ARMOR HOLDINGS INC
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2002, 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	59-3392443
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1400 MARSH LANDING PARKWAY, SUITE 112 JACKSONVILLE, FLORIDA	32250
(Address of principal executive offices)	(Zip Code)

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 _

The number of shares outstanding of the registrant's Common Stock as of August 8, 2002 is 29,324,547.

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, 2002 and for the three-month and six-month periods ended June 30, 2002 and June 30, 2001.

These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2001.

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

	JUNE 30, 2002 (UNAUDITED)	DECEMBER 31, 2001 *
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,509	$ 47,489
Accounts receivable (net of allowance for doubtful accounts of $1,384 and $1,620)	53,683	50,119
Costs and earned gross profit in excess of billings	3,149	5,451
Inventories	60,638	50,553
Prepaid expenses and other current assets	14,691	8,947
Current assets of discontinued operations (Note 2)	38,277	37,562
Total current assets	206,947	200,121
PROPERTY, PLANT AND EQUIPMENT (net of accumulated depreciation of $10,371 and $8,096)	36,698	36,704
GOODWILL (net of accumulated amortization of $4,024 and $4,024)	90,216	86,808
PATENTS, LICENSES AND TRADEMARKS (net of accumulated amortization of $2,078 and $1,930)	7,154	6,695
Long-term assets of discontinued operations (Note 2)	51,712	50,341
OTHER ASSETS	6,058	7,388
TOTAL ASSETS	$398,785	$388,057

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

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(IN THOUSANDS, EXCEPT FOR SHARE DATA)

	JUNE 30, 2002 (UNAUDITED)	DECEMBER 31, 2001 *
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		

Current portion of long-term debt	$ 1,754	$ 1,773
Short-term debt	577	709
Accounts payable	19,816	21,444
Accrued expenses and other current liabilities	20,009	24,514
Income taxes payable	4,159	--
Current liabilities of discontinued operations (Note 2)	10,068	8,958
Total current liabilities	56,383	57,398
Long-term liabilities of discontinued operations (Note 2)	269	415
LONG-TERM DEBT, less current portion	4,004	4,225
Total liabilities	60,656	62,038
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
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; 33,466,549 and 33,065,904 issued and 31,240,664 and 30,857,019 outstanding at June 30, 2002 and December 31, 2001, respectively	335	331
Additional paid-in capital	304,632	301,995
Retained earnings	61,780	51,745
Accumulated other comprehensive loss	(4,708)	(4,473)
Treasury stock	(23,910)	(23,579)
Total stockholders' equity	338,129	326,019
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 398,795	$ 388,057

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

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUNE 30 2001
REVENUES:				
Products	$ 43,057	$ 38,100	$ 82,002	$ 68,268
Mobile Security	28,548	--	59,207	--

Total Revenues	71,605	38,100	141,209	68,268
COSTS AND EXPENSES:				
Cost of sales	48,904	22,235	96,534	40,213
Operating expenses	12,781	7,898	24,194	15,541
Amortization	32	539	151	1,046
Integration and other non-recurring charges	1,720	301	3,117	713
OPERATING INCOME	8,168	7,127	17,213	10,755
Interest expense, net	284	775	326	1,428
Other income, net	--	--	(64)	--
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	7,884	6,352	16,951	9,327
PROVISION FOR INCOME TAXES	3,060	2,503	6,560	3,675
INCOME FROM CONTINUING OPERATIONS	4,824	3,849	10,391	5,652
DISCONTINUED OPERATIONS (NOTE 2):				
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(817)	362	(574)	(7,081)
INCOME TAX BENEFIT	(68)	(87)	(218)	(2,331)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(749)	449	(356)	(4,750)
NET INCOME	$ 4,075	$ 4,298	$ 10,035	$ 902
NET INCOME/(LOSS) PER COMMON SHARE - BASIC				
INCOME FROM CONTINUING OPERATIONS	$ 0.15	$ 0.17	$ 0.33	$ 0.25
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(0.02)	0.02	(0.01)	(0.21)
BASIC EARNINGS PER SHARE	$ 0.13	$ 0.19	$ 0.32	$ 0.04

See notes to condensed consolidated financial statements.

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NET INCOME/(LOSS) PER COMMON SHARE - DILUTED				
INCOME FROM CONTINUING OPERATIONS	$ 0.15	$ 0.16	$ 0.32	$ 0.24
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(0.02)	0.02	(0.01)	(0.20)
DILUTED EARNINGS PER SHARE	$ 0.13	$ 0.18	$ 0.31	$ 0.04
-				
WEIGHTED AVERAGE SHARES - BASIC	31,193	23,007	31,112	22,934

WEIGHTED AVERAGE SHARES - DILUTED	32,110	23,682	32,044	23,670

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)

	SIX MONTHS ENDE	
	JUNE 30, 2002	JUNE 200
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	$ 10,391	$ 5,6
Adjustments to reconcile income from continuing operations to cash used in operating activities:		
Depreciation and amortization	2,705	2,3
Loss on disposal of fixed assets	110	--
Deferred income taxes	508	(9
Changes in operating assets and liabilities, net of acquisitions:		
Increase in accounts receivable	(987)	(3,3
Increase in inventories	(9,885)	(6,5
Increase in prepaid expenses and other assets	(5,343)	(8,3
Decrease in accounts payable, accrued expenses and other current liabilities	(6,338)	(3
Increase in income taxes payable	4,988	3,7
Net cash used in operating activities	(3,851)	(7,8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of patents and trademarks	(32)	--
Purchase of property and equipment	(1,764)	(2,1
Additional consideration for purchased businesses	(2,029)	(2,4
Proceeds from sale of equity securities	--	8
Purchase of businesses, net of cash acquired	(3,380)	--
Net cash used in investing activities	(7,205)	(3,6
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options	2,728	2,7
Repurchases of treasury stock	(331)	(6
Proceeds from issuance of treasury shares for the exercise of stock options	--	6
Cash paid for offering costs	(326)	--
Repayments of long-term debt	(275)	--
Borrowings under line of credit	14,202	25,9
Repayments under line of credit	(14,299)	(18,0
Net cash provided by financing activities	1,699	10,6

