Manning & Napier, Inc.
Form 10-K
March 14, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

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

For the transition period from to
Commission File Number 001-35355

MANNING & NAPIER, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	45-2609100 (I.R.S. Employer Identification No.)
290 Woodcliff Drive Fairport, New York (Address of principal executive offices)	14450 (Zip code)

(585) 325-6880
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange in which registered
Class A common stock, $0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the registrant's common equity held by non-affiliates of the registrant (assuming for purposes of this computation only that the directors and executive officers may be affiliates) at June 30, 2015, which was the last business day of the registrant’s most recently completed second fiscal quarter was approximately $145.2 million based on the closing price of $9.97 for one share of common stock, as reported on the New York Stock Exchange on that date.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Class	Outstanding at March 10, 2016
Class A common stock, $0.01 par value per share	14,735,130
Class B common stock, $0.01 par value per share	1,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for its 2016 Annual Meeting of Stockholders to be held June 16, 2016 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

In this Annual Report on Form 10-K, "we", "our", "us", the "Company", "Manning & Napier" and the "Registrant" refers to Manning & Napier, Inc. and, unless the context otherwise requires, its direct and indirect subsidiaries and predecessors on a consolidated basis.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our views with respect to, among other things, our operations and financial performance. Words like “believes,” “expects,” “may,” “estimates,” “will,” “should,” “could,” “intend or “anticipates” or the negative thereof or other variations thereon or comparable terminology, are used to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ materially from our expectations or beliefs are disclosed in the “Risk Factors” as well as other sections of this report which include, without limitation: changes in securities or financial markets or general economic conditions; a decline in the performance of the Company’s products; client sales and redemption activity; any loss of an executive officer or key personnel; changes in our business related to strategic acquisitions and other transactions; and changes of government policy or regulations. All forward-looking statements speak only as of the date on which they are made and we undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I

Item 1. Business.

Overview

Manning & Napier, Inc. is an independent investment management firm that provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trust funds, as well as a variety of consultative services that complement its investment process. Founded in 1970, we offer equity, fixed income and alternative strategies, as well as a range of blended asset portfolios, such as life cycle funds. Headquartered in Fairport, New York, we serve a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans ("Taft-Hartley"), endowments and foundations.

Since our inception, we have taken the view that an active, team-based approach to portfolio management is the best way to manage risk for clients as market conditions change. Across our variety of equity, fixed income and blended asset portfolios, our goal is to provide competitive absolute returns over full market cycles. We employ disciplined processes that seek to avoid areas of speculation by focusing on investments with strong fundamentals at reasonable prices or stable fundamentals at attractive prices. To ensure a focus on absolute returns, we employ a compensation structure for our research team that rewards positive and above benchmark results and penalizes negative and below benchmark results. This active, absolute-returns based approach requires flexibility to invest where opportunities are and avoid speculation, regardless of the allocations within a comparative benchmark.

Initially, this approach helped us build a client base of high net worth individuals, small business owners and middle market institutions, and we maintain these relationships in many targeted geographic regions. This foundation allowed us to expand our business to serve the needs of larger institutions, investment consultants and other intermediaries.

A key aspect of our client service approach is a commitment to internal subject matter experts that can provide consultative services beyond investment management, which we believe helps us attract new clients and build close relationships through multiple service touch points and a solutions-oriented approach. We have designed solutions that are specific to our clients' needs, such as our family wealth management service and trust services. This service oriented approach combined with competitive long-term investment performance across portfolios, has allowed us to achieve a high average annual separate account retention rate. For the ten-year period ending December 31, 2015, our average annual separate account retention rate was 95%.

Our commitment to team-based research, an absolute return focus and a flexible process that is benchmark-agnostic have been central to our success, and we believe are distinctive within the industry. Over the course of our 45+ year history our mutual funds have earned several industry accolades, including a finalist ranking for Morningstar's international manager of the decade during the 2000s and multiple Lipper awards. Several of our investment strategies have value-added track records over multiple decades, which has led to strong growth in our total discretionary assets under management ("AUM") over the long-term. However, our active approach causes us to be out of favor relative to benchmarks and/or peers over shorter time periods. As of December 31, 2015, 28% of our total mutual fund AUM rated by Morningstar were in funds rated at least four stars, and 97% were in funds that were rated at least three stars. These short-term periods can lead to changes in AUM trends over time. The following chart reflects our AUM as of December 31 for each year since 2000.

Table of Contents

We offer our investment management capabilities primarily through direct sales to high net worth individuals and institutions, as well as through third-party intermediaries, platforms and institutional investment consultants. As of December 31, 2015, our investment management offerings include 40 distinct separate account composites and 65 mutual funds and collective investment trusts.

Our separate accounts are primarily distributed through our Direct Channel, where our representatives form relationships with high net worth individuals, middle market institutions or large institutions that are working with a consultant. To a lesser extent, we also obtain a portion of our separate account distribution via third parties, either through our Intermediary Channel where national brokerage firm representatives or independent financial advisors select our separate account strategies for their clients, or through our Platform/Sub-Advisory Channel, where unaffiliated registered investment advisors approve our strategies for their product platforms. Our separate account products are a primary driver of our blended asset portfolios for high net worth and middle market institutional clients and financial intermediaries. In contrast, larger institutions and unaffiliated registered investment advisor platforms are a driver of our separate account equity portfolios.

Our mutual funds and collective investment trusts are primarily distributed through financial intermediaries, including brokers, financial advisors, retirement plan advisors and platform relationships. We also obtain a portion of our mutual fund and collective investment trust distribution through our direct sales representatives, in particular within the defined contribution and institutional marketplace. Our mutual fund and collective investment trust products are an important driver of our blended asset class portfolios, in particular with 401(k) plan sponsors, advisors and recordkeepers that select our funds as default options for participants. In addition, financial intermediaries, mutual fund advisory programs and retail platforms are a driver of equity strategies within our mutual fund offerings.

Our AUM as of December 31, 2015 by investment vehicle and portfolio were as follows:

Recent Developments

In December of 2015, we announced the agreement to acquire a majority interest in Rainier Investment Management, LLC ("Rainier"), an active investment management firm with more than $3 billion in AUM. Under the terms of the transaction, key professionals will maintain a 25% ownership stake in Rainier, with Manning & Napier owning the remaining 75%. The transaction is expected to close in the first half of 2016, subject to customary regulatory approvals and closing conditions.

Our Strategy

Our approach for continued success is focused on the strategies described below.

Maintain a Strong, Team-Based Research Engine

With a research department of over 70 investment professionals, we are committed to a team-based approach to portfolio management to ensure that success can be repeated over time. All of our investment products are managed by a team, so that stability of process takes precedence over any individual personality. Our Senior Research Group, which consists of long-tenured members of the research department, maintains oversight responsibility for our investment disciplines and policies. We take a home-grown approach to maintaining this strong research engine. Analysts begin their employment with us as Research Assistants or Associates, and progress to the Analyst level only after learning our process and disciplines in a role that supports the portfolio management teams. We believe this ensures consistency with our time-tested philosophies and also provides a source of future analysts to address growth and turnover.

