9 million and \$.6 million, respectively, due primarily to growth in these business segments and pursuit of some large project awards. Communications & Surveillance Systems' expenses declined by \$.8 million from the prior year period. Cost containment achieved in this segment has served to offset the additional expenses associated with its increased research and development and program proposal efforts.

AMORTIZATION OF PATENTS, DEBT ISSUANCE COSTS AND GOODWILL. The Company's amortization expense, excluding amounts included in cost of revenue for amortization of its internally developed software, was \$.2 million and \$.6 million, respectively, in the third quarter and first nine months of 2002, down significantly from the prior year levels. The Company ceased amortization of its goodwill on January 1, 2002 in accordance with the provisions of SFAS 142. See Note 9 of Notes to Consolidated Financial Statements contained in this Form 10-Q for a pro forma presentation of results of operations excluding goodwill amortization for the third quarter and first nine months of 2001.

INCOME FROM OPERATIONS. The Company's income from operations was \$8.6 million or 11.4% of revenue for third quarter 2002, up from \$7.9 million or 10.9% of revenue in second quarter 2002 and \$5.6 million or 8.2% of revenue in third quarter 2001. Year to date, the Company's income from operations was \$22.8 million or 10.6% of revenue, up from \$14.1 million or 7.5% of revenue for the same prior year period.

Communications & Surveillance Systems had an operating income for the quarter of \$1 million, down from \$2 million in the second quarter, but up from \$.4 million in the third quarter of 2001. Year to date, the segment's income from operations was \$4.5 million, compared to \$.4 million in the first nine months of 2001. The improvement from the prior year levels is due primarily to the positive results of the segment's downsizing and cost control efforts as well as to the lack of goodwill amortization expense in 2002. However, the segment's third quarter operating income was reduced versus second quarter 2002 as declining volume levels continue to pressure its gross margin.

Diagnostics & Power Systems' operating income for the third quarter and first nine months of 2002 was \$2.8 million and \$6.2 million, respectively, up by approximately \$.2 million and \$3.0 million, respectively, over the comparable prior year levels. Electronic Combat Systems' operating income for the third quarter and first nine months of 2002 was \$5.1 million and \$13 million, respectively, up by approximately \$2.7 million and \$3.3 million, respectively, from the same prior year periods. The current year improvement in both segments' operating results was primarily the

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

result of increased volumes and lack of goodwill amortization in 2002, partially offset by the increased operating expenses described previously. In comparison to the second quarter of 2002, third quarter operating income for Diagnostics & Power Systems and Electronic Combat Systems increased by \$1.1 million and \$.5 million, respectively. These increases were due primarily to the operating expense reductions achieved by these segments in the third quarter, as well as to their increased revenue levels.

**INTEREST EXPENSE.** The Company's interest expense for the third quarter and first nine months of 2002 was \$1 million and \$5.8 million, respectively, down \$4.3 million and \$9.1 million, respectively, from the comparable prior year levels. The interest expense decline is due primarily to the reduction in debt achieved through the Company's first quarter 2002 refinancing. In addition, average LIBOR rates have declined by approximately 2.1 points from the comparable prior year level. The Company's interest expense can be expected to increase in the fourth quarter as the result of the additional debt incurred under its amended credit facility. (See "Liquidity and Capital Resources" following.) The Company estimates that the additional borrowings under the facility will increase its annual interest expense by approximately \$9 million.

**INCOME TAX EXPENSE.** The Company recorded income tax expense of \$2.7 million, or 36.5% of pretax income, in third quarter 2002 and an income tax benefit of \$1.8 million (including the income tax benefit related to its extraordinary loss), or 48.4% of pretax loss, year to date. In the third quarter and first nine months of 2001, the Company recorded income tax expense of \$.5 million and \$1.3 million, respectively, on pretax income (losses) of \$.6 million and (\$.5 million), respectively. The Company's effective income tax rates exceeded the U.S. federal statutory rates in all periods due primarily to non-deductible expenses, including goodwill amortization in 2001.

**EBITDA.** The Company's EBITDA was \$11.5 million for third quarter 2002, up from \$10.8 million in second quarter 2002 and \$10.3 million in third quarter 2001. As a percentage of revenue, third quarter EBITDA was basically flat with the second quarter 2002 and third quarter 2001 levels at 15.1%. Year to date, the Company's EBITDA was \$31.6 million, up from \$27.6 million in the comparable prior year period. However, as a percentage of revenue, year to date EBITDA also was flat with the prior year period at 14.6%.

