ARMOR HOLDINGS INC
Form 10-Q
May 15, 2003

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 March 31, 2003, or

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER 0-18863

ARMOR HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	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 [ ]

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

The number of shares outstanding of the registrant's Common Stock as of May 9, 2003 is 27,556,630.

ARMOR HOLDINGS, INC.

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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 March 31, 2003 and for the three-month periods ended March 31, 2003 and March 31, 2002.

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, 2002.

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

	MARCH 31, 2003 (UNAUDITED)	DECEMBER 31, 2002 *
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,010	$ 12,913
Accounts receivable (net of allowance for doubtful accounts of $1,600 and $1,428)	54,977	58,513
Costs and earned gross profit in excess of billings	892	234
Inventories	61,248	62,330
Prepaid expenses and other current assets	14,800	12,212
Current assets of discontinued operations (Note 2)	32,536	28,825
Total current assets	180,463	175,027
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $14,365 and $12,919)	47,702	47,136
GOODWILL (net of accumulated amortization of $4,024 and $4,024)	98,732	98,736
PATENTS, LICENSES AND TRADEMARKS (net of accumulated amortization of $2,227 and $2,169)	7,463	7,521
OTHER ASSETS	9,550	9,048
LONG-TERM ASSETS OF DISCONTINUED OPERATIONS (Note 2)	31,312	30,285
TOTAL ASSETS	$375,222	$367,753

* 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)

MARCH 31, 2003 D

	(UNAUDITED)
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of long-term debt	$ 1,803
Short-term debt	610
Accounts payable	21,841
Accrued expenses and other current liabilities	31,894
Income taxes payable	4,251
Current liabilities of discontinued operations (Note 2)	18,624
Total current liabilities	79,023
LONG-TERM DEBT, less current portion	24,852
LONG-TERM LIABILITIES OF DISCONTINUED OPERATIONS (Note 2)	237
Total liabilities	104,112
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; 33,610,852 and 33,593,977 issued and 27,550,630 and 29,456,692 outstanding at March 31, 2003 and December 31, 2002, respectively	336
Additional paid-in capital	307,748
Retained earnings	39,143
Accumulated other comprehensive loss	(3,800)
Treasury stock	(72,317)
Total stockholders' equity	271,110
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 375,222

* 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
MARCH 31, 2003

REVENUES:	
Products	$ 44,007
Mobile Security	36,467
Total Revenues	80,474
COSTS AND EXPENSES:	
Cost of sales	57,162
Operating expenses	14,004
Amortization	60
Integration and other non-recurring charges	422
OPERATING INCOME	8,826
Interest expense, net	379
Other expense (income), net	69
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	8,378
PROVISION FOR INCOME TAXES	3,133
INCOME FROM CONTINUING OPERATIONS	5,245
DISCONTINUED OPERATIONS (NOTE 2):	
INCOME FROM DISCONTINUED OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	54
PROVISION (BENEFIT) FOR INCOME TAXES	212
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(158)
NET INCOME	$ 5,087
NET INCOME PER COMMON SHARE - BASIC	
INCOME FROM CONTINUING OPERATIONS	$ 0.18
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(0.01)
BASIC EARNINGS PER SHARE	$ 0.17

See notes to condensed consolidated financial statements.

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

NET INCOME PER COMMON SHARE - DILUTED		
INCOME FROM CONTINUING OPERATIONS	$ 0.18	$ 0.18
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(0.01)	0.01
DILUTED EARNINGS PER SHARE	$ 0.17	$ 0.19
WEIGHTED AVERAGE SHARES - BASIC	28,964	31,030
WEIGHTED AVERAGE SHARES - DILUTED	29,111	31,986

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)

	THR MARCH 31, 20
CASH FLOWS FROM OPERATING ACTIVITIES:	
Income from continuing operations	$ 5,245
Adjustments to reconcile income from continuing operations to cash used in operating activities:	
Depreciation and amortization	1,702
Loss on disposal of fixed assets	8
Deferred income taxes	199
Changes in operating assets and liabilities, net of acquisitions:	
Decrease (increase) in accounts receivable	2,878
Decrease (increase) in inventories	1,082
Increase in prepaid expenses and other assets	(3,143)
Decrease in accounts payable, accrued expenses and other current liabilities	(1,900)
(Decrease) increase in income taxes payable	(1,662)
Net cash provided by (used in) operating activities	4,409
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of patents and trademarks	--
Purchase of property and equipment	(1,727)
Additional consideration for purchased businesses	--
Net cash used in investing activities	(1,727)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from the exercise of stock options	--

Repurchases of treasury stock	(15,684)
Cash paid for offering costs	--
Repayments of long-term debt	(239)
Borrowings under line of credit	22,916
Repayments under line of credit	(2,887)
Net cash provided by financing activities	4,106
Effect of exchange rate changes on cash and cash equivalents	(55)
Net cash used in discontinued operations	(3,636)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,097
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,913
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 16,010
CASH AND CASH EQUIVALENTS, END OF PERIOD	
CONTINUING OPERATIONS	$ 16,010
DISCONTINUED OPERATIONS	5,589
	$ 21,599

See notes to condensed consolidated financial statements.

