



## Edgar Filing: ENGINEERED SUPPORT SYSTEMS INC - Form 10-Q

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### PART I

#### FINANCIAL INFORMATION

##### Item 1. Financial Statements

ENGINEERED SUPPORT SYSTEMS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share amounts)

	July 31 2005	October 31 2004
	(Unaudited)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 12,027	\$ 33,153
Accounts receivable	155,036	139,191
Contracts in process and inventories	80,271	61,009
Deferred income taxes	6,921	6,921
Other current assets	6,691	2,846
Total Current Assets	260,946	243,120
Property, plant and equipment, less accumulated depreciation of \$34,873 and \$29,177	52,719	46,946
Goodwill	324,960	167,358
Acquired customer-related intangibles	54,699	38,314
Deferred income taxes	2,557	1,876

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Other assets	12,982	13,520
	-----	-----
Total Assets	\$708,863	\$511,134
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Notes payable	\$ 86,000	\$
Current maturities of long-term debt	313	340
Accounts payable	63,416	71,796
Other current liabilities	67,186	58,936
	-----	-----
Total Current Liabilities	216,915	131,072
Long-term debt	1,946	781
Minimum pension liability	28,237	28,237
Other liabilities	14,219	14,088
Shareholders' Equity		
Common stock, par value \$.01 per share; 85,000 shares authorized; 41,780 and 26,642 shares issued	418	266
Additional paid-in capital	201,406	151,805
Retained earnings	263,605	202,730
Accumulated other comprehensive loss	(17,883)	(17,845)
	-----	-----
	447,546	336,956
	-----	-----
Total Liabilities and Shareholders' Equity	\$708,863	\$511,134
	=====	=====

See notes to condensed consolidated financial statements.

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ENGINEERED SUPPORT SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)  
(UNAUDITED)

	Three Months Ended July 31		N
	2005	2004	2005
	-----	-----	-----
Net revenues:			
Products	\$145,754	\$155,179	\$425,2
Services	112,981	66,812	330,7
	-----	-----	-----
	258,735	221,991	756,0
	-----	-----	-----
Cost of revenues:			
Products	98,572	107,526	284,9
Services	96,713	57,649	289,8
	-----	-----	-----
	195,285	165,175	574,7
	-----	-----	-----

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Gross profit	63,450	56,816	181,3
Selling, general and administrative expense	26,362	22,133	77,9
Restructuring income (expense)		5	
Gain (loss) on sale of assets	(6)	(1,285)	
	-----	-----	-----
Operating income from continuing operations	37,082	33,403	103,3
Interest expense	(868)	(156)	(1,9
Interest income	181	95	6
	-----	-----	-----
Income from continuing operations	36,395	33,342	102,0
Income tax provision	13,831	12,836	38,7
	-----	-----	-----
Net income from continuing operations	22,564	20,506	63,2
Loss on sale of discontinued operations, net of income tax			1,0
	-----	-----	-----
Net income	\$ 22,564	\$ 20,506	\$ 62,2
	=====	=====	=====
Basic earnings per share:			
Continuing operations	\$ 0.54	\$ 0.52	\$ 1.
Discontinued operations			(0.
	-----	-----	-----
Total	\$ 0.54	\$ 0.52	\$ 1.
	=====	=====	=====
Diluted earnings per share:			
Continuing operations	\$ 0.52	\$ 0.49	\$ 1.
Discontinued operations			(0.
	-----	-----	-----
Total	\$ 0.52	\$ 0.49	\$ 1.
	=====	=====	=====

See notes to condensed consolidated financial statements.

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ENGINEERED SUPPORT SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(UNAUDITED)

	Nine Month July
	----- 2005 -----
From operating activities:	
Net income from continuing operations	\$ 63,268
Depreciation and amortization	13,374
(Gain) loss on sale of assets	(14)
	-----

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Cash provided before changes in operating assets and liabilities	76,628
Net increase in non-cash current assets	(7,463)
Net increase (decrease) in non-cash current liabilities	(11,937)
Net changes in other assets and liabilities	1,935
	-----
Net cash provided by operating activities	59,163
	-----
From investing activities:	
Purchase of Spacelink, net of cash acquired	(136,480)
Purchase of PCA, net of cash acquired	(37,648)
Purchase of MSI, net of cash acquired	(15,746)
Purchase of TAMSCO, net of cash acquired	
Purchase of Pivotal, net of cash acquired	
Purchase of UPSI, net of cash acquired	
Purchase of EEI, net of cash acquired	
Additions to property, plant and equipment	(7,680)
Proceeds from sale of property, plant and equipment	59
	-----
Net cash used in investing activities	(197,495)
	-----
From financing activities:	
Net borrowings (payments) under line-of-credit agreement	86,000
Payments of long-term debt	(263)
Proceeds of long-term debt	1,405
Exercise of stock options	27,264
Issuance of common stock to employee stock purchase plan	4,170
Cash dividends	(1,346)
	-----
Net cash provided by financing activities	117,230
	-----
Effect of exchange rate changes on cash	(24)
	-----
Net increase (decrease) in cash and cash equivalents	(21,126)
Cash and cash equivalents at beginning of period	33,153
	-----
Cash and cash equivalents at end of period	\$ 12,027
	=====

See notes to condensed consolidated financial statements.

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The accompanying condensed consolidated financial statements have been prepared by Engineered Support Systems, Inc. (the Company) without audit and include the accounts of the Company and its wholly-owned subsidiaries. These subsidiaries are organized within the Company's two business segments: Support Systems and Support Services. The Support Systems segment includes the operations of Systems & Electronics Inc. (SEI), Keco Industries, Inc. (Keco), Engineered Air Systems, Inc. (Engineered Air), Engineered Coil Company, d/b/a Marlo Coil (Marlo Coil), Engineered Electric Company, d/b/a Fermont (Fermont), Universal Power Systems, Inc. (UPSI), Engineered Environments, Inc. (EEI), Pivotal Power Inc. (Pivotal Power), Prospective Computer Analysts Incorporated (PCA) and Mobilized Systems, Inc. (MSI). The Support Services segment includes the operations of Technical and Management Services Corporation (TAMSCO), Radian, Inc. (Radian), ESSIbuy.com, Inc. (ESSIbuy) and Spacelink International, LLC (Spacelink). In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended July 31, 2005 are not necessarily indicative of the results to be expected for the entire fiscal year.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report to shareholders for the year ended October 31, 2004.