Effect of exchange rate changes on cash and cash equivalents	79	
Net cash used in discontinued operations	(2,678)	(1,4
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,956)	(2,2
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	53,719	7,2
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 41,763	$ 4,9
CASH AND CASH EQUIVALENTS, END OF PERIOD		
CONTINUING OPERATIONS	$ 36,509	$ 9
DISCONTINUED OPERATIONS	5,254	4,0
	$ 41,763	$ 4,9

See notes to condensed consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Armor Holdings, Inc. and its wholly-owned subsidiaries (the "Company", "we", "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, 2001.

As discussed in Note 2 and elsewhere in this Form 10-Q, the Company announced its intention to sell its 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 the Company's balance sheet and the results of its 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 ArmorGroup Services Division and the retention of Merrill Lynch & Company to assist in the sale. In accordance with Statement of Accounting Standards 144, Accounting for Impairment or Disposal of Long-Lived Assets, 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 as discontinued operations for the three and six month periods ended June 30, 2002 and 2001. USDS, Inc., a small

subsidiary providing certain training services, formerly reported as a part of ArmorGroup Services 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 Armor Holdings Products where management oversight currently resides.

Management does not expect to incur a loss on the disposal of the Services Division. The actual results on disposal of the Services Division may differ from management's estimates and the difference could be material.

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

The following is a summary of the operating results of the discontinued operations for the three and six months ended June 30, 2002 and 2001 were as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUNE 30
	(IN THOUSANDS)		(IN THOUSANDS)	
Revenue	$ 26,259	$ 23,956	$ 50,526	$ 44
Cost of sales	18,907	16,172	36,110	29
Operating expenses	8,052	5,676	14,566	11
Amortization expenses	--	349	--	
Restructuring and related charges	--	1,259	--	9
Integration and other non-recurring charges	94	61	389	
Operating (loss) income	(794)	439	(539)	(7
Interest expense, net	39	69	93	
Other (income) expense net	(16)	8	(58)	
(Loss) income from discontinued operations before income tax benefit	(817)	362	(574)	(7
Income tax benefit	(68)	(87)	(218)	(2
(Loss) income from discontinued operations	$ (749)	$ 449	$ (356)	$ (4

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

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

	JUNE 30, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
Assets		
Cash and cash equivalents	$ 5,254	$ 6,230
Accounts receivable, net	23,040	24,040
Other current assets	9,983	7,292
Total current assets	38,277	37,562
Property, plant and equipment, net	9,278	9,358
Goodwill, net	36,871	36,865
Other assets	5,563	4,118
Total assets of discontinued operations	$89,989	$87,903
Liabilities		
Current portion of long-term debt	$ 277	$ 282
Short-term debt	747	681
Accounts payable	2,460	2,692
Accrued expenses and other current liabilities	6,584	5,303
Total current liabilities	10,068	8,958
Long-term debt	269	415
Total liabilities of discontinued operations	$10,337	$ 9,373

NOTE 3 - COMPREHENSIVE INCOME

The components of comprehensive income, net of tax benefits of $253,000 and $272,000 for the three months ended June 30, 2002 and 2001, respectively, and $223,000 and $489,000 for the six months ended June 30, 2002 and 2001, respectively, are listed below:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,	JUNE 30,	JUNE 30,	JUNE 30,

	2002	2001	2002	2001
	(IN THOUSANDS)		(IN THOUSANDS)	
Net income	$ 4,075	$ 4,298	$ 10,025	$ 902
Other comprehensive loss:				
Foreign currency translations, net of tax	30	(505)	(235)	(909)
Comprehensive income (loss):	$ 4,105	$ 3,793	$ 9,790	$ (7)

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, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
Raw material	$ 35,866	$ 28,796
Work-in-process	11,783	12,941
Finished goods	12,989	8,816
Total inventories	$60,638	$ 50,553

NOTE 5 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities are summarized as follows:

	JUNE 30, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
Accrued expenses and other current liabilities	$ 13,679	$ 16,987
Deferred consideration for acquisitions	876	525
Customer deposits	5,454	7,002
Total accrued expenses and other current liabilities	$ 20,009	$ 24,514

NOTES TO CONDENSED 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 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 body armor, tactical armor, hard armor, duty gear, less-lethal munitions, anti-riot products, police batons, forensic products and weapon maintenance products. USDS, Inc., a small subsidiary providing certain training services formerly reported as a part of ArmorGroup Services is not included in the amounts classified as assets held for sale or discontinued sales and have been reclassified to Armor Holdings Products 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) currently in development 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 plans 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 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

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED 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 segments are as follows:

	SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001
	(IN THOUSANDS)	
Revenues:		
Products	$ 82,002	$ 68,268
Mobile Security	59,207	--
Total revenues	$ 141,209	$ 68,268
Operating income (loss):		
Products	$ 14,814	$ 13,121
Mobile Security	6,113	--
Corporate	(3,714)	(2,366)
Total operating income	$ 17,213	$ 10,755
Total assets:		
Products	$ 166,966	$ 141,679
Mobile Security	103,315	--
Corporate	38,515	14,973
Total assets	$ 308,796	$ 156,652

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED 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:

	SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001

	(IN THOUSANDS)	
Revenues:		
North America	$101,434	$ 53,724
South America	9,775	1,120
Africa	1,036	490
Europe/Asia	28,964	12,934
Total revenue	$141,209	$ 68,268
Geographic operating income:		
North America	$ 14,803	9,615
South America	649	372
Africa	336	171
Europe/Asia	4,693	2,356
Total geographic operating income	$ 20,481	$ 12,514
Total assets:		
North America	$278,553	$150,598
South America	6,503	--
Africa	--	--
Europe/Asia	23,740	6,054
Total assets	$308,796	$156,652