Communications & Surveillance Systems' EBITDA for the third quarter and first nine months of 2002 was \$1.5 million and \$6.0 million, respectively, compared to \$1.4 million and \$3.2 million, respectively, for the same prior year periods. As a percentage of revenue, the segment's year to date EBITDA has improved to 13%, up from 7.1% for the first nine months of 2001. This improvement is primarily the result of the segment's downsizing and cost control efforts.

Diagnostics & Power Systems' EBITDA for the third quarter and first nine months of 2002 was \$3.2 million and \$7.5 million, respectively, compared to \$3.5 million and \$5.8 million, respectively, for the same prior year periods. As a percentage of revenue, the segment's year to date EBITDA is up slightly to 11.6%, compared to 11.1% for the first nine months of 2001. This improvement was primarily the result of increased volume, partially offset by increased operating expenses.

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

Electronic Combat Systems' EBITDA for the third quarter and first nine months of 2002 was \$6.8 million and \$18.4 million, respectively, compared to \$5.4 million and \$18.6 million, respectively, for the comparable prior year periods. The segment's year to date EBITDA has also declined to 17.5% of revenue, down from 20.3% for the first nine months of 2001, as the negative effects of the segment's increased operating expenses have only been partially offset by its improved revenues.

**SUBSEQUENT EVENT.** On November 1, 2002, Signia-IDT, Inc. (formerly known as IDT Acquisition Co.), a wholly-owned subsidiary of the Company, acquired substantially all of the assets and assumed certain of the liabilities of BAE SYSTEMS Advanced Systems Gaithersburg, Maryland operation for \$146 million in cash, \$11 million of which was taken from the Company's cash reserves and the remainder of which was financed through an add-on to the Company's revolving credit and term loan facility. See "Liquidity and Capital Resources" following for details of the Company's credit facility and a summary of the November 1, 2002 amendment.

The acquisition will be accounted for using the purchase method and accordingly, the purchase price, including direct acquisition costs, will be allocated to the assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Independent appraisals will be used to determine the estimated fair values of the assets acquired and the liabilities assumed, and any excess of cost over the fair value of the acquired net assets will be recorded as goodwill.

The BAE SYSTEMS Gaithersburg operation (now known as "Signia-IDT") employs over 300 people and designs and manufactures high performance radio frequency surveillance equipment used in communications intelligence and signals intelligence applications. The operation will be integrated into the Company's Communications & Surveillance Systems segment in the fourth quarter of 2002.

### LIQUIDITY AND CAPITAL RESOURCES

In the first nine months of 2002 the Company generated cash of \$13.1 million, primarily from its operations and from the net proceeds of its initial public offering and debt refinancing, compared to a net cash use of \$3.8 million in first nine months of 2001. Cash provided by operations totaled \$11.8 million in the first nine months of 2002, compared to \$2.8 million generated in the same prior year period.

Capital expenditures in the first nine months of 2002 were \$6.1 million, up \$2.6 million from the comparable prior year period. The Company's capital expenditures consist primarily of purchases of test equipment, office equipment and building and leasehold improvements. Due to the nature of the Company's business, capital expenditures have historically not been substantial. The Company expects that its total capital expenditures for 2002, excluding those of Signia-IDT from the acquisition date forward, will be within the range of \$7 to \$8 million.

On February 27, 2002, the Company completed an initial public offering of 6 million shares of common stock at \$22 per share, generating net cash proceeds of approximately \$116.7 million. Concurrent with the closing of the offering, the Company repaid the



## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

outstanding balances on its revolving credit and term loan agreement and its senior subordinated notes (\$125.8 million and \$51.3 million, respectively) and replaced the previous revolving credit and term loan facility with a new facility provided by a syndicate of financial institutions. This new facility provided financing of up to \$125 million, consisting of a \$40 million five-year revolving credit facility, a \$40 million five-year term loan, and a \$45 million six-year term loan. Borrowings under the facility were secured by a pledge of substantially all of the Company's assets and bore interest at a base rate or LIBOR plus an applicable margin ranging from 2% to 2.75%. Available borrowings under the revolving credit facility were determined by the Company's borrowing base, as defined in the agreement, which was calculated based upon eligible accounts receivable and inventories. At September 27, 2002, the Company had outstanding borrowings of \$83.8 million under the facility, consisting of \$38.9 million under the five-year term loan and \$44.9 million under the six-year term loan. The current interest rates on these loans are 4.007% and 4.257%, respectively.

