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ARMOR HOLDINGS INC
Form 10-Q
August 18, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2003, or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD _____ FROM TO _____.

COMMISSION FILE NUMBER 0-18863

ARMOR HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

1400 MARSH LANDING PARKWAY, SUITE 112
JACKSONVILLE, FLORIDA
(Address of principal executive offices)

59-339
(IRS Em
Identific

3
(Zip

Registrant's telephone number, including area code: (904) 741-5400

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 _

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

The number of shares outstanding of the registrant's Common Stock as of
August 12, 2003 is 27,670,800.

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ARMOR HOLDINGS, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Armor Holdings, Inc. and its wholly-owned subsidiaries include all adjustments (consisting only of normal recurring accruals and the elimination of all material intercompany accounts and transactions) which management considers necessary for a fair presentation of operating results as of June 30, 2003 and for the three-month and six-months periods ended June 30, 2003 and June 30, 2002.

These unaudited condensed consolidated financial statements should be

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read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

JUNE 30, 2003
(UNAUDITED)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 10,841
Accounts receivable (net of allowance for doubtful accounts of \$1,431 and \$1,428)	58,077
Costs and earned gross profit in excess of billings	1,423
Inventories	60,909
Prepaid expenses and other current assets	15,840
Current assets of discontinued operations (Note 2)	28,231

Total current assets	175,321
----------------------	---------

PROPERTY AND EQUIPMENT (net of accumulated depreciation of \$15,974 and \$12,919)

49,281

GOODWILL (net of accumulated amortization of \$4,024 and \$4,024)

98,913

PATENTS, LICENSES AND TRADEMARKS

(net of accumulated amortization of \$2,295 and \$2,169)

7,433

OTHER ASSETS

11,552

LONG-TERM ASSETS OF DISCONTINUED OPERATIONS (Note 2)

30,047

TOTAL ASSETS

\$ 372,547

* Condensed from audited financial statements.
See notes to condensed consolidated financial statements.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES

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CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(IN THOUSANDS, EXCEPT FOR SHARE DATA)

JUNE 30, 2003
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Current portion of long-term debt	\$ 1,961
Short-term debt	627
Accounts payable	19,417
Accrued expenses and other current liabilities	34,221
Income taxes payable	2,265
Current liabilities of discontinued operations (Note 2)	15,543

Total current liabilities	74,034

LONG-TERM LIABILITIES:

Long-term debt, less current portion	19,730
Discontinued operations (Note 2)	245

Total liabilities	94,009

COMMITMENTS AND CONTINGENCIES (NOTE 11)

Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares issued and outstanding	-
Common stock, \$.01 par value; 50,000,000 shares authorized; 33,630,853 and 33,593,977 issued and 27,570,631 and 29,456,692 outstanding at June 30, 2003 and December 31, 2002, respectively	336
Additional paid-in capital	308,702
Retained earnings	43,756
Accumulated other comprehensive loss	(1,939)
Treasury stock	(72,317)

Total stockholders' equity	278,538

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 372,547
=====

* Condensed from audited financial statements.
See notes to condensed consolidated financial statements.

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	THREE MONTHS ENDED	
	JUNE 30, 2003	JUNE 30, 2002
REVENUES:		
Products	\$ 49,347	\$ 43,057
Mobile Security	32,312	28,548
Total Revenues	81,659	71,605
COSTS AND EXPENSES:		
Cost of sales	57,281	48,904
Operating expenses	14,524	12,781
Amortization	69	32
Integration and other non-recurring charges	3,775	1,720
OPERATING INCOME	6,010	8,168
Interest expense, net	437	284
Other expense (income), net	16	-
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	5,557	7,884
PROVISION FOR INCOME TAXES	2,079	3,060
INCOME FROM CONTINUING OPERATIONS	3,478	4,824
DISCONTINUED OPERATIONS (NOTE 2):		
INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	1,860	(817)
PROVISION (BENEFIT) FOR INCOME TAXES	725	(68)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	1,135	(749)
NET INCOME	\$ 4,613	\$ 4,075
NET INCOME/(LOSS) PER COMMON SHARE - BASIC		
INCOME FROM CONTINUING OPERATIONS	\$ 0.13	\$ 0.15
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	0.04	(0.02)
BASIC EARNINGS PER SHARE	\$ 0.17	\$ 0.13

See notes to condensed consolidated financial statements.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - CONTINUED
 (UNAUDITED)
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		JUNE
	JUNE 30, 2003	JUNE 30, 2002	
NET INCOME/(LOSS) PER COMMON SHARE - DILUTED			
INCOME FROM CONTINUING OPERATIONS	\$ 0.13	\$ 0.15	
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	0.04	(0.02)	
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.17	\$ 0.13	
WEIGHTED AVERAGE SHARES - BASIC	27,555	31,193	
WEIGHTED AVERAGE SHARES - DILUTED	27,836	32,110	

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 ARMOR HOLDINGS, INC. AND SUBSIDIARIES (UNAUDITED)
 (IN THOUSANDS)

	JUNE 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:	
Income from continuing operations	\$ 8,723
Adjustments to reconcile income from continuing operations to cash used in operating activities:	
Depreciation and amortization	3,468
Loss on disposal of fixed assets	39

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Deferred income taxes	1,713
Non-cash termination charge	2,093
Changes in operating assets and liabilities, net of acquisitions:	
Increase in accounts receivable	(753)
Decrease (increase) in inventories	1,332
Increase in prepaid expenses and other assets	(4,170)
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	3,971
(Decrease) increase in income taxes payable	(3,648)

Net cash provided by (used in) operating activities	12,768

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of patents and trademarks	(38)
Purchase of property and equipment	(3,918)
Additional consideration for purchased businesses	(243)
Purchase of businesses, net of cash acquired	--

Net cash used in investing activities	(4,199)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from the exercise of stock options	136
Treasury stock purchases	(22,684)
Cash paid for offering costs	--
Repayments of long-term debt	(362)
Borrowings under line of credit	30,205
Repayments under line of credit	(15,009)

Net cash (used in) provided by financing activities	(7,714)

Effect of exchange rate changes on cash and cash equivalents	467
Net cash used in and transferred from discontinued operations	(3,394)

NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,072)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,913

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 10,841
	=====
CASH AND CASH EQUIVALENTS, END OF PERIOD	
CONTINUING OPERATIONS	\$ 10,841
DISCONTINUED OPERATIONS	1,916

	\$ 12,757
	=====

See notes to condensed consolidated financial statements.

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The accompanying unaudited condensed consolidated financial statements of Armor Holdings, Inc. and its wholly-owned subsidiaries (the "Company", "we", "our", "us") have been prepared in accordance with generally accepted accounting principles for interim information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals and the elimination of all material intercompany accounts and transactions) considered necessary by management to present a fair presentation have been included. The results of operations for the three and six-month periods are not necessarily indicative of the results to be expected for the full year and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002. The amounts disclosed in the footnotes are related to continuing operations unless otherwise indicated.

As discussed in Note 2 and elsewhere in this Form 10-Q, we announced our intention to sell our ArmorGroup Services Division (the "Services Division"). As a result, the assets and liabilities of the Services Division have been classified as assets and liabilities of discontinued operations on our balance sheet and the results of their operations classified as income from discontinued operations in the accompanying unaudited condensed consolidated financial statements. Certain prior year amounts have been reclassified to conform to this presentation.

NOTE 2 - DISCONTINUED OPERATIONS

On July 15, 2002, we announced plans to sell the Services Division and the retention of Merrill Lynch & Company to assist in the sale. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," (SFAS 144) the assets and liabilities of the Services Division have been classified as held for sale, with its operating results in the current and prior periods reported in discontinued operations for the three and six-month periods ended June 30, 2003 and 2002. USDS, Inc., a subsidiary providing certain training services, formerly reported as a part of the Services Division is not included in the amounts classified as assets held for sale. The assets and liabilities as well as the operating results of USDS, Inc. have been reclassified to the Armor Holdings Products Division where management oversight currently resides.

On January 24, 2003, we executed an agreement to negotiate exclusively with an undisclosed party for the sale of the Security Consulting business of the Services Division, headquartered in London. This exclusive agreement has since expired, however, we are still actively pursuing a sale of this business to a number of potential buyers.

On April 17, 2003, we announced that we had completed the sale of our ArmorGroup Integrated Systems business through the sale of 100% of the stock of ArmorGroup Integrated Systems, Inc. and Low Voltage Systems Technologies, Inc. to Aerwav Integration Systems, Inc. ("AIS"). AIS is a wholly owned subsidiary of Aerwav Holdings, LLC. As consideration for the integrated systems business, we received a \$4.1 million collateralized note due in two years and a warrant for approximately 2.5% of AIS. In accordance with SFAS 144, we have recorded a loss of \$366,000 on the sale.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

For the three months ended June 30, 2003, net income from discontinued operations was \$1,135,000 compared to a net loss of \$749,000 in the comparable period in the prior year. Excluding the ArmorGroup Integrated Systems business loss on sale of \$366,000 and net income of \$88,000 in the three-month period ended June 30, 2003 and a net loss of \$595,000 for the three month period ended June 30, 2002, net income was \$1,413,000 and a net loss of \$154,000, respectively.

For the six months ended June 30, 2003, net income from discontinued operations was \$977,000 compared to a net loss of \$356,000 in the comparable period in the prior year. Excluding the ArmorGroup Integrated Systems business loss on sale of \$366,000 and a net loss of \$613,000 in the three-month period ended June 30, 2003 and a net loss of \$723,000 for the six month period ended June 30, 2002, net income was \$2.0 million and \$367,000 for the six months ended June 30, 2003 and 2002, respectively.