Table of Contents

Over time and as product development warrants, we may add to our research team or supplement that team with additional investment professionals through corporate development activities. In 2014, we acquired an alternative investment manager and integrated the research professionals into our existing team to enhance our alternatives capabilities. In December of 2015, we announced our intention to acquire a majority interest in Rainier in part to expand the product set available to our clients. The investment teams of both Manning & Napier and Rainier will remain autonomous, and the transaction will not result in changes to either firm's investment personnel or processes.

Broad, Multi Channel Distribution Team

We continue to focus on the depth of our multi-channel distribution structure, which includes both direct and intermediary channels. Within our direct and intermediary channels, we recognize the growing influence and specialization of retirement plan advisors. To address this opportunity, we have established a specific Defined Contribution Investment Only wholesaling team to focus their sales efforts on retirement specialist advisors, who work with small-to-mid market defined contribution plans. In these channels, we believe we have a competitive advantage that allows us to offer our multi-asset class strategies, including our life cycle and retirement target mutual fund and collective trust products. Non-retirement plan advisors have and will continue to be focused on wealth management investment solutions.

Within our direct channel, our high-touch distribution strategy has allowed us to build strong relationships over time. We continuously look to opportunistically enhance our direct distribution sales force domestically. Beyond deepening these current channels and territories, we continue to look at ways to expand our global distribution, including leveraging our current relationships in Europe and expanding into new markets.

Innovative Product Development

We are committed to on-going development of products and consultative services in response to current and prospective client needs. Today's market environment presents new challenges for investors. Historically low yields on fixed income securities, the potential for rising interest rates and future inflation, and continued global uncertainty have created an investing landscape that requires new solutions to meeting objectives. We understand that we must stay relevant and competitive by ensuring that we are consistently providing innovative solutions that address today's challenges.

We have approximately $30 million invested in seed capital to our investment teams as of December 31, 2015 across more than fifteen products, including equity, fixed income and alternative strategies. Over the last two years, we have seen five of those seeded products reach a three year track record, including our Emerging Markets and Global Quality equity strategies as well as our Global Fixed Income, Strategic Income Conservative and Strategic Income Moderate strategies. In addition, our intent to acquire a majority interest in Rainier during 2016 will add several equity products to our product set, including small-to-mid cap, mid cap and large cap U.S. equity offerings as well as an international small cap equity strategy.

Enhanced Consultative Services

Offering consultative services alongside our team-based, process-driven investment management has been a source of both new business and client retention over our history. Currently, we offer a variety of consultative services to individual and institutional clients, including estate and tax planning, asset/liability modeling for defined benefit pension plans, retirement and health plan design analysis for employers, and donor relations and planned giving services for endowment and foundation clients.

Many of these services are offered through our Client Analytics Group, which consists of internal consultants whose primary responsibilities include working with prospective and current clients to solve investment and planning-related problems. This group includes several chartered financial analysts, certified financial planners, an accredited investment fiduciary and professionals with law and masters degrees.

We also offer practice management concepts and tools to both wealth advisors and retirement plan advisors to assist in their new business and service efforts, and certain technology-driven products and services aimed at the middle market employer marketplace to assist both employers and employees with their health and wealth planning.

Products and Services

We manage a variety of equity, fixed income, alternative and blended asset strategies, using primarily traditional asset classes such as stocks and bonds. These strategies may include a mix of the different vehicles we offer, including separate accounts, mutual funds, and collective investment trusts. Our goal is to help our clients meet their investment objectives by providing competitive positive returns over full stock market cycles, including both bull and bear market environments. Three key elements of our investment process help to keep us focused on that goal:

- Team-Based Research. Our analysts and economists work together to understand market opportunities from both a broad, macro level and a more detailed industry and company level. This combination of both "top-down" and "bottom-up" research allows us to identify trends, themes and company specific investment opportunities across the

Table of Contents

globe, and has been a key factor in our success. The use of a team rather than an individual to manage strategies means we emphasize repeatable processes over personalities.

- A Focus on Absolute Returns. Whether investing in a country, industry or individual company, we hold a strong belief that price matters. We are focused on helping our clients avoid permanent loss of capital over their time horizon, which is different than day-to-day volatility, which could in fact present opportunities. We believe that active management has consistently been the most appropriate and relevant investment strategy to achieve these goals across changing market environments. To that end, we believe we have aligned the incentives of our analysts with the goals of our clients by structuring our analyst compensation system such that returns that are both negative and below benchmarks produce a negative bonus the analyst has to offset before earning a positive bonus. The analysts earn their largest bonus, which could be multiples of their salary and the largest part of their total compensation, when they earn returns that are both positive and above benchmarks for our clients. We believe this focus on price has provided capital preservation in many valuation-based bear markets during our history, and reduces the risk of permanent, downside price fluctuation from our buy price.
- Flexibility to be Benchmark Agnostic. The flexibility to invest across sectors, countries and asset classes allows us to focus on companies we view as having greater upside potential than downside risk, and allows us to have a broad enough opportunity set to freely navigate away from areas of excess or speculation without limiting the number of investment opportunities. While this approach may often result in our strategies having meaningfully different allocations and exposures when compared to market benchmarks, we believe this type of differentiation is necessary to manage risk in many environments.

Sales and Distribution

We distribute our products and services through direct sales to high net worth individuals, middle market institutions and larger institutional clients that are working with consultants. In addition, we have dedicated efforts to sell through financial intermediaries and platforms. In identifying prospective new business, we focus on individuals and institutions that have long-term objectives and needs, and are looking for a partner in addressing those objectives. We believe our problem-solving approach fosters strong relationships, and our focus on communicating our investment process helps to manage long-term expectations and minimize AUM turnover.

As of December 31, 2015, we have nearly 60 sales and distribution professionals, with an average of approximately 18 years of industry experience. Our Managing Director of Sales, who has been with us since 1993, oversees 13 direct institutional and regional sales representatives. Our Managing Director of Regional Sales and Managing Director of Intermediary Distribution, who have respectively been with us for 17 and 6 years, report to our Managing Director of Sales and help to manage our various sales and service representatives. Specifically, our direct national sales representatives cover large, multiple state territories prospecting large plans. Our direct regional sales representatives cover smaller territories and pursue both individual and middle market institutional business opportunities, and our regional service representatives focus on servicing individual and small institutional clients. Our Intermediary Channel includes external and internal wholesalers, separately covering retirement plan advisors and wealth management advisors, and key account representatives. Lastly, we have Portfolio Strategists who are primarily responsible for consultant relations.

Sales representatives have different areas of focus in terms of client type, product and vehicle, but are highly knowledgeable about the investment markets, our investment process and our product and service offerings, so as to lessen the need for our research department personnel to assist in bringing new relationships on board. Our sales representatives are responsible for generating new business as well as maintaining existing business. Referrals are an important source of new business in both our direct and intermediary marketing efforts. To assist the sales representatives, we have over 30 service professionals who are responsible for responding to client requests and questions.

Our separate accounts are primarily distributed by direct sales representatives that market to individuals and institutions in defined territories within North America. Our regional sales representatives form separate account relationships with high net worth individuals that own businesses, sit on boards of endowments or foundations, or are generally well-connected in their communities, and leverage those relationships to obtain middle market, institutional separate account business. Our high net worth and middle market separate account clients also often use the consultative services of our Client Analytics Group, which includes a variety of planning services. Our regional sales representatives focus more on large institutional mandates across the United States. We obtain a smaller portion of our separate account business through our external and internal wholesalers, who work with intermediaries, including national brokerage firm representatives and independent financial advisors working with high net worth individuals, and unaffiliated registered investment advisor platforms that select our strategies for inclusion in their investment programs.

