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ENGINEERED SUPPORT SYSTEMS INC
Form 11-K
June 27, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 11-K

Annual Report Pursuant to Section 15 (d)
of the Securities Exchange Act of 1934

For the year ended December 31, 2002

Commission file number 0-13880

A. Full title of the Plan

ENGINEERED SUPPORT SYSTEMS, INC. EMPLOYEE STOCK OWNERSHIP PLAN

B. Name of the issuer of the securities held pursuant to the plan and the
address of its principal executive offices:

ENGINEERED SUPPORT SYSTEMS, INC.
201 EVANS LANE
ST. LOUIS, MISSOURI 63121
(314) 553-4000

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the
Plan Administrator has duly caused this Annual Report to be signed by the
undersigned, thereunto duly authorized.

ENGINEERED SUPPORT SYSTEMS, INC.
EMPLOYEE STOCK OWNERSHIP PLAN

Date: June 27, 2003

/s/ Gary C. Gerhardt

Gary C. Gerhardt
Vice Chairman and Chief Financial Officer of
Engineered Support Systems, Inc.
and Member of the Administrative
Committee of the Plan

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Report of Independent Auditors

To the Participants and Administrator of
Engineered Support Systems, Inc.
Employee Stock Ownership Plan

In our opinion, the accompanying statements of net assets available for plan benefits and the related statements of changes in net assets available for plan benefits present fairly, in all material respects, the net assets available for benefits of the Engineered Support Systems, Inc. Employee Stock Ownership Plan (the "Plan") at December 31, 2002 and 2001, and the changes in the net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Assets (Held at End of Year) and Reportable Transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
June 27, 2003
St. Louis, Missouri

STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

Engineered Support Systems, Inc.
Employee Stock Ownership Plan

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| | December 31 | |
|----------------------------------------|-----------------------|-----------------------|
| | 2002 | 2001 |
| Assets: | | |
| Investments, at fair value | \$47,936,473 | \$44,518,294 |
| Employer contributions receivable | 1,300,330 | 1,216,405 |
| Net Assets Available for Plan Benefits | \$49,236,803 ===== | \$45,734,699 ===== |

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

Engineered Support Systems, Inc.
Employee Stock Ownership Plan

| | Year Ended December 31 | |
|-----------------------------------------------------------------------------------|------------------------|-----------|
| | 2002 | 2001 |
| Additions: | | |
| Investment income: | | |
| Net realized and unrealized gain on Engineered Support Systems, Inc. common stock | \$12,223,737 | \$16,338, |
| Net gain (loss) from common collective trusts | 99,172 | (1,230, |
| Net loss from registered investment companies | (3,784,204) | (1,280, |
| Interest and dividend income | 646,291 | 420, |
| | 9,184,996 | 14,247, |
| Contributions: | | |
| Participant | 1,630,962 | 1,603, |
| Employer | 1,653,019 | 1,564, |

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| | | |
|-----------------------------------------|--------------|-----------|
| | 3,283,981 | 3,168, |
| | ----- | ----- |
| Deductions: | | |
| Benefits paid to participants | (8,966,873) | (5,431, |
| | ----- | ----- |
| Total deductions | (8,966,873) | (5,431, |
| | ----- | ----- |
| Net increase | 3,502,104 | 11,984, |
| Net Assets Available for Plan Benefits: | | |
| Beginning of Year | 45,734,699 | 33,750, |
| | ----- | ----- |
| End of Year | \$49,236,803 | \$45,734, |
| | ===== | ===== |

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Engineered Support Systems, Inc.
Employee Stock Ownership Plan

December 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Engineered Support Systems, Inc. Employee Stock Ownership Plan (the Plan) are presented on the accrual basis of accounting, except that benefits due to participants are recorded as a reduction in net assets available for Plan benefits when paid.

Investments in the Engineered Support Systems, Inc. (the Company) common stock are stated at fair value based on the last reported sales price on December 31, 2002 and 2001, respectively. Investments in registered investment companies, including the Dreyfus Premier Core Bond Fund-Class A, the Prudential Short-Term Corporate Bond Fund-Class A, the American Funds EuroPacific Growth Fund, the Alliance Growth & Income Fund-Class A, the Janus Twenty Fund, the Prudential Jennison Growth Fund-Class A, the Prudential Stock Index Fund-Class Z, the INVESCO Technology Fund-Investor Shares, the Franklin Small Cap Growth Fund II, and the Prudential US Emerging Growth Fund-Class A, are stated at the fair value of the underlying portfolio of securities, as determined by the respective manager. Investments in common collective trusts including the Prudential Stable Value Fund (managed by Wells Fargo Bank Minnesota, N.A.) are stated at the fair value of the underlying portfolio of securities, as determined by the respective manager.

Investment income is recorded as earned. Net realized gains or losses on security transactions represent the difference between proceeds received and cost. In accordance with the policy of stating investments at fair value, net unrealized appreciation or depreciation is reflected in the Statements

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of Net Assets Available for Plan Benefits and the change in net unrealized appreciation or depreciation is reflected in the Statements of Changes in Net Assets Available for Plan Benefits.