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

	SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001
	(IN THOUSANDS)	
Consolidated geographic operating income	$ 20,481	$ 12,514
Amortization	(151)	(1,046)
Integration and other non-recurring charges	(3,117)	(713)
Operating income	$ 17,213	$ 10,755

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED 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	
	JUNE 30, 2002	JUNE 30, 2001
	(IN THOUSANDS, EXCEP	
Numerator for basic and diluted earnings per share:		
Net Income from continuing operations	$4,824	$3,849
Denominator for basic earnings per share - weighted average shares outstanding:	31,193	23,007
Effect of shares issuable under stock option and stock grant plans, based on the treasury stock method	917	675
Denominator for diluted earnings per share- Adjusted weighted average shares outstanding	32,110	23,682
Basic earnings per share from continuing operations	$0.15	$0.17
Diluted earnings per share from continuing operations	$0.15	$0.16

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. This statement specifies that certain acquired intangible assets in a business combination be recognized as assets separately from goodwill and that existing intangible assets and goodwill be evaluated for these new separation requirements. The adoption of this statement did not have a material impact on our consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon adoption of this statement. In addition, this statement requires that goodwill be tested for impairment at least annually at the reporting unit level. We implemented SFAS No. 142 on January 1, 2002. In connection with the adoption of SFAS 142, the Company completed the transitional goodwill impairment test that compared the fair value of each reporting unit to its carrying value and determined that no impairment exists. The goodwill resulting from acquisitions made by us subsequent to June 30, 2001 was immediately subject to the non-amortization provisions of SFAS 142. Had we been accounting for goodwill under SFAS 142 for

all periods presented, our net income and earnings per share would have been as follows:

	THREE MONTHS ENDED		SIX MONTHS END	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUN 2
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Reported net income	$ 4,075	$ 4,298	$ 10,035	$
Add back goodwill amortization, net of tax	--	732	--	
Actual/pro forma adjusted net income	$ 4,075	$ 5,030	$ 10,035	$
Basic earnings per share				
Reported basic earnings per share	$ 0.13	$ 0.19	$ 0.32	$
Goodwill amortization, net of tax	--	0.03	--	
Actual/pro forma basic earnings per share	$ 0.13	$ 0.22	$ 0.32	$
Diluted earnings per share				
Reported diluted earnings per share	$ 0.13	$ 0.18	$ 0.31	$
Goodwill amortization, net of tax	--	0.03	--	
Actual/pro forma diluted earnings per share	$ 0.13	$ 0.21	$ 0.31	$

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. SFAS 143 requires the recognition of the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability shall be recognized when a reasonable estimate of fair value can be made. The fair value of a liability for an asset retirement obligation is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The provisions of SFAS 143 will become effective for us on January 1, 2003. The effects of adopting this standard will not have a material effect on the Company.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 establishes a "primary-asset" approach to determine

the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. SFAS 144 requires that a long-lived asset to be (1) abandoned, (2) exchanged for a similar productive asset, or (3) distributed to owners in a spin-off be considered held and used until it is abandoned, exchanged, or distributed. SFAS 144 requires (1) that spin-offs and exchanges of similar productive assets to be recorded at the lower of carrying value or fair value, and that such assets be classified as held and used until disposed of and (2) that any impairment loss resulting from a spin-off or exchange of similar productive assets be recognized upon asset disposition. SFAS 144 also states that the total assets and total liabilities of discontinued business segments shall be presented in separate captions in assets and liabilities. SFAS 144 also provides that future losses, if any, of discontinued business segments shall be reported as incurred. Effective January 1, 2002, we adopted SFAS 144. The reclassification of the Services Division to discontinued operations has been accounted for under this statement.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Recission on FASB 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" (SFAS 145). Under SFAS 145, gains and losses related to the extinguishment of debt should no longer be segregated on the income statement from continuing operations. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002 with early adoption encouraged. The effects of adopting this standard will not have a material effect on the Company.

NOTE 9. SUBSEQUENT EVENT

On August 14, 2002, we acquired all of the outstanding stock of B-Square, Inc. ("B-Square" or the "Company"). Based in Fort Worth, Texas, B-Square is a leading designer, manufacturer and marketer of quality aluminum and steel sight mounts, tools and accessories for the law enforcement, military and sporting goods (hunting and target shooting) markets. In addition to the B-Square brand, the Company sells sight mounts under the Lynx and Hillver brand names.

We paid $2.9 million in cash, with a portion of the purchase price deferred. B-Square had $2.8 million in revenues for its fiscal year ended December 31, 2001. We expect the acquisition to be accretive to earnings per share in 2003.

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ARMOR HOLDINGS, INC. AND SUBSIDIARIES

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 and six months ended June 30, 2002. 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 financial statements, notes to the financial statements, and management's discussion and analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES:

Revenue Recognition. We record revenue from our Armor Holdings Products Division at the time of shipment. Returns are minimal and do not materially effect the financial statements. We record training service revenue as the services are performed over the term of the contract.

We record revenue from our Mobile Security Division when the vehicles are shipped, except a) for larger commercial contracts typically longer than four months in length b) 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.

Foreign Currency Translation. In accordance with Statement of Financial Accounting Standard No. 52, "Foreign Currency Translation," assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange as of the balance sheet date and revenues and expenses are translated at the average monthly exchange rates. The cumulative change in the translation adjustment, which represents the effect of translating assets and liabilities of our foreign operations, was pre-tax loss of approximately $7.1 million as of June 30, 2002 and $6.1 million as of December 31, 2001.