Our mutual funds and collective investment trusts are distributed through intermediaries, platforms and investment consultants, as well as direct to institutional clients. Our internal and external wholesale professionals are focused on distributing through retirement plan advisors who work with defined contribution plans, as well as through brokers and

Table of Contents

advisors who work with retail clients. Our consultant relations specialists are dedicated to building relationships with investment consultants. The primary responsibilities of these individuals are to educate consultants, platform providers and advisors on our investment products and process and to ensure our products are among those considered for placement within mutual fund advisory programs, on platforms' approved lists and in active searches conducted by consultants. Our direct institutional and regional sales representatives also contribute to mutual fund and collective investment trust distribution through sales and servicing of fund vehicles to large market retirement plan sponsors and institutions.

Structure

The Company was incorporated in 2011 as a Delaware corporation, and is the sole managing member of Manning & Napier Group, LLC and its subsidiaries ("Manning & Napier Group"), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts our organization structure as of December 31, 2015.

(1) The operating subsidiaries of Manning & Napier Group include Manning & Napier Advisors, LLC, Manning & Napier Alternative Opportunities, LLC, Perspective Partners LLC, Manning & Napier Information Services, LLC, Manning & Napier Benefits, LLC, Manning & Napier Investor Services, Inc. and Exeter Trust Company.

As of December 31, 2015, we had 474 employees, including William Manning, our Chairman and controlling stockholder, and other current employee-owners, most of whom are based in Fairport, New York. Collectively, these owners and former employee-owners own approximately 83.3% of our operating subsidiary, Manning & Napier Group. We believe that our culture of employee ownership aligns our interests with those of our clients and shareholders by delivering strong long-term investment performance and solutions.

Competition

Historically, we have competed to attract assets to manage principally on the basis of:

- a broad portfolio and service offering that provides solutions for our clients;

Table of Contents

- the disciplined and repeatable nature of our team-based investment processes;
- the quality of the service we provide to our clients and the duration of our relationships with them;
- our pricing compared to other investment management products offered;
- the tenure and continuity of our management and team-based investment professionals; and
- our long-term investment track record.

Our ability to continue to compete effectively will also depend upon our ability to retain our current investment professionals and employees and to attract highly qualified new investment professionals and employees. We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions.

Regulation

Our business is subject to extensive regulation in the United States at the federal level and, to a lesser extent, the state level, as well as by self-regulatory organizations and regulations outside the United States. Under certain of these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser from carrying on its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines.

SEC Regulation

Manning & Napier Advisors, LLC ("MNA") is registered with the U.S. Securities and Exchange Commission, or SEC, as investment advisers under the U.S. Investment Advisers Act of 1940, as amended, ("the Advisers Act"). Additionally, the Manning & Napier Fund, Inc., (the "Fund"), and several of the third-party investment companies we sub-advise are registered under the U.S. Investment Company Act of 1940, (the "1940 Act"). The Advisers Act and the 1940 Act, together with the SEC's regulations and interpretations thereunder, impose substantive and material restrictions and requirements on the operations of advisers and mutual funds. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and the 1940 Act, ranging from fines and censures to termination of an adviser's registration.

As an investment adviser, we have a fiduciary duty to our clients. The SEC has interpreted these duties to impose standards, requirements and limitations on, among other things:

- trading for proprietary, personal and client accounts;
- allocations of investment opportunities among clients;
- use of soft dollars;
- execution of transactions; and
- recommendations to clients.

We manage accounts for all of our clients on a discretionary basis, with authority to buy and sell securities for each portfolio, select broker-dealers to execute trades and negotiate brokerage commission rates. In connection with these transactions, we receive soft dollar credits from broker-dealers that have the effect of reducing certain of our expenses. All of our soft dollar arrangements are intended to be within the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act".) If our ability to use soft dollars were reduced or eliminated as a result of statutory amendments or new regulations, our operating expenses would increase.

As a registered adviser, we are subject to many additional requirements that cover, among other things:

- disclosure of information about our business to clients;
- maintenance of formal policies and procedures;
- maintenance of extensive books and records;
- restrictions on the types of fees we may charge;
- custody of client assets;
- client privacy;
- advertising; and

Table of Contents

- solicitation of clients.

The SEC has authority to inspect any investment adviser and typically inspects a registered adviser periodically to determine whether the adviser is conducting its activities (i) in accordance with applicable laws, (ii) consistent with disclosures made to clients and (iii) with adequate policies, procedures and systems to ensure compliance.

For the year ended December 31, 2015, 32% of our revenues were derived from our advisory services to investment companies registered under the 1940 Act, including 32% derived from our advisory services to the Fund. The 1940 Act imposes significant requirements and limitations on a registered fund, including with respect to its capital structure, investments and transactions. While we exercise broad discretion over the day-to-day management of the business and affairs of the Fund and the investment portfolios of the Fund and the funds we sub-advise, our own operations are subject to oversight and management by each fund’s board of directors. Under the 1940 Act, a majority of the directors must not be “interested persons” with respect to us (sometimes referred to as the “independent director” requirement). The responsibilities of the board include, among other things, approving our investment management agreement with the Fund; approving other service providers; determining the method of valuing assets; and monitoring transactions involving affiliates. Our investment management agreements with the Fund may be terminated by the funds on not more than 60 days’ notice, and are subject to annual renewal by the Fund board after their initial term.

The 1940 Act also imposes on the investment adviser to a mutual fund a fiduciary duty with respect to the receipt of the adviser’s investment management fees. That fiduciary duty may be enforced by the SEC through administrative action or litigation by investors in the fund pursuant to a private right of action.

Under the Advisers Act, our investment management agreements may not be assigned without the client’s consent. Under the 1940 Act, investment management agreements with registered funds (such as the mutual funds we manage) terminate automatically upon assignment. The term “assignment” is broadly defined and includes direct assignments as well as assignments that may be deemed to occur upon the transfer, directly or indirectly, of a controlling interest in us.

Manning & Napier Investor Services ("MNBD"), our SEC-registered broker-dealer subsidiary, is subject to the SEC’s Uniform Net Capital Rule, which requires that at least a minimum part of a registered broker-dealer’s assets be kept in relatively liquid form. As of December 31, 2015, MNBD was in compliance with its net capital requirements.

ERISA-Related Regulation

We are a fiduciary under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, with respect to assets that we manage for benefit plan clients subject to ERISA. ERISA, regulations promulgated thereunder and applicable provisions of the Internal Revenue Code of 1986, as amended, impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions.

The fiduciary duties under ERISA may be enforced by the U.S. Department of Labor by administrative action or litigation and by our benefit plan clients pursuant to a private right of action. In addition, the IRS may assess excise taxes against us if we engage in prohibited transactions on behalf of or with our benefit plan clients.

CFTC/NFA Regulation

MNA is registered with the Commodity Futures Trading Commission, or CFTC, as a commodity pool operator ("CPO") and is also a member of the National Futures Association, or NFA. The CFTC and NFA each administer a regulatory system covering futures contracts and various other financial instruments in which certain of our clients may invest.