Based upon our analysis and discussions with our advisors regarding the estimated realizable value, net of selling costs, of the Services Division, we reduced its carrying value, and recorded impairment charges of \$30.3 million in fiscal 2002. This impairment charge consisted of approximately \$6.1 million in estimated disposal costs and a \$24.2 million non-cash goodwill reduction. The reduction in the carrying value of the Services Division is management's best estimate based upon currently available information, including discussions with our investment bankers. The actual proceeds from the disposal of our Services Division may differ materially from our current estimates and could result in either a gain or a loss upon final disposal.

A summary of the operating results of the discontinued operations for the three months and six months ended June 30, 2003 and 2002 is as follows.

	THREE MONTHS ENDED		JUNE
	JUNE 30, 2003	JUNE 30, 2002	
	-----	-----	-----
	(IN THOUSANDS)		
Revenue	\$ 23,911	\$ 26,259	\$ 4
Cost of sales	16,187	18,907	3
Operating expenses	5,005	8,052	1
Integration and other non-recurring charges	452	94	
	-----	-----	-----
Operating income (loss)	2,267	(794)	
Interest expense, net	15	39	
Other expense (income), net	392	(16)	
	-----	-----	-----
Income (loss) from discontinued operations before provision (benefit) for income taxes	1,860	(817)	
Provision (benefit) for income taxes	725	(68)	
	-----	-----	-----
Income (loss) from discontinued operations	\$ 1,135	\$ (749)	\$

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

The following is a summary of the assets and liabilities of our discontinued operations:

	JUNE 30, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Assets		
Cash and cash equivalents	\$ 1,916	
Accounts receivable, net	17,115	
Other current assets	9,200	
	-----	-----
Total current assets	28,231	
Property and equipment, net	12,890	
Goodwill, net	12,995	
Other assets	4,162	
	-----	-----
Total assets of discontinued operations	\$58,278	
	=====	=====
Liabilities		
Current portion of long-term debt	\$ 5	
Short-term debt	275	
Accounts payable	2,089	
Accrued expenses and other current liabilities	13,174	
	-----	-----
Total current liabilities	15,543	
Long-term debt	245	
	-----	-----
Total liabilities of discontinued operations	\$15,788	
	=====	=====

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

NOTE 3 - COMPREHENSIVE INCOME

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The components of comprehensive income, net of tax provision (benefit) of \$128,000 and (\$253,000) for the three months ended June 30, 2003 and 2002, respectively, and \$224,000 and (\$223,000) for the six months ended June 30, 2003 and 2002, respectively, are listed below:

	THREE MONTHS ENDED		JUNE 30, 2002
	JUNE 30, 2003	JUNE 30, 2002	
	(IN THOUSANDS)		
Net income	\$ 4,613	\$ 4,075	\$
Other comprehensive income (loss):			
Foreign currency translations, net of tax	1,861	30	
Comprehensive income:	\$ 6,474	\$ 4,105	\$ 1

NOTE 4 - INVENTORIES

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method and are summarized as follows:

	JUNE 30, 2003
	(IN THOUSANDS)
Raw material	\$ 33,461
Work-in-process	13,338
Finished goods	14,110
Total inventories	\$ 60,909

NOTE 5 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities are summarized as follows:

	JUNE 30, 2003
	(IN THOUSANDS)
Accrued expenses and other current liabilities	\$ 22,561
Deferred consideration for acquisitions	1,757
Customer deposits	9,903
Total accrued expenses and other current liabilities	\$ 34,221

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

NOTE 6 - INFORMATION CONCERNING BUSINESS SEGMENTS AND
GEOGRAPHICAL SALES

We are a leading manufacturer and provider of security products, vehicle armor systems, and security training services. Our products and services are used by military, law enforcement, security and corrections personnel throughout the world, as well as governmental agencies, multinational corporations and non-governmental organizations. Our continuing operations are organized and operated under two business segments: Armor Holdings Products and Armor Mobile Security. Our Services Division has been classified as discontinued operations and is no longer included in this presentation (See Note 2).

Armor Holdings Products. Our Armor Holdings Products Division manufactures and sells a broad range of high quality equipment marketed under brand names that are well known and respected in the military and law enforcement communities. Products manufactured by this division include concealable and tactical body armor, hard armor, duty gear, less-lethal munitions, anti-riot products, police batons, emergency lighting products, forensic products, firearms accessories and weapon maintenance products. USDS, Inc., a small subsidiary providing certain training services formerly reported as a part of the Services Division, is not included in the assets classified as assets held for sale or discontinued operations and has been reclassified to our Armor Holdings Products Division where management oversight currently resides.

Armor Mobile Security. Our Armor Mobile Security Division manufactures and installs ballistic and blast protection armoring systems for military vehicles, commercial vehicles, military aircraft and missile components. Under the brand name O'Gara-Hess & Eisenhardt ("O'Gara"), we are the sole-source provider to the U.S. military for the supply of armoring and blast protection systems as well as maintenance services for the High Mobility Multi-purpose Wheeled Vehicle (HMMWV, commonly known as the Humvee). Additionally, we have been subcontracted to develop a ballistically armored and sealed truck cab for the High Mobility Artillery Rocket System (HIMARS) a program currently in low-rate initial production for the U.S. Army. We armor a variety of commercial vehicles including limousines, sedans, sport utility vehicles, commercial trucks and cash-in-transit vehicles, to protect against varying degrees of ballistic and blast threats. The Armor Mobile Security Division was created in connection with our acquisition of O'Gara on August 22, 2001 (the "O'Gara acquisition").

We have invested substantial resources outside of the United States and plan to continue to do so in the future. The Armor Mobile Security Division has invested substantial resources in Europe and South America. These operations are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, tariffs and trade barriers, potential difficulties in staffing and managing local operations, currency risks, potential imposition of restrictions on investments, potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries, and local economic, political and social conditions. Governments of many developing countries have exercised and continue to exercise substantial influence over many aspects of the private sector. Government

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actions in the future could have a significant adverse effect on economic conditions in a developing country or may otherwise have a material adverse effect on us and our operating companies. We do not have political risk insurance in the countries in which we currently conduct business. Moreover, applicable agreements relating to our

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

interests in our operating companies are frequently governed by foreign law. As a result, in the event of a dispute, it may be difficult for us to enforce our rights. Accordingly, we may have little or no recourse upon the occurrence of any of these developments.

Revenues, operating income and total assets for each of our continuing operating segments are as follows (net of intercompany eliminations):

	SIX MONTHS ENDED	
	JUNE 30, 2003	JUNE 30, 2002
	(IN THOUSANDS)	
Revenues:		
Products	\$ 93,354	\$ 82,002
Mobile Security	68,779	59,207
Total revenues	\$ 162,133	\$ 141,209
Operating income:		
Products	\$ 14,658	\$ 14,814
Mobile Security	8,138	6,113
Corporate	(7,960)	(3,714)
Total operating income	\$ 14,836	\$ 17,213
Total assets:		
Products	\$ 179,810	\$ 166,966
Mobile Security	111,700	103,315
Corporate	22,759	38,515
Total assets	\$ 314,269	\$ 308,796

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

The following unaudited information with respect to revenues, operating income from continuing operations (geographic operating income from continuing operations before amortization expense and integration and other non-recurring charges) and total assets to principal geographic areas are as follows:

	JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2003
	-----	-----
	(IN THOUSANDS)	
Revenues:		
North America	\$ 117,830	\$ 117,830
South America	6,091	6,091
Africa	804	804
Europe/Asia	37,408	37,408
Total revenue	\$ 162,133	\$ 162,133

Geographic operating income:		
North America	\$ 14,660	\$ 14,660
South America	105	105
Africa	194	194
Europe/Asia	4,203	4,203
Total geographic operating income	\$ 19,162	\$ 19,162

Total assets:		
North America	\$262,878	\$262,878
South America	6,398	6,398
Africa	-	-
Europe/Asia	44,993	44,993
Total assets	\$314,269	\$314,269
=====		

A reconciliation of consolidated geographic operating income from continuing operations to consolidated operating income from continuing operations follows:

	JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2003
	-----	-----
	(IN THOUSANDS)	
Consolidated geographic operating income	\$ 19,162	\$ 19,162
Amortization		(129)
Integration and other non-recurring charges		(4,197)

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Operating income

 \$ 14,836
 =====

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

NOTE 7. EARNINGS PER SHARE

The following details the numerators and denominators of the basic and diluted earnings per share computations for net income from continuing operations:

	THREE MONTHS ENDED		S
	JUNE 30, 2003	JUNE 30, 2002	JUNE 30,
	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE)		
Numerator for basic and diluted earnings per share:			
Income from continuing operations	\$ 3,478	\$ 4,824	\$
	-----	-----	-----
Denominator for basic earnings per share - weighted average shares outstanding:	27,555	31,193	
Effect of shares issuable under stock option and stock grant plans, based on the treasury stock method	281	917	
	-----	-----	-----
Denominator for diluted earnings per share- Adjusted weighted average shares outstanding	27,836	32,110	
	-----	-----	-----
Basic earnings per share from continuing operations	\$ 0.13	\$ 0.15	\$
	=====	=====	=====
Diluted earnings per share from continuing operations	\$ 0.13	\$ 0.15	\$
	=====	=====	=====

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

In April 2003, the FASB issued Statement of Financial Accounting Standard No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 149 is effective for contracts entered into or modified and hedging relationships designated after June 30, 2003, except for the provisions of SFAS 149 that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, which should continue to be applied in accordance with their respective effective dates. Adoption of this standard will have no effect on us.