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

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

NOTE 2 - DISCONTINUED OPERATIONS

On July 15, 2002, we announced plans to sell the Services Division and the retention of Merrill Lynch & Company to assist in the sale. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," the assets and liabilities of the Services Division have been classified as held for sale, with its operating results in the current and prior periods reported in discontinued operations for the three-month period ended March 31, 2003 and 2002. USDS, Inc., a subsidiary providing certain training services, formerly reported as a part of the Services Division is not included in the amounts classified as assets held for sale. The assets and liabilities as well as the operating results of USDS, Inc. have been reclassified to the Armor Holdings Products Division where management oversight currently resides.

On January 24, 2003, we executed an agreement to negotiate exclusively with an undisclosed party for the sale of the Security Consulting business of our ArmorGroup Services Division, headquartered in London. This exclusive agreement has since expired, however, we are still actively pursuing a sale of this business to a number of potential buyers. On April 17, 2003, the Company announced that it completed the sale of its ArmorGroup Integrated Systems business through the sale of 100% of the stock of its ArmorGroup Integrated Systems, Inc. and Low Voltage Systems Technologies, Inc. (See Note 11).

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

A summary of the operating results of the discontinued operations for the three months ended March 31, 2003 and 2002 is as follows.

	THREE MONTHS ENDED	
	MARCH 31, 2003	MARCH 31, 2002
	(IN THOUSANDS)	
Revenue (a)	$ 25,788	$ 24,267
Cost of sales	19,182	17,203
Operating expenses	6,411	6,514
Amortization expenses	1	--
Integration and other non-recurring charges	42	295
Operating income	152	255

Interest expense, net	38	53
Other expense (income), net	60	(40)
Income from discontinued operations before provision (benefit) for income taxes (a)	54	242
Provision (benefit) for income taxes	212	(149)
(Loss) income from discontinued operations	$ (158)	$ 391

(a) ArmorGroup Integrated Systems business had revenues of $3.8 million and a loss before taxes of $1.1 million for the three months ended March 31, 2003 compared to revenues of $4.2 million and a loss before taxes of $124,000 for the three months ended March 31, 2002.

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

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

	MARCH 31, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Assets		
Cash and cash equivalents (a)	$ 5,589	$ 3,638
Accounts receivable, net	17,996	16,228
Other current assets	8,951	8,959
Total current assets	32,536	28,825
Property and equipment, net	13,100	12,481
Goodwill, net	12,995	12,995
Other assets	5,217	4,809
Total assets of discontinued operations	$63,848	$59,110
Liabilities		
Current portion of long-term debt	$ 15	$ 186
Short-term debt	313	350
Accounts payable	2,740	2,405
Accrued expenses and other current liabilities	15,556	14,284
Total current liabilities	18,624	17,225
Long-term debt	237	168
Total liabilities of discontinued operations	$18,861	$17,393

(a) Included in the March 31, 2003 cash and cash equivalents is $1.9

million of excess cash that was subsequently transferred back to continuing operations prior to the sale of the ArmorGroup Integrated Systems business in April 2003. During the three months ended March 31, 2003, continuing operations funded $1.5 million of expenditures on behalf of the discontinued operations. The funds will be recovered from the proceeds of the sale of discontinued operations.

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

NOTE 3 - COMPREHENSIVE INCOME

The components of comprehensive income, net of provision for income taxes of $96,000 and income tax benefit $30,000 for the three months ended March 31, 2003 and 2002, respectively.

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS)	
Net income	$ 5,087	$ 5,958
Other comprehensive income (loss):		
Foreign currency translations, net of tax	369	(205)
Comprehensive income:	$ 5,456	$ 5,753

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:

	MARCH 31, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Raw material	$35,235	$30,211
Work-in-process	11,422	15,733
Finished goods	14,591	16,386
Total inventories	$61,248	$62,330

NOTE 5 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities are summarized as follows:

	MARCH 31, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Accrued expenses and other current liabilities	$24,396	$16,988
Deferred consideration for acquisitions	1,826	1,826
Customer deposits	5,672	6,302
Total accrued expenses and other current liabilities	$31,894	$25,116

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

NOTE 6 - INFORMATION CONCERNING BUSINESS SEGMENTS AND GEOGRAPHICAL SALES

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

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

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

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

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 operations segments are as follows:

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS)	
Revenues:		
Products	$ 44,007	$ 38,945
Mobile Security	36,467	30,659
Total revenues	$ 80,474	$ 69,604
Operating income:		
Products	$ 6,861	$ 6,782
Mobile Security	4,144	3,802
Corporate	(2,179)	(1,539)
Total operating income	$ 8,826	$ 9,045
Total assets:		
Products	$ 181,031	$ 156,281
Mobile Security	109,593	98,804
Corporate	20,750	45,554
Total assets	$ 311,374	$ 300,639