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### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2004, Congress passed the American Jobs Creation Act of 2004 (the Jobs Creation Act). The Jobs Creation Act includes numerous provisions that may materially affect business practices and accounting for income taxes. For companies that pay U.S. income taxes on manufacturing activities in the U.S., the Jobs Creation Act provides a phased-in deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities. In December 2004, the FASB issued two FASB Staff Positions (FSP) regarding the accounting implications of the Act related to (1) the deduction for qualified domestic production activities (FSP 109-1) and (2) the one-time tax benefit for the repatriation of foreign earnings (FSP 109-2). This guidance applies to financial statements for periods ending after the date the Act was enacted. The Jobs Creation Act also provides for a change in the period of application for foreign tax credits, elimination of the 90-percent limitation of foreign tax credits against Alternative Minimum Tax, expanded disallowance of interest on convertible debt, and tax shelter disclosure penalties. The Company adopted FSP 109-1 and FSP 109-2 in the first quarter of 2005. The Company anticipates that the Jobs Creation Act and related FASB pronouncements will have a material impact on the Company's financial statements in future periods. However, the Company has determined that this impact is not material for the three and nine months ended July 31, 2005 and will not be material for the year ending October 31, 2005.

In November 2004, the FASB issued SFAS 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4." SFAS 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling

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costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. This statement is effective November 1, 2005 for the Company. The Company does not believe that the adoption of SFAS 151 will have a significant impact on the consolidated financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123R). SFAS 123R requires companies to expense the value of employee stock options and similar awards. This statement is effective November 1,

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2005 for the Company. The Company is currently evaluating its compensation policies and practices, along with the impact of SFAS 123R on its results of operations.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS 154 requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also redefines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS 154 will have a significant impact on the consolidated financial statements.

### NOTE B - EARNINGS PER SHARE

Average diluted common shares outstanding include common stock equivalents, which represent common stock options as computed based on the treasury stock method. Average basic and diluted common shares outstanding have been restated to reflect a three-for-two stock split effected by the Company on April 15, 2005 in the form of a stock dividend.

Basic earnings per share for the three months ended July 31, 2005 and 2004 is based on average basic common shares outstanding of 41,717 and 39,518, respectively. Diluted earnings per share for the three months ended July 31, 2005 and 2004 is based on average diluted common shares outstanding of 43,379 and 42,099, respectively.

Basic earnings per share for the nine months ended July 31, 2005 and 2004 is based on average basic common shares outstanding of 41,161 and 38,666, respectively. Diluted earnings per share for the nine months ended July 31, 2005 and 2004 is based on average diluted common shares outstanding of 43,068 and 41,729, respectively.

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### NOTE C - STOCK-BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for all stock option plans. Accordingly, no compensation expense has been recognized for stock option awards. The following table illustrates the effect on net income from continuing operations and earnings per share had the Company applied the fair value recognition provisions of Statement

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of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to stock option awards.

	Three Months Ended July 31		Ni
	2005	2004	
Reported net income from continuing operations	\$22,564	\$20,506	\$63
Total stock-based employee compensation expense determined under the fair value method for all stock option awards, net of income tax	3,918	1,936	4
Pro forma net income from continuing operations	\$18,646	\$18,570	\$58
Earnings per share from continuing operations:			
Basic - as reported	\$ 0.54	\$ 0.52	\$
Basic - pro forma	\$ 0.45	\$ 0.47	\$
Diluted - as reported	\$ 0.52	\$ 0.49	\$
Diluted - pro forma	\$ 0.43	\$ 0.44	\$

Historically, options granted have been fully vested at grant date. The fair value of options at the grant date was estimated using the Black-Scholes model with the following weighted average assumptions for the three and nine months ended July 31, 2005 and 2004: an expected life of 1.5 years, volatility of 26% and 36%, a dividend yield of 0.07% and 0.12% and a risk-free interest rate of 3.52% and 3.25%, respectively. The weighted average fair value of options granted in the three and nine months ended July 31, 2005 and 2004 was \$5.37 and \$5.03 per share, respectively.

### NOTE D - ACQUISITIONS

Effective May 1, 2005, the Company acquired all of the outstanding stock of Mobilized Systems, Inc. (MSI), which designs, manufactures and tests highly specialized trailers, shelters and environmental control systems, primarily for the defense industry.

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The purchase price was \$17.5 million, net of cash acquired. \$15.7 million of the purchase price has been paid as of July 31, 2005, with an additional \$1.0 million accrued as of that date related to the final working capital adjustment. The remaining \$0.8 million of consideration is in the form of long-term promissory notes payable to the sellers. The purchase price is being finalized with short-term borrowings under the Company's revolving credit facility. The fair value of assets acquired, including goodwill of \$12.7 million and customer-related intangibles of \$3.2 million, was \$19.1 million and liabilities totaled \$1.6 million.

Effective February 1, 2005, the Company acquired all of the outstanding stock of Spacelink, which designs, integrates, operates and



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maintains deployed satellite and wireless networks for the U.S. Department of Defense (DoD), the U.S. intelligence community and other forward deployed federal agencies and multinational organizations worldwide. The purchase price, including transaction costs, was \$149.7 million, for which equity consideration of 342 shares of common stock valued at \$13.2 million and cash consideration financed with short-term borrowings under the Company's revolving credit facility. The purchase price is net of \$1.8 million of cash acquired. The purchase price is also subject to a working capital adjustment and to certain contingent cash consideration based upon Spacelink's earnings before interest, taxes, depreciation and amortization, as defined, for each of the twelve month periods ending January 31, 2006 and 2007. The fair value of assets acquired, including goodwill of \$120.9 million and acquired customer-related intangibles of \$13.8 million, was \$159.7 million and liabilities assumed totaled \$10.0 million.