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of this standard will have no effect on us.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

NOTE 9. STOCKHOLDERS' EQUITY

Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," establishes a fair value based method of accounting for stock-based employee compensation plans; however, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value based method, compensation costs is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. We have elected to continue to account for our employee stock compensation plans under APB 25 with

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pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting defined in SFAS 123 had been applied. If compensation cost for stock option grants had been determined based on the fair value on the grant dates for June 30, 2003 and 2002 consistent with the method prescribed by SFAS 123, the Company's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

	THREE MONTHS ENDED		S
	JUNE 30, 2003	JUNE 30, 2002	JUNE 30,
	(IN THOUSANDS, EXCEPT PER SHARE)		
Net income as reported:	\$ 4,613	\$ 4,075	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,156)	(1,180)	
Pro-forma net income	\$ 3,457	\$ 2,895	
Earnings per share:			
Basic - as reported	\$ 0.17	\$ 0.13	
Basic - pro-forma	\$ 0.13	\$ 0.09	
Diluted - as reported	\$ 0.17	\$ 0.13	
Diluted - pro-forma	\$ 0.12	\$ 0.09	

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

NOTE 10. LEGAL PROCEEDINGS

Reference is made to Part I, Item 3, Legal Proceedings, in our Annual Report on Form 10-K for the year ended December 31, 2002, and Part II, Item 1, Legal Proceedings in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 for a description of legal proceedings.

NOTE 11. GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

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On August 12, 2003 we sold \$150 million of Senior Subordinated Notes in private placements pursuant to Rule 144A. The Senior Subordinated Notes are uncollateralized obligations and rank junior in right of payment to our existing and future senior debt. The Senior Subordinated Notes are guaranteed, jointly and severally on a senior uncollateralized basis, by certain domestic subsidiaries.

The following consolidating condensed financial information presents the consolidating condensed balance sheets as of June 30, 2003 and December 31, 2002, the related condensed statements of income for each of the six and three month periods ended June 30, 2003 and June 30, 2002 and the related condensed statements of cash flows for the six month periods ended June 30, 2003 and June 30, 2002 for:

- a) Armor Holdings, Inc., the parent,
- b) the guarantor subsidiaries,
- c) the nonguarantor subsidiaries, and
- d) Armor Holdings, Inc. on a consolidated basis

The information includes elimination entries necessary to consolidate Armor Holdings, Inc., the parent, with the guarantor and nonguarantor subsidiaries.

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor and nonguarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements for the guarantor and nonguarantor subsidiaries are not presented because management believes such financial statements would not be meaningful to investors.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATING BALANCE SHEETS

	JUNE 30, 2003		
	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES
	-----	-----	-----
	(IN THOUSANDS)		
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,839	\$ 2,949	\$ 5,053
Accounts receivable, net	--	43,325	14,752
Costs and earned gross profit in excess of billings	--	1,423	--
Intercompany receivables	94,705	47,645	5,667
Inventories	--	45,823	15,086

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Prepaid expenses and other current assets	14,070	12,978	3,193
Current assets of discontinued operations	--	--	28,231
	-----	-----	-----
Total Current Assets	111,614	154,143	71,982
Property and equipment, net	2,269	27,544	19,468
Goodwill, net	--	97,003	1,910
Patents, licenses and trademarks, net	--	7,244	189
Other assets	10,363	754	435
Long-term assets of discontinued operations	--	--	30,047
Investment in subsidiaries	190,374	10,261	--
	-----	-----	-----
Total Assets	\$314,620	\$296,949	\$ 124,031
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term debt	\$ --	\$ 1,793	\$ 168
Short-term debt	--	--	627
Accounts payable	634	13,068	5,715
Accrued expenses and other current liabilities	6,125	12,394	15,702
Income taxes payable	833	--	1,432
Intercompany payables	13,490	103,455	13,281
Current liabilities of discontinued operations	--	--	33,334
	-----	-----	-----
Total Current Liabilities	21,082	130,710	70,259
Long-term debt, less current portion	15,000	4,730	--
Long-term liabilities of discontinued operations	--	--	14,646
	-----	-----	-----
Total Liabilities	36,082	135,440	84,905
Stockholders' Equity:			
Preferred stock	--	1,450	--
Common stock	336	2,933	32,982
Additional paid in capital	308,702	67,739	9,881
Retained earnings (accumulated deficit)	43,756	89,387	(3,737)
Accumulated other comprehensive loss	(1,939)	--	--
Treasury stock	(72,317)	--	--
	-----	-----	-----
Total Stockholders' Equity	278,538	161,509	39,126
	-----	-----	-----
Total Liabilities and Stockholders' Equity	\$314,620	\$ 296,949	\$ 124,031
	=====	=====	=====

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2002

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	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	
			(IN THOUSANDS)	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 7,152	\$ 3,556	\$ 2,205	
Accounts receivable, net	--	44,864	13,649	
Costs and earned gross profit in excess of billings	--	234	--	
Intercompany receivables	123,744	33,165	3,800	
Inventories	--	46,591	15,739	
Prepaid expenses and other current assets	12,490	21,999	2,368	
Current assets of discontinued operations	--	--	32,187	
Total Current Assets	143,386	150,409	69,948	
Property and equipment, net	2,456	27,250	17,430	
Goodwill, net	--	96,903	1,833	
Patents, licenses and trademarks, net	--	7,326	195	
Other assets	916	6,872	1,260	
Long-term assets of discontinued operations	--	--	30,285	
Investment in subsidiaries	161,805	10,078	--	
Total Assets	\$308,563	\$298,838	\$ 120,951	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Current portion of long-term debt	\$ --	\$ 1,813	\$ --	
Short-term debt	--	--	599	
Accounts payable	828	15,751	7,191	
Accrued expenses and other current liabilities	1,790	11,324	12,002	
Income taxes payable	4,831	(148)	1,230	
Intercompany payables	13,037	115,658	10,434	
Current liabilities of discontinued operations	--	--	42,167	
Total Current Liabilities	20,486	144,398	73,623	
Long-term debt, less current portion	--	5,072	--	
Long-term liabilities of discontinued operations	--	--	24,813	
Total Liabilities	20,486	149,470	98,436	
Stockholders' Equity:				
Preferred stock	--	1,450	--	
Common stock	336	2,933	35,299	
Additional paid in capital	307,487	67,604	10,016	
Retained earnings (accumulated deficit)	34,056	77,381	(22,800)	
Accumulated other comprehensive loss	(4,169)	--	--	
Treasury stock	(49,633)	--	--	
Total Stockholders' Equity	288,077	149,368	22,515	
Total Liabilities and Stockholders' Equity	\$308,563	\$ 298,838	\$ 120,951	

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATING INCOME STATEMENTS

	THREE MONTHS ENDED JUNE 30, 20			
	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMI
	(IN THOUSANDS)			
REVENUES:				
Products	\$ --	\$ 39,069	\$ 10,278	
Mobile Security	--	18,773	13,539	
Total revenues	--	57,842	23,817	
COSTS AND EXPENSES:				
Cost of sales	--	37,938	19,343	
Operating expenses	2,470	9,485	2,569	
Amortization	--	67	2	
Integration and other non-recurring changes	3,273	502	--	
OPERATING (LOSS) INCOME:	(5,743)	9,850	1,903	
Interest expense, net	267	121	49	
Other expense, net	--	2	14	
Equity in earnings of subsidiaries	(8,421)	(119)	--	
Related parting interest expense (income), net	16	(16)	--	
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	2,395	9,862	1,840	
PROVISION (BENEFIT) FOR INCOME TAXES	(2,218)	3,703	594	
INCOME FROM CONTINUING OPERATIONS	4,613	6,159	1,246	
DISCONTINUED OPERATIONS:				
Income from discontinued operations before provision for income taxes	--	--	1,860	
Provision for income taxes	--	--	725	
Net income from discontinued operations	--	--	1,135	
NET INCOME	\$ 4,613	\$ 6,159	\$ 2,381	\$

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATING INCOME STATEMENTS

	THREE MONTHS ENDED JUNE 30, 200			
	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELI
	(IN THOUSANDS)			
REVENUES:				
Products	\$ --	\$ 36,966	\$ 6,091	
Mobile Security	--	15,827	12,721	
Total revenues	--	52,793	18,812	
COSTS AND EXPENSES:				
Cost of sales	--	33,557	15,347	
Operating expenses	1,873	9,267	1,641	
Amortization	--	32	--	
Integration and other non-recurring changes	278	1,442	--	
OPERATING (LOSS) INCOME:	(2,151)	8,495	1,824	
Interest expense, net	183	58	43	
Other expense (income), net	--	1	(1)	
Equity in earnings of subsidiaries	(5,652)	(732)	--	
Related parting interest income, net	--	(224)	--	
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	3,318	9,392	1,782	
PROVISION (BENEFIT) FOR INCOME TAXES	(757)	3,211	606	
INCOME FROM CONTINUING OPERATIONS	4,075	6,181	1,176	
DISCONTINUED OPERATIONS:				
Loss from discontinued operations before income tax benefit	--	--	(1,041)	
Income tax benefit	--	--	(68)	
Net loss from discontinued operations	--	--	(973)	
NET INCOME	\$ 4,075	\$ 6,181	\$ 203	

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING INCOME STATEMENTS

SIX MONTHS ENDED JUNE 30, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES
	(IN THOUSANDS)		
REVENUES:			
Products	\$ --	\$ 75,753	\$ 17,601
Mobile Security	--	38,772	30,007
Total revenues	--	114,525	47,608
COSTS AND EXPENSES:			
Cost of sales	--	75,158	39,285
Operating expenses	4,542	18,787	5,199
Amortization	--	124	5
Integration and other non-recurring changes	3,349	848	--
OPERATING (LOSS) INCOME:	(7,891)	19,608	3,119
Interest expense, net	495	191	130
Other expense, net	--	2	83
Equity in earnings of subsidiaries	(15,085)	163	--
Related parting interest expense (income), net	16	(16)	--
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	6,683	19,268	2,906
PROVISION (BENEFIT) FOR INCOME TAXES	(3,017)	7,263	966
INCOME FROM CONTINUING OPERATIONS	9,700	12,005	1,940
DISCONTINUED OPERATIONS:			
Income from discontinued operations before provision for income taxes	--	--	1,914
Provision for income taxes	--	--	937
Net income from discontinued operations	--	--	977
NET INCOME	\$ 9,700	\$ 12,005	\$ 2,917

