

UNITED DEFENSE INDUSTRIES INC

Form 424B3

August 01, 2003

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Registration No. 333-105550

PROSPECTUS SUPPLEMENT
(To Prospectus dated July 16, 2003)

10,800,000 Shares

United Defense Industries, Inc.

Common Stock

This is an offering of 10,800,000 shares of common stock of United Defense Industries, Inc. All of the shares of common stock in this offering are being sold by the selling stockholders named in this prospectus supplement. We will not receive any of the proceeds from the sale of the shares by the selling stockholders.

Our common stock is traded on the New York Stock Exchange under the symbol UDI. On July 31, 2003, the last reported sale price of our common stock on the New York Stock Exchange was \$25.39 per share.

Investing in the shares involves risks. Risk Factors begin on page S-9 of this prospectus supplement.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$25.00	\$270,000,000.00
Underwriting discounts and commissions	\$ 1.00	\$ 10,800,000.00
Proceeds, before expenses, to the selling stockholders	\$24.00	\$259,200,000.00

The selling stockholders have granted the underwriters a 30-day option to purchase up to an additional 1,080,000 shares of common stock on the same terms and conditions as set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about August 6, 2003.

Joint Book-Running Managers

LEHMAN BROTHERS

JPMORGAN

MERRILL LYNCH & CO.

BEAR, STEARNS & CO. INC.

DEUTSCHE BANK SECURITIES

GOLDMAN, SACHS & CO.

July 31, 2003

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information provided by this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering. A description of our common stock is contained in the accompanying prospectus beginning on page 11.

This prospectus supplement is part of, and should be read in conjunction with, the accompanying prospectus. The information we present in this prospectus supplement may add, update or change information included in the accompanying prospectus. If information in this prospectus supplement, or the information incorporated by reference in the accompanying prospectus, is inconsistent with the accompanying prospectus, this prospectus supplement, or the information incorporated by reference in the accompanying prospectus, will apply and will supersede that information in the accompanying prospectus.

In this prospectus supplement, unless the context requires otherwise, United Defense, we, us, our or similar terms refers to United Defense Industries, Inc. and its direct and indirect subsidiaries on a consolidated basis.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights certain significant aspects of our business and this offering, but you should carefully read this entire prospectus supplement and the accompanying prospectus, including the financial data and related notes and the documents incorporated by reference, which are described under "Incorporation of Certain Documents by Reference," before making an investment decision. Because this is a summary, it may not contain all the information that is important to you. Our actual results could differ materially from those anticipated in certain forward-looking statements contained in this prospectus supplement as a result of certain factors, including those set forth under "Risk Factors."

United Defense

United Defense is a leader in the design, development and production of combat vehicles, artillery systems, naval guns, missile launchers and precision munitions used by the U.S. Department of Defense, or DoD, and allied militaries throughout the world, and is the leading U.S. provider of non-nuclear ship repair, modernization and conversion services to the U.S. Navy and related government agencies. We are a sole-source prime contractor on several programs comprising critical elements of the U.S. military force structure. We have an installed base of over 100,000 combat vehicles and weapons systems with the DoD and more than 40 foreign militaries. Our 60 years of experience has led to our long-standing customer relationships, proprietary technologies, a diversified product portfolio, disciplined program management and a competitive cost structure. We conduct global operations through our manufacturing facilities in the United States and Sweden, our ship repair facilities in Virginia, California, Hawaii, Florida, and Texas, a manufacturing joint venture in Turkey, and co-production programs with various other governments and foreign contractors.

For the twelve months ended June 30, 2003, we had revenue of \$2,070.8 million, cash flow from operations of \$233.1 million and net income of \$162.7 million. Approximately 20% of our sales for the twelve months ended June 30, 2003, were to international customers. As of June 30, 2003, we had a fully-funded backlog of \$2.2 billion.