On November 1, 2002, in connection with its acquisition of Signia-IDT (see "Subsequent Event" preceding), the Company amended and restated its revolving credit and term loan facility. The amendment increased the six-year term loan by \$135 million, increased availability under the revolving credit facility by \$5 million, and updated the financial covenants in the agreement to reflect the integration of Signia-IDT into the Company's Communications & Surveillance Systems segment. As of the date of this Form 10-Q filing, the Company had outstanding borrowings of \$225 million under the facility, consisting of \$37.7 million under the five-year term loan, \$179.8 million under the six-year term loan, and \$7.5 million under the revolving credit facility. The current interest rates on the additional term loan borrowing and on the revolving credit facility are 5.39% and 4.39%, respectively.

Borrowings under the amended facility are secured by a pledge of substantially all of the Company's assets and bear interest at a base rate or LIBOR plus an applicable margin ranging from 2% to 4%. Available borrowings under the revolving credit facility are determined by the Company's borrowing base, as defined in the agreement, which is calculated based upon eligible accounts receivable and inventories.

The revolving credit and term loan agreement contains certain financial covenants of the Company, including, among other things, limitations on capital expenditures, investments, and asset sales, and maintenance of certain financial ratios. The Company was in compliance with these covenants as of the date of this Form 10-Q filing.

In connection with the refinancing of its debt in February 2002, the Company paid approximately \$10.1 million in refinancing costs, primarily for prepayment penalties and swap termination costs (see "Results of Operations" above) and capitalized \$4.6 million of debt issuance costs associated with the new revolving credit and term loan agreement, consisting primarily of legal fees and a facility fee paid to the new lenders.

Historically, the Company's primary source of liquidity has been cash provided by operations, derived from net income plus depreciation and amortization and plus or minus net investments in working capital from period to period. The Company's liquidity position is dependent on a number of factors, including the timing

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

of production and delivery on sales contracts and the timing of billing and collection activity. Purchase of materials for production and payment for labor and overhead expenses can represent significant advance expenditures, and billing to and collection from customers can lag those expenditures significantly on some longer-term customer contracts. The Company's billing arrangements include (a) monthly progress payments (typically on fixed-price contracts) in which customers are billed 80% of incurred cost plus general and administrative expenses but without profit, (b) monthly billing in full at cost incurred plus profit (typically on cost-plus contracts), (c) periodic milestone achievement-based billing at cost incurred plus profit, and (d) billing at final delivery at cost incurred plus profit. Fixed-price contracts, some milestone-based billing contracts, and bill-at-delivery contracts represent a significant required use of working capital for the Company that must be funded by operations or through external sources.

The Company's liquidity and ability to generate cash has improved during 2002, and the Company anticipates continued improvement in its operating cash flows as the receivables built up in the first nine months of the year are collected and as the Company continues to focus on reducing its investment in unbilled receivables. Based on its current level of operations and anticipated growth, including that of the newly acquired Signia-IDT, the Company believes that cash proceeds from the initial public offering and cash from operations and other available sources of liquidity, including borrowings under the amended revolving credit and term loan facility, will be sufficient to fund its operations for at least the next two years. The Company does not anticipate any significant nonoperating events that will require the use of cash, other than potential acquisitions of companies which are a match for existing and potential products and business. Though the Company is continuously evaluating such opportunities, as of the date of this Form 10-Q filing, it does not have any definitive acquisition negotiations in process.

The Company has contractual obligations to make future payments under its amended term loan agreement and under long-term noncancelable lease agreements. The following table sets forth these contractual obligations as of the date of this Form 10-Q filing. These numbers do not include any contractual obligations under operating leases which may be assumed by Signia-IDT.