New Hampshire Banking Regulation

Exeter Trust Company is a state-chartered non-depository trust company subject to the laws of the State of New Hampshire and the regulations promulgated thereunder by the New Hampshire Bank Commissioner.

Insurance-Related Regulation

Manning & Napier Benefits, LLC is a registered insurance broker in multiple states including the District of Columbia and, as such, is subject to various state insurance and health-related rules and regulations.

Non-U.S. Regulation

In addition to the extensive regulation our investment management industry is subject to in the United States, we are also subject to regulation by various Canadian regulatory authorities in the Canadian provinces where we operate pursuant to exemptions from registration. We are authorized to act as a non-resident sub-advisory investment manager to collective investment vehicles in Ireland. Our business is also subject to the rules and regulations of the more than 30 countries in which we currently buy and sell portfolio investments.

Employees

As of December 31, 2015, we had 474 employees, most of whom are based in Fairport, New York. None of our employees are subject to a collective bargaining agreement. We believe that relations with our employees are good. We strive to attract and retain the best talent in the industry.

Table of Contents

Available Information

All annual, quarterly and current reports, and amendments to those reports, proxy statements and other filings we file or furnish with the SEC are available free of charge from the SEC's website at http://www.sec.gov/ or from the Public Reference Room at 100 F Street N.E., Washington, D.C. 20549; 1-800-SEC-0330.

We also make the documents listed above available without charge through the Investor Relations section of our website at http://ir.manning-napier.com/. Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC.

Item 1A. Risk Factors.

Risks Related to our Business

Our revenues are dependent on the market value and composition of our AUM, all of which are subject to fluctuation due to factors outside of our control.

We derive the majority of our revenue from investment management fees, typically calculated as a percentage of the market value of our AUM. As a result, our revenues are dependent on the value and composition of our AUM, all of which are subject to fluctuation due to many factors, including:

- Declines in prices of securities in our portfolios. The prices of the securities held in the portfolios we manage may decline due to any number of factors beyond our control, including, among others, declining stock or commodities markets, changes in interest rates, a general economic downturn, political uncertainty or acts of terrorism. The U.S. and global financial markets continue to be subject to uncertainty and instability. Such factors could cause an unusual degree of volatility and price declines for securities in the portfolios we manage.
- Redemptions and other withdrawals. Our clients generally may withdraw their funds at any time, on very short notice and without any significant penalty. A substantial portion of our revenue is derived from investment advisory agreements that are terminable by clients upon short notice or no notice and investors in the mutual funds we advise can redeem their investments in those funds at any time without prior notice. Also, new clients and portfolios may not have the same client retention characteristics as we have experienced in the past. In addition, in a declining stock market, the pace of redemptions could accelerate.
- Investment performance. Our ability to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If we are unable to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis, our investment performance could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is influenced by a number of factors including general market conditions. If our portfolios perform poorly, even over the short-term, as compared with our competitors or applicable third-party benchmarks, or the rankings of mutual funds we manage decline, we may lose existing AUM and have difficulty attracting new assets.

If any of these factors cause a decline in our AUM, it would result in lower investment management revenues. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced and our business will be adversely affected.

We derive substantially all of our revenues from contracts and relationships that may be terminated upon short or no notice.

We derive substantially all of our revenues from investment advisory and sub-advisor agreements, all of which are terminable by clients upon short notice or no notice and without any significant penalty. Our investment management agreements with mutual funds, as required by law, are generally terminable by the funds' board of directors or a vote of the majority of the funds' outstanding voting securities on not more than 60 days' written notice. After an initial term, each fund's investment management agreement must be approved and renewed annually by such fund's board, including by its independent members. In addition, all of our separate account clients and some of the pooled investment vehicles, including mutual funds, that we sub-advise have the ability to re-allocate all or any portion of the assets that we manage away from us at any time with little or no notice. These investment management agreements and mutual fund and collective investment trust client

Table of Contents

relationships may be terminated or not renewed for any number of reasons. The decrease in revenues that could result from the termination of a material client relationship or group of client relationships could have an adverse effect on our business.

Our portfolios may not obtain attractive returns under certain market conditions or at all.

The goal of our investment process is to provide competitive absolute returns over full market cycles. Accordingly, our portfolios may not perform well compared to benchmarks or other investment managers' strategies during certain periods of time or under certain market conditions. Short-term underperformance may negatively affect our ability to retain clients and attract new clients. We are likely to be most out of favor when the markets are running on positive or negative price momentum and market prices become disconnected from underlying investment fundamentals. During and shortly following such periods of relative under performance, we are likely to see our highest levels of client turnover, even if our absolute returns are positive. Loss of client assets and the failure to attract new clients could adversely affect our revenues and growth.

The loss of key investment professionals or members of our senior management team could have an adverse effect on our business.

We depend on the skills and expertise of qualified investment professionals and our success depends on our ability to retain key employees, including members of our senior management team. Our investment professionals possess substantial experience in investing and have been primarily responsible for the historically attractive investment performance we have achieved. We particularly depend on our executive officers as well as senior members of our research department. The loss of any of these key individuals could limit our ability to successfully execute our business strategy and could have an adverse effect on our business.

Any of our investment or management professionals may resign at any time, subject to various covenants not to compete with us. In addition, employee-owners are subject to additional covenants not to compete.

Competition for qualified investment, management, marketing and client service professionals is intense and we may fail to attract and retain qualified personnel in the future. Our ability to attract and retain our named executive officers and other key employees will depend heavily on the amount and structure of compensation and opportunities for equity ownership we offer. We utilize a compensation structure that uses a combination of cash and equity-based incentives as appropriate. However, our compensation may not be effective to recruit and retain the personnel we need, especially if our equity-based compensation does not return significant value to employees. Any cost-reduction initiative or adjustments or reductions to compensation could negatively impact our ability to retain key personnel. In addition, changes to our management structure, corporate culture and corporate governance arrangements could negatively impact our ability to retain key personnel.

We may be required to reduce the fees we charge, or our fees may decline due to changes in our AUM composition, which could have an adverse effect on our profit margins and results of operations.

Our current fee structure may be subject to downward pressure due to a variety of factors, including a trend in recent years toward lower fees in the investment management industry. We may be required to reduce fees with respect to both the separate accounts we manage and the mutual funds and collective trust funds we advise. In addition, we may charge lower fees to attract future new business as compared to our existing business, which may result in us having to reduce our fees with respect to our existing business accordingly. The investment management agreements pursuant to which we advise mutual funds are terminable on short notice and, after an initial term, are subject to an annual process of review and renewal by the funds' boards. As part of that annual review process, the fund board considers, among other things, the level of compensation that the fund has been paying us for our services, and that process may result in the renegotiation of our fee structure or increase our obligations, thus increasing the cost of our performance. Any fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

Our AUM is concentrated in certain portfolios.

As of December 31, 2015, 64% of our AUM was invested in products that comprise our blended asset portfolio. As a result, a substantial portion of our operating results depends upon the performance of these products, and our ability to retain client assets in such products. If a significant portion of the investors in our blended asset portfolio decide to withdraw their investments or terminate their investment management agreements for any reason, including poor investment performance or adverse market conditions, our revenues from these portfolios would decline, which could have an adverse effect on our earnings and financial condition.