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING INCOME STATEMENTS

	SIX MONTHS ENDED JUNE 30, 2002			
	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELI
	(IN THOUSANDS)			
REVENUES:				
Products	\$ --	\$ 70,674	\$ 11,328	\$ --
Mobile Security	--	36,157	23,050	--
Total revenues	--	106,831	34,378	--
COSTS AND EXPENSES:				
Cost of sales	--	68,352	28,182	--
Operating expenses	3,314	17,656	3,224	--
Amortization	--	151	--	--
Integration and other non-recurring	352	2,765	--	--
OPERATING (LOSS) INCOME:	(3,666)	17,907	2,972	--
Interest expense, net	131	116	79	--
Other (income) expense, net	(2)	17	(79)	--
Equity in earnings of subsidiaries	(12,509)	(1,179)	--	--
Related party interest income, net	--	(224)	--	--
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	8,714	19,177	2,972	--
PROVISION (BENEFIT) FOR INCOME TAXES	(1,321)	6,816	1,065	--
INCOME FROM CONTINUING OPERATIONS	10,035	12,361	1,907	--
DISCONTINUED OPERATIONS:				
Loss from discontinued operations	--	--	(798)	--
Income tax benefit	--	--	(218)	--
Net loss from discontinued operations	--	--	(580)	--
NET INCOME	\$ 10,035	\$ 12,361	\$ 1,327	\$ --

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30,		
	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	\$ 9,700	\$ 12,006	\$ 1,939
Adjustments to reconcile income from continuing operations to cash used in operating activities.			
Depreciation and amortization	514	2,005	949
Deferred income taxes	(5,330)	5,912	1,131
(Gain) loss on disposal of fixed assets	--	(3)	42
Non-cash termination charge	2,093	--	--
Changes in operating assets & liabilities, net of acquisitions			
Decrease (increase) in accounts receivable	--	350	(1,103)
Decrease (increase) in intercompany receivables & payables	11,697	(16,072)	4,375
Decrease in inventory	--	679	653
Increase in prepaid expenses & other assets	(2,107)	(933)	(1,130)
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	3,252	(1,505)	2,224
(Decrease) increase in income taxes payable	(3,998)	148	202
Net cash provided by operating activities	15,821	2,587	9,282
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(81)	(2,176)	(1,661)
Purchase of patents and trademarks	--	(38)	--
Additional consideration for purchased business	--	(243)	--
Investment in subsidiaries	(14,735)	(52)	(135)
Net cash used in investing activities	(14,816)	(2,509)	(1,796)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of options	136	--	--
Repurchase of treasury stock	(22,684)	--	--
Repayments of long-term debt	--	(362)	--
Borrowings under lines of credit	29,809	--	396
Repayments under lines of credit	(14,809)	--	(200)
Net cash (used in) provided by financing			

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activities	(7,548)	(362)	196
Effect of exchange rate on cash and cash equivalents	2,230	(323)	(1,440)
Net cash used in discontinued operations	--	--	(3,394)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,313)	(607)	2,848
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,152	3,556	2,205
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,839	\$ 2,949	\$ 5,053

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
 CONTINUED (UNAUDITED)

ARMOR HOLDINGS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30, 2002			
	PARENT	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELI
	(IN THOUSANDS)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income from continuing operations	\$ 10,035	\$ 12,361	\$ 1,907	\$
Adjustments to reconcile income from continuing operations to cash used in operating activities				
Depreciation and amortization	318	1,958	429	
Deferred income taxes	(1,397)	249	1,656	
Loss on disposal of fixed assets	--	20	90	
Changes in operating assets & liabilities, net of acquisitions				
(Increase) decrease in accounts receivable	--	(1,294)	307	
(Increase) decrease in intercompany receivables and payables	(4,746)	4,147	375	
Increase in inventory	--	(6,937)	(2,948)	
Increase in prepaid expenses & other assets	(2,515)	(2,108)	(720)	
Decrease in accounts payable, accrued expenses and other current liabilities	(2,469)	(1,924)	(1,945)	
Increase in income taxes payable	3,500	829	659	
Net cash provided by (used in) operating activities	2,726	7,301	(190)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(53)	(974)	(737)	
Purchase of patents and trademarks	--	(32)	--	

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Additional consideration for purchased businesses	--	(2,029)	--
Investment in subsidiaries	(19,300)	4,103	1,509
Purchase of businesses, net of cash acquired	--	(3,380)	--
	-----	-----	-----
Net cash (used in) provided by investing activities	(19,353)	(2,312)	772
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of options	2,728	--	--
Cash paid for offering costs	(326)	--	--
Repurchase of treasury stock	(331)	--	--
Repayments of long-term debt	--	(275)	--
Borrowings under lines of credit	14,202	--	--
Repayments under lines of credit	(14,202)	--	(97)
	-----	-----	-----
Net cash provided by (used in) financing activities	2,071	(275)	(97)
	-----	-----	-----
Effect of exchange rate on cash and cash equivalents	(235)	538	(224)
Net cash used in discontinued operations	--	--	(1,702)
	-----	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,791)	5,252	(1,441)
	-----	-----	-----
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	38,627	5,536	3,326
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 23,836	\$ 10,788	\$ 1,885
	=====	=====	=====

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS -
CONTINUED (UNAUDITED)

NOTE 12. SUBSEQUENT EVENTS

On July 23, 2003, we executed a Letter of Intent ("LOI") to acquire Simula, Inc., for \$110.5 million, payable in cash or, at the Company's option, in a combination of cash and registered shares of Armor Holdings' common stock. Upon consummation of the acquisition, we will acquire all of the outstanding common stock of Simula, retire Simula's outstanding indebtedness, and assume all liabilities of Simula. The LOI provides for a good faith deposit, expedited due diligence, payment of a break-up fee if Simula accepts a competing offer, and other terms customary for similar transactions. The acquisition is subject to, among other conditions, satisfactory completion of due diligence, approval of each company's board of directors, execution of a definitive merger agreement, receipt of regulatory approvals, and the approval of Simula's stockholders. The companies will negotiate exclusively with each other until the LOI is terminated and anticipate signing a definitive agreement on or before August 29, 2003, with completion of the acquisition expected in the fourth quarter of 2003.

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On August 12, 2003 we closed a private placement of \$150,000,000 aggregate principal amount of 8.25% senior subordinated notes due 2013. The notes are guaranteed by certain domestic subsidiaries of the Company on a senior subordinated basis. We intend to use the net proceeds of the offering to fund future acquisitions, including our potential acquisition of Simula, Inc., repay a portion of our outstanding debt and for general corporate purposes, including the funding of working capital and capital expenditures.

On August 12, 2003, we terminated our prior credit facility and entered into a new secured revolving credit facility (the "Credit Facility") with Bank of America N.A., Wachovia Bank, National Association and a syndicate of other financial institutions arranged by Bank of America Securities LLC. The Credit Facility consists of a five-year revolving credit facility and, among other things, provides for (i) total maximum borrowings of \$60 million, (ii) a \$25 million sub-limit for the issuances of standby and commercial letters of credit, (iii) a \$5 million sub-limit for swing-line loans, and (iv) a \$5 million sub-limit for multi-currency borrowings. All borrowings under the Credit Facility will bear interest at either (i) a rate equal to LIBOR, plus an applicable margin ranging from 1.125% to 1.625%, (ii) an alternate base rate which will be the higher of (a) the Bank of America prime rate and (b) the Federal Funds rate plus .50%, or (iii) with respect to foreign currency loans, a fronted offshore currency rate, plus an applicable margin ranging from 1.125% to 1.625%, depending on certain conditions. The Credit Facility is guaranteed by certain of our direct and indirect domestic subsidiaries and is secured by, among other things (i) a pledge of all of the issued and outstanding shares of stock or other equity interests of certain of our direct and indirect domestic subsidiaries, (ii) a pledge of 65% of the issued and outstanding voting shares of stock or other voting equity interests of certain of our direct and indirect foreign subsidiaries, (iii) a pledge of 100% of the issued and outstanding nonvoting shares of stock or other nonvoting equity interests of certain of our direct and indirect foreign subsidiaries, and (iv) a first priority perfected security interest on certain of our domestic assets and certain domestic assets of certain of our direct and indirect subsidiaries that will become guarantors of our obligations under the new credit facility, including, among other things, accounts receivable, inventory, machinery, equipment, certain contract rights, intellectual property rights and general intangibles.

As of June 30, 2003 we were in compliance with all of our negative and affirmative covenants.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the results of operations and analysis of financial condition for the three months and six months ended June 30, 2003. The results of operations for purchase business combinations are included since their effective acquisition dates. The following discussion may be understood more fully by reference to the consolidated financial statements, notes to the consolidated financial statements, and management's discussion and analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES (INCLUDING NEW ACCOUNTING PRONOUNCEMENTS):

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Revenue Recognition. We record products revenue at the time of shipment. Returns are minimal and do not materially affect the financial statements.

We record revenue from our Mobile Security Division when the vehicle is shipped, except for larger commercial contracts typically longer than four months in length and the contract for the delivery of HMMWVs to the U.S. Government which continues through 2005. Revenue from such contracts is recognized on the percentage of completion, units-of-work performed method. HMMWV units sold to the U.S. Government are considered complete when the onsite Department of Defense officer finishes the inspection of the HMMWV and approves it for delivery. Should such contracts be in a loss position, the entire estimated loss would be recognized for the balance of the contract at such time. Current contracts are profitable.

We record service revenue as services are provided on a contract-by-contract basis. Revenues from service contracts are recognized over the term of the contract.

Comprehensive income and foreign currency translation. In accordance with Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" (SFAS 130), assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange existing at period-end and revenues and expenses are translated at the average monthly exchange rates. The cumulative translation adjustment, net of tax, which represents the effect of translating assets and liabilities of our foreign operations is recorded as a reduction of equity of \$1,939,000 and \$4,169,000 as of June 30, 2003 and December 31, 2002, respectively, and is classified as accumulated other comprehensive loss. The current year change in the accumulated amount, net of tax, is included as a component of comprehensive income.