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 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 seperately in the asset and liability sections, respectively, of the statement of financial position.

NEW ACCOUNTING PRONOUNCEMENTS:

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. This statement specifies that certain acquired intangible assets in a business combination be recognized as assets separately from goodwill and that existing intangible assets and goodwill be evaluated for these new separation requirements. The adoption of this statement did not have a material impact on our consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon adoption

of this statement. In addition, this statement requires that goodwill be tested for impairment at least annually at the reporting unit level. We implemented SFAS No. 142 on January 1, 2002. In connection with the adoption of SFAS 142, the Company completed a transitional goodwill impairment test that compared the fair value of each reporting unit to its carrying value and determined that no impairment exists. The goodwill resulting from acquisitions made by us

subsequent to June 30, 2001 was immediately subject to the non-amortization provisions of SFAS 142. Had we been accounting for goodwill under SFAS 142 for all periods presented, our net income and earnings per share would have been as follows:

	THREE MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001
	(IN THOUSANDS, EXCEPT	
Reported net income	$ 4,075	$ 4,298
Add back goodwill amortization, net of tax	--	732
Actual/pro forma adjusted net income	$ 4,075	$ 5,030
Basic earnings per share		
Reported basic earnings per share	$ 0.13	$ 0.19
Goodwill amortization, net of tax	--	0.03
Actual/pro forma basic earnings per share	$ 0.13	$ 0.22
Diluted earnings per share		
Reported diluted earnings per share	$ 0.13	$ 0.18
Goodwill amortization, net of tax	--	0.03
Actual/pro forma diluted earnings per share	$ 0.13	$ 0.21

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. SFAS 143 requires the recognition of the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability shall be recognized when a reasonable estimate of fair value can be made. The fair value of a liability for an asset retirement obligation is the amount at which that liability could be settled in a current transaction between

willing parties, that is, other than in a forced or liquidation transaction. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The provisions of SFAS 143 will become effective for us on January 1, 2003. The effects of adopting this standard will not have a material effect on the Company.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. SFAS 144 requires that a long-lived asset to be (1) abandoned, (2) exchanged for a similar productive asset, or (3) distributed to owners in a spin-off be considered held and used until it is abandoned, exchanged, or distributed. SFAS 144 requires (1) that spin-offs and exchanges of similar productive assets to be recorded at the lower of carrying value or fair value, and that such assets be classified as held and used until disposed of and (2) that any impairment loss resulting from a spin-off or exchange of similar productive assets be recognized upon asset disposition. SFAS 144 also states that the total assets and total liabilities of discontinued business segments shall be presented in separate captions in assets and liabilities. SFAS 144 also provides that future losses, if any, of discontinued business segments shall be reported as incurred. Effective January 1, 2002, we adopted SFAS 144. The reclassification of the Services Division to discontinued operations has been accounted for under this statement.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Recission on FASB 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" (SFAS 145). Under SFAS 145, gains and losses related to the extinguishment of debt should no longer be segregated on the income statement from continuing operations. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002 with early adoption encouraged. The effects of adopting this standard will not have a material effect on the Company.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO THREE MONTHS ENDED JUNE 30, 2001.

Net income. Net income decreased $223,000 to $4.1 million for the three months ended June 30, 2002 compared to $4.3 million for the three months ended June 30, 2001. Net income for the three months ended June 30, 2002 includes income from continuing operations of $4.8 million and a loss from discontinued operations of $749,000, compared to income from continuing operations of $3.9 million and income from discontinued operations of $447,000 for the three months ended June 30, 2001.

CONTINUING OPERATIONS

Products revenues. Products division revenues increased $5.0 million, or 13%, to $43.1 million in the three months ended June 30, 2002, compared to $38.1 million in the three months ended June 30, 2001. For the three months ended June 30, 2002, Products division revenue increased 9% internally, including year over year changes in acquired businesses, and 4% due to the

acquisitions of Identicator, Inc. ("Identicator"), Guardian Personal Security Products, Inc. ("Guardian"), Speedfeed, Inc. ("Speedfeed") and The Foldable Products Group ("Foldable"), all of which were completed subsequent to June 30, 2001. Products division includes revenue of $3.8 million and $1.1 million and operating income of $425,000 and $289,000 for the three months ended June 30, 2002 and June 30, 2001, respectively for USDS, Inc, which was previously reported as Service Division revenue.

Mobile Security revenues. Mobile Security division revenues totaled $28.5 million in the three months ended June 30, 2002. The Mobile Security division was created through the acquisition of O'Gara which was completed on August 22, 2001. For the three months ended June 30, 2002, Mobile Security Division revenue increased 33.8% internally from approximately $21.3 million during the three months ended June 30, 2001 under prior ownership.

Cost of sales. Cost of sales increased $26.7 million, or 119.9%, to $48.9 million for the three months ended June 30, 2002 compared to $22.2 million for the three months ended June 30, 2001. This increase was due primarily to the O'Gara acquisition as well as overall revenue growth months ended June 30, 2002 compared to the three months ended June 30, 2001. As a percentage of total revenues, cost of sales increased to 68.3% of total revenues for the three months ended June 30, 2002 from 58.4% for the three months ended June 30, 2001. This increase as a percentage of total revenues was primarily due to lower average gross margins in the Mobile Security division.

Operating expenses. Operating expenses increased $4.9 million, or 61.8%, to $12.8 million

(17.8% of total revenues) for the three months ended June 30, 2002 compared to $7.9 million (20.7% of total revenues) for the three months ended June 30, 2001. This increase was primarily due to the operating expenses associated with the operations of O'Gara, acquired in August 2001, which were not included in the three months ended June 30, 2001, as well as internal growth of the business. Operating expenses as a percent of sales decreased because the Mobile Security division operates with a lower level of operating expenses as a percentage of sales than does the Products division.