The following unaudited pro forma summary presents the combined results for the three months ended July 31, 2004, and for the nine months ended July 31, 2005 and 2004, respectively, as adjusted to reflect the Spacelink purchase transaction assuming the acquisition had occurred at November 1, 2003. These pro forma results are not necessarily indicative of the combined results that would have occurred had the acquisition actually taken place on November 1, 2003, nor are they necessarily indicative of the combined results that may occur in the future.

	Three Months Ended July 31, 2004 -----	Nine Months Ended July 31 ----- 2005 -----	
Net revenues	\$244,918 =====	\$777,750 =====	\$6 ==
Net income from continuing operations	\$ 21,359 =====	\$ 63,273 =====	\$ ==
Basic earnings per share from continuing operations	\$ 0.54 =====	\$ 1.54 =====	\$ ==
Diluted earnings per share from continuing operations	\$ 0.51 =====	\$ 1.47 =====	\$ ==

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Pro forma net income from operations for the nine months ended July 31, 2005 includes \$1,249, or \$0.03 per basic and diluted earnings per share from continuing operations, related to the combined after-tax impact of one-time bonus expenses and transaction costs incurred by Spacelink.

Certain information with respect to the assets and liabilities of Spacelink as of the acquisition date is summarized below:

February 1, 2005  
-----

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Accounts receivable	\$ 20,849
Other current assets	578
Property, plant and equipment	3,660
Goodwill	120,851
Acquired customer-related intangibles	13,810
	-----
Total assets	\$159,748
	=====
Accounts payable	\$ 6,710
Accrued liabilities	3,326
	-----
	\$ 10,036
	=====

On January 7, 2005, the Company acquired all of the outstanding stock of PCA, which develops and manufactures electronic test and measurement equipment provided for electronic warfare and avionics systems primarily to military customers. The purchase price, including transaction costs, was \$37.6 million and is subject to a working capital adjustment. The purchase price was financed with the Company's existing cash balances. The fair value of assets acquired, including goodwill of \$24.1 million and acquired customer-related intangibles of \$6.4 million, was \$38.1 million and liabilities assumed totaled \$0.5 million.

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On December 5, 2003, the Company acquired all of the outstanding stock of Pivotal Power, a supplier of high-performance static power conversion equipment primarily to military customers. The purchase price, including transaction costs, was approximately \$10.1 million, net of cash acquired. The purchase price was financed with short-term borrowings under the Company's revolving credit facility. The fair value of assets acquired, including goodwill of \$4.4 million and acquired customer-related intangibles of \$1.2 million, was \$11.6 million and liabilities assumed totaled \$1.5 million.

Spacelink is included in the Support Services segment. MSI, PCA and Pivotal Power are included in the Support Systems segment. The operating results of each are included in consolidated operations since their respective dates of acquisition.

NOTE E - COMPREHENSIVE INCOME

A reconciliation of net income to comprehensive income for the three and nine months ended July 31, 2005 and 2004 is as follows:

	Three Months Ended July 31		Nine Months July
	2005	2004	2005
	----	----	----
Net income	\$22,564	\$20,506	\$62,220

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Other components of  
comprehensive  
income, net of tax:

Currency translation adjustments	200	166	(38)
	-----	-----	-----
Comprehensive income	\$22,764	\$20,672	\$62,182
	=====	=====	=====

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NOTE F - GOODWILL AND INTANGIBLE ASSETS

The following table presents changes in the Company's goodwill for the Support Systems segment and for the Support Services segment for the nine months ended July 31, 2005:

	Support Systems	Support Services	Total
	-----	-----	-----
October 31, 2004	\$99,774	\$ 67,584	\$167,358
Acquisitions	36,741	120,861	157,602
	-----	-----	-----
July 31, 2005	\$136,515	\$188,445	\$324,960
	=====	=====	=====

The following table presents certain information on the Company's acquired intangible assets. All acquired intangible assets are being amortized over their estimated useful lives with no estimated residual values.

	Weighted Average Amortization Period	Gross Amount	Accumulated Amortization
	-----	-----	-----
Customer-related intangibles:			
July 31, 2005	9.3 years	\$72,660	\$17,961
October 31, 2004	11.6 years	49,263	10,949

Amortization expense related to acquired intangible assets was \$2,837 for the three months ended July 31, 2005 and \$1,205 for the three months ended July 31, 2004. Amortization expense related to acquired intangible assets was \$7,012 for the nine months ended July 31, 2005 and \$4,785 for the nine months ended July 31, 2004. (Amortization expense related to acquired intangible assets for the nine months ended July 31, 2004 includes \$2,151 related to finalization of the TAMSCO intangible asset valuation. Total related TAMSCO amortization expense was \$1,486 and \$2,646 in the nine months ended July 31, 2005 and 2004, respectively.) Related estimated amortization expense is \$9,919 for the year ending October 31,

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2005, \$10,953 for the year ending October 31, 2006, \$10,204 for the year ending October 31, 2007, \$7,001 for the year ending October 31, 2008 and \$4,879 for the year ending October 31, 2009.

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### NOTE G - NOTES PAYABLE

On January 27, 2005, the Company entered into an Amended and Restated Credit Agreement (Amended Credit Agreement) with its banks. The Amended Credit Agreement replaced the Company's previous credit agreement dated April 23, 2003. The Amended Credit Agreement, which expires January 27, 2010, provides for a \$200 million unsecured revolving credit facility. The Company may request, subject to certain conditions, an increase of up to \$100 million in the amount of the aggregate commitment under the Amended Credit Agreement.