With the acquisition of United States Marine Repair, Inc., or USMR, we are now organized into two separate product and service lines that are each considered separate reportable segments: Defense Systems and Ship Repair and Maintenance. Our Defense Systems program portfolio consists of a mix of weapons system development, production, upgrade, and life cycle support programs. Our Ship Repair and Maintenance business segment consists of ship repair, maintenance, and modernization service programs.

We are currently the sole-source, prime contractor for a number of critical U.S. military programs, including:

Bradley Fighting Vehicle, the U.S. Army's primary armored infantry vehicle;

Mk 45 Gun System, a reliable and fully automated 5-inch naval gun system;

Mk 41 Vertical Launch System, missile canisters and, in conjunction with Lockheed Martin Corporation, missile launchers for the U.S. Navy's surface fleet; and

Advanced Gun System, the next generation 155mm naval gun system that is being developed for the U.S. Navy's DD(X) program.

We have been selected, together with The Boeing Company and a unit of General Dynamics Corporation, to design and develop a family of manned ground combat vehicles for the Army's Future Combat Systems, or FCS, program. The Army adopted the FCS program in order to develop and produce its future long-term combat force focused on an integrated network of combat vehicles, sensors and weapons systems.

We are also the developer of the Non-Line-Of-Sight Cannon, or NLOS-C, which the Army has identified as its next-generation, self-propelled artillery system. The NLOS-C program incorporates technology that we originally developed for the discontinued Crusader program.

Industry Overview/ Market Opportunity

We derive our revenues predominantly from contracts with the U.S. Department of Defense, allied governments and other prime contractors. As a result, funding for our development and production programs and our repair and maintenance work is generally linked to trends in U.S. and international defense spending. We believe that domestic defense spending will grow over the next several years as a result of an increased focus on national security by the U.S. Government and its allies. We believe the following trends and developments will influence the growth in our industry:

the U.S. defense budget submission for fiscal 2004 reflects an increase of approximately 4% over fiscal 2003;

defense procurement and development accounts are growing proportionately with overall national security spending and are expected to continue growing in the near future; and

greater repair and maintenance requirements due to significant wear and tear on both naval vessels and armored vehicles from the United States involvement in extended deployments as well as active military conflicts, such as the recent war in Iraq, as well as the aging of the U.S. Navy Fleet and the relatively low level of new ship building.

Business Strengths

We believe that the following strengths are critical to our success as a leading sole-source, prime contractor to the U.S. Department of Defense and allied militaries:

We are a leading developer of key combat vehicles and weapon systems. We are at the forefront of research, development and design technologies necessary for advanced armored combat vehicles, artillery systems, naval guns, missile launchers and precision munitions. These technologies have been instrumental in our selection as the prime sole-source developer, system integrator and producer for critical combat systems of the U.S. military, including the Bradley, the Mk 45 naval gun system and the Advanced Gun System, as well as our selection to develop NLOS-C and, with our teammate, design and develop the manned ground combat vehicles for FCS.

We are a leader in the private-sector ship repair, maintenance and modernization industry. We are the leader in the private-sector market for U.S. Navy ship repair. We have developed a strong relationship with the U.S. Navy and expertise in repairing numerous classes of vessels, which has resulted in our ability to capture and retain an increasing number of long-term contracts.

We have an extensive installed base of combat systems. We have a global installed base of over 100,000 combat vehicles and weapon systems with the U.S. military and more than 40 foreign militaries. Through our ongoing research and development efforts, we have created a large number of derivative products and upgrades to these combat systems that we sell to our customers to extend the lifecycle of their equipment.

We have a balanced portfolio of development and production contracts. In addition to our ongoing production and upgrade programs, we are involved in a number of development programs such as the U.S. Navy's Advanced Gun System and the FCS program. This program mix helps to provide consistent revenue while positioning us for future growth.