Payments due by period				
Contractual Obligation	2002	2003-2006	2007 and beyond	Total
(In millions)				
Term loans	\$1.6	\$41.0	\$182.4	\$225.0
Operating leases	1.3	16.4	2.5	20.2
Total	\$2.9	\$57.4	\$184.9	\$245.2

The Company's term loan obligations for 2007 and beyond relate primarily to its six-year term loan, which must be paid in full by March 4, 2008. The Company may prepay any obligations under its revolving credit and term loan facility without penalty. In addition, the lenders under the facility may require prepayments from the proceeds of certain transactions, including sales of net assets, issuance of equity securities, insurance/condemnation

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

settlements, and the reversion of surplus assets from pension plans, as well as from any excess cash flows, as defined in the agreement, generated by the Company during a fiscal year.

The Company's noncancelable operating leases are primarily for office space and manufacturing equipment. Certain of these agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges.

### BACKLOG

The Company defines backlog as the value of contract awards received from customers which have not been recognized as sales. Funded backlog refers to contract awards for which the Company has received orders and the customer has obligated funds. Unfunded backlog consists of potential product orders relating to existing customer contracts that are the subject of customer options for additional products or potential orders under existing contracts that receive annual or incremental funding. A significant portion of sales are to prime contractors, the Department of Defense, and foreign governments pursuant to long-term contracts. Accordingly, the backlog consists in large part of orders under these contracts. As of September 27, 2002, funded backlog was \$233.1 million and total backlog was \$383.8 million.

The following depicts the Company's backlog of orders by business segment at September 27, 2002 and December 31, 2001:

	FUNDED		UNFUNDED	
	September 27, 2002	December 31, 2001	September 27, 2002	December 2001
	(In millions)			
Electronic Combat Systems	\$135.9	\$125.8	\$131.1	\$160.
Diagnostics & Power Systems	57.6	51.7	17.6	1.
Communications & Surveillance Systems	39.6	43.9	2.0	8.
Total Backlog	\$233.1	\$221.4	\$150.7	\$170.

While it is expected that a substantial portion of funded backlog will be converted to revenue during the next twelve months, the Company cannot provide assurance that the backlog, both funded and unfunded, will become revenue in any particular period, if at all. Uncertain timing of bookings and revenue recognition is typical in the industry in which the Company conducts business.

### RELATED PARTY TRANSACTIONS

The Company pays Veritas Capital Management, L.L.C. ("Veritas") an annual management fee. Veritas controls the Company's principal stockholder, IDT Holding, L.L.C. The Company paid \$675 thousand in management fees to Veritas in the first nine months of both 2001 and 2002. The Company was not indebted to its principal stockholder or to Veritas at September 27, 2002 or December 31, 2001. In addition, in connection with the Company's initial public offering on February

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

27, 2002, the Company paid a transaction advisory fee to The Veritas Capital Fund, L.P. in the amount of \$1.5 million, and anticipates payment of a similar fee in the amount of \$2.5 million in connection with the November 1st acquisition of Signia-IDT and related refinancing described previously in this Form 10-Q. Robert McKeon and Thomas Campbell, the Chairman and a member of the Board of Directors, respectively, are managing members of Veritas.

William G. Tobin, a member of the Board of Directors and audit committee, is a Managing Director and Chairman of the Defense and Aerospace practice of Korn/Ferry International, an executive search firm. The Company contracted with Korn/Ferry to conduct its search for a Chief Operating Officer. During the nine months ended September 27, 2002, the Company made installment payments to Korn/Ferry totaling approximately \$177 thousand.

Edward N. Ney, a member of the Board of Directors and audit committee, is Chairman Emeritus of Young & Rubicam, an advertising firm for which he previously served as President and Chief Executive Officer. The Company has contracted with Burson-Marsteller, an affiliate of Young & Rubicam, to manage its investor relations functions. During the nine months ended September 27, 2002, the Company made payments to Burson-Marsteller totaling approximately \$210 thousand.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions which affect the amounts reported in the financial statements and determine whether contingent assets and liabilities, if any, are disclosed in the financial statements. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to long-term contracts, product returns and warranty obligations, bad debts, inventories, the recoverability of goodwill and other intangible assets, fixed asset lives, income taxes, self-insurance reserves, pensions and other post-retirement benefits, environmental matters, litigation and other contingencies. The Company bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from the Company's estimates under different assumptions or conditions.