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

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

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS)	
Revenues:		
North America	$ 56,624	$ 49,484
South America	3,427	4,030
Africa	485	--
Europe/Asia	19,938	16,090
Total revenue	$ 80,474	$ 69,604
Geographic operating income:		
North America	$ 6,953	$ 7,804
South America	54	93
Africa	98	--
Europe/Asia	2,203	2,664
Total geographic operating income	$ 9,308	$ 10,561
Total assets:		
North America	$266,134	$272,857
South America	5,935	6,823
Africa	--	--
Europe/Asia	39,305	20,959
Total assets	$311,374	$300,639

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

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS)	
Consolidated geographic operating income	$ 9,308	$ 10,561
Amortization	(60)	(119)
Integration and other non-recurring charges	(422)	(1,397)

Operating income	$ 8,826	$ 9,045

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

NOTE 7. EARNINGS PER SHARE

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

	THREE MONTHS ENDED MARCH 31, 2003	MARCH 31, 2
	(IN THOUSANDS, EXCEPT PER SHARE D	
Numerator for basic and diluted earnings per share:		
Income from continuing operations	$ 5,245	$ 5,567
Denominator for basic earnings per share - weighted average shares outstanding:	28,964	31,030
Effect of shares issuable under stock option and stock grant plans, based on the treasury stock method	147	956
Denominator for diluted earnings per share - Adjusted weighted average shares outstanding	29,111	31,986
Basic earnings per share from continuing operations	$ 0.18	$ 0.18
Diluted earnings per share from continuing operations	$ 0.18	$ 0.18

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

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission 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. Adopting this standard had no effect on us.

In June 2002, the FASB issued Statement of Financial Accounting Standard 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 is effective for exit or disposal activities initiated on or after December 31, 2002. Adopting this standard had no material effect on us.

In December 2002, the FASB issued Statement of Financial Accounting Standard 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement of Financial Accounting Standard 123, "Accounting for Stock-Based Compensation" (SFAS 123), to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements of SFAS 148 are included in this document.

NOTE 9. STOCKHOLDERS' EQUITY

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," establishes a fair value based method of accounting for stock-based employee compensation plans; however, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value based method, compensation costs is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. We have elected to continue to account for our employee stock compensation plans under APB Opinion No. 25 with pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting defined in SFAS No. 123 had been applied. If compensation cost for stock option grants had been determined based on the fair value on the grant dates for March 31, 2003 and 2002 consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)	
Net income as reported:	$ 5,087	$ 5,958
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,158)	(555)
Pro-forma net income	$ 3,929	$ 5,403
Earning per share:		
Basic - as reported	$ 0.17	$ 0.19
Basic - pro-forma	$ 0.14	$ 0.17
Diluted - as reported	$ 0.17	$ 0.19
Diluted - pro-forma	$ 0.13	$ 0.17

NOTE 10. LEGAL PROCEEDINGS

The following updates or repeats commentary included in the Company's Annual Report on Form 10K for the year ended December 31, 2002.

In 1997 we terminated several agreements with a Dutch company, Airmunition International, B.V. (AMI), and with a British company, Crown Limited (Crown). AMI and Crown started an action against us before the Netherlands Arbitration Institute in Rotterdam, Holland (the "Tribunal"), claiming breach of contract, unauthorized use of confidential information and inducing an AMI employee to leave to work for us in competition with plaintiffs and further to induce him to breach his confidentiality agreements with plaintiffs. Plaintiffs sought damages of $20.5 Million. On April 29, 2003, the Tribunal rendered an interim award holding that we were entitled to terminate the agreement, that we did not breach any confidentiality provision of the agreement and that we did not induce the AMI employee to leave his employment with plaintiffs. The only issue remaining before the Tribunal after this interim award is a question as to the amount of damage, if any, plaintiff may have suffered as a result of the former AMI employee's work on a certain product of ours that the Tribunal found did compete with a product that was to be developed by AMI/Crown under the agreement. After our termination of the agreement with AMI/Crown, the former AMI employee who had already left the employ of AMI/Crown came to work for a brief period of time with one of our subsidiaries. However, in the interim award, the Tribunal found preliminarily that any damages AMI/Crown may have suffered due to the work the former AMI employee did for us would be "limited," especially since the AMI/Crown product was under development and was only in its prototype stage and plaintiffs had no market position in the United States for the sales of their hoped for product. Further proof on the narrow question of these damages will be allowed before the Tribunal. Although we are unable to predict the outcome of this matter, we do not believe it will have a material impact on our financial position, operations or liquidity.