	90,535	
Cash and cash equivalents, end of period	$120,240	$54,770

See accompanying notes.

5

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002

1. Basis of Presentation

The financial information presented as of any date other than December 31 has been prepared from the books and records without audit. Financial information presented as of December 31, 2001 has been derived from the audited financial statements of United Defense Industries, Inc. (the Company), but does not include all the associated disclosures required by generally accepted accounting principles. In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments (consisting of normal, recurring adjustments) necessary to present fairly the Company s financial position as of September 30, 2002 and the results of its operations for the three months and nine months ended September 30, 2001 and 2002, and cash flows for the nine months ended September 30, 2001 and 2002. The results of operations are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These unaudited consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001 and the Company s Forms 10-Q for the quarters ended March 31, 2002 and June 30, 2002.

2. Changes in Accounting Principles

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations , and No. 142, Goodwill and Other Intangible Assets , (the Statements) effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and indefinite-lived intangible assets are no longer amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

On January 1, 2002, the Company began to apply the new rules on accounting for goodwill and other intangible assets and ceased the amortization of goodwill. The following information reconciles reported net income and earnings per share to adjusted net income and earnings per share, excluding the goodwill amortization previously recognized.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2002	2001	2002
	(In thousands, except per share data)			
Reported income before extraordinary item	$ 4,540	$46,697	$25,380	$93,254
Add back goodwill amortization	2,725		7,133	
Adjusted income before extraordinary item	$ 7,265	$46,697	$32,513	$93,254
Reported net (loss) income	$(18,059)	$45,080	$ 2,781	$91,395
Add back goodwill amortization	2,725		7,133	
Adjusted net (loss) income	$(15,334)	$45,080	$ 9,914	$91,395
Earnings per common share basic:				
Reported income before extraordinary item	$ 0.11	$ 0.91	$ 0.62	$ 1.82
Add back goodwill amortization	0.07		0.18	
Adjusted income before extraordinary item	$ 0.18	$ 0.91	$ 0.80	$ 1.82
Earnings per common share diluted:				

Reported income before extraordinary item	$ 0.11	$ 0.88	$ 0.59	$ 1.77
Add back goodwill amortization	0.06		0.17	
Adjusted income before extraordinary item	$ 0.17	$ 0.88	$ 0.76	$ 1.77

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2002**	**2001**	**2002**
	(In thousands, except per share data)			
Earnings per common share basic:				
Reported net (loss) income	$(0.44)	$0.88	$0.07	$1.78
Add back goodwill amortization	0.06		0.17	
Adjusted net (loss) income	$(0.38)	$0.88	$0.24	$1.78
Earnings per common share diluted:				
Reported net (loss) income	$(0.42)	$0.85	$0.06	$1.73
Add back goodwill amortization	0.06		0.17	
Adjusted net (loss) income	$(0.36)	$0.85	$0.23	$1.73

The Company has completed the annual required impairment test of goodwill as of October 1, 2002 and determined that there is no impairment of goodwill.

In April 2002, the FASB issued Statement No. 145 (FAS 145), *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* FAS 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* now will be used to classify those gains and losses. Under APB 30, gains and losses on early extinguishment of debt would only be classified as extraordinary if the extinguishment is considered unusual and infrequent.

Generally, the provisions of FAS 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002. Effective January 1, 2003, the gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods that does not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified. The Company is currently evaluating the impact of adoption of this statement, but does not believe it will have a significant impact on its financial statements other than reclassification of gains and losses on extinguishment of debt from extraordinary gains and losses to income before extraordinary items.

3. Investments in Affiliated Companies

The Company s investment in 51% owned foreign joint ventures in Turkey and Saudi Arabia are accounted for using the equity method because, although the Company does not control them, it has the ability to exercise influence over their operating and financial policies. Equity in earnings from these investments, net of amounts paid to the joint venture partner, was $9.2 million and $(0.6) million for the three months ended September 30, 2001 and 2002 and $9.2 million and $6.7 million for the nine months ended September 30, 2001 and 2002, respectively. The following table, which summarizes financial information for these joint ventures, reports results from the joint venture in Saudi Arabia only through February of 2002:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2002**	**2001**	**2002**

	(In thousands)			
Sales	$ 5,080	$29,824	$54,365	$97,626
Cost of Sales	3,935	15,098	34,512	50,139
Net Income	18,052	2,698	18,028	19,492

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In view of the declining scale and prospects of the Company s Saudi Arabian joint venture, United Defense Systems Ltd. (UDS), as described in the Company s Report on Form 10-K for the year ended December 31, 2001, the Company has entered into an agreement with its Saudi Arabian joint venture partner, Al-Hejailan Projects Company Ltd. (Al-Hejailan), under which the Company will sell its interest in the joint venture to Al-Hejailan for approximately $408,000. Completion of the sale is expected to occur within the next six months. The Company does not expect to incur a significant loss from the sale. Beginning March 1, 2002 the Company no longer receives a share of earnings from this joint venture.

4. Comprehensive Income (Loss)

Comprehensive income (loss) was $40.8 million and ($17.8) million for the three-month periods and $94.8 million and ($1.6) million for the nine-month periods ended September 30, 2002 and September 2001, respectively. Comprehensive income consists primarily of net income (loss) ($45.1 million and ($18.1) million for the three-month periods and $91.4 million and $2.8 million for the nine-month periods ended September 30, 2002 and September 30, 2001, respectively), foreign currency translation adjustments and fair value adjustments for foreign currency hedges and interest rate swaps.

5. Long-term Debt

In August 2001, the Company entered into a credit facility with various banks that included $600 million of term loan facilities and a $200 million revolving credit facility. On July 2, 2002 the Company amended the credit facility to borrow an additional $300 million for the purchase of United States Marine Repair, Inc. (USMR) (see Note 8).

Outstanding borrowings on the term loan facilities were $640 million at September 30, 2002. The facilities bear interest at variable rates with a weighted average rate of 4.6% at September 30, 2002. These loans are due through 2009 and provide for quarterly principal and interest payments.

The Company made debt repayments under the credit facility of $8.3 million on January 30, 2002 and $82.6 million on September 30, 2002.

6. Commitments and Contingencies

Environmental Matters

The Company spends certain amounts annually to maintain compliance with environmental laws. Operating and maintenance costs associated with environmental compliance and prevention of pollution at the Company s facilities are a normal, recurring part of operations, are not significant relative to total operating costs or cash flows, and are generally allowable as contract costs under the Company s contracts with the U.S. government (Allowable Costs).

As with compliance costs, a significant portion of the Company s expenditures for remediation of existing contamination at its facilities consists of Allowable Costs. As of September 30, 2002 the Company has accrued approximately $19 million to cover any investigation and/or remediation costs that may not be Allowable Costs under U.S. government contracts. The amount accrued is based on reasonable estimates, although there is a possibility that amounts in excess of amounts accrued may be incurred. The Company does not believe there are significant uncertainties affecting the estimated liabilities or amounts that will be paid in the near term. The most significant of the estimated liabilities is based on the Company s experience related to ongoing remediation efforts. Pursuant to a demand from the California Water Quality Control Board, USMR is currently conducting a study analyzing clean-up criteria for future remediation work regarding sedimentary contamination in the San Diego Bay. Upon completion of the study, USMR expects that it will be required to begin remediation procedures with respect to the contamination. USMR anticipates that the total costs associated with the remediation phase may range from $2 million to $8 million. In addition, pursuant to the

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

terms of the 1997 acquisition of UDLP by the Carlyle Group, the Sellers in that transaction are required to reimburse the Company for 75% of certain remediation costs that are Non-Allowable Costs through the year 2007 for environmental losses previously identified by the Company to the Sellers. Accordingly, the Company has recorded a receivable for $1.6 million for which it expects to be reimbursed over approximately the next 5 years by the Sellers under the terms of the acquisition agreement.