Amortization. Amortization expense decreased $507,000, or 94.1%, to $32,000 for the three months ended June 30, 2002 compared to $539,000 for the three months ended June 30, 2001. This decrease results from the implementation of SFAS 142, which eliminated goodwill amortization 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 increased $1.4 million, or 471.4%, to $1.7 million for the three month period ended June 30, 2002 compared to $301,000 in the three months ended June 30, 2001. These charges relate primarily to the integration of O'Gara, but also include certain non-recurring expenses related to the integration of our body armor operations, as well as costs related to the integration of Identicator, Guardian, Speedfeed and Foldable Products, all of which were acquired subsequent to June 30, 2001.

Operating income. Operating income from continuing operations increased

$1.0 million to $8.2 million for the three months ended June 30, 2002 compared to $7.1 million in the three months ended June 30, 2001 due to the factors discussed above.

Interest expense, net. Interest expense, net decreased $491,000, or 63.4% to $284,000 for the three months ended June 30, 2002 compared to $775,000 for the three months ended June 30, 2001. This decrease was due primarily to the repayment of long-term debt under our revolving credit facility with the net proceeds of the secondary common stock offering completed in December 2001.

Income from continuing operations before provision for income taxes. Income from continuing operations before provision for income taxes increased by $1.5 million to $7.9 million for the three months ended June 30, 2002 compared to $6.4 million for the three months ended June 30, 2001 due to the reasons discussed above.

Provision for income taxes. Provision for income taxes was $3.1 million for the three months ended June 30, 2002 compared to a provision of $2.5 million for the three months ended June 30, 2001. The effective tax rate for the three months ended June 30, 2002 was 38.8% compared to 39.4% for the three months ended June 30, 2001. This decrease is due to the cessation of amortization of non-deductible goodwill for book purposes as well as an increase in the income earned in foreign jurisdictions with lower overall tax rates resulting primarily from the acquisition of O'Gara. Our effective tax rate for the three months ended June 30, 2002 reflects management's expectation of effective tax rates for the 2002 fiscal year. Our expected effective tax rate for fiscal 2002 is not necessarily indicative of what our actual effective rate will be due to the changing concentration and mix of income in the various countries in which we continue to operate.

Income from continuing operations. Income from continuing operations increased $975,000 to $4.8 million for the three months ended June 30, 2002 compared to $3.8 million for the three months ended June 30, 2001 due to the factors discussed above.

DISCONTINUED OPERATIONS

Services revenues. Services division revenue increased $2.3 million, or 9.6%, to $26.3 million for the three months ended June 30, 2002 compared to $24.0 million for the three months ended June 30, 2001. For the three months ended June 30, 2002, revenue increased 9.6% due to the acquisition of International Training, Inc. ("ITI"), which was acquired as part of the acquisition of O'Gara and is included in the Services division from the date of acquisition.

Cost of sales. Cost of sales increased $2.7 million, or 16.9%, to $18.9 million for the three months ended June 30, 2002 compared to $16.2 million for the three months ended June 30, 2001. This increase was due primarily to the acquisition of ITI. As a percentage of total revenue, cost of sales increased to 72.0% of total revenues for the three months ended June 30, 2002 from 67.5% for the three months ended June 30, 2001. This increase in cost of sales as a percentage of total revenue was primarily due to the weakness in the Integrated Systems business resulting in poor margins, the loss of high margin oil industry security work in Latin America and the scaling down of business in the Democratic Republic of Congo.

Operating expenses. Operating expenses increased $2.4 million, or 41.9%, to $8.1 million (30.7% of total revenues) for the three months ended June 30, 2002 compared to $5.7 million (23.7% of total revenues) for the three months ended June 30, 2001. This increase was due to internal growth, additional operating expenses associated with ITI's operations, acquired in August 2001, and certain severance and non-recurring charges in Latin America and the Democratic Republic of Congo.

Amortization. Amortization expense decreased $349,000, or 100%, to $0 for the three months ended June 30, 2002 compared to $349,000 for the three months ended June 30, 2001. This decrease was a result of the implementation of SFAS 142, which eliminated goodwill amortization for acquisitions completed after July 1, 2001 and for fiscal years beginning January 1, 2002.

Restructuring and related charges. The Services division incurred $1.3 million of restructuring and related charges for the three month period ended June 30, 2001 related to the January 2001 restructuring plan. In January 2001, our Services division approved a restructuring plan to close its U.S. investigative businesses, realign the division's organization, eliminate excess facilities and reduce overhead in its businesses worldwide. In connection with this restructuring plan, the division performed a review of its long-lived assets to identify potential impairments. Pursuant to this restructuring plan, ArmorGroup i) eliminated 26 employees, primarily from its investigative businesses, ii) eliminated an additional 24 employees from its security business, iii) incurred lease and other exit costs as a result of the closure of its investigative businesses, and iv) wrote-down the value of both tangible and intangible assets as a result of the impairment review. Most of the significant actions contemplated by the restructuring plan have been completed.

As of June 30, 2002, we had a remaining liability of $304,000 relating to lease termination costs. The remaining liability has been classified as accrued expenses and other current liabilities in liabilities of discontinued operations on the consolidated balance sheet.

Integration and other non-recurring charges. Integration and other non-recurring charges increased $33,000, or 54.1%, to $94,000 for the three months ended June 30, 2002 compared to $61,000 for the

three months ended June 30, 2001. These charges reflect certain integration expenses associated with integrating ITI into the ArmorGroup Services division.

Operating (loss) income. Operating losses were $794,000 for the three months ended June 30, 2002, compared to operating income of $439,000 for the three months ended June 30, 2001 due to the factors discussed above. Operating income for the three months ended June 30, 2001 included $1.3 million of costs associated with the January 2001 restructuring plan.