On January 16, 1998, our Services Division ceased operations in Angola. The cessation of operations in Angola was dictated by that government's decision to deport all of our expatriate management and supervisors. As a result of the cessation of operations in Angola, our Services Division became involved in various disputes with SHRM S.A. ("SHRM"), its minority joint venture partner relating to the Angolan joint venture known as Defense System International Africa ("DSIA"). On March 6, 1998, SIA (a subsidiary of SHRM) filed a complaint against Defense Systems France, SA ("DSF") before the Commercial Court of Nanterre (Tribunal de Commerce de Nanterre) seeking to be paid an amount of $577,286 corresponding to an alleged debt of DSIA to SIA. On June 27, 2000, the judge of the Paris Commercial Court ruled SHRM did not provide evidence required to establish its standing and the proceedings brought by SHRM were cancelled. On October 3, 2000, a winding up petition was served by DSF against DSIA. On October 31, 2000, SHRM filed a counterclaim seeking to have this winding up petition dismissed. On November 28, 2000, SHRM appealed the June 27, 2000 judgement rendered by the Paris Commercial Court, claiming that the Paris Commercial Court no longer had jurisdiction over the case. On September 18, 2001, the Paris Commercial Court stayed the proceeding pending the outcome of the appeal. A hearing with the Court of Appeal on the standing of SHRM and on the merits was held on October 24, 2002. The Commercial Court of Nanterre has stayed the proceedings before it, pending the decisions of the Court of Appeal and the Paris Commercial Court. In February 2003, the Court of Appeal ruled against SHRM and its parent entity, Compass Group, effectively ending all further proceedings on the merits of Compass' claims. Compass has appealed the decision before the French Court of Cassation which reviews only matters of law.

NOTE 11. SUBSEQUENT EVENTS

On April 9, 2003, the Company announced that Warren B. Kanders was appointed the Chief Executive Officer, replacing Jonathan M. Spiller whose employment was terminated. Mr. Kanders will continue in his capacity as Chairman of the Board, a position he has occupied since January 1996. Robert R. Schiller was named Chief Operating Officer in addition to his duties as Chief Financial Officer. Mr. Schiller, who will assume day-to-day operating responsibility for the Company, has been a senior executive with the Company since July 1996.

On April 17, 2003, the Company announced that it completed the sale of its ArmorGroup Integrated Systems business through the sale of 100% of the stock of ArmorGroup Integrated Systems, Inc. and Low Voltage Systems Technologies, Inc. to Aerwav Integration Services, Inc. ("AIS"). Aerwav Integration Services, Inc. is a wholly owned subsidiary of Aerwav Holdings, LLC ("AHLLC"). As consideration for the integrated systems business, Armor Holdings, Inc. received a $4.1 million secured note due in two years and a warrant for approximately 2.5% of AIS. In accordance with Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), no material gain or loss is expected on the sale. For the three months ended March 31, 2003, the pre-tax loss of ArmorGroup Integrated Systems was $1.1 million compared to a loss of $124,000 in the three months ended March 31, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following is a discussion of the results of operations and analysis of financial condition for the three months ended March 31, 2003. The results of operations for purchase business combinations are included since their effective acquisition dates. The following discussion may be understood more fully by reference to the 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, 2002, as filed with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES (INCLUDING NEW ACCOUNTING PRONOUNCEMENTS):

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

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

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

Comprehensive income and foreign currency translation. In accordance with SFAS No. 130, "Reporting Comprehensive Income", assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange existing at period-end and revenues and expenses are translated at the average monthly exchange rates. The cumulative translation adjustment, net of tax, which represents the effect of translating assets and liabilities of our foreign operations is recorded as a reduction of equity of $3,800,000 and $4,169,000 as of March 31, 2003 and December 31, 2002, respectively, and is classified as accumulated other comprehensive loss. The current year change in the accumulated amount, net of tax, is included as a component of comprehensive income.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

continue to account for its employee stock compensation plans under APB Opinion No. 25 with pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting defined in SFAS No. 123 had been applied. If compensation cost for stock option grants had been determined based on the fair value on the grant dates for March 31, 2003 and 2002 consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)	
Net income as reported:	$ 5,087	$ 5,958
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,158)	(555)
Pro-forma net income	$ 3,929	$ 5,403
Earning per share:		
Basic - as reported	$ 0.17	$ 0.19
Basic - pro-forma	$ 0.14	$ 0.17
Diluted - as reported	$ 0.17	$ 0.19
Diluted - pro-forma	$ 0.13	$ 0.17

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

NEW ACCOUNTING PRONOUNCEMENTS:

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. Adopting this standard had no material effect on us.

In June 2002, the FASB issued Statement of Financial Accounting Standard 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 is effective for exit or disposal activities initiated on or after December 31, 2002. Adopting this standard had no material effect on us.

In December 2002, the FASB issued Statement of Financial Accounting Standard 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement of Financial Accounting Standard 123, "Accounting for Stock-Based Compensation" (SFAS 123), to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements of SFAS 148 are included in this document.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002.

Net income. Net income decreased $871,000, or 14.6%, to net income of $5.1 million for the three months ended March 31, 2003 compared to net income of $6.0 million for the three months ended March 31, 2002. Net income for the three months ended March 31, 2003 includes income from continuing operations of $5.2 million and a loss from discontinued operations of $158,000, compared to income from continuing operations of $5.6 million and income from discontinued operations of $391,000 for the three months ended March 31, 2002.