Stock options and Grants. Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," establishes a fair value based method of accounting for stock-based employee compensation plans; however, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value based method, compensation costs is the excess, if any, of the quoted market price of the

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. We have elected to continue to account for our employee stock compensation plans under APB 25 with pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting defined in SFAS 123 had been applied. If compensation cost for stock option grants had been determined based on the fair value on the grant dates for June 30, 2003 and 2002 consistent with the method prescribed by SFAS 123, the

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Company's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

	THREE MONTHS ENDED		
	JUNE 30, 2003	JUNE 30, 2002	JUNE 30,
	(IN THOUSANDS, EXCEPT PER SHARE)		
Net income as reported:	\$ 4,613	\$ 4,075	\$ 9,7
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,156)	(1,180)	(2,3
Pro-forma net income	\$ 3,457	\$ 2,895	\$ 7,3
Earnings per share:			
Basic - as reported	\$ 0.17	\$ 0.13	\$ 0.
Basic - pro-forma	\$ 0.13	\$ 0.09	\$ 0.
Diluted - as reported	\$ 0.17	\$ 0.13	\$ 0.
Diluted - pro-forma	\$ 0.12	\$ 0.09	\$ 0.

Discontinued Operations. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), a component classified as held for sale is reported in discontinued operations when the following conditions are met: (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement for current and prior periods reports the results of operations of the component, including any gain or loss recognized in accordance with SFAS 144 paragraph 37, in discontinued operations. The results of discontinued operations, less applicable income taxes (benefit), is reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (if applicable). The assets and liabilities of a disposal group classified as held for sale is presented separately in the asset and liability sections, respectively, of the statement of financial position.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

NEW ACCOUNTING PRONOUNCEMENTS:

In April 2003, the FASB issued Statement of Financial Accounting Standard No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 149 is effective for contracts entered into or modified and hedging relationships designated after June 30, 2003, except for the provisions of SFAS 149 that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, which should continue to be applied in accordance with their respective effective dates. Adoption of this standard will have no effect on us.

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of this standard will have no effect on us.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003 COMPARED TO THREE MONTHS ENDED JUNE 30, 2002.

Net income. Net income increased \$538,000, or 13.2%, to net income of \$4.6 million for the three months ended June 30, 2003 compared to net income of \$4.1 million for the three months ended June 30, 2002. Net income for the three months ended June 30, 2003 includes income from continuing operations of \$3.5 million and income from discontinued operations of \$1.1 million, compared to income from continuing operations of \$4.8 million and a loss from discontinued operations of \$749,000 for the three months ended June 30, 2002.

CONTINUING OPERATIONS

Products revenues. Products Division revenues increased \$6.3 million, or 14.6%, to \$49.3 million in the three months ended June 30, 2003, compared to \$43.1 million in the three months ended June 30, 2002. For the three months ended June 30, 2003, Products Division revenue increased 10.8% internally, including year over year changes in acquired businesses, and 3.8% due to the acquisitions of Speedfeed, Inc., the Foldable Products Group, Evi-Paq, Inc., B-Square, Inc. and 911 Emergency Products, Inc., all of which were completed during or subsequent to the second quarter of 2002. Products Division revenues

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includes \$5.4 million and \$3.8 million from USDS, Inc., our training subsidiary, for the three months ended June 30, 2003 and June 30, 2002, respectively. In our filings prior to June 30, 2002, we reported USDS, Inc. as a part of the Services Division.

Mobile Security revenues. Mobile Security Division revenues increased \$3.8 million, or 13.2% to \$32.3 million in the three months ended June 30, 2003, compared to \$28.5 million in the three months ended June 30, 2002. Mobile Security Division revenues for the three months ended June 30, 2003, include \$3.0 million related to the acquisition of substantially all of the assets of Trasco-Bremen on September 24, 2002. Excluding the \$3.0 million of 2003 revenue relating to Trasco-Bremen, Mobile Security Division revenues increased \$0.8 million, or 2.6%, in the three months ended June 30, 2003, compared to the three months ended June 30, 2002.

Cost of sales. Cost of sales increased \$8.4 million, or 17.1%, to \$57.3 million for the three months ended June 30, 2003 compared to \$48.9 million for the three months ended June 30, 2002. As a percentage of total revenues, cost of sales increased to 70.1% of total revenues for the three months ended June 30, 2003 from 68.3% for the three months ended June 30, 2002.

Gross margins in the Products Division were 33.1% for the three months ended June 30, 2003, compared to 38.6% for the three-months ended June 30, 2002. The decline in Products Division's gross margins resulted primarily from: (1) an increase in "low margin" training revenues; (2) an increase in low margin gas mask sales (3) an increase in lower margin international body armor sales produced overseas at Armor Products International and (4) lower production volumes within Less Lethal, Automotive, and Hard Armor, which resulted in reduced fixed cost absorption and certain labor inefficiencies. Excluding the training division, the Products Division gross margins were 35.2%, compared to 40.8% reported in the same period last year.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Gross margins in the Mobile Security Division were 25.0% in the three-months ended June 30, 2003, compared to 21.4% for the three-months ended June 30, 2002. The increase in the Mobile Security Division gross margin is primarily attributable to: 1) favorable manufacturing overhead cost absorption relating to increased manufacturing volumes in our Cincinnati manufacturing facility; 2) operational efficiencies in our Cincinnati manufacturing facility; and 3) a smaller number of purchased base vehicles sold in 2003 compared to 2002. The Mobile Security Division often purchases and resells base vehicles to customers as a pass-through service without normal gross profit.

Operating expenses. Operating expenses increased \$1.7 million, or 13.6%, to \$14.5 million (17.7% of total revenues) for the three months ended June 30, 2003 compared to \$12.8 million (17.8% of total revenues) for the three months ended June 30, 2002.

Products Division operating expenses increased \$316,000, or 4.1%, to \$8.1 million (16.4% of Products Division revenues) for the three months ended June 30, 2003 compared to \$7.8 million (18.1% of Products Division revenues) for the three months ended June 30, 2002. This increase is due primarily to the incremental operating expenses associated with acquired businesses completed during or subsequent to the second quarter of 2002.

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Mobile Security Division operating expenses increased \$816,000, or 26.4%, to \$3.9 million (12.1% of Mobile Security Division revenues) for the three months ended June 30, 2003, compared to \$3.1 million (10.8% of Mobile Security Division revenues) for the three months ended June 30, 2002. Excluding the 2003 operating expenses resulting from the acquisition of substantially all of the assets of Trasco-Bremen on September 24, 2002, the operating expenses for the three months ended June 30, 2003, increased less than \$0.1 million, or (0.12% of Mobile Security Division Revenues), versus the same period in the prior year.

Corporate operating expenses increased \$610,000, or 32.1%, to \$2.5 million (3.1% of total revenues) for the three months ended June 30, 2003 compared to \$1.9 million (2.6% of total revenues) for the three months ended June 30, 2002. This increase is due primarily to increased insurance costs, increased internal audit costs necessary to comply with Sarbanes-Oxley requirements, and increased legal expenses.

Amortization. Amortization expense increased \$37,000, or 115.6%, to \$69,000 for the three months ended June 30, 2003 compared to \$32,000 for the three months ended June 30, 2002. SFAS 142, which we adopted on January 1, 2002, eliminated amortization of intangible assets with indefinite lives and goodwill for all acquisitions completed after July 1, 2001, as well as for all fiscal years ending after January 1, 2002. Remaining amortization expense is related to patents and trademarks with finite lives.

Integration and other non-recurring charges. Integration and other non-recurring charges for the three-months ended June 30, 2003, totaled \$3.8 million, compared to \$1.7 million in the same period last year. The increase in integration and other non-recurring items is primarily related to a \$3.3 million (including a \$2.1 million non-cash charge) severance charge related to the recent departure of our former Chief Executive Officer. The remaining charges relate primarily to the integration of Speedfeed, Foldable, Evi-Paq, B-Square and 911EP, and Trasco all of which were completed during or subsequent to the second quarter of 2002.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Operating income. Operating income from continuing operations decreased \$2.2 million to \$6.0 million for the three months ended June 30, 2003 compared to \$8.2 million in the three months ended June 30, 2002 due to the factors discussed above. USDS, Inc. contributed operating income, that was previously reported as a part of the Services Division, of \$644,000 and \$425,000 for the three months ended June 30, 2003 and 2002, respectively.

Interest expense, net. Interest expense, net increased \$153,000, or 53.9% to \$437,000 for the three months ended June 30, 2003 compared to \$284,000 for the three months ended March 31, 2002. This increase was due primarily to borrowings of long-term debt under our revolving credit facility with the proceeds primarily used to repurchase common stock of the Company.

Other expense (income), net. Other expense (income), net, was \$16,000 for the three months ended June 30, 2003, compared to other expense (income), net, of zero for the three months ended June 30, 2002.

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Income from continuing operations before provision for income taxes. Income from continuing operations before provision for income taxes decreased by \$2.3 million to \$5.6 million for the three months ended June 30, 2003 compared to \$7.9 million for the three months ended June 30, 2002 due to the reasons discussed above.

Provision for income taxes. Provision for income taxes was \$2.1 million for the three months ended June 30, 2003, compared to \$3.1 million for the three months ended June 30, 2002. The effective tax rate was 37.4% for the three months ended June 30, 2003, compared to 38.8% for the three months ended June 30, 2002 based on our current expectations of annual income amounts and jurisdictions in which such amounts are expected to be taxable.

Income from continuing operations. Income from continuing operations decreased \$1.3 million to \$3.5 million for the three months ended June 30, 2003 compared to \$4.8 million for the three months ended June 30, 2002 due to the factors discussed above.