The Company believes the following critical accounting policies, among others, affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements:

**REVENUE RECOGNITION.** The Company recognizes revenue and profit on substantially all of its contracts using the percentage-of-completion method of accounting, which relies on estimates of total expected contract revenues and costs. The Company follows this method since reasonably dependable estimates of the revenues and costs applicable to various stages of the contracts can be made. Recognized revenues and profit are subject to revisions as the

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

projects progress to completion. Revisions to the Company's profit estimates are charged to income in the period in which the facts that give rise to the revisions become known. Although the Company makes provisions for losses on its contracts in its financial statements, it cannot provide assurance that such contract loss provisions, which are based on estimates, will be adequate to cover all future losses or that it will not be required to restate prior period quarterly or annual financial statements as the result of errors in its estimates.

**GOODWILL.** The Company has in its September 27, 2002 consolidated balance sheet a goodwill asset in the amount of \$83.7 million. In connection with the adoption of SFAS 142, the Company performs periodic impairment tests of its goodwill. The process of evaluating goodwill for impairment involves the determination of the fair value of the Company's business units. Inherent in such fair value determinations are certain judgments and estimates, including the interpretation of current economic indicators and market valuations, and assumptions about the Company's strategic plans with regard to its operations. To the extent additional information arises or the Company's strategies change, it is possible that the Company's conclusions regarding goodwill impairment could change and result in a material effect on its financial position or results of operations.

**INVENTORY.** The Company writes down its inventory for estimated obsolescence or unmarketable items in an amount equal to the difference between the cost of inventory and its estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

**INSURANCE.** The Company records cost estimates for certain health and welfare and workers' compensation and casualty insurance plans that are partially self-insured by the Company. Should actual claims exceed the estimates or should medical costs in general increase beyond the estimates, reserves recorded may not be sufficient and adverse effects on the consolidated financial statements could occur.

**CONTINGENCIES.** As discussed in the Company's Prospectus dated February 26, 2002 filed with the Securities and Exchange Commission on February 27, 2002 pursuant to Rule 424(b)(1) of the Securities Act of 1933, the Company is involved in various legal actions arising in the normal course of its business, including a National Park Service investigation regarding the presence of residual radioactive materials and contamination at a uranium mine previously owned by a predecessor of one of the Company's subsidiaries. The outcomes of such legal actions are not expected, either individually or in the aggregate, to result in a material adverse effect on the Company's business, results of operations, or financial condition. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in the Company's assumptions related to these proceedings. The Company accrues its best estimate of the probable cost for the resolution of legal claims. Such estimates are developed in consultation with outside counsel handling these matters and are based upon a combination of litigation and settlement strategies. To the extent additional information arises or the Company's strategies change, it is possible that the Company's best estimate of its liability in these matters, if any,

may change.

The above listing is not intended to be a comprehensive list of all of the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment of their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result. See the Company's audited financial statements and notes thereto contained in its Prospectus dated February 26, 2002 filed with the Securities and Exchange Commission on February 27, 2002 pursuant to Rule 424(b)(1) of the Securities Act of 1933 for a discussion of the Company's accounting policies and other disclosures required by accounting principles generally accepted in the United States.

#### RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, the Company adopted the goodwill amortization provisions of FASB Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), under which the Company's goodwill is no longer being amortized and is instead subject to annual impairment tests using a new fair value based approach. The Company's other recorded intangible assets, which are immaterial with respect to its financial position and results of operations, continue to be amortized over their estimated useful lives.

For impairment testing purposes, the Company determined the value of its reporting units using a discounted cash flow model, a guideline company model, and a transaction model, and by observation of demonstrable fair values of comparable entities. The Company has determined that there is no impairment of its goodwill as of the January 1, 2002 implementation date of SFAS 142.

Effective January 1, 2002, the Company adopted FASB Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale. The adoption of SFAS 144 did not have a material effect on the Company's consolidated operating results or financial position.

#### Item 3: Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to potential increases in interest rates on its variable rate debt under its revolving credit and term loan agreement. The Company does not currently have interest rate swap agreements in place to mitigate this interest rate risk as it did with its previous variable rate debt.

To illustrate the sensitivity of the Company's results of operations to changes in interest rates on its debt, the Company estimates that a 66% increase in LIBOR rates would increase its interest expense by approximately \$250,000 for the remainder of the year ended December 31, 2002. Likewise, a 66% decline in LIBOR rates would reduce its interest expense by approximately \$150,000. This hypothetical change in LIBOR rates was calculated based on the fluctuation in LIBOR during 2001, which was the maximum LIBOR fluctuation in the last ten years, and as such, is not necessarily

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

indicative of LIBOR fluctuations that may occur during the remainder of 2002. These estimates also assume a level of debt consistent with the September 27, 2002 level. The Company is currently evaluating the risk of potential increases in interest rates on the additional variable rate debt assumed under its amended revolving credit and term loan agreement and is considering alternatives to mitigate this risk.