CONTINUING OPERATIONS

Products revenues. Products Division revenues increased $5.1 million, or 13.0%, to $44.0 million in the three months ended March 31, 2003, compared to $38.9 million in the three months ended March 31, 2002. For the three months ended March 31, 2003, Products Division revenue increased 6.2% internally, including year over year changes in acquired businesses, and 6.8% due to the acquisitions of Speedfeed, Inc., the Foldable Products Group, Evi-Paq, Inc., B-Square, Inc. and 911 Emergency Products, Inc., all of which were completed subsequent to the first quarter of 2002. Products Division revenues includes $5.0 million and $3.6 million from USDS, Inc., our training subsidiary, for the three months ended March 31, 2003 and March 31, 2002, respectively. In our filings prior to June 30, 2002, we reported USDS, Inc. as a part of the Services Division.

Mobile Security revenues. Mobile Security Division revenues increased $5.8 million, or 18.9% to $36.5 million in the three months ended March 31, 2003, compared to $30.7 million in the three months ended March 31, 2002. Mobile Security Division revenues for the three months ended March 31, 2003, include $5.8 million related to the acquisition of substantially all of the assets of Trasco-Bremen on September 24, 2002. Excluding the $5.8 million of 2003 revenue relating to Trasco-Bremen, Mobile Security Division revenues were flat in the three months ended March 31, 2003, compared to the three months ended March 31, 2002.

Cost of sales. Cost of sales increased $9.5 million, or 20.0%, to $57.2 million for the three months ended March 31, 2003 compared to $47.6 million for the three months ended March 31, 2002. As a percentage of total revenues, cost of sales increased to 71.0% of total revenues for the three months ended March 31, 2003 from 68.4% for the three months ended March 31, 2002.

Gross margins in the Products Division were 34.2% for the three months ended March 31, 2003, compared to 37.3% for the three-months ended March 31, 2002. The drop in Products Division gross margins resulted primarily from: (1) an increased mix of "low margin" training revenues; (2) reduced selling prices associated with a program to reduce gas mask inventories; (3) lower production volume in Body Armor and Less Lethal, which resulted in reduced fixed cost absorption and some labor inefficiencies; and (4) moving costs and labor inefficiencies at Protech associated with the relocation of its manufacturing facility. Excluding the training division, the Products Division gross margins were 36.6%, compared to 39.6% reported in the same period last year.

Gross margins in the Mobile Security Division were 22.7% in the three-months ended March 31, 2003, compared to 24.3% for the three-months ended March 31, 2002. Mobile Security Division cost of sales for the three months ended March 31, 2003, included $4.6 million due to the acquisition of substantially all of the assets of Trasco-Bremen on September 24, 2002. Excluding the $4.6 million of 2003 cost of sales relating to Trasco-Bremen, Mobile Security Division cost of sales increased $1.1 million, (3.0% of Mobile Security Division Revenues) in the three months ended March 31, 2003, compared to the three months ended March 31, 2002. The decrease in gross margins in the Mobile Security Division is primarily attributable to: (1) a less favorable mix of commercial vehicle sales in both Cincinnati and France compared to the same period in the prior year; (2) sales price deterioration in certain Latin American markets in 2003 compared to 2002; and (3) a larger number of purchased base vehicles sold in 2003 compared to 2002. The Mobile Security Division often purchases and resells base vehicles to customers as a pass-through service without normal gross profit.

Operating expenses. Operating expenses increased $2.6 million, or 22.7%, to $14.0 million (17.4% of total revenues) for the three months ended March 31, 2003 compared to $11.4 million (16.4% of total revenues) for the three months ended March 31, 2002.

Products Division operating expenses increased $0.9 million, or 12.7%, to $7.9 million (18.0% of Products Division revenues) for the three months ended March 31, 2003 compared to $7.0 million (18.0% of Products Division revenues) for the three months ended March 31, 2002. This increase is due primarily to the incremental operating expenses associated with acquired businesses completed subsequent to the first quarter of 2002.

Mobile Security Division operating expenses increased $1.1 million, or 36.1%, to $4.0 million (10.9% of Mobile Security Division revenues) for the three months ended March 31, 2003, compared to $2.9 million (9.5% of Mobile Security Division revenues) for the three months ended March 31, 2002. Excluding the 2003 operating expenses resulting from the acquisition of substantially all of the assets of Trasco-Bremen on September 24, 2002, the operating expenses for the three months ended March 31, 2003, increased $0.4 million, (1.0% of Mobile Security Division Revenues) versus the same period in the prior year. The increase in operating expenses was primarily due to: (1) increased expenses associated with the start-up of operations in Caracas, Venezuela in late 2002; (2) increased insurance costs; (3) the net negative impact of fluctuating currency exchange rates with the U.S. dollar, as the negative impact of a stronger Euro on operating expenses more than offset the positive impact of a weaker Brazilian Real; and (4) general inflation.

Corporate operating expenses increased $0.6 million, or 43.7%, to $2.1 million (2.6% of total revenues) for the three months ended March 31, 2003 compared to $1.5 million (2.1% of total revenues) for the three months ended March 31, 2002. This increase is due primarily to increased insurance costs, increased internal audit costs necessary to comply with Sarbanes-Oxley requirements, and increased legal expenses.