Borrowings under the Amended Credit Agreement bear interest, at the Company's option, at either the Eurodollar rate plus an applicable margin, or at the higher of the prime rate or the federal funds rate plus one-half of one percent. The margin applicable to the Eurodollar rate varies from 0.625% to 1.375% depending upon the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (leverage ratio). The Amended Credit Agreement contains certain covenants, including maintaining net worth of at least \$265 million, plus 50% of the sum, to the extent positive, of the Company's consolidated net income and other comprehensive income (loss) reported after October 31, 2004, plus the net proceeds of all subsequent equity offerings. The Company must also comply with certain financial covenants, including maintenance of a leverage ratio of no greater than 2.75 to 1. The Company is also subject to various other financial and operating covenants and maintenance criteria, including restrictions on the Company's ability to incur additional indebtedness, make investments, create liens, dispose of material assets and enter into merger transactions and acquisitions. As of July 31, 2005, the Company had \$86 million in borrowings against the Amended Credit Facility, and was in compliance with all applicable covenants.

### NOTE H - CONTRACTS IN PROCESS AND INVENTORIES

Contracts in process and inventories include accumulated contract costs, estimated earnings thereon based upon the percentage of completion method and contract inventories reduced by the contract value of delivered items, as well as inventories related to contracts not accounted for using the percentage of completion method which

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are valued at the lower of cost or market using the first-in, first-out method. Contracts in process and inventories are comprised of the following:

	July 31, 2005 -----	October 31, 2004 -----
Raw materials	\$ 1,294	\$ 1,874
Work-in-process	2,690	5,246
Finished goods	425	493

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Inventories substantially applicable to government contracts in process, less progress payments of \$49,604 and \$54,629

	75,862	53,396
	-----	-----
	\$80,271	\$61,009
	=====	=====

### NOTE I - SEGMENT INFORMATION

Based on its organizational structure, the Company operates in two business segments: Support Systems and Support Services. The Support Systems segment designs, engineers and manufactures integrated military electronics and other military support equipment primarily for the DoD, as well as related heat transfer and air handling equipment for domestic, commercial and industrial users. Segment products include environmental control systems, load management and transport systems, power generation, distribution and conditioning systems, airborne radar systems, reconnaissance, surveillance and target acquisition systems, chemical and biological protection systems, petroleum and water distribution systems and other multipurpose military support equipment. The Support Services group provides engineering services, logistics and training services, advanced technology services, asset protection systems and services, telecommunication systems integration and information technology services primarily for the DoD. The Support Services segment also provides certain power generation and distribution equipment and vehicle armor installation to the DoD.

Total assets at July 31, 2005 by segment were \$317,349 for Support Systems and \$391,514 for Support Services. Goodwill by segment as of July 31, 2005 totaled \$136,515 for Support Systems and \$188,445 for Support Services.

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The differences in net revenues between the accompanying condensed consolidated statements of income and the reporting segment information as presented below are due to certain reclassifications made to categorize net revenues by their functional nature, as required, on the face of the financial statements.

	Three Months Ended July 31		Nine
	2005	2004	2005
	----	----	----
Net Revenues:			
Support Systems	\$133,016	\$134,907	\$379,593
Support Services	154,843	102,559	439,876
Intersegment Revenues	(29,124)	(15,475)	(63,433)
	-----	-----	-----
Total	\$258,735	\$221,991	\$756,036
	=====	=====	=====

Operating Income from Continuing Operations:

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Support Systems	\$ 21,440	\$ 24,317	\$ 66,906
Support Services	15,642	9,086	36,443
	-----	-----	-----
	37,082	33,403	103,349
Interest expense, net	687	61	1,303
	-----	-----	-----
Income from continuing operations before income taxes	\$ 36,395	\$ 33,342	\$102,046
	=====	=====	=====

Intersegment and intrasegment net revenues derived by ESSIBuy, which is included in the Support Services segment, were accounted for on a net basis prior to the quarter ended July 31, 2005. Beginning with the quarter ended July 31, 2005, all such revenues are being accounted for on a gross basis. Consolidated net revenues are unaffected by this change. As a result, Support Services segment net revenues, as well as intersegment revenues, have been restated for all prior periods.

NOTE J - SHAREHOLDERS' EQUITY

The following summary presents a reconciliation of total shareholders' equity from October 31, 2004 to July 31, 2005:

Balance at October 31, 2004	\$336,956
Comprehensive income:	
Net income	62,220
Currency translation adjustments	(38)
	-----
Total comprehensive income	62,182
	-----
Cash dividends	(1,346)
Exercise of stock options	27,264
Issuance of common stock, including \$13,243 issued in conjunction with the acquisition of Spacelink	22,490
	-----
Balance at July 31, 2005	\$447,546
	=====

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NOTE K - PENSION AND OTHER POSTRETIREMENT BENEFITS

The following tables detail the amount of net periodic benefit cost recognized related to the Company's pension and other postretirement benefits for the three and nine months ended July 31, 2005 and 2004.

Three Months Ended July 31			
Pension Benefits		Other Postretirement Benefits	
2005	2004	2005	2004
-----	-----	-----	-----

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	----	----	----	----
Service cost	\$ 818	\$ 706	\$ 54	\$ 71
Interest cost	1,928	1,743	156	169
Expected return on plan assets	(1,967)	(1,823)		
Amortization of prior service cost	178	78		
Actuarial loss	1,103	641	115	110
	-----	-----	-----	-----
	\$ 2,060	\$ 1,345	\$325	\$350
	=====	=====	=====	=====

Nine Months Ended  
July 31

	-----		-----	
	Pension Benefits		Other Postretirement Benefits	
	-----		-----	
	2005	2004	2005	2004
	----	----	----	----
Service cost	\$ 2,446	\$ 2,119	\$185	\$ 212
Interest cost	5,704	5,228	470	507
Expected return on plan assets	(5,694)	(5,470)		
Amortization of prior service cost	529	375		
Actuarial loss	3,195	1,923	320	331
	-----	-----	-----	-----
	\$ 6,180	\$ 4,175	\$975	\$1,050
	=====	=====	=====	=====

As of July 31, 2005, \$6,250 of contributions have been made to pension and

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other postretirement benefit plans during 2005. The Company anticipates contributing an additional \$1,750 to fund the pension and other postretirement benefit plans in 2005 for a total of \$8,000.