DISCONTINUED OPERATIONS

Services revenues. Services Division revenue decreased \$2.3 million, or 8.9%, to \$23.9 million for the three months ended June 30, 2003 compared to \$26.3 million for the three months ended June 30, 2002. The revenue decrease is a result of the sale of the ArmorGroup Integrated Systems business. Exclusive of ArmorGroup Integrated Systems, revenue increased \$1.4 million, or 6.5% to \$23.1 million for the three months ended June 30, 2003 compared to \$21.7 million for the three months ended June 30, 2002. This increase is due to strong performance in North Africa and the Middle East training businesses tempered by weak revenues in Mine Action business, Investigations business and the Latin American business.

Cost of sales. Cost of sales decreased \$2.7 million, or 14.4%, to \$16.2 million for the three months ended June 30, 2003 compared to \$18.9 million for the three months ended June 30, 2002. This decrease is a result of the sale of the ArmorGroup Integrated Systems business. Exclusive of

ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

ArmorGroup Integrated Systems, cost of sales increased \$800,000, or 5.4% to \$15.6 million for the three months ended June 30, 2003 compared to \$14.8 million for the three months ended June 30, 2002.

As a percentage of total revenue, cost of sales decreased to 67.7% of total revenues for the three months ended June 30, 2003 from 72.0% for the three months ended June 30, 2002. This decrease in cost of sales as a percentage of total revenue was primarily a result of strong revenues in our training division and expatriate intensive contracts in the Middle East.

Operating expenses. Operating expenses decreased \$3.0 million, or 37.8%, to \$5.0 million (20.9% of total revenues) for the three months ended June 30, 2003 compared to \$8.1 million (30.7% of total revenues) for the three months ended June 30, 2002. This decrease was partly due to the sale of the ArmorGroup Integrated Systems business. Exclusive of ArmorGroup Integrated Systems,

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operating expenses decreased \$2.5 million, or 33.8% to \$4.8 million for the three months ended June 30, 2003 compared to \$7.3 million for the three months ended June 30, 2002. This decrease was due to reduced foreign currency expenses and a reduction in salary costs as a result of restructuring last year.

Integration and other non-recurring charges. Integration and other non-recurring charges increased \$358,000, or 380.9%, to \$452,000 for the three months ended June 30, 2003 compared to \$94,000 for the three months ended June 30, 2002. These charges reflect additional professional service fees incurred for tax reporting associated with preparing the discontinued operations for sale.

Operating income (loss). Operating income (loss) was \$2.3 million for the three months ended June 30, 2003, compared to operating loss of (\$794,000) for the three months ended June 30, 2002 due to the factors discussed above. Operating income from the ArmorGroup Integrated Systems business was \$88,000 for the three months ended June 30, 2003, compared to an operating loss of (\$413,000) for the three months ended June 30, 2002 due to the factors discussed above. Excluding the ArmorGroup Integrated Systems business, the balance of the assets held for sale generated an operating income of \$2.2 million for the three months ended June 30, 2003 compared to an operating loss of (\$381,000) for the three months ended June 30, 2002.

Interest expense, net. Interest expense, net decreased \$24,000, or 62.5%, to \$15,000 for the three months ended June 30, 2003 compared to \$39,000 for the three months ended June 30, 2002. This decrease was due to reduced utilization of the Services Division's line of credit.

Other expense (income), net. Other expense (income), net, was \$392,000 for the three months ended June 30, 2003, compared to other expense (income), net of (\$16,000) for the three months ended June 30, 2002. The net increase in expense was a result of loss on sale of \$366,000 of our Integrated System business on April 17, 2003.

Income (loss) from discontinued operations before provision (benefit) for income taxes. Income (loss) from discontinued operations before provision (benefit) for income taxes was \$1.9 million for the three months ended June 30, 2003 and (\$817,000) for the three months ended June 30, 2002, due to the reasons discussed above.

Provision (benefit) for income taxes. Provision for income taxes was \$725,000 for the three months ended June 30, 2003 compared to a benefit of (\$68,000) for the three months ended June 30, 2002. The effective tax rate for the three months ended June 30, 2003 was a provision of 39.0% compared to a benefit of 8.3% for the three months ended June 30, 2002.

Income (Loss) from discontinued operations. Income from discontinued operations was \$1.1 million for the three months ended June 30, 2003 compared to a loss from discontinued operations of (\$749,000) for the three months ended June 30, 2002 due to the factors discussed above.

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SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO SIX MONTHS ENDED JUNE 30, 2002.

Net income. Net income decreased \$335,000, or 3.3%, to net income of \$9.7 million for the six months ended June 30, 2003 compared to net income of \$10.0 million for the six months ended June 30, 2002. Net income for the six months ended June 30, 2003 includes income from continuing operations of \$8.7 million and income from discontinued operations of \$977,000, compared to income from continuing operations of \$10.4 million and a loss from discontinued operations of \$356,000 for the six months ended June 30, 2002.

CONTINUING OPERATIONS

Products revenues. Products Division revenues increased \$11.4 million, or 13.8%, to \$93.4 million in the six months ended June 30, 2003, compared to \$82.0 million in the six months ended June 30, 2002. For the six months ended June 30, 2003, Products Division revenue increased 8.6% internally, including year over year changes in acquired businesses, and 5.3% due to the acquisitions of Speedfeed, Inc., the Foldable Products Group, Evi-Paq, Inc., B-Square, Inc. and 911 Emergency Products, Inc., all of which were completed during or subsequent to the second quarter of 2002. Products Division revenues includes \$10.5 million and \$7.3 million from USDS, Inc., our training subsidiary, for the six months ended June 30, 2003 and June 30, 2002, respectively. In our filings prior to June 30, 2002, we reported USDS, Inc. as a part of the Services Division.

Mobile Security revenues. Mobile Security Division revenues increased \$9.6 million, or 16.2% to \$68.8 million in the six months ended June 30, 2003, compared to \$59.2 million in the six months ended June 30, 2002. Mobile Security Division revenues for the six months ended June 30, 2003, include \$8.9 million related to the acquisition of substantially all of the assets of Trasco-Bremen on September 24, 2002. Excluding the \$8.9 million of 2003 revenue relating to Trasco-Bremen, Mobile Security Division revenues increased \$0.7 million, or 1.1%, in the six months ended June 30, 2003, compared to the six months ended June 30, 2002.

Cost of sales. Cost of sales increased \$17.9 million, or 18.6%, to \$114.4 million for the six months ended June 30, 2003 compared to \$96.5 million for the six months ended June 30, 2002. As a percentage of total revenues, cost of sales increased to 70.6% of total revenues for the six months ended June 30, 2003 from 68.4% for the six months ended June 30, 2002.

Gross margins in the Products Division were 33.6% for the six months ended June 30, 2003, compared to 38.0% for the six-months ended June 30, 2002. The decline in Products Division's gross margins resulted primarily from: (1) an increase in "low margin" training revenues; (2) an increase in low margin gas mask sales; (3) an increase in lower margin international body armor sales produced overseas at Armor Products International; (4) lower production volumes within our less lethal, automotive, and hard armor product lines, which resulted in reduced fixed cost absorption and certain labor inefficiencies; and (5) moving costs and labor inefficiencies at Protech associated with the relocation of its

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gross margins were 36.1%, compared to 40.3% reported in the same period last year.

Gross margins in the Mobile Security Division were 23.7% in the six months ended June 30, 2003, compared to 22.9% for the six months ended June 30, 2002. The increase in the Mobile Security Division gross margin is primarily attributable to: 1) favorable manufacturing overhead cost absorption relating to increased manufacturing volumes at our Cincinnati manufacturing facility; and 2) operational efficiencies in our Cincinnati manufacturing facility.

Operating expenses. Operating expenses increased \$4.3 million, or 17.9%, to \$28.5 million (17.5% of total revenues) for the six months ended June 30, 2003 compared to \$24.2 million (17.1% of total revenues) for the six months ended June 30, 2002.

Products Division operating expenses increased \$1.2 million, or 8.2%, to \$16.0 million (17.2% of Products Division revenues) for the six months ended June 30, 2003 compared to \$14.8 million (18.1% of Products Division revenues) for the six months ended June 30, 2002. This increase is due primarily to the incremental operating expenses associated with acquired businesses completed during or subsequent to the second quarter of 2002.

Mobile Security Division operating expenses increased \$1.9 million, or 31.1%, to \$7.9 million (11.5% of Mobile Security Division revenues) for the six months ended June 30, 2003, compared to \$6.0 million (10.2% of Mobile Security Division revenues) for the six months ended June 30, 2002. Excluding the 2003 operating expenses resulting from the acquisition of substantially all of the assets of Trasco-Bremen on September 24, 2002, the operating expenses for the six months ended June 30, 2003, increased less than \$0.4 million, or (0.52% of Mobile Security Division Revenues), versus the same period in the prior year. The increase in operating expenses was primarily due to: (1) increased expenses associated with the start-up of operations in Caracas, Venezuela in late 2002; and (2) increased insurance costs.

Corporate operating expenses increased \$1.2 million, or 37.0%, to \$4.6 million (2.8% of total revenues) for the six months ended June 30, 2003 compared to \$3.4 million (2.4% of total revenues) for the six months ended June 30, 2002. This increase is due primarily to increased insurance costs, increased internal audit costs necessary to comply with Sarbanes-Oxley requirements, and increased legal expenses.

Amortization. Amortization expense decreased \$22,000, or 14.6%, to \$129,000 for the six months ended June 30, 2003 compared to \$151,000 for the six months ended June 30, 2002. SFAS 142, which we adopted on January 1, 2002, eliminated amortization of intangible assets with indefinite lives and goodwill for all acquisitions completed after July 1, 2001, as well as for all fiscal years ending after January 1, 2002. Remaining amortization expense is related to patents and trademarks with finite lives.