Amortization. Amortization expense decreased $59,000, or 49.6%, to $60,000 for the three months ended March 31, 2003 compared to $119,000 for the three months ended March 31, 2002. SFAS 142, which we adopted on January 1, 2002, eliminated amortization of intangible assets with indefinite lives and goodwill for all acquisitions completed after July 1, 2001, as well as for all fiscal years ending after January 1, 2002. Remaining amortization expense is related to patents and trademarks with finite lives.

Integration and other non-recurring charges. Integration and other non-recurring charges for the three-months ended March 31, 2003, totaled $422,000, compared to $1.4 million in the same period last year. The decrease in integration and other non-recurring items is primarily related to completion of integration and other non-recurring spending on the 2001 acquisition of O'Gara.

Operating income. Operating income from continuing operations decreased $219,000 to $8.8 million for the three months ended March 31, 2003 compared to $9.0 million in the three months ended March 31, 2002 due to the factors discussed above. USDS, Inc. contributed operating income, that was previously reported as a part of the Services Division, of $554,000 and $378,000 for the three months ended March 31, 2003 and 2002, respectively.

Interest expense, net. Interest expense, net increased $337,000, or

802.4% to $379,000 for the three months ended March 31, 2003 compared to $42,000 for the three months ended March 31, 2002. This increase was due primarily to borrowings of long-term debt under our revolving credit facility with the proceeds primarily used to repurchase common stock of the Company.

Other expense (income), net. Other expense (income), net, was $69,000 for the three months ended March 31, 2003, compared to other expense (income), net of $(64,000) for the three months ended March 31, 2002.

Income from continuing operations before provision for income taxes. Income from continuing operations before provision for income taxes decreased by $689,000 to $8.4 million for the three months ended March 31, 2003 compared to $9.1 million for the three months ended March 31, 2002 due to the reasons discussed above.

Provision for income taxes. Provision for income taxes was $3.1 million for the three months ended March 31, 2003, compared to $3.5 million for the three months ended March 31, 2002. The effective tax rate was 37.4% for the three months ended March 31, 2003, compared to 38.6% for the three months ended March 31, 2002 based on our current expectations of annual income amounts and jurisdictions in which such amounts are expected to be taxable.

Income from continuing operations. Income from continuing operations decreased $322,000 to $5.2 million for the three months ended March 31, 2003 compared to $5.6 million for the three months ended March 31, 2002 due to the factors discussed above.

DISCONTINUED OPERATIONS

Services revenues. Services Division revenue increased $1.5 million, or 6.3%, to $25.8 million for the three months ended March 31, 2003 compared to $24.3 million for the three months ended March 31, 2002. The revenue increase is a result of improved revenues in the Integrated Systems business in the United States and growth in the Security Consulting business. The latter is as a result of contracts being carried out in Europe and Afghanistan.

Cost of sales. Cost of sales increased $2.0 million, or 11.5%, to $19.2 million for the three months ended March 31, 2003 compared to $17.2 million for the three months ended March 31, 2002.

This increase was due primarily to costs associated with increasing Integrated Systems revenues. As a percentage of total revenue, cost of sales increased to 74.4% of total revenues for the three months ended March 31, 2003 from 70.9% for the three months ended March 31, 2002. This increase in cost of sales as a percentage of total revenue was primarily due to the weakness in our Integrated Systems business. Higher than average margins from the Security Consulting business tempered the full impact of the weak Integrated Systems margins.

Operating expenses. Operating expenses decreased $103,000, or 1.6%, to $6.4 million (24.9% of total revenues) for the three months ended March 31, 2003 compared to $6.5 million (26.8% of total revenues) for the three months ended March 31, 2002. This decrease was due to a reduction in accounts receivable reserves, other asset write-downs, and other non-recurring charges in the Integrated Systems and Security Consulting businesses taken in the three months ended March 31, 2002.

Integration and other non-recurring charges. Integration and other non-recurring charges decreased $253,000, or 85.8%, to $42,000 for the three months ended March 31, 2003 compared to $295,000 for the three months ended March 31, 2002. These charges reflect certain severance expenses, software write-off costs and other expenses associated with preparing the division for sale, as well as integration expenses associated with integrating International Training, Inc. into the Services Division taken in the three months ended March 31, 2002.

Operating income. Operating income was $152,000 for the three months ended March 31, 2003, compared to operating income of $255,000 for the three months ended March 31, 2002 due to the factors discussed above. Operating loss from the ArmorGroup Integrated Systems business was $1.1 million for the three months ended March 31, 2003, compared to an operating loss of $117,000 for the three months ended March 31, 2002 due to the factors discussed above. Excluding the ArmorGroup Integrated Systems business, the balance of the assets held for sale generated an operating income of $1.2 million for the three months ended March 31, 2002 compared to operating income of $372,000 for the three months ended March 31, 2002.