NOTE L - DISCONTINUED OPERATIONS

The Company completed the sale of Engineered Specialty Plastics, Inc. (ESP), a wholly-owned subsidiary, in the quarter ended April 30, 2003 to a private equity group (the Buyers). The Buyers subsequently alleged that the Company breached certain representations made under the related Stock Purchase Agreement (the Agreement) and sought a claim for associated damages under the binding arbitration provisions of the Agreement. During the quarter ended April 30, 2005, the Company and the Buyers reached a settlement on this claim, which included modification of the Company's \$3.2 million note receivable from the Buyers to provide for suspension of interest charges and payments through July 31, 2006, extension of the note's repayment term to a balloon payment now due in April 2009, and the release of the underlying real estate collateral securing the note. Because of this settlement, the Company recorded a charge for the impairment of the note during the quarter ended April 30, 2005 equal to \$1.7 million, or \$1.0 million net of income tax. This amount is reflected in discontinued operations on the Condensed Consolidated Statements of Income for the nine months ended July 31, 2005.

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### NOTE M - STOCK SPLIT

On April 15, 2005, the Company effected a three-for-two stock split in the form of a 50% stock dividend. All per share amounts in this report have been restated to reflect this split.

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

#### CRITICAL ACCOUNTING POLICIES

Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations from the Company's 2004 Annual Report to Shareholders in the Company's Annual Report on Form 10-K for the year ended October 31, 2004 for a discussion of the critical accounting policies which we believe are most difficult, subjective or complex.

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The following analysis should be read in this context.

#### RESULTS OF OPERATIONS

Consolidated net revenues increased \$36.7 million, or 16.6%, to \$258.7 million in the third quarter of 2005 compared to \$222.0 million in the third quarter of 2004. \$29.2 million of this \$36.7 million increase was generated by the Company's most recently acquired subsidiaries - Prospective Computer Analysts Incorporated (PCA) which was acquired January 7, 2005, Spacelink International, LLC (Spacelink) which was acquired February 1, 2005, and Mobilized Systems, Inc. (MSI) which was acquired May 1, 2005. The remaining \$7.5 million increase from existing operations included additional revenues from refurbishment of M1000 Heavy Equipment Transporter (\$8.5 million increase), the installation of vehicle uparmor kits (\$22.6 million increase) and the Rapid Response (R2) contract vehicle (\$18.7 million increase). These revenue increases were offset by reduced work on the 60-K Tunner Aircraft Cargo Loader (\$16.3 million decrease) as the production phase of this long-term program ended in the quarter ended April 30, 2005, reduced deliveries of the Manportable Surveillance and Target Acquisition Radar (MSTAR) perimeter security program for which a large base security subcontract with Northrup Grumman was completed in the fourth quarter of 2004 (\$21.2 million decrease) and production delays on the Deployable Power Generation and Distribution System (DPGDS), which had been encountering performance issues on the primary power unit component of the program (\$11.2 million decrease). In August 2005, the Company successfully completed reliability testing on the primary power units. As a result, the Company's U.S. Air Force customer has lifted a related stop work order on the 30 primary power units under the K3 portion of this contract, which had been previously imposed on the Company. The Company's formal report on its reliability testing will be issued to the U.S. Air Force in September 2005 and the Company expects that the evaluation of this report will result in the removal of the stop work order on the remaining 65 primary power units under the K4 portion of the DPGDS contract. As a result, the Company expects that the DPGDS program will return to full rate production in the fourth



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quarter of 2005. Gross profit for the quarter ended July 31, 2005 increased \$6.6 million, or 11.7%, to \$63.4 million (24.5% of consolidated net revenues) from \$56.8 million (25.6% of consolidated net revenues) in the comparable 2004 period. Substantially all of this gross profit increase (\$6.2 million) was derived from the PCA, Spacelink and MSI acquisitions. Selling, general and administrative expense increased \$4.2 million, or 19.1% in the third quarter of 2005 to \$26.4 million (10.2% of consolidated net revenues) from \$22.1 million (10.0% of consolidated net revenues) in the third quarter of 2004. Selling, general and administrative expense for PCA, Spacelink and MSI accounted for \$4.1 million of the \$4.2 million increase. As a result of the above, operating income from continuing

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operations increased \$3.7 million, or 11.0%, in the quarter ended July 31, 2005 to \$37.1 million from \$33.4 million in the third quarter of 2004.

Consolidated net revenues increased \$128.7 million, or 20.5%, to \$756.0 million in the first nine months of 2005 compared to \$627.3 million in the first nine months of 2004. \$55.6 million of this \$128.7 million increase was generated by the Company's most recently acquired subsidiaries (PCA, Spacelink and MSI). The remaining \$73.1 million increase from existing operations included additional revenues from refurbishment of M1000 Heavy Equipment Transporters (\$24.3 million increase), the installation of vehicle uparmor kits (\$55.5 million increase) and the R2 contract vehicle (\$49.3 million increase). These revenue increases were offset by reduced work on the 60-K Tunner Aircraft Cargo Loader (\$30.1 million decrease), reduced MSTAR deliveries (\$52.7 million decrease) and reduced DPGDS production (\$14.2 million decrease). Gross profit for the nine months ended July 31, 2005 increased \$24.8 million, or 15.8%, to \$181.3 million (24.0% of consolidated net revenues) from \$156.5 million (25.0% of consolidated net revenues) in the comparable 2004 period. Revenue growth of \$128.7 million resulted in the increase in gross profit. However, lower gross margins for the first nine months of 2005 reflect a less favorable revenue mix, primarily resulting from a greater percentage of generally lower margin Support Services segment revenues, as well as the impact of production delays and increased estimated costs resulting from performance issues with the primary power unit component of the DPGDS program. Selling, general and administrative expense increased \$12.5 million, or 19.0%, in the first nine months of 2005 to \$78.0 million (10.3% of consolidated net revenues) from \$65.5 million (10.4% of consolidated net revenues) in the first nine months of 2004. Selling, general and administrative expense for PCA, Spacelink and MSI accounted for \$7.7 million of the \$12.5 million increase, with the remaining increase required to support higher operating levels. As a result of the above, operating income from continuing operations increased \$13.7 million, or 15.3%, in the first nine months of 2005 to \$103.3 from \$89.6 million in the first nine months of 2004.