### Item 4: Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures within 90 days prior to the filing date of this quarterly report. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which this quarterly report was prepared. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

INTEGRATED DEFENSE TECHNOLOGIES, INC.  
PART II. OTHER INFORMATION

### Item 5: Other information

On November 1, 2002, Signia-IDT, Inc. (formerly known as IDT Acquisition Co.), a wholly-owned subsidiary of the Company, acquired substantially all of the assets and assumed certain of the liabilities of BAE SYSTEMS Advanced Systems Gaithersburg, Maryland operation for \$146,000,000 in cash, \$11,000,000 of which was taken from the Company's cash reserves and the remainder of which was financed through an add-on to the Company's revolving credit and term loan facility. See Note 2 of Notes to Financial Statements contained in this Form 10-Q for details of the Company's credit facility and a summary of the November 1, 2002 amendment.

The acquisition will be accounted for using the purchase method and accordingly, the purchase price, including direct acquisition costs, will be allocated to the assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Independent appraisals will be used to determine the estimated fair values of the assets acquired and the liabilities assumed, and any excess of cost over the fair value of the acquired net assets will be recorded as goodwill.

The BAE SYSTEMS Gaithersburg operation (now known as "Signia-IDT") employs over 300 people and designs and manufactures high performance radio frequency surveillance equipment used in communications intelligence and signals intelligence applications. The operation will be integrated into the Company's Communications & Surveillance Systems segment in the fourth quarter of 2002.

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

The Company has engaged its independent accountants to perform an audit of Signia-IDT's financial statements for the years ended December 31, 2000 and 2001 and for the nine month period ended September 27, 2002. Once the audit is complete, the Company will file these audited financial statements, along with unaudited interim financial statements for the first nine months of 2001, pro forma income statements reflecting the impact of the acquisition as of the beginning of 2002, and a pro forma balance sheet reflecting the impact of the acquisition as of September 27, 2002, in a report on Form 8-K. This Form 8-K will be filed with the Securities and Exchange Commission no later than January 6, 2003.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 10.1 Asset Purchase Agreement by and among BAE SYSTEMS Aerospace Electronics Inc. as seller, IDT Acquisition Co. as buyer and Integrated Defense Technologies, Inc. as guarantor dated as of September 12, 2002 and amendment letter dated November 1, 2002

Exhibit 10.2 Integrated Defense Technologies, Inc. Amended and Restated Credit Agreement dated as of October 31, 2002, among Integrated Defense Technologies, Inc. and Canadian Imperial Bank of Commerce, as administrative agent for itself and the lenders and other lenders named therein

(b) Reports on Form 8-K

1. On September 13, 2002, the Company filed a report on Form 8-K dated September 12, 2002 to report under Item 5 an agreement to purchase the Gaithersburg, Maryland operations of BAE SYSTEMS Aerospace Electronics Inc.
2. On October 15, 2002, the Company filed a report on Form 8-K dated October 15, 2002 to report under Item 5 a revised outlook for the third and fourth quarters of 2002.

INTEGRATED DEFENSE TECHNOLOGIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRATED DEFENSE TECHNOLOGIES, INC.

-----  
(Registrant)

By: /s/ Thomas J. Keenan

-----  
Thomas J. Keenan

By: /s/ John W. Wilhoite

-----  
John W. Wilhoite



## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

President and Chief Executive Officer  
(Principal Executive Officer)

Vice President of Finance  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

Date: November 7, 2002

Date: November 7, 2002

### CERTIFICATIONS

#### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Thomas J. Keenan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated Defense Technologies, Inc. (the "registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's

## Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ Thomas J. Keenan

-----  
Thomas J. Keenan  
President and Chief  
Executive Officer

### CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, John W. Wilhoite, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated Defense Technologies, Inc. (the "registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our

Edgar Filing: INTEGRATED DEFENSE TECHNOLOGIES INC - Form 10-Q

evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ John W. Wilhoite

-----  
John W. Wilhoite  
Vice President of Finance and  
Chief Financial Officer