Interest expense, net. Interest expense, net decreased $15,000, or 28.3%, to $38,000 for the three months ended March 31, 2003 compared to $53,000 for the three months ended March 31, 2002. This decrease was due to reduced utilization of the Services Division's line of credit.

Other expense (income), net. Other expense (income), net, was $60,000 for the three months ended March 31, 2003, compared to other expense (income), net of ($40,000) for the three months ended March 31, 2002. The net increase in expense was a result of losses on the disposal of fixed assets and other asset write-offs.

Income from discontinued operations before provision (benefit) for income taxes. Income from discontinued operations before provision (benefit) for income taxes was $54,000 for the three months ended March 31, 2003 and $242,000 for the three months ended March 31, 2002, due to the reasons discussed above.

Provision (benefit) for income taxes. Provision for income taxes was $212,000 for the three months ended March 31, 2003 compared to a benefit of $149,000 for the three months ended March 31, 2002. The effective tax rate for the three months ended March 31, 2003 was a provision of

392.6% compared to a benefit of 61.6% for the three months ended March 31, 2002. The large provision of 392.6% for the three months ended March 31, 2003, is primarily due to unrecognized potential deferred tax assets associated with foreign subsidiaries, which recorded pretax losses in the first quarter of 2003. These potential tax benefits were not recognized due to the uncertainty regarding the specific subsidiary's ability to utilize the net operating loss carry-forwards in future periods.

(Loss) income from discontinued operations. Loss from discontinued operations was ($158,000) for the three months ended March 31, 2003 compared to income from discontinued operations of $391,000 for the three months ended March 31, 2002 due to the factors discussed above. As many of the above items involve accounting estimates, the loss (income) and amounts above will be reevaluated in the future for any changes, which might be appropriate.

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 limitations on capital expenditures, indebtedness, and sales of assets, minimum fixed charge coverage, maintenance of net worth, a limitation on senior indebtedness to capitalization, and a restriction against paying dividends. As of March 31, 2003 we are in compliance with all of our negative and affirmative covenants.

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 March 31, 2003, we had $20 million in borrowings under our Credit Facility, and Bank of America had issued $11.2 million in letters of credit giving us $88.8 million of availability under our credit agreement. All indebtedness under the Credit Agreement will mature on February 12, 2004. On March 31, 2003, we had approximately $26.7 million in total long-term debt for continuing operations, consisting of $20 million of borrowings under our Credit Facility, $5.2 million in industrial development revenue bonds and $1.5 million in other long-term liabilities assumed in connection with acquisitions.

In March 2002, our Board of Directors approved a stock repurchase program authorizing the repurchase of up to a maximum 3.2 million shares of our common stock. In February 2003, the Board of Directors increased this stock repurchase program to authorize the repurchase, from time to time depending upon market conditions and other factors, of up to an additional 4.4 million shares. During the three-months ended March 31, 2003, the Company repurchased an additional 1.9 million shares of its common stock at an average

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price of $11.52 per share. Through March 31, 2003, the Company had repurchased 3.8 million shares of its common stock under the stock repurchase program at an average price of $12.49 per share, leaving the Company with the ability to repurchase up to 3.8 million additional shares of common stock. Included in the March 31, 2003 accrued expenses and other current liabilities was approximately $7.0 million paid subsequent to March 31, 2003 for the settlement of a put option on 500,000 shares. Since that date, the Company has not repurchased any additional shares. At March 31, 2003, the Company had 27,550,630 shares of common stock outstanding.

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

Working capital for continuing operations was $87.5 million and $89.0 million as of March 31, 2003 and December 31, 2002, respectively.

Our fiscal 2003 capital expenditures for continuing operations are expected to be approximately $8.4 million, of which we have spent approximately $1.7 million through the three months ended March 31, 2003. Our fiscal 2003 capital expenditures for discontinued operations are expected to be approximately $2.0 million, of which we have already spent approximately $1.0 million through three months ended March 31, 2003. Such expenditures include, leasehold improvements, information technology and communications infrastructure equipment and software, and manufacturing machinery and equipment.

Included in the March 31, 2003 cash and cash equivalents of discontinued operations is $1.9 million of excess cash that was subsequently transferred back to continuing operations prior to the sale of the ArmorGroup Integrated Systems business in April 2003. During the three months ended March 31, 2003, continuing operations funded $1.5 million of expenditures on behalf of the discontinued operations. The funds will be recovered from the proceeds of the sale of discontinued operations.

We anticipate that the cash generated from operations, proceeds from the sale of discontinued operations, cash on hand and available borrowings under the Credit Agreement will enable us to meet liquidity, working capital and capital expenditure requirements during the next twelve months. We may, however, require additional financing to pursue our strategy of growth through acquisitions. If such financing is required, there are no assurances that it will be available, or if available, that it can be obtained on terms favorable to us or on a basis that is not dilutive to our stockholders.