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SUPPORT SYSTEMS. Net revenues in the third quarter of 2005 for the Support Systems segment totaled \$133.0 million compared to \$134.9 million (prior to the elimination of intersegment revenues in each period) for the same period in the prior year, a 1.4% decrease. The results for the quarter ended July 31, 2005 reflect the inclusion of \$9.4 million in incremental net revenues from PCA and MSI. During the quarter the segment experienced a \$16.3 million revenue reduction on the 60-K Tunner Aircraft Cargo Loader, as

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the production phase of this long-term program was completed in the quarter ended April 30, 2005, as well as a \$21.2 million revenue reduction on the MSTAR program, for which a large base security subcontract for Northrup Grumman was completed in the fourth quarter of 2004. These decreases were offset by an \$8.5 million revenue increase from refurbishment of M1000 Heavy Equipment Transporters and by a \$20.1 million increase in intersegment work performed for the Support Services segment. Gross profit for the segment decreased by \$3.8 million, or 9.5%, in the quarter ended July 31, 2005 to \$36.1 million (27.1% of segment revenues) from \$39.9 million (29.6% of segment revenues) in the prior year quarter as a result of the above revenue decreases, as well as a shift to lower margin programs, in spite of a \$2.8 million gross profit contribution from PCA and MSI. Quarterly operating income for the segment decreased to \$21.4 million (16.1% of segment revenues) compared to \$24.3 million (18.0% of segment revenues) last year. Decreased revenues and related gross profit reductions, despite a \$0.9 million, or approximately 5.8%, decrease in segment selling, general and administrative expense led to the lower results for the Support Systems segment.

Net revenues in the first nine months of 2005 for the Support Systems segment totaled \$379.6 million compared to \$376.7 million (prior to the elimination of intersegment revenues in each period) for the same period in the prior year, a 0.8% increase. The results for the nine months ended July 31, 2005 reflect the inclusion of \$14.4 million in incremental net revenues from PCA and MSI during the first nine months of 2005. During this period, the segment experienced a \$30.1 million revenue reduction on the 60-K Tunner Aircraft Cargo Loader and a \$52.7 million revenue reduction on the MSTAR program. These decreases were offset by a \$24.3 million revenue increase from refurbishment of M1000 Heavy Equipment Transporters and by a \$43.5 million increase in intersegment work performed for the Support Services segment. Gross profit for the segment decreased by \$2.5 million, or 2.2%, in the nine months ended July 31,

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2005 to \$111.3 million (29.3% of segment revenues) from \$113.8 million (30.2% of segment revenues) in the first nine months of the prior year, in spite of a \$4.4 million gross profit contribution from PCA and MSI. Segment operating income for the nine months ended July 31, 2005 decreased to \$66.9 million (17.6% of segment revenues) compared to \$71.6 million (19.0% of segment revenues) last year primarily as a result of gross profit reductions and a \$2.2 million increase in segment selling, general and administrative expense.

**SUPPORT SERVICES.** Net revenues for the Support Services segment increased to \$154.8 million, an increase of \$52.3 million, or 51.0%, compared to \$102.5 million (prior to the elimination of intersegment revenues in each period) for the third quarter of 2005. The most significant year-over-year revenue increases were generated by the R2 contract vehicle (\$18.7 million) and the vehicle uparmor kit program (\$22.6 million). In addition, Spacelink (acquired effective February 1, 2005) added \$19.8 million of incremental revenues in the third quarter of 2005. Offsetting these increases were decreased revenues from the DPGDS program of \$11.2 million. Gross profit for the segment increased by \$10.7 million, or 63.2%, in the quarter ended July 31, 2005 to \$27.6 million (17.8% of segment revenues) from \$16.9 million (17.6% of segment revenues) in the prior year quarter primarily as a result of increased revenues. Segment operating income for the third quarter of 2005 totaled \$15.6 million (10.1% of segment revenues) compared to \$9.1 million (8.9% of segment revenues) in the same period last year. Although incremental revenues and related gross profit contributions led to the overall improved results for the Support Services

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segment, the segment's operating profit for the third quarter of 2005 was constrained by a decrease of \$5.2 million in DPGDS gross profit compared to the third quarter of 2004. The Company expects that the DPGDS program will return to full rate production in the fourth quarter of 2005.

Net revenues for the Support Services segment increased to \$439.9 million, an increase of \$145.9 million, or 49.6%, compared to \$294.0 million (prior to the elimination of intersegment revenues in each period) for the first nine months of 2005. The most

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significant year-over-year revenue increases were generated by the R2 contract vehicle (\$49.3 million) and the vehicle uparmor kit program (\$55.5 million). In addition, Spacelink added \$41.1 million of incremental revenues in the first nine months of 2005. Offsetting these increases were decreased revenues from the DPGDS program of \$14.2 million as previously discussed. Gross profit for the segment increased by \$27.6 million, or 64.5% in the nine months ended July 31, 2005 to \$70.3 million (16.0% of segment revenues) from \$42.7 million (15.7% of segment revenues) in the first nine months of 2004 primarily as a result of increased revenues. Segment operating income for the first nine months of 2005 totaled \$36.4 million (8.3% of segment revenues) compared to \$18.0 million (6.1% of segment revenues) in the same period last year. The \$145.9 million increase in segment revenues provided significant gross profit increases as well as leveraging existing fixed overhead costs, which led to the overall improved results for the Support Services segment. Segment profitability was constrained by a decrease of \$7.5 million in DPGDS gross profit compared to the first nine months of 2004.