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near-term could materially affect the amounts reported in the Statement of Net Assets Available for Plan Benefits.

Notes receivable, representing loans to participants, are valued at their outstanding principal amount. These notes bear interest at a rate equal to the prime interest rate as of the effective date of the loan plus one percentage point.

Administrative expenses of the Plan are paid by the Company.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of net assets and changes in net assets during the reporting period. Actual results could differ from these estimates.

Certain prior year amounts have been reclassified to conform with the current year's presentation.

NOTE B - DESCRIPTION OF THE PLAN

The Plan is a combined 401(k) savings plan and a payroll-based employee stock ownership plan covering the salaried employees and all non-salaried employees not otherwise covered by a collective bargaining agreement of the Company's following wholly-owned subsidiaries: Engineered Air Systems, Inc., Engineered Specialty Plastics, Inc., Engineered Coil Company, d/b/a Marlo Coil, Keco Industries, Inc. and Engineered Electric Company, d/b/a Fermont. Eligible employees age 21 who have completed 90 days of employment may enroll in the Plan. Upon enrollment, participants may elect to defer from 1% to 50% of their compensation in the Plan, up to a maximum of \$11,000 for the year ended December 31, 2002 based upon an amendment effective July 1, 2002 and 1% to 15% of their compensation up to a maximum of \$10,500 for the year ended December 31, 2001. Under current Internal Revenue Service regulations, this maximum amount is adjusted annually. For the year ended December 31, 2002, an additional \$1,000 catch up contribution could be made by participants age 50 or older.

Contributions under the Plan consist of the following:

1. The amount of the salary deferrals of all Plan participants (the employee contribution).
2. The Company's discretionary contribution (the employer discretionary contribution).
3. The Company's matching contribution of no less than 25% of each employee's contribution up to a maximum of 6% of the employee's earnings (the employer matching contribution).

All participant contributions are invested at the participant's discretion

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in the investment funds offered by the Plan and selected by the participant. Employee and employer contributions are 100% vested.

All contributions by the Company are made in the form of Engineered Support Systems, Inc. common stock.

The Plan allows participants to borrow from existing balances in their Plan investments. These loans are to be repaid with interest over a period not to exceed five years.

The Plan Administrator is Engineered Support Systems, Inc. acting through an Administrative Committee to administer the Plan. The Company bears all expenses of administering the Plan, including any compensation of the trustee, Prudential Trust Company. No trustee fees or other administrative expenses were paid from Plan assets during the years ended December 31, 2002 or 2001.

Information about the Plan, including provisions for vesting, allocation of earnings, withdrawal provisions and the impact of Plan termination is contained in the Summary Plan Description. Copies of the Summary Plan Description are available from the Company.

NOTE C--INVESTMENTS

The following schedule presents information regarding assets held for investments:

| | December 31, 2002 | | D |
|-----------------------------------------------------------------------------------------------|-------------------|--------------|----------|
| | Fair Value | Cost | Fair Va |
| Engineered Support Systems, Inc. common stock, 627,719 and 707,162 shares, respectively | * \$23,012,178 | \$ 5,395,313 | \$24,192 |
| Prudential Short-Term Corporate Bond Fund-Class A, 464,968 shares | - | - | 5,277 |
| Alliance Growth & Income Fund-Class A, 1,427,083 and 965,367 shares, respectively | * 3,710,417 | 4,932,041 | 3,465 |
| Janus Twenty Fund, 75,278 and 67,733 shares, respectively | 2,183,805 | 3,241,119 | 2,605 |
| Dreyfus Premier Core Bond Fund-Class A, 247,483 and 160,526 shares, respectively | * 3,566,231 | 3,599,396 | 2,301 |
| American Funds EuroPacific Growth Fund, 82,000 and 76,041 shares, respectively | 1,883,548 | 2,345,293 | 2,043 |
| Franklin Small Cap Growth Fund II, 221,263 and 179,992 shares, respectively | 1,588,670 | 2,134,202 | 1,776 |
| Prudential US Emerging Growth Fund-Class A, | | | |

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| | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|----------|
| 75,759 and 82,321 shares, respectively | 759,109 | 1,162,965 | 1,240 |
| Prudential Jennison Growth Fund-Class A, 36,073 and 12,461 shares, respectively | 362,895 | 481,406 | 182 |
| Prudential Stock Index Fund-Class Z, 17,092 and 6,786 shares, respectively | 335,003 | 373,218 | 173 |
| INVESCO Technology Fund - Investor Shares, 23,238 and 1,633 shares, respectively | 399,458 | 652,042 | 53 |
| Prudential Stable Value Fund 268,219 shares | * 8,777,983 | 8,681,228 | |
| Notes receivable from participants with remaining maturities of 1 month to 5 years bearing interest rates ranging from 5.75% to 10.50% at December 31, 2002 and from 7.50% to 10.50% at December 31, 2001 | 1,357,176 | 1,357,176 | 1,207 |
| | ----- | ----- | ----- |
| Total | \$47,936,473 | \$34,355,399 | \$44,518 |
| | ===== | ===== | ===== |