7. Cell ITS Acquisition

On March 26, 2002, the Company, through its subsidiary, Bofors Defence, finalized the acquisition of 100% of the outstanding stock of Cell ITS AB, a company incorporated under the laws of Sweden and wholly owned by Cell Network AB. Cell ITS specializes in interactive training and simulation. As consideration for the purchase, the Company paid the former owner, Cell Network AB, 45 million Swedish krona (SEK) (approximately $4.3 million), of which 20 million SEK was held in escrow as a lien for the fulfillment of certain receivables. The transaction was accounted for as a purchase. Accordingly, the financial statements reflect the results of operations of Cell ITS from the date of acquisition.

8. United States Marine Repair Acquisition

Effective July 2, 2002, the Company completed the acquisition of 100% of the outstanding stock of USMR for $305.4 million including the repayment of approximately $105 million of USMR debt. The Company incurred an additional $2 million of transaction costs related to the acquisition. As a result of the transaction, USMR is now a wholly owned subsidiary of the Company. The transaction was accounted for as a purchase. The Company financed the acquisition with cash on hand and by amending its credit facility to borrow an additional $300 million. In connection with the purchase of USMR, the Company received indemnification for pre-existing environmental liabilities and other matters, which indemnification is limited to an escrow account that currently contains approximately $15 million. Additionally, the Company acquired with USMR an escrow-backed indemnification right of $8.9 million pertaining to potential environmental claims which USMR may have against certain third parties. The Company began to consolidate the results of operations of USMR as of the effective date of the transaction.

USMR, based in Norfolk, Va., is the largest provider of non-nuclear ship repair, modernization, overhaul and conversion services to the U.S. Navy and related government agencies. It provides a range of services from standard topside ship repair to full dry-dock services at six strategically located ship repair facilities in the ports of Norfolk, Virginia; San Diego, San Francisco and San Pedro, California; Pearl Harbor, Hawaii; and Ingleside, Texas. The acquisition of USMR balances and diversifies the Company s portfolio, gives the Company a strategic growth platform and expands its mission to support the U.S. Navy with superior technology and services.

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the preliminary allocation of purchase price to the estimated fair values of the assets acquired and liabilities assumed at the date of USMR s acquisition.

	At July 2, 2002
	(In thousands)
Current assets	$ 65,169
Property, plant and equipment	86,911
Intangible asset: contract rights and customer relationships	29,527
Intangible asset: non-compete	2,000
Goodwill	235,313
Other assets	5,354
Total assets	424,274
Current liabilities	64,522
Long-term liabilities	45,063
Total liabilities	109,585
Net assets acquired	$314,689

The $235.3 million of goodwill was assigned to USMR. The stepped-up value over the historical net book value of property and equipment was derived from an increase related to land and improvements of $4.9 million and an increase related to drydocks and piers of $15.9 million which are being depreciated on a straight-line basis over the remaining life of the assets, which averages approximately 18 years. The identifiable intangible assets acquired include contract rights and customer relationships ($29.5 million) and a non-compete agreement ($2 million). These intangible assets will be amortized over a period of 4 years, which represents their estimated economic useful life. The contract rights will be amortized based on when projected sales are expected to occur and the non-compete agreement will be amortized on a straight-line basis.

The following are the unaudited pro forma consolidated results of operations of the Company, assuming the USMR acquisition occurred at the beginning of each period presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2002	2001	2002
	(In thousands, except per share data)			
Sales	$345,017	$529,701	$1,147,090	$1,455,425
Cost of Sales	271,896	426,976	921,872	1,187,322
Income before extraordinary item	3,917	46,697	21,944	96,006
Earnings per common share basic	$ 0.09	$ 0.91	$ 0.53	$ 1.87
Earnings per common share diluted	$ 0.09	$ 0.88	$ 0.51	$ 1.82
Net income (loss)	(18,682)	45,080	(655)	94,147
Earnings per common share basic	$ (0.46)	$ 0.88	$ (0.02)	$ 1.84
Earnings per common share diluted	$ (0.44)	$ 0.85	$ (0.02)	$ 1.79

9. Information on Business Segments

With the acquisition of USMR, the Company now operates in two business segments: Defense Systems and Ship Repair and Maintenance. USMR is categorized under the business segment Ship Repair and Maintenance . All other business operations are categorized as Defense Systems . The Company uses earnings before interest and taxes as the measure of financial performance for each segment.

UNITED DEFENSE INDUSTRIES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary financial data for each of the company s business segments for three-month and nine-month periods ended September 30, 2001 and 2002 follow:

	Three months ended September 30,		Nine months ended September 30, 2002	
	2001	2002	2001	2002
	(In thousands)			
Sales:				
Defense Systems	$275,055	$423,962	$913,863	$1,098,443
Ship Repair and Maintenance		105,739		105,739
Total sales	275,055	529,701	913,863	1,204,182
Income before interest and taxes:				
Defense Systems	31,980	55,748	78,508	124,997
Ship Repair and Maintenance		6,860		6,860
Corporate	(22,567)	(5,612)	(31,852)	(13,562)
Total income before interest and taxes	9,413	56,996	46,656	118,295
Interest, net	(4,861)	(9,806)	(14,594)	(20,041)
Income before income taxes	$ 4,552	$ 47,190	$ 32,062	$ 98,254

	December 31, 2001	September 30, 2002
Total assets: (a)		
Defense Systems	$811,530	$ 876,056
Ship Repair and Maintenance		395,883
Corporate and eliminations	107,030	72,070
Total assets	$918,560	$1,344,009

(a) Goodwill and other intangible assets and related amortization, and net pension and other post retirement benefits are included in the respective business segments. Corporate assets primarily include cash and cash equivalents and deferred financing costs.

Item 2. ***Management s Discussion and Analysis of the Results of Operations and Financial Condition September 30, 2002***
Special Note Regarding Forward Looking Statements

Our Form 10-Q disclosure and analysis concerning our operations, cash flows and financial position, including, in particular, the likelihood of our success in developing and expanding our business and the realization of sales from our backlog, include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as expects, anticipates, intends, plans, believes, estimates a similar expressions are forward-looking statements. Although these statements are based upon assumptions we consider reasonable, they are subject to risks and uncertainties that are described more fully below and in our quarterly report on Form 10-Q for the quarter ended June 30,

2002. Accordingly, we can give no assurance that we will achieve the results anticipated or implied by our forward-looking statements.