Integration and other non-recurring charges. Integration and other non-recurring charges for the six months ended June 30, 2003, totaled \$4.2 million, compared to \$3.1 million for the six months ended June 30, 2002. The increase in integration and other non-recurring items is primarily related to a \$3.3

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

million (including a \$2.1 million non-cash charge) severance charge related to the recent departure of our former Chief Executive Officer. This was partially offset by decreased merger and integration expenses.

Operating income. Operating income from continuing operations decreased \$2.4 million to \$14.8 million for the six months ended June 30, 2003 compared to \$17.2 million in the six months ended June 30, 2002 due to the factors discussed above. USDS, Inc. contributed operating income, that was previously reported as a part of the Services Division, of \$1.2 million and \$803,000 for the six months ended June 30, 2003 and 2002, respectively.

Interest expense, net. Interest expense, net increased \$490,000, or 150.3% to \$816,000 for the six months ended June 30, 2003 compared to \$326,000 for the six months ended June 30, 2002. This increase was due primarily to borrowings of long-term debt under our revolving credit facility with the proceeds primarily used to repurchase common stock of the Company.

Other expense (income), net. Other expense (income), net, was \$85,000 for the six months ended June 30, 2003, compared to other expense (income), net of (\$64,000) for the six months ended June 30, 2002.

Income from continuing operations before provision for income taxes. Income from continuing operations before provision for income taxes decreased by \$3.0 million to \$13.9 million for the six months ended June 30, 2003 compared to \$17.0 million for the six months ended June 30, 2002 due to the reasons discussed above.

Provision for income taxes. Provision for income taxes was \$5.2 million for the six months ended June 30, 2003, compared to \$6.6 million for the six months ended June 30, 2002. The effective tax rate was 37.4% for the six months ended June 30, 2003, compared to 38.7% for the six months ended June 30, 2002 based on our current expectations of annual income amounts and jurisdictions in which such amounts are expected to be taxable.

Income from continuing operations. Income from continuing operations decreased \$1.7 million to \$8.7 million for the six months ended June 30, 2003 compared to \$10.4 million for the six months ended June 30, 2002 due to the factors discussed above.

DISCONTINUED OPERATIONS

Services revenues. Services Division revenue decreased \$827,000, or 1.6%, to \$49.7 million for the six months ended June 30, 2003 compared to \$50.5 million for the six months ended June 30, 2002. The revenue decrease is a result of the sale of the ArmorGroup Integrated Systems business. Exclusive of ArmorGroup Integrated Systems, revenue increased \$3.3 million, or 7.9% to \$45.0 million for the six months ended June 30, 2003 compared to \$41.7 million for the six months ended June 30, 2002. This increase is due to strong performance in the Middle East with equally strong performance by the Training Division, which increased as a result of the Athens Olympics contract. These strong performances were tempered by weak revenues in Mine Action business, Investigations business and the Latin American business due to a weak economy and the completion of the BP security contract in Colombia.

Cost of sales. Cost of sales decreased \$741,000, or 2.1%, to \$35.4 million for the six months ended June 30, 2003 compared to \$36.1 million for the six months ended June 30, 2002. This decrease is a result of the sale of the ArmorGroup Integrated Systems business. Exclusive of ArmorGroup Integrated

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Systems, cost of sales increased \$1.7 million, or 6.0% to \$30.2 million for the six months ended June 30, 2003 compared to \$28.5 million for the six months ended June 30, 2002.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

As a percentage of total revenue, cost of sales decreased to 71.2% of total revenues for the six months ended June 30, 2003 from 71.5% for the six months ended June 30, 2002. This decrease in cost of sales as a percentage of total revenue was primarily due to (1) the sale of the Integrated Systems Division, which operates on lower margins than the rest of the Services Division, (2) high margins achieved by the Training Division and (3) new contracts in the Middle East at higher than average margins.

Operating expenses. Operating expenses decreased \$3.1 million, or 21.6%, to \$11.4 million (22.9% of total revenues) for the six months ended June 30, 2003 compared to \$14.6 million (28.8% of total revenues) for the six months ended June 30, 2002. This decrease was due to the sale of the ArmorGroup Integrated Systems business. Exclusive of ArmorGroup Integrated Systems, operating expenses decreased \$1.9 million, or 15.0% to \$10.9 million for the six months ended June 30, 2003 compared to \$12.8 million for the six months ended June 30, 2002. The six months ended June 30, 2003 has benefited from no depreciation being charged as a result of the assets being held out for sale in accordance with SFAS 144 "Accounting for Impairment or Disposal of Long-Lived Assets," currency movement costs being \$500,000 less than prior year, and a reduction in salary costs as result of restructuring taken last year.

Integration and other non-recurring charges. Integration and other non-recurring charges increased \$105,000, or 27.0%, to \$494,000 for the six months ended June 30, 2003 compared to \$389,000 for the six months ended June 30, 2002. The increase reflects the additional professional service fees related to tax work performed associated with preparing the discontinued operations for sale.

Operating income (loss). Operating income (loss) was \$2.4 million for the six months ended June 30, 2003, compared to operating loss of (\$539,000) for the six months ended June 30, 2002 due to the factors discussed above. Operating loss from the ArmorGroup Integrated Systems business, which was sold on April 17, 2003, was \$987,000 for the period ended April 17, 2003, compared to an operating loss of \$530,000 for the six months ended June 30, 2002 due to the factors discussed above. Excluding the ArmorGroup Integrated Systems business, the balance of the assets held for sale generated an operating income of \$3.4 million for the six months ended June 30, 2002 compared to an operating loss of (\$9,000) for the six months ended June 30, 2002.

Interest expense, net. Interest expense, net decreased \$40,000, or 43.0%, to \$53,000 for the six months ended June 30, 2003 compared to \$93,000 for the six months ended June 30, 2002. This decrease was due to reduced utilization of the Services Division's line of credit.

Other expense (income), net. Other expense (income), net, was \$452,000 for the six months ended June 30, 2003, compared to other expense (income), net of (\$58,000) for the six months ended June 30, 2002. The net increase in expense was a result of a loss on sale of \$366,000 of our ArmorGroup Integrated System business on April 17, 2003.

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Income (loss) from discontinued operations before provision (benefit) for income taxes. Income (loss) from discontinued operations before provision (benefit) for income taxes was \$1.9 million for the six months ended June 30, 2003 and (\$574,000) for the six months ended June 30, 2002, due to the reasons discussed above.

Provision (benefit) for income taxes. Provision for income taxes was \$937,000 for the six months ended June 30, 2003 compared to a benefit of (\$218,000) for the six months ended June 30, 2002. The effective tax rate for the six months ended June 30, 2003 was a provision of 49.0% compared to a benefit of 38.0% for the six months ended June 30, 2002. The large provision of 49.0% for the six months ended June 30, 2003, is primarily due to unrecognized potential deferred tax assets associated with foreign subsidiaries, which recorded pretax losses in the six months of 2003. These potential tax

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

benefits were not recognized due to the uncertainty regarding the specific subsidiary's ability to utilize the net operating loss carry-forwards in future periods.

Income (loss) from discontinued operations. Income (loss) from discontinued operations was \$977,000 for the six months ended June 30, 2003 compared to a loss from discontinued operations of (\$356,000) for the six months ended June 30, 2002 due to the factors discussed above. As many of the above items involve accounting estimates, the income (loss) and amounts above will be reevaluated in the future for any changes, which might be appropriate.

LIQUIDITY AND CAPITAL RESOURCES

On August 12, 2003, we terminated our prior credit facility and enter into a new secured revolving credit facility (the "Credit Facility") with Bank of America N.A., Wachovia Bank, National Association and a syndicate of other financial institutions arranged by Bank of America Securities LLC. The Credit Facility consists of a five-year revolving credit facility and, among other things, provides for (i) total maximum borrowings of \$60 million, (ii) a \$25 million sub-limit for the issuances of standby and commercial letters of credit, (iii) a \$5 million sub-limit for swing-line loans, and (iv) a \$5 million sub-limit for multi-currency borrowings. All borrowings under the Credit Facility will bear interest at either (i) a rate equal to LIBOR, plus an applicable margin ranging from 1.125% to 1.625%, (ii) an alternate base rate which will be the higher of (a) the Bank of America prime rate and (b) the Federal Funds rate plus .50%, or (iii) with respect to foreign currency loans, a fronted offshore currency rate, plus an applicable margin ranging from 1.125% to 1.625%, depending on certain conditions. The Credit Facility is guaranteed by certain of our direct and indirect domestic subsidiaries and is secured by, among other things (i) a pledge of all of the issued and outstanding shares of stock or other equity interests of certain of our direct and indirect domestic subsidiaries, (ii) a pledge of 65% of the issued and outstanding voting shares of stock or other voting equity interests of certain of our direct and indirect foreign subsidiaries, (iii) a pledge of 100% of the issued and outstanding

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nonvoting shares of stock or other nonvoting equity interests of certain of our direct and indirect foreign subsidiaries, and (iv) a first priority perfected security interest on certain of our domestic assets and certain domestic assets of certain of our direct and indirect subsidiaries that will become guarantors of our obligations under the new credit facility, including, among other things, accounts receivable, inventory, machinery, equipment, certain contract rights, intellectual property rights and general intangibles.

As of June 30, 2003 we were in compliance with all of our negative and affirmative covenants.

In March 2002, our Board of Directors approved a stock repurchase program authorizing the repurchase of up to a maximum 3.2 million shares of our common stock. In February 2003, the Board of Directors increased this stock repurchase program to authorize the repurchase, from time to time

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

depending upon market conditions and other factors, of up to an additional 4.4 million shares. During the three-months ended June 30, 2003 no additional shares were repurchased.

Through June 30, 2003, we repurchased 3.8 million shares of our common stock under the stock repurchase program at an average price of \$12.49 per share, leaving us with the ability to repurchase up to 3.8 million additional shares of common stock. At June 30, 2003, we had 27,570,631 shares of common stock outstanding.