Interest expense, net. Interest expense, net decreased $30,000, or 43.5%, to $39,000 for the three months ended June 30, 2002 compared to $69,000 for the three months ended June 30, 2001. This decrease was due to reduced utilization of the services division's line of credit.

Other income, net. Other income, net, was $16,000 for the three months ended June 30, 2002, compared to other expense, net of $8,000 for the three

months ended June 30, 2001.

(Loss) income from discontinued operations before benefit for income taxes. Losses from discontinued operations before benefit for income taxes were $817,000 for the three months ended June 30, 2002 compared to income from discontinued operations before benefit for income taxes of $362,000 for the three months ended June 30, 2001 due to the reasons discussed above.

Income tax benefit. Income tax benefit was $68,000 for the three months ended June 30, 2002 compared to a benefit of $85,000 for the three months ended June 30, 2001. The effective tax rate for the three months ended June 30, 2002 was a benefit of 8.3% compared to a benefit of 23.5% for the three months ended June 30, 2001. The decrease in benefit includes the benefits associated with the cessation of amortization of non-deductible goodwill for book purposes. Our expected effective tax rate for fiscal 2002 is not necessarily indicative of what our actual effective rate will be due to the changing concentration and mix of income in the various countries in which we operate. The increase in the effective tax rate for the three months ended June 30, 2002 is due to the higher level of income for the three months ended June 30, 2002 compared to same period in fiscal 2001.

(Loss) income from discontinued operations. Losses from discontinued operations were $749,000 for the three months ended June 30, 2002 compared to income from discontinued operations of $449,000 for the three months ended June 30, 2001 due to the factors discussed above.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SIX MONTHS ENDED JUNE 30, 2001.

Net income. Net income increased $9.1 million to $10.0 million for the six months ended June 30, 2002 compared to $902,000 for the six months ended June 30, 2001. Net income for the six months ended June 30, 2002 includes income from continuing operations of $10.4 million and a loss from discontinued operations of $356,000 compared to income from continuing operations of $5.6 million and loss from discontinued operations of $4.8 million for the six months ended June 30, 2001. Loss from discontinued operations for the six months ended June 30, 2001 included $10.0 million of costs associated with the January 2001 restructuring plan.

CONTINUING OPERATIONS

Products revenues. Products division revenues increased $13.7 million, or 20.1%, to $82.0 million for the six months ended June 30, 2002, compared to $68.3 million for the six months ended June 30, 2001. This increase is due to internal revenue growth of 14.9% (including year over year changes in acquired businesses) and 5.2% growth from the acquisitions of Identicator, Inc. ("Identicator"), Guardian Personal Security Products, Inc. ("Guardian"), Speedfeed, Inc. ("Speedfeed") and The Foldable Products Group ("Foldable"), which were all completed subsequent to June 30, 2001. Products division includes revenue of $7.3 million and $2.5 million and operating income of $803,000 and $583,000 for the six months ended June 30, 2002 and June 30, 2001, respectively for USDSI, Inc, which was previously reported as Service Division revenue.

Mobile Security revenues. Mobile Security division revenues totaled

$59.2 million for the six months ended June 30, 2002. The Mobile Security division was created through the acquisition of O'Gara which was completed August 22, 2001. For the six months ended June 30, 2002, Mobile Security Division revenue increased 24.1% internally from approximately $47.7 million during the six months ended June 30, 2001 under prior ownership.

Cost of sales. Cost of sales increased $56.3 million, or 140.1%, to $96.5 million for the six months ended June 30, 2002 compared to $40.2 million for the six months ended June 30, 2001. This increase was due primarily to the O'Gara acquisition as well as overall revenue growth for the six months ended June 30, 2002 compared to the six months ended June 30, 2001. As a percentage of total revenues, cost of sales increased to 68.4% of total revenues for the six months ended June 30, 2002 from 58.9% for the six months ended June 30, 2001. This increase as a percentage of total revenues was primarily due to lower average gross margins in the Mobile Security division.

Operating expenses. Operating expenses increased $8.7 million, or 55.6%, to $24.2 million (17.1% of total revenues) for the six months ended June 30, 2002 compared to $15.5 million (22.8% of total revenues) for the six months ended June 30, 2001. This increase was primarily due to the operating expenses associated with the operations of O'Gara, acquired in August 2001, which were not included in the six months ended June 30, 2001, as well as the internal growth of the business. Operating expenses as a percent of sales decreased because the Mobile Security division operates with a lower level of operating expenses as a percentage of sales than does the Products division.

Amortization. Amortization expense decreased $895,000, or 85.6%, to $151,000 for the six months ended June 30, 2002 compared to $1.0 million for the six months ended June 30, 2001. This decrease was a result of the implementation of SFAS 142, which eliminates goodwill amortization for acquisitions completed after July 1, 2001 and for fiscal years beginning January 1, 2002. The remaining amortization is related to patents and trademarks with finite lives.

Integration and other non-recurring charges. Integration and other non-recurring charges increased $2.4 million, or 337.2%, to $3.1 million for the six months ended June 30, 2002 compared to $713,000 for the six months ended June 30, 2001. These charges relate primarily to the integration of O'Gara, but also include certain non-recurring expenses related to the integration of our body armor operations, as well as costs related to the integration of Identicator, Guardian, Speedfeed and Foldable Products, all of which were acquired subsequent to June 30, 2001.

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

Operating income. Operating income increased $6.5 million to $17.2 million for the six months ended June 30, 2002 compared to $10.8 million for the six months ended June 30, 2001 due to the factors discussed above.

Interest expense, net. Interest expense, net decreased $1.1 million, or 77.2%, to $326,000 for the six months ended June 30, 2002 compared to $1.4 million for the six months ended June 30, 2001. This decrease was due primarily to the repayment of long-term debt under our revolving credit facility with the net proceeds of the secondary common stock offering completed in December 2001.

Other income, net. Other income, net, was $64,000 for the six months ended June 30, 2002 related primarily to foreign exchange gains.