CONSOLIDATED RESULTS OF OPERATIONS. Net interest expense totaled \$0.7 million in the third quarter of 2005 compared to \$0.1 million in the third quarter of 2004 as a result of increased borrowing levels necessary for the acquisitions of PCA, Spacelink and MSI in 2005. Net interest expense totaled \$1.3 million and \$0.9 million for the nine months ended July 31, 2005 and 2004, respectively. The effective income tax rate was 38.0% for the three and nine month periods ended July 31, 2005 compared to 38.5% for the three and nine month periods ended July 31, 2004. This reduction is primarily a result of the Company's ongoing state income tax reduction initiatives. As a result of the foregoing, net income from continuing operations increased 10.0% to \$22.6 million (8.7% of consolidated net revenues) in the quarter ended July 31, 2005 as compared to \$20.5 million (9.2% of consolidated net revenues) in the third quarter of 2004, and net income from continuing operations increased 15.9% to \$63.3 million (8.4% of consolidated net revenues) in the first nine months of 2005 as compared to \$54.6 million (8.7% of consolidated net revenues) in the first nine months of 2004.

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Based on third quarter results, existing backlog and anticipated orders, the Company anticipates that 2005 revenues will approximate \$1.02 billion to \$1.05 billion, and that earnings per share from continuing operations will approximate between \$2.00 and \$2.03.

DISCONTINUED OPERATIONS. The Company completed the sale of Engineered Specialty Plastics, Inc. (ESP), a wholly-owned subsidiary, in the

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quarter ended April 30, 2003 to a private equity group (the Buyers). The Buyers subsequently alleged that the Company breached certain representations made under the related Stock Purchase Agreement (the Agreement) and sought a claim for associated damages under the binding arbitration provisions of the Agreement. During the quarter ended April 30, 2005, the Company and the Buyers reached a settlement on this claim, which included modification of the Company's \$3.2 million note receivable from the Buyers to provide for suspension of interest charges and payments through July 31, 2006, extension of the note's repayment term to a balloon payment now due in April 2009, and the release of the underlying real estate collateral securing the note. Because of this settlement, the Company recorded a charge for the impairment of the note during the quarter ended April 30, 2005 equal to \$1.7 million, or \$1.0 million net of income tax. This amount is reflected in discontinued operations on the Condensed Consolidated Statements of Income for the nine months ended July 31, 2005.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2004, Congress passed the American Jobs Creation Act of 2004 (the Jobs Creation Act). The Jobs Creation Act includes numerous provisions that may materially affect business practices and accounting for income taxes. For companies that pay U.S. income taxes on manufacturing activities in the U.S., the Jobs Creation Act provides a phased-in deduction from taxable income equal to a stipulated percentage of qualified income from domestic production activities. In December 2004, the FASB issued two FASB Staff Positions (FSP) regarding the accounting implications of the Act

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related to (1) the deduction for qualified domestic production activities (FSP 109-1) and (2) the one-time tax benefit for the repatriation of foreign earnings (FSP 109-2). This guidance applies to financial statements for periods ending after the date the Act was enacted. The Jobs Creation Act also provides for a change in the period of application for foreign tax credits, elimination of the 90-percent limitation of foreign tax credits against Alternative Minimum Tax, expanded disallowance of interest on convertible debt, and tax shelter disclosure penalties. The Company adopted FSP 109-1 and FSP 109-2 in the first quarter of 2005. The Company anticipates that the Jobs Creation Act and related FASB pronouncements will have a material impact on the Company's financial statements in future periods. However, the Company has determined that this impact is not material for the three and nine months ended July 31, 2005 and will not be material for the year ending October 31, 2005.

In November 2004, the FASB issued SFAS 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4." SFAS 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. This statement is effective November 1, 2005 for the Company. The Company does not believe that the adoption of SFAS 151 will have a significant impact on the consolidated financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment", (SFAS 123R). SFAS 123R requires companies to expense the value of employee stock options and similar awards. This statement is effective November 1, 2005 for the Company. The Company is currently evaluating its compensation policies and practices, along with the impact of

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SFAS 123R on its results of operations.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS 154 requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-

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specific effects or the cumulative effect of the change. SFAS 154 also redefines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS 154 will have a significant impact on the consolidated financial statements.

### LIQUIDITY AND CAPITAL RESOURCES

On January 27, 2005, the Company entered into an Amended and Restated Credit Agreement (Amended Credit Agreement) with its banks. The Amended Credit Agreement replaced the Company's previous credit agreement dated April 23, 2003. The Amended Credit Agreement, which expires January 27, 2010, provides for a \$200 million unsecured revolving credit facility. The Company may request, subject to certain conditions, an increase of up to \$100 million in the amount of the aggregate commitment under the Amended Credit Agreement.

Borrowings under the Amended Credit Agreement bear interest, at the Company's option, at either the Eurodollar rate plus an applicable margin, or at the higher of the prime rate or the federal funds rate plus one-half of one percent. The margin applicable to the Eurodollar rate varies from 0.625% to 1.375% depending upon the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (leverage ratio). The Amended Credit Agreement contains certain covenants, including maintaining net worth of at least \$265 million, plus 50% of the sum, to extent positive, of the Company's consolidated net income and other comprehensive income (loss) reported after October 31, 2004, plus the net proceeds of all subsequent equity offerings. The Company must also comply with certain financial covenants, including maintenance of a leverage ratio of no greater than 2.75 to 1. The Company is also subject to various other financial and operating covenants and maintenance criteria, including restrictions on the Company's ability to incur additional indebtedness, make investments, create liens, dispose of material assets and enter into merger transactions

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and acquisitions. As of July 31, 2005, the Company had \$86.0 million in borrowings against the Amended Credit Facility, and was in compliance with all applicable covenants.