We expect to continue our policy of repurchasing our common stock from time to time. In addition, our Credit Agreement permits us to repurchase shares of our common stock with no limitation if our ratio of Consolidated Total Indebtedness to Consolidated EBTIDA (as such terms are defined in the Credit Agreement) for any rolling twelve-month period is less than 1:00 to 1. At ratios greater than 1:00 to 1 our credit agreement limits our ability to repurchase shares at \$15.0 million. This basket resets to \$0 each time the ratio is less than 1.0 to 1.

Working capital for continuing operations was \$88.6 million and \$89.0 million as of June 30, 2003 and December 31, 2002, respectively.

Our fiscal 2003 capital expenditures for continuing operations are expected to be approximately \$8.4 million, of which we have spent approximately \$3.9 million through the six months ended June 30, 2003. Our fiscal 2003 capital expenditures for discontinued operations are expected to be approximately \$2.0 million, of which we have already spent approximately \$1.6 million through six months ended June 30, 2003. Such expenditures include, leasehold improvements, information technology and communications infrastructure equipment and software, and manufacturing machinery and equipment.

We anticipate that the cash generated from operations, proceeds from the sale of discontinued operations, cash on hand and available borrowings under the Credit Agreement will enable us to meet liquidity, working capital and

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capital expenditure requirements during the next twelve months. We may, however, require additional financing to pursue our strategy of growth through acquisitions. If such financing is required, there are no assurances that it will be available, or if available, that it can be obtained on terms favorable to us or on a basis that is not dilutive to our stockholders.

FORWARD LOOKING AND CAUTIONARY STATEMENTS

Except for the historical information and discussions contained herein, statements contained in this Form 10-Q may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including, but not limited to, our failure to continue to develop and market new and innovative products and services and to keep pace with technological change; competitive pressures; failure to obtain or protect intellectual property rights; the ultimate effect of various domestic and foreign political and economic issues on our business, financial condition or results of operations; quarterly fluctuations in revenues and volatility of stock prices; contract delays; cost overruns; our ability to attract and retain key personnel; currency and customer financing risks; dependence on certain suppliers; changes in the financial or business condition of our distributors or resellers; our ability to successfully manage acquisitions, alliances and integrate past and future business combinations; regulatory, legal, political and economic changes, our ability to sell the Services Division on favorable terms and other risks, uncertainties and factors inherent in our business

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

and otherwise discussed elsewhere in this Form 10-Q and in our other filings with the Securities and Exchange Commission or in materials incorporated therein by reference.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a result of our global operating and financial activities, we are exposed to changes in raw material prices, interest rates and foreign currency exchange rates, which may adversely affect our results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, we manage exposure to changes in raw material prices, interest rates, and foreign currency exchange rates through our regular operating and financing activities. We do not utilize financial instruments for trading or other speculative purposes, nor do we utilize leveraged financial instruments or other derivatives for such purposes.

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MARKET RATE RISK

The following discussion about our market rate risk involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates, foreign currency exchange rates, and equity security price risk. We do not use derivative financial instruments for speculative purposes or to hedge these risks.

Interest Rate Risk. Our exposure to market rate risk for changes in interest rates relate primarily to borrowings under our credit facilities and our short-term monetary investments. To the extent that, from time to time, we hold short-term money market instruments, there is a market rate risk for changes in interest rates on such instruments. To that extent, there is inherent rollover risk in the short-term money market instruments as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. However, there is no risk of loss of principal in the short-term money market instruments, only a risk related to a potential reduction in future interest income. Derivative instruments are not presently used to adjust our interest rate risk profile. We do not use derivative financial instruments to hedge this interest rate risk. However, in the future, we may consider the use of financial instruments to hedge interest rate risk.

Foreign Currency Exchange Rate Risk. The majority of our business is denominated in U.S. dollars. There are costs associated with our operations in foreign countries that require payments in the local currency. Where appropriate and to partially manage our foreign currency risk related to those payments we receive payment from customers in local currencies in amounts sufficient to meet our local currency obligations. We do not use derivatives or other financial instruments to hedge foreign currency risk.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

We do business in numerous countries, including emerging markets in Africa, Asia, South America, Russia, and the former CIS. We have invested substantial resources outside of the United States and plan to continue to do so in the future. Our international operations are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, tariffs and trade barriers, potential difficulties in staffing and managing local operations, potential imposition of restrictions on investments, potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries, and local economic, political and social conditions. Governments of many developing countries have exercised and continue to exercise

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS - CONTINUED

substantial influence over many aspects of the private sector. Government actions in the future could have a significant adverse effect on economic conditions in a developing country or may otherwise have a material adverse effect on us and our operating companies. We do not have political risk insurance in the countries in which we currently conducts business, but

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periodically analyze the need for and cost associated with this type of policy. Moreover, applicable agreements relating to our interests in our operating companies are frequently governed by foreign law. As a result, in the event of a dispute, it may be difficult for us to enforce our rights. Accordingly, we may have little or no recourse upon the occurrence of any of these developments.

ITEM 4. CONTROLS AND PROCEDURES

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information that the Company must disclose in its reports filed under the Securities and Exchange Act is communicated and processed in a timely manner. Warren B. Kanders, Chairman and Chief Executive Officer, and Robert R. Schiller, Chief Operating Officer and Chief Financial Officer, participated in this evaluation.

Based on such evaluation, Mr. Kanders and Mr. Schiller concluded that, as of the date of such evaluation, our disclosure controls and procedures were effective, except as noted in the next paragraph. Since the date of the evaluation described above, there have not been any significant changes in our internal controls or in other factors that could significantly affect those controls except as indicated in the next paragraph.

During the twelve months ended December 31, 2002 financial reporting process, management, in consultation with our independent accountants, identified a deficiency in our tax financial reporting process relating to the reconciliation of provisions for income taxes for our discontinued operations to tax filings and inventory of deferred tax assets and liabilities which constituted a "Reportable Condition" under standards established by the American Institute of Certified Public Accountants. We believe that this matter has not had any material impact on our financial statements. We have hired an internal tax director and completed the design, development and implementation of processes and controls to address this deficiency. We are currently in the process of formally documenting these policies and procedures.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES

PART II

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Part I, Item 3, Legal Proceedings, in our Annual Report on Form 10-K for the year ended December 31, 2002, and Part II, Item 1, Legal Proceedings in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 for a description of legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting of stockholders on June 24, 2003 for the purpose of electing directors and ratifying the appointment of PricewaterhouseCoopers LLP as our independent accountants.

Each of Armor's nominees for directors, as listed in the proxy statement, was elected with the number of votes set forth below.

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	FOR ---	AGAINST -----
Warren B. Kanders	22,537,809	4,794,919
Burt R. Ehrlich	26,444,907	887,821
Nicholas Sokolow	19,486,482	7,846,446
Thomas W. Strauss	23,393,396	3,939,332
Alair A. Townsend	23,393,425	3,939,303
Deborah Zoullas	23,393,428	3,939,300

The ratification of PricewaterhouseCoopers, LLC as our independent accountants was approved with the number of votes set forth below:

For	Against	Abstentions
19,818,611	7,510,164	3,953

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed as part of this quarterly report on Form 10-Q.

- 10.1 Purchase Agreement dated August 6, 2003 by and among Armor Holdings, Inc., a Delaware corporation, certain of its domestic subsidiaries and Wachovia Capital Markets, LLC.
- 10.2 Indenture dated as of August 12, 2003 by and among Armor Holdings, Inc., the subsidiary guarantors and Wachovia Bank, National Association, as trustee, and form of Note attached as Exhibit A thereto.
- 10.3 Registration Rights Agreement dated as of August 12, 2003 by and among Armor Holdings, Inc., the subsidiary guarantors and Wachovia Capital Markets, LLC.
- 10.4 Credit Agreement dated as of August 12, 2003 by and among Armor Holdings, Inc., each lender from time to time party thereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Wachovia Bank, National Association, as Syndication Agent, and KeyBank National Association, as Documentation Agent.
- 10.5 Subsidiary Guarantee Agreement dated as of August 12, 2003, by certain subsidiaries of Armor Holdings, Inc., in favor of Bank of America, N.A., as Administrative Agent for the benefit of the lenders from time to time parties to the Credit Agreement dated as of August 12, 2003.
- 10.6 Collateral Agreement dated as of August 12, 2003 by and among Armor Holdings, Inc. and certain of its subsidiaries in favor of Bank of America, N.A., as Administrative Agent for the benefit of the lender from time to time parties to the Credit Agreement dated August 12, 2003.
- 10.7 Trademark Security Agreement dated as of August 12, 2003 by certain of the subsidiaries of Armor Holdings, Inc. in favor of Bank of America, N.A., as Administrative Agent under the Credit Agreement dated August 12, 2003.
- 10.8 Patent Security Agreement dated as of August 12, 2003 by Armor Holdings, Inc. and certain of its subsidiaries in favor of Bank of America, N.A., as Administrative Agent under the Credit Agreement dated August 12, 2003.

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- 10.9 Promissory note dated August 12, 2003 in the principal amount of up to \$15,000,000 made by Armor Holdings, Inc. in favor of Keybank National Association.
- 10.10 Promissory note dated August 12, 2003 in the principal amount of up to \$22,500,000 in favor of Wachovia Bank, National Association.
- 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(b)).
- 31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(b)).
- 32.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
- 32.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES

(b) Reports on Form 8-K.

We filed a Form 8-K on May 5, 2003, relating to a press release, issued on May 5, 2003, announcing our earnings for the three month period ended March 31, 2003.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ARMOR HOLDINGS, INC.

/s/ Warren B. Kanders

Warren B. Kanders
Chairman and Chief Executive Officer
Dated: August 14, 2003

/s/ Robert R. Schiller

Robert R. Schiller
Chief Operating Officer and Chief Financial Officer

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Dated: August 14, 2003