Income from continuing operations before provision for income taxes. Income from continuing operations before provision for income taxes increased by $7.6 million to $17.0 million for the six months ended June 30, 2002 compared to $9.3 million for the six months ended June 30, 2001 due to the reasons discussed above.

Provision for income taxes. Provision for income taxes was $6.6 million for the six months ended June 30, 2002 compared to a provision of $3.7 million for the six months ended June 30, 2001. The effective tax rate for the six months ended June 30, 2002 was 38.7% compared to 39.4% for the six months ended June 30, 2001. This decrease is due to the cessation of amortization of non-deductible goodwill for book purposes as well as an increase in the income earned in foreign jurisdictions with lower overall tax rates resulting primarily from the acquisition of O'Gara. Our effective tax rate for the six months ended June 30, 2002 reflects management's expectation of our effective tax rate for the 2002 fiscal year. Our expected effective tax rate for fiscal 2002 is not necessarily indicative of what our actual effective rate will be due to the changing concentration and mix of income in the various countries in which we continue to operate.

Income from continuing operations. Income from continuing operations increased by $4.7 million to $10.4 for the six months ended June 30, 2002 compared to $5.6 million for the six months ended June 30, 2001 due to the factors discussed above.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SIX MONTHS ENDED JUNE 30, 2001.

DISCONTINUED OPERATIONS

Services revenues. The Services division revenues increased $5.9 million, or 13.1%, to $50.5 million for the six months ended June 30, 2002 compared to $44.7 million for the six months ended June 30, 2001. For the six months ended June 30, 2002, revenue increased 4.2% internally, including year over year changes in acquired businesses, and 8.6% from the acquisition of International Training, Inc. ("ITI"), which was acquired as part of the acquisition of O'Gara and is included in the Services division from the date of acquisition.

Cost of sales. Cost of sales increased $6.6 million, or 22.4%, to $36.1 million for the six months ended June 30, 2002 compared to $29.5 million for the six months ended June 30, 2001. This increase was due primarily to internal revenue growth and the acquisition of ITI. As a percentage of total revenues, cost of sales increased to 71.4% of total revenues for the six months ended June 30, 2002 from

66.0% for the six months ended June 30, 2001. This increase as a percentage of total revenues was primarily due weak Integrated Systems revenues resulting in poor margins coupled with the loss of high margin oil industry security work in Latin America and the scaling down of business in the Democratic Republic of Congo.

Operating expenses. Operating expenses increased $3.0 million, or 25.8%, to $14.6 million (28.8% of total revenues) for the six months ended June

30, 2002 compared to $11.6 million (25.9% of total revenues) for the six months ended June 30, 2001. This increase was primarily due to growth in the overall business as well as to additional operating expenses associated with the operations of ITI, acquired in August 2001. The increase in operating expenses as a percent of sales resulted from lower foreign exchange gains in 2002 compared to 2001.

Amortization. Amortization expense decreased $732,000, or 100%, to $0 for the six months ended June 30, 2002 compared to $732,000 for the six months ended June 30, 2001. This decrease was a result of the implementation of SFAS 142, which eliminates goodwill amortization for acquisitions completed after July 1, 2001 and for fiscal years beginning January 1, 2002.

Restructuring and related charges. The Services division incurred $10.0 million of restructuring and related charges for the six months ended June 30, 2001 related to the January 2001 restructuring plan. In January 2001, our ArmorGroup Services division approved a restructuring plan to close its U.S. investigative businesses, realign the division's organization, eliminate excess facilities and reduce overhead in its businesses worldwide. In connection with this restructuring plan, the division performed a review of its long-lived assets to identify potential impairments. Pursuant to this restructuring plan, ArmorGroup i) eliminated 26 employees, primarily from its investigative businesses, ii) eliminated an additional 24 employees from its security business, iii) incurred lease and other exit costs as a result of the closure of its investigative businesses, and iv) wrote-down the value of both tangible and intangible assets as a result of the impairment review. Most of the significant actions contemplated by the restructuring plan have been completed.

As of June 30, 2002, we had a remaining liability of $304,000 relating to lease termination costs after first and second quarter utilization of reserves for lease related costs of ($50,000). The remaining liability has been classified in accrued expenses and other current liabilities in liabilities of discontinued operations on the consolidated balance sheet.

Integration and other non-recurring charges. Integration and other non-recurring charges increased $266,000, or 216.3%, to $389,000 for the six month period ended June 30, 2002 compared to $123,000 for the six months ended June 30, 2001. These charges reflect certain integration expenses associated with integrating ITI into the ArmorGroup Services division.

Operating loss. Operating losses decreased $6.7 million to $539,000 for the six months ended June 30, 2002 compared to a loss of $7.2 million for the six months ended June 30, 2001 due to the factors discussed above. Losses for the six months ended June 30, 2001 included $10.0 million of costs associated with the January 2001 restructuring plan, which included a $7.4 million write-off of goodwill due to impairment associated with the January 2001 restructuring plan.

Interest expense, net. Interest expense, net increased by $7,000, or 8.1%, to $93,000 in the six months ended June 30, 2002 compared to $86,000 in the six months ended June 30, 2001. This decrease was due primarily to higher loan outstandings.

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

Other income, net. Other income, net, was $58,000 in the six months ended June 30, 2002, compared to other income, net of $227,000 for the six months

ended June 30, 2001. Other income, net for the six months ended June 30, 2002 was primarily foreign exchange gains. Other income, net for the six months ended June 30, 2001 was primarily resulted from the sale of our investment in JSGS.

Loss from discontinued operations before benefit for income taxes. Loss from discontinued operations before benefit for income taxes decreased by $6.5 million to $574,000 in the six months ended June 30, 2002 compared to $7.1 million in the six months ended June 30, 2001 due to the reasons discussed above.