We are a global defense contractor. We have a strong international presence through our direct foreign sales, joint venture in Turkey and co-production programs. We expanded the scope of our international operations, gained technology and enhanced our engineering capabilities through the acquisition of Bofors Defence, a provider of weapon systems and precision munitions based in Sweden.

Our senior management team and Board of Directors have extensive experience in the defense industry. On average, our senior management team has been with us for approximately 20 years. Members of our Board of Directors have served in senior positions within the U.S. Government, such as Secretary of Defense, Chairman of the Joint Chiefs of Staff, and Commander-in-Chief of the U.S. Central Command. Moreover, four of our

directors are affiliated with our major stockholder, The Carlyle Group, a Washington D.C.-based global private equity firm with extensive experience in finance and acquisitions in the aerospace and defense industries.

Business Strategy

We intend to increase our revenues, profitability and shareholder value by expanding our role as a leading systems integrator and prime contractor to the U.S. Department of Defense and allied militaries. Our strategy for achieving this objective is:

Continue to invest in research, development and advanced technologies and design techniques to capture new business. We intend to lead our current development programs into production and to capture key next-generation programs through our systems integration expertise, technology leadership and ongoing commitment to core research.

Generate revenue from our installed base through upgrades incorporating advanced technologies and by providing aftermarket services. We will capitalize on our advanced technologies and systems integration capabilities to upgrade our installed base of combat systems and provide lifecycle services to enhance their performance and extend their effective service lives.

Apply advanced technologies across a range of new programs. We intend to apply our existing technologies across a broad range of additional combat systems and develop derivative products to expand our program base.

Expand our leadership position in the private-sector ship repair, maintenance and modernization industry. We intend to use our expertise and relationship with the U.S. Navy to pursue additional Navy contracts, including the multi-ship, multi-year contracts that we expect the Navy to adopt for the repair and maintenance of Atlantic Fleet surface ships. We also intend to seek additional non-nuclear work on nuclear powered vessels.

Capitalize on our global presence. We intend to use our long-standing relationships with foreign militaries, our global manufacturing and marketing operations, and our experience with foreign joint ventures and co-production programs to broaden our technology and product base and grow international revenues.

Selectively pursue acquisitions with complementary products and technologies. We intend to continue participating in the current consolidation of the defense industry by utilizing the business relationships of our senior management team, our Board of Directors and The Carlyle Group to acquire companies with complementary products and technologies, as exemplified by our September 2000 acquisition of Bofors Defence and our July 2002 acquisition of USMR.

The Carlyle Group, an affiliate of certain of the selling stockholders, formed United Defense Industries, Inc. in October 1997 to facilitate the acquisition of United Defense, L.P., our predecessor entity. After this offering, The Carlyle Group will continue to own a significant portion of our common stock. In July 2002 we acquired USMR from The Carlyle Group.

We were incorporated in Delaware in August 1997, and our principal executive office is located at 1525 Wilson Boulevard, Suite 700, Arlington, Virginia 22209. Our telephone number is (703) 312-6100.

Recent Developments

On July 24, 2003, we reported our operating results for the quarter ended June 30, 2003. The following discussion includes excerpts of the information contained in our earnings release.

United Defense reported net income of \$36.1 million, an increase of \$8.8 million, or 32% from the second quarter of 2002. Net income per share on a fully diluted basis was \$0.68, an increase of \$0.16, or 31% from the second quarter of 2002. Revenues rose 74.0% to \$553.5 million from \$318.0 million in the same quarter last year.

Approximately 50% of the increase in revenues is attributable to strong sales in our Defense Systems business, and the remaining 50% is due to the inclusion of \$118.0 million of revenues from USMR, which we acquired in July 2002. Sales growth in Defense Systems was driven by Bradley Fighting Vehicle upgrades, the increase in Advanced Gun System development for the U.S. Navy, and increased deliveries of Mk 45 gun kits to Korea and Amphibious Assault Vehicles to Italy. Sales in Defense Systems rose approximately 37% from the second quarter of 2002.