FORWARD LOOKING AND CAUTIONARY STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

MARKET RATE RISK

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

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

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

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

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

other taxes on remittances and other payments by subsidiaries, and local economic, political and social conditions. Governments of many developing countries have exercised and continue to exercise 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 us to enforce our rights. Accordingly, we may have little or no recourse upon the occurrence of any of these developments.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days before filing this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed to ensure that the information that the Company must disclose in its reports filed under the Securities and Exchange Act is communicated and processed in a timely manner. Warren B. Kanders, Chairman and Chief Executive Officer, and Robert R. Schiller, Chief Operating Officer and Chief Financial Officer, participated in this evaluation.

Based on a similar evaluation prepared in connection with the Company's 2002 10-K, Mr. Kanders and Mr. Schiller concluded that, as of the date of such evaluation, our disclosure controls and procedures were effective, except as noted in the next paragraph. Since the date of the evaluation described above, there have not been any significant changes in our internal controls or in other factors that could significantly affect those controls except as indicated in the next paragraph.

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

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

PART II

ITEM 1. LEGAL PROCEEDINGS

In 1997 we terminated several agreements with a Dutch company, Airmunition International, B.V. (AMI), and with a British company, Crown Limited (Crown). AMI and Crown started an action against us before the Netherlands Arbitration Institute in Rotterdam, Holland (the "Tribunal"), claiming breach of contract, unauthorized use of confidential information and inducing an AMI employee to leave to work for us in competition with plaintiffs and further to induce him to breach his confidentiality agreements with plaintiffs. Plaintiffs sought damages of $20.5 Million. On April 29, 2003, the Tribunal rendered an interim award holding that we were entitled to terminate the agreement, that we did not breach any confidentiality provision of the agreement and that we did not induce the AMI employee to leave his employment with plaintiffs. The only issue remaining before the Tribunal after this interim award is a question as to the amount of damage, if any, plaintiff may have suffered as a result of the former AMI employee's work on a certain product of ours that the Tribunal found did compete with a product that was to be developed by AMI/Crown under the agreement. After our termination of the agreement with AMI/Crown, the former AMI employee who had already left the employ of AMI/Crown came to work for a brief period of time with one of our subsidiaries. However, in the interim award, the Tribunal found preliminarily that any damages AMI/Crown may have suffered due to the work the former AMI employee did for us would be "limited," especially since the AMI/Crown product was under development and was only in its prototype stage and plaintiffs had no market position in the United States for the sales of their hoped for product. Further proof on the narrow question of these damages will be allowed before the Tribunal. Although we are unable to predict the outcome of this matter, we do not believe it will have a material impact on our financial position, operations or liquidity.

On January 16, 1998, our Services Division ceased operations in Angola. The cessation of operations in Angola was dictated by that government's decision to deport all of our expatriate management and supervisors. As a result of the cessation of operations in Angola, our Services Division became involved in various disputes with SHRM S.A. ("SHRM"), its minority joint venture partner relating to the Angolan joint venture known as Defense System International Africa ("DSIA"). On March 6, 1998, SIA (a subsidiary of SHRM) filed a complaint against Defense Systems France, SA ("DSF") before the Commercial Court of Nanterre (Tribunal de Commerce de Nanterre) seeking to be paid an amount of $577,286 corresponding to an alleged debt of DSIA to SIA. On June 27, 2000, the judge of the Paris Commercial Court ruled SHRM did not provide evidence required to establish its standing and the proceedings brought by SHRM were cancelled. On October 3, 2000, a winding up petition was served by DSF against DSIA. On October 31, 2000, SHRM filed a counterclaim seeking to have this winding up petition dismissed. On November 28, 2000, SHRM appealed the June 27, 2000 judgement rendered by the Paris Commercial Court, claiming that the Paris Commercial Court no longer had jurisdiction over the case. On September 18, 2001, the Paris Commercial Court stayed the proceeding pending the outcome of the appeal. A hearing with the Court of Appeal on the standing of SHRM and on the merits was held on October 24, 2002. The Commercial Court of Nanterre has stayed the proceedings before it, pending the decisions of the Court of Appeal and the Paris Commercial Court. In February 2003, the Court of Appeal ruled against SHRM and its parent entity, Compass Group, effectively ending all further proceedings on the merits of Compass' claims. Compass has appealed the decision before the French Court of Cassation which reviews only matters of law.

Reference is made to Item 3, Legal Proceedings, in our Annual Report on Form 10-K for the year ended December 31, 2002 for a description of other legal proceedings.

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 Statements by the Chairman Chief Executive Officer and Chief Operating 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.

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMOR HOLDINGS, INC.

/s/ Warren B. Kanders

Warren B. Kanders
Chairman and Chief Executive Officer
Dated: May 15, 2003

/s/ Robert R. Schiller

Robert R. Schiller
Chief Operating Officer and Chief Financial Officer
Dated: May 15, 2003

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Warren B. Kanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Armor Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could

significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Warren B. Kanders
Chairman and Chief Executive Officer

I, Robert R. Schiller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Armor Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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

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Date: May 15, 2003

/s/ Robert R. Schiller
Chief Operating Officer and Chief Financial Officer