Overview

United Defense is a leader in the design, development and production of combat vehicles, artillery, naval guns, missile launchers and precision munitions used by the U.S. Department of Defense (DoD) and more than 40 foreign militaries, and is the largest U.S. provider of non-nuclear ship repair, modernization and conversion services to the Navy and related government agencies. For many of our key DoD programs, we are the sole-source prime contractor and systems integrator. We conduct global operations through our manufacturing facilities in the United States and Sweden, through our ship repair facilities in Virginia, California, Hawaii and Texas, through a manufacturing joint venture in Turkey, and through co-production programs with various other governments and foreign contractors.

The Carlyle Group formed United Defense Industries, Inc. in October of 1997 to facilitate the acquisition of United Defense, L.P., our predecessor entity. The Carlyle Group continues to own a significant portion of our common stock. Individuals affiliated with The Carlyle Group are expected to continue to influence our operations.

Our results of operations, particularly revenue, gross profits and cash flows, vary significantly from period to period, depending largely upon the timing of our delivery of finished products, the terms of our contracts and our level of export sales. As a result, period-to-period comparisons may show substantial changes disproportionate to our underlying business activity.

Our contracts typically fall into two categories, cost-plus and fixed-price. Our contracts for research, engineering, prototypes, and some other matters are typically cost-plus arrangements, under which we are reimbursed for approved costs and also receive a fee. Our production contracts are typically fixed-price arrangements under which we assume the risk of cost overruns and receive the benefit of cost savings. Our repair and maintenance contracts are a mix of fixed-price and cost-plus arrangements with a recent trend toward cost-plus. All of our DoD contracts, whether we are the prime contractor or a subcontractor, are subject to audit and cost controls. As a result, the DoD typically has the right to object to our costs as not allowable or as unreasonable, which can increase the costs we bear rather than allow recovery as costs reimbursed or allowed in our negotiation of fixed-price contracts.

We recognize sales on fixed-price production contracts when the risks and rewards of ownership have been transferred to the customer. For our DoD production contracts, those criteria are typically met when the manufacture of the product is completed and the customer has certified it as meeting the contract specifications and as having passed quality control tests. However, under recent Bradley production contracts, sales are not recognized until the U.S. Army fields individual units because it is at that point that the risks and rewards of ownership are transferred. This contractual provision extends the period of time during which these vehicles are carried as inventory and may result in an uneven distribution of revenue from these contracts between periods. For our foreign production contracts, sales are generally recorded upon shipment of products to the customer, which corresponds to when the risks and rewards of ownership transfer. We tend to deliver products to our foreign customers in lots, which also results in an inventory build-up pending delivery. For fixed-price repair and maintenance contracts, we recognize sales under the percentage of completion method based on the ratio of incurred cost to estimated total costs. We record sales under cost-plus contracts as costs are incurred and invoiced.

We use the contract method of accounting for our fixed-price contracts and therefore record gross margin on each unit produced at the time a sale is recognized, based on an estimate of the margin that will be realized over the life of the related contract. We currently evaluate estimates of gross margin three times each year and use the cumulative catch-up method to recognize changes in estimates of sales and gross margins during the period in which those changes are determined. We charge any anticipated losses on a contract to operations as soon as those losses are determined. The principal components of our operating costs for production contracts are materials, subcontractor costs, labor and overhead. The principal operating costs for engineering and development contracts are compensation costs for the engineers and designers and related overhead necessary to support those personnel. All of these operating costs are charged to inventory as incurred. We also use the last-in, first-out, or LIFO, method of accounting for the majority of our inventory, which generally results in higher cost of sales in periods when current costs of the inventory are higher than comparable costs in prior periods and a periodic charge to earnings to reflect changes in the costs of components of inventory. We expense selling, general, administrative, and research and development costs in the period incurred. The major components of these costs include compensation, overhead and amortization of intangibles.

We are a supplier of armored combat vehicles and weapons delivery systems to the DoD and a number of allied military forces worldwide. Our products include critical elements of the U.S. military s tactical force structure. We had a firm funded backlog, including new and existing orders at USMR, of approximately $2 billion as of September 30, 2002, a substantial majority of which was derived from sole-source, prime contracts. Approximately 80% of our sales for the nine months ended September 30, 2002 were to the U.S. government, primarily to agencies of the DoD (excluding Foreign Military Sales), or through subcontracts with other government contractors.

There were no material changes to our major programs from those described in our Form 10-K Report, other than normal additional funding as new contracts are negotiated and awarded, except as follows:

Army Artillery Development Programs

On May 8, 2002 the Secretary of Defense announced the cancellation of the Crusader program. Crusader was being developed as the U.S. Army s next generation self-propelled artillery system, using an advanced technology, 155mm cannon. Since the inception of the Crusader program in 1994, we have been the system s prime contractor, and in recent years Crusader has been our largest weapon system development program. During the nine months ended September 30, 2002, the Crusader program provided 19.2%, or $231.5 million, of our revenues. On August 7, 2002 the Army issued to us notice that our Crusader contract was being terminated for the convenience of the government.

Also on August 7, 2002, the Army issued to us a preliminary prime contract to begin adapting key Crusader technologies to a new cannon artillery system known as the Non-Line-of-Sight Cannon (NLOS-C). NLOS-C would provide a next generation, self-propelled, cannon-based field artillery system as an element of the Army s Future Combat Systems (discussed below). As such, NLOS-C is intended to be substantially smaller and lighter in weight than the Crusader system and may present significant technological and engineering challenges if it is to be successfully developed. To date, the Army has assigned $31 million in funding to our NLOS-C contract.

Assuming that the NLOS-C program continues, it will require substantial funding during the Government s FY03 and subsequent budgetary years. The FY03 defense appropriation law includes $368.5 million for NLOS-C. The statute specifically requires that DoD plan to fully fund the system and field it in the 2008 timeframe. We have not yet ascertained the degree to which the FY03 appropriation will be reflected in our NLOS-C contract, primarily because the government offices, which administer weapons programs, typically consume a portion of the appropriation for their own activities.

To date the Crusader termination and the NLOS-C program are proceeding favorably. However, the ultimate impact of the Crusader termination and the advent of NLOS-C upon our revenues and profits is likely to depend upon several factors including: (i) the level of continued military and political support of the NLOS-C program in periods beyond FY03; (ii) our continuing in the role of prime contractor on NLOS-C; (iii) the level of our success in performing NLOS-C program work contracted to us; and (iv) the pace at which the NLOS-C program develops, given that the Crusader program was at a relatively mature stage of development when funding levels can be significantly higher than those at earlier stages of development.

Future Combat Systems

The U.S. Army has undertaken the Future Combat Systems (FCS) program as the means by which its long-term combat force, known as the Objective Force, is to be developed and produced. FCS is intended to provide an integrated network of key battlefield components, including manned ground combat vehicles, robotic elements, and command and control, communications, intelligence, surveillance, and reconnaissance systems. The FCS manned ground combat vehicle types are expected to include infantry, artillery, command,

and engineering vehicles, and would thus come within areas in which the Company has established expertise and historical record of engineering and production successes.

On March 7, 2002 the Army selected a contractor team led by The Boeing Company to manage the initial phase of the FCS program. The selection of Boeing exemplifies what may be an emerging trend in U.S. military development and procurement programs, in which the role of an overall integrator of otherwise disparate battlefield systems (such as airborne platforms, ground vehicles, etc.) is awarded to a major defense contractor with large-scale systems integration expertise. The effect of such a selection is to reduce the role of the Company from that of a system prime contractor to that of a subcontractor, albeit a potentially critical one.