USMR benefited during the quarter from unexpected contract growth on selected ships and from early resolution by Congress of supplemental funding to the 2003 defense budget for U.S. Navy ship repair.

In addition, we received an \$8.2 million award fee from the U.S. Army for our performance on the Crusader Advanced Artillery System contract.

New orders of \$574.1 million in the second quarter of 2003 resulted in a fully funded backlog of \$2.2 billion, the same level at March 31, 2003.

At June 30, 2003, we had cash and cash equivalents of \$187.9 million on our balance sheet and total debt of \$590.0 million.

The following table summarizes our results for the six months and three months ended June 30, 2002 and 2003, respectively.

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2003	2002	2003
(in thousands, except per share data)				
Statement of Operations Data:				
Revenues	\$ 674,481	\$ 1,019,976	\$ 318,038	\$ 553,453
Costs and expenses	620,395	894,736	290,020	493,203
Income from operations	54,086	125,240	28,018	60,250
Earnings related to investments in foreign affiliates	7,213	11,655	6,309	6,106
Net interest expense and other expenses	10,477	12,804	5,273	6,230
Income before taxes	50,822	124,091	29,054	60,126
Provision for income taxes	4,507	49,636	1,757	24,050
Net income	\$ 46,315	\$ 74,455	\$ 27,297	\$ 36,076
Per Share Data:				
Earnings per common share basic	\$ 0.90	\$ 1.44	\$ 0.53	\$ 0.70
Earnings per common share diluted	\$ 0.87	\$ 1.41	\$ 0.52	\$ 0.68
Cash Flow Data:				

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Cash provided by operating activities	\$ 45,022	\$ 98,800	\$ 56,848	\$ 48,222
Cash used in investing activities:				
Capital spending	(7,484)	(23,762)	(5,138)	(20,361)
Purchase of Cell ITS	(4,135)			
Cash (used in)/provided by financing activities	(6,142)	1,592	1,505	1,113
Effect of exchange rate changes on cash	6,753	4,424	4,037	3,122
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Increase in Cash and Cash Equivalents	\$ 34,014	\$ 81,054	\$ 57,252	\$ 32,096

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In July 2003 we were awarded a \$43.7 million contract modification from the U.S. Army's Tank-automotive and Armaments Command to refurbish self-propelled howitzers for Egypt. This contract is part of a Foreign Military Sales agreement between the U.S. Government and Egypt and will run through November 2005.

In June 2003 we received a contract initially funded at \$64.0 million from the United States Marine Corps Systems Command to provide material kits and remanufacture hulls for amphibious assault vehicles for Taiwan under a Foreign Military Sales award. The contract has a potential total value of \$128.0 million.

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The Offering

Common stock offered by the selling stockholders	10,800,000 shares of common stock.
Common stock to be outstanding after the offering	52,005,221 shares of common stock.
Use of proceeds	We will not receive any of the proceeds from the sale of shares by the selling stockholders. The selling stockholders will receive all of the net proceeds from the sale of shares of our common stock offered in this prospectus supplement.
Over-allotment option	The selling stockholders have granted to the underwriters an option to purchase up to an aggregate of 1,080,000 shares of common stock, exercisable solely to cover over-allotments, if any, at the public offering price less the underwriting discount shown on the cover page of this prospectus supplement. The underwriters may exercise this option at any time until 30 days after the date of the underwriting agreement.
New York Stock Exchange symbol	UDI.

The number of shares of common stock to be outstanding after this offering set forth above is based on 51,945,221 shares outstanding as of June 30, 2003. The number of outstanding shares excludes an aggregate 5,245,626 shares of our common stock reserved for issuance under our equity incentive plans, of which 3,390,041 shares were subject to outstanding stock options as of June 30, 2003 (60,000 of which will be issued to Thomas Rabaut and sold in the offering upon exercise of options immediately prior to the closing of the offering) at a weighted average exercise price of \$16.81 per share.