Income tax benefit. Income tax benefit was $218,000 in the six months ended June 30, 2002 compared to a provision of $2.3 million in the six months ended June 30, 2001. The effective tax rate for the six months ended June 30, 2002 was 37.9% compared to a provision of 32.9% for the six months ended June 30, 2001. The increase in our effective tax rate for the six months ended June 30, 2002 includes the benefits associated with the cessation of amortization of non-deductible goodwill for book purposes and is due primarily to the increase in the proportion of domestic income to total income from discontinued operations resulting from ITI, acquired in August 2001 as part of the O'Gara acquisition. The effective tax rate reflects management's expectation of our effective tax rate for the 2002 fiscal year. Our expected effective tax rate for fiscal 2002 is not necessarily indicative of what our actual effective rate will be due to the changing concentration and mix of income in the various countries in which we operate.

Loss from discontinued operations. Losses from discontinued operations were $356,000 for the six months ended June 30, 2002 compared to $4.8 million for the six months ended June 30, 2001 due to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

On August 22, 2001, we entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with Bank of America, Canadian Imperial Bank of Commerce, First Union National Bank, Suntrust Bank, Republic Bank, Keybank National Association, and ING (U.S.) Capital LLC. Pursuant to the Credit Agreement, the lenders established a $120,000,000 line of credit for our benefit expiring on February 12, 2004. The Credit Agreement, among other things, provides for (i) total maximum borrowings of $120,000,000 and (ii) the capability for borrowings in foreign currencies. All borrowings under the Credit Agreement bear interest at either (i) a base rate, plus an applicable margin ranging from .000% to .375%, depending on certain conditions, (ii) a eurodollar rate, plus an applicable margin ranging from 1.125% to 1.875%, depending on certain conditions, or (iii) with respect to foreign currency loans, a fronted offshore currency rate, plus an applicable margin ranging from 1.125% to 1.875%, depending on certain conditions. In addition, the Credit Agreement includes both negative and affirmative covenants customary for a credit facility of this nature, such as a limitation on capital expenditures, foreign indebtedness, minimum fixed charge coverage and a restriction against paying dividends.

The Credit Agreement also provides that Bank of America will make swing-line loans to us of up to $5,000,000 for working capital purposes and will issue letters of credit on our behalf of up to $20,000,000. As of June 30, 2002 we had no outstanding borrowings under our Credit Facility, and Bank of America had issued $11.2 million in letters of credit on our behalf under the Credit Agreement. All indebtedness under the Credit Agreement will mature on February 12, 2004. On June 30, 2002, we had approximately $4 million in long-term debt, net of current portion, for continuing operations, consisting primarily of $2.8 million in industrial development revenue bonds.

In March 2002, our Board of Directors approved a stock repurchase program that allows us to repurchase up to 10% of our outstanding shares. Through August 12, 2002, we have repurchased 1.9 million shares of our common stock under this

program at an average price per share of $13.46. We expect to continue our policy of repurchasing our common stock at opportune intervals. In addition, our Credit Agreement permits us to repurchase shares of our common stock if the Company's 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 2:00 to 1, and there is no limitation under the Credit Agreement on the amount of stock that we can repurchase within these guidelines.

Working capital, excluding amounts relating to discontinued operations, was $122.4 million and $114.1 million as of June 30, 2002 and December 31, 2001, respectively.

Our spending for our fiscal 2002 capital expenditures for our continuing operations is expected to be approximately $8.0 million, of which we have already spent approximately $1.8 million through six months ending June 30, 2002. Our spending for our fiscal 2002 capital expenditures for our discontinued operations is expected to be approximately $2.1 million, of which we have already spent approximately $900,000 through six months ending June 30, 2002. 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, cash on hand, net proceeds from our stock offering completed in December 2001 and borrowings under the Credit Agreement will enable us to meet liquidity, working capital and capital expenditure requirements during the next 12 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.

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

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 and other risks, uncertainties and factors inherent in our business 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.

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

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.

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 or trading purposes.

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 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 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 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 the us to enforce our rights. Accordingly, we may have little or no recourse upon the occurrence of any of these developments.

PART II

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Item 3, Legal Proceedings, in our Annual Report on Form 10-K for the year ended December 31, 2001 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 18, 2002 for the purpose of electing directors, approving the 2002 Stock Incentive Plan and ratifying the appointment of PricewaterhouseCoopers LLP as independent accountants.

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

	FOR	WITHHELD/ AGAINST
Warren B. Kanders	22,768,833	7,537,458
Jonathan M. Spiller	29,625,971	680,320
Burtt R. Ehrlich	29,706,271	600,020
Nicholas Sokolow	29,710,371	595,920
Thomas W. Strauss	29,710,371	595,920
Alair A. Townsend	29,710,371	595,920
Stephen B. Salzman	29,710,371	595,920

Mr. Salzman resigned from our Board of Directors on June 26, 2002. On July 3, 2002, our Board of Directors appointed Deborah A. Zoulas to serve as a member of the Board of Directors.

The other matters voted upon at the annual meeting were approved with

the number of votes set forth below:

	FOR	AGAINST	WITHHELD	BRO NON-
Approval of 2002 Stock Incentive Plan	17,572,857	8,566,865	23,369	4,1
Ratification of PricewaterhouseCoopers LLP as independent accountants	27,739,844	2,559,635	6,812	-0-

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

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.

99.1 Written Statement by the Chief Executive Officer and Chief Financial Officer of Armor Holdings, Inc.

(b) Reports on Form 8-K. No reports on Form 8-K have been filed during the quarter for which this report is filed.

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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/ Jonathan M. Spiller

Jonathan M. Spiller
President, Chief Executive Officer
and Director
Dated: August 14, 2002

/s/ Robert R. Schiller

Robert R. Schiller
Executive Vice President and Chief Financial Officer

Dated: August 14, 2002