Effective May 1, 2005, the Company acquired all of the outstanding

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stock of MSI, which designs, manufacturers and tests highly specialized trailers, shelters and environmental control systems, primarily for the defense industry. The purchase price was \$17.5 million, net of cash acquired. \$15.7 million of the purchase price has been paid as of July 31, 2005, with an additional \$1.0 million accrued as of that date related to the final working capital adjustment. The remaining \$0.8 million of consideration is in the form of long-term promissory notes payable to the sellers. The purchase price is being financed with short-term borrowings under the Company's revolving credit facility. The fair value of assets acquired, including goodwill of \$12.7 million and customer-related intangibles of \$3.2 million, was \$19.1 million and liabilities assumed totaled \$1.6 million.

Effective February 1, 2005, the Company acquired all of the outstanding stock of Spacelink, which designs, integrates, operates and maintains deployed satellite and wireless networks for the U.S. Department of Defense (DOD), the U.S. intelligence community and other forward deployed federal agencies and multinational organizations worldwide. The purchase price, including transaction costs, was \$149.7 million, which included consideration of \$13.2 million in the common stock of the Company and cash consideration financed with short-term borrowings under the Company's revolving credit facility. The purchase price is net of \$1.8 million of cash acquired. The purchase price is also subject to a working capital adjustment and to certain contingent cash consideration based upon Spacelink's earnings before interest, taxes, depreciation and amortization, as defined, for each of the twelve month periods ending January 31, 2006 and 2007. The fair value of assets acquired, including goodwill of \$120.9 million and acquired customer-related intangibles of \$13.8 million, was \$159.7 million and liabilities assumed totaled \$10.0 million.

On January 7, 2005, the Company acquired all of the outstanding stock of PCA, which develops and manufactures electronic test and measurement equipment provided for electronic warfare and avionics systems primarily to military customers. The purchase price was \$37.6 million and is subject to a working capital adjustment. The purchase price was financed with the Company's existing cash balances. The fair value

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of assets acquired, including goodwill of \$24.1 million and acquired customer-related intangibles of \$6.4 million, was \$38.1 million and liabilities assumed totaled \$0.5 million.

At July 31, 2005, the Company's working capital and ratio of current assets to current liabilities were \$44.0 million and 1.20 to 1 as compared with \$112.0 million and 1.85 to 1 at October 31, 2004. The significant changes in working capital and the ratio of current assets to current liabilities from October 31, 2004 are due to the increase in short-term borrowings against the Company's revolving credit facility, which were required as a result of the PCA, Spacelink and MSI acquisitions. Net cash provided by operations totaled \$59.2 million for the first nine months of 2005 compared to net cash provided by operations of \$19.0 million for the first nine months of 2004. Investment in property, plant and equipment totaled \$7.7 million and \$6.2 million for the first nine months of 2005 and 2004, respectively. The Company anticipates that capital expenditures in

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2005 should not exceed \$15.0 million. Management believes that cash flow generated from operations, together with the available line of credit, will provide the necessary resources to meet the needs of the Company in the foreseeable future.

During the nine months ended July 31, 2005 and 2004, the Company received proceeds of \$27.3 million and \$56.3 million, respectively, related to the exercise of stock options.

### BUSINESS AND MARKET CONSIDERATIONS

Approximately 93% of consolidated net revenues for the nine months ended July 31, 2005 were directly or indirectly derived from defense orders by the U.S. government and its agencies. As of July 31, 2005, the Company's funded backlog of orders totaled \$612.8 million, with related customer options of an additional \$1,655.4 million. These amounts compare to funded backlog of \$588.1 million and related customer options of an additional \$849.2 million as of October 31, 2004.

The Company anticipates that 2006 revenues will approximate \$1.20 to \$1.25 billion, and that earnings per share from continuing operations will approximate between \$2.20 and \$2.30.

Management continues to pursue potential acquisitions, primarily of those companies providing strategic consolidation within the defense industry.

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### FORWARD-LOOKING STATEMENTS

In addition to historical information, this report includes certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. The forward-looking statements involve certain risks and uncertainties, which could cause the Company's actual results to differ materially from those projected in, or inferred by, the forward-looking statements, including, but not limited to acquisitions, additional financing requirements, the decision of any of the Company's key customers (including the U.S. government) to reduce or terminate orders with the Company, cutbacks in defense spending by the U.S. government and increased competition in the Company's markets and other risks discussed in the Company's reports filed with the Securities and Exchange Commission from time to time.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risks relating to the Company's operations result primarily from changes in interest rates. Given existing debt levels, significant cash flows and anticipated expenditures, Company management has not utilized interest rate swaps or other derivative contracts to hedge this risk since November 2002. Management does not believe its exposure to interest rate fluctuations has had, or will have, a significant impact on the Company's operations.

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### ITEM 4. CONTROLS AND PROCEDURES.

As of July 31, 2005, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

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There have been no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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### PART II OTHER INFORMATION

Item 6 Exhibits

See Exhibit Index

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### SIGNATURES

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



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ENGINEERED SUPPORT SYSTEMS, INC.

Date: September 9, 2005

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By: /s/ Gerald A. Potthoff

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Gerald A. Potthoff  
Vice Chairman and Chief Executive  
Officer

Date: September 9, 2005

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By: /s/ Gary C. Gerhardt

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Gary C. Gerhardt  
Vice Chairman and Chief  
Financial Officer

Date: September 9, 2005

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By: /s/ Steven J. Landmann

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Steven J. Landmann  
Senior Vice President - Controller  
and Chief Accounting Officer

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## EXHIBIT INDEX

- 10.1 Consulting Agreement with Michael F. Shanahan, Sr. dated May 1, 2005 filed as Exhibit 10.1 to the Company's Form 8-K/A filed May 6, 2005, and incorporated herein by reference.
- 10.2 Employment Agreement with Daniel A. Rodrigues dated April 11, 2005 filed as Exhibit 10.2 to the Company's Form 8-K/A filed May 6, 2005, and incorporated herein by reference.
- 10.3 Consulting Agreement with Ronald W. Davis dated June 1, 2005 filed as Exhibit 10.1 to the Company's Form 8-K filed June 22, 2005, and incorporated herein by reference.
- 11 Statement Re: Computation of Earnings Per Share
- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Section 906 of the Sarbanes-Oxley Act of 2002