Summary Consolidated Financial Data

We derived the summary financial data presented below as of and for each of the three years in the period ended December 31, 2002 from our audited consolidated financial statements incorporated by reference into this prospectus supplement. We derived the summary financial data as of and for the three months ended March 31, 2002 and 2003 from our unaudited consolidated interim financial statements incorporated by reference into this prospectus supplement. In our opinion, the unaudited consolidated interim financial statements have been prepared on a basis consistent with the audited financial statements and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the unaudited periods. Our historical results are not necessarily indicative of future operating results. You should read the information set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and their related notes incorporated by reference into this prospectus supplement.

	Year Ended December 31,			Three Months Ended March 31,	
	2000	2001	2002	2002	2003
(in thousands, except share and per share data)					
Statement of Operations Data:					
Revenues	\$ 1,183,886	\$ 1,318,538	\$ 1,725,346	\$ 356,443	\$ 466,523
Costs and expenses:					
Cost of sales	943,892	1,059,687	1,388,616	296,594	362,583
Selling, general and administrative expenses	173,694	179,714	142,806	28,117	37,070
Research and development	15,760	23,666	27,673	5,664	1,880
Total expenses	1,133,346	1,263,067	1,559,095	330,375	401,533
Income from operations	50,540	55,471	166,251	26,068	64,990
Other income (expense):					
Earnings (loss) related to investments in foreign affiliates	(1,262)	10,156	13,874	904	5,549
Interest income	4,152	5,781	4,218	1,179	914
Interest expense(1)	(28,585)	(56,732)	(35,741)	(6,383)	(7,488)
Total other (expense)(1)	(25,695)	(40,795)	(17,649)	(4,300)	(1,025)
Income before income taxes and extraordinary item(1)	24,845	14,676	148,602	21,768	63,965
Provision for income taxes	6,000	5,900	14,026	2,750	25,586
Net income	\$ 18,845	\$ 8,776	\$ 134,576	\$ 19,018	\$ 38,379
Per Share Data:					
Earnings per common share basic	\$ 0.46	\$ 0.21	\$ 2.62	\$ 0.37	\$ 0.74
Weighted average common shares outstanding	40,584,049	41,264,914	51,348,889	50,997,154	51,730,313
Earnings per common share diluted	\$ 0.44	\$ 0.20	\$ 2.55	\$ 0.36	\$ 0.73

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Weighted average common shares outstanding	42,419,473	43,203,511	52,796,680	52,721,048	52,652,524
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- (1) Effective January 1, 2003, we adopted FASB Statement No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections. Accordingly, any gain or loss on extinguishment of debt that was previously classified as an extraordinary item in any of the periods presented above that does not meet the criteria in APB 30 for classification as an extraordinary item was reclassified to income before income taxes and extraordinary items.

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	Year Ended December 31,			Three Months Ended March 31,	
	2000	2001	2002	2002	2003
(in thousands)					
Other Financial Data:					
Funded backlog (at period end)	\$ 1,862,529	\$ 1,857,974	\$ 1,983,125	\$ 2,069,509	\$ 2,209,028
Net cash from operating activities	95,906	90,321	179,299	(11,826)	50,578
Net cash (used in) from investing activities	2,308	(22,375)	(333,856)	(6,481)	(3,401)
Net cash (used in) from financing activities	(79,182)	(88,858)	157,153	(7,647)	479
Capital expenditures	19,721	22,375	22,772	2,346	3,401

	As of December 31,		
	2000	2001	2002
(in thousands)			
Balance Sheet Data:			
Cash and cash equivalents	\$ 113,357	\$ 90,535	\$ 106,802
Working capital	(59,332)	(49,903)	(26,932)
Total assets	894,770	928,118	1,453,970
Long-term debt, including current portion	269,577	430,900	590,000
Stockholders' equity (deficit)	41,901	(166,366)	(29,705)