Because of the announced scale and centrality of the FCS program to the Army s mission, the Company accords a very high priority to obtaining a substantial role in the program. On July 3, 2002 Boeing awarded us an initial FCS subcontract for approximately $1 million to study various manned and unmanned combat vehicle platforms, subsystems, and payloads. The Company is currently engaged in discussions with Boeing and others in an effort to define the nature and scale of our long-term role on FCS.

The FCS program is still at an early stage, and hence the ultimate nature and characteristics of the combat vehicles which it would use, as well as the pace of developing and producing such systems, are uncertain. The Army has indicated that it intends to field at least some elements of FCS in the 2008-2010 timeframe. We believe that we have key organizational and technological strengths pertinent to the FCS program, and we are pleased to have been selected for some of the initial study work in the program. The infancy and relative lack of definition in the program means that significant uncertainty remains as to (i) the overall future progress of the program, (ii) its continued level of military and political support, including funding, and (iii) the nature and scale of any longer-term role that we may obtain in the program.

Assuming that FCS continues to develop in the overall direction envisioned by the Army, the funding requirements for the program are expected to expand considerably. Unless overall procurement spending by the Army is permitted to increase significantly, the Army appears inclined to pursue the FCS program at the expense of funding for other weapons programs. Such programs are primarily in the so-called Legacy Force, which is the Army s current heavy mechanized combat force based primarily upon the M-1 tank (produced by General Dynamics Corporation) and the Bradley Fighting Vehicle (produced by us). Our largest current contract for Legacy Force work consists of a $697 million multi-year contract to upgrade 389 Bradley vehicles to the A3 model and to perform other Bradley work. This contract should be completed by December 2005. In the event that the government becomes convinced that its overall procurement funding will be insufficient to fully pursue both FCS and Legacy Force programs, funding for further Bradley program work (i.e., beyond our multi-year contract which ends in 2005) may be substantially reduced, or cut off entirely. Unless we were to have developed replacement FCS or other program work on a comparable scale by that time, any significant reduction or cutoff in Bradley program work would likely reduce commensurately our revenue and profits.

Ship Repair and Maintenance Services

USMR is the largest U.S. provider of non-nuclear repair, overhaul, and conversion services for naval and other vessels. Approximately 85% of USMR s revenue is derived from work on ships owned by the U.S. Navy, Military Sealift Command, and other federal agencies, such as the Maritime Administration. The level of USMR s revenue is primarily determined by (i) the size of the Navy s surface ship fleet, (ii) the level and rate of government funding for Navy surface ship repair and modernization, (iii) the nature and pace at which the Navy deploys such vessels, and (iv) the degree to which USMR prevails in competitive Navy procurements for shipyard work on its vessels. USMR s business has benefited in recent years from having established shipyard facilities in locations where the Navy s surface vessels are home ported, since the Navy prefers to have shipyard work performed in such locations.

USMR is currently achieving record revenues. For the nine months ended September 30, 2002, for example, USMR had revenues of $357.0 million compared to $233.2 million in the nine months ended September 30, 2001. Management believes that USMR s improved results in the current year, which are likely to continue at least through the end of the year, primarily reflect both USMR s success in winning competitive procurements, and the Navy s accelerated operations schedule to return various of its vessels to deployment-ready status.

Two current factors may, by contrast, tend to reduce USMR s revenues and profits in 2003. First, the Navy has announced plans to decommission certain vessels ahead of schedule in order to free up funds otherwise associated with the operation and maintenance of such vessels for new shipbuilding and conversion projects. Such vessels include a number of destroyers and amphibious ships which have historically constituted an important portion of the vessel population serviced by USMR. Second, to the extent that the Navy deploys its surface task forces on an accelerated and sustained basis in connection with potential operations in Iraq or elsewhere, such vessels would not be available for shipyard work while such deployments continue. Thus the Navy s operational deployment needs may tend, for example, to reduce USMR s business in 2003, but potentially increase it thereafter.

Business Segments, Products and Programs

With the acquisition of USMR, we now operate in two business segments: Defense Systems and Ship Repair and Maintenance. Our Defense Systems program portfolio consists of a balanced mix of weapon systems development, production, upgrade and life cycle support programs. Our Ship Repair and Maintenance business segment consists of ship repair, maintenance, and modernization service programs. Revenue generated from each of our major programs is summarized below.

	Three Months Ended September 30 (in millions)		Nine Months Ended September 30 (in millions)	
	2001	**2002**	**2001**	**2002**
Defense Systems:				
Bradley Family of Vehicles	$ 42.5	$125.3	$193.0	$ 266.3
Naval Ordnance	45.7	55.9	141.8	140.7
Vertical Launch System	19.1	29.8	65.2	88.7
Combat, Engineering & Recovery Vehicles	22.6	45.7	69.7	112.9
Artillery Systems (a)	74.1	86.3	204.4	252.7
Assault Amphibious Vehicles	13.1	22.9	47.7	42.8
Other	58.0	58.1	192.1	194.4
Total Defense Systems	275.1	424.0	913.9	1,098.5
Ship Repair and Maintenance (b)		105.7		105.7
Total	$275.1	$529.7	$913.9	$1,204.2

(a) Includes Crusader, NLOS-C, and M109 Howitzer systems

(b) Includes ship repair and maintenance activities at USMR

For a more detailed description of our business and principal operating programs, see Form 10-K for the year ended December 31, 2001.

Results of Operations

Revenue

Revenue for the three months ended September 30, 2002 was $529.7 million, which was $254.6 million or 92.6% higher than the $275.1 million for the comparable period in 2001. Revenue for the nine months ended September 30, 2002 of $1.2 billion increased by $290.3 million, or 31.8%, from the comparable 2001 period. The Ship Repair and Maintenance segment contributed $105.7 million to the increases both for the quarter and nine-month periods. Ship Repair and Maintenance was a newly consolidated segment resulting from the acquisition of USMR on July 2, 2002. Revenue for the Defense Systems segment was $424.0 million

15

and $275.1 million in the three-month periods ended September 30, 2002 and 2001, respectively, and $1.1 billion and $913.9 million in the nine-month periods ended September 30, 2002 and 2001, respectively. The increase in Defense Systems revenue for the three and nine month periods was primarily due to higher deliveries of Bradley Fighting Vehicles, shipment of recovery vehicles to the U.S. and to Egypt under a co-production contract, shipment of the second propulsor unit for the new Virginia class submarine, and increased deliveries of VLS canisters. These increases in Defense Systems were partially offset by fewer deliveries of Assault Amphibious Vehicles and lower sales pertaining to the Advanced Gun System program intended for use on the U.S. Navy s new DD(X) destroyer.

Gross profit

The gross profit rate for the three months ended September 30, 2002 was 19.4% compared to 21.7% for 2001. For the nine-month periods ended September 30, 2002 and 2001 the gross profit rate was 19.3% and 20.2%, respectively. The Defense Systems segment gross profit rate for the three months ended September 30, 2002 and 2001 was 20.3% and 21.7%, respectively, and 19.7% and 20.2% for the nine months ended September 30, 2002 and 2001, respectively. The lower gross profit rates in 2002 for both three-month and nine-month periods were due to a less profitable mix of contracts in 2002, mainly the lower margin Crusader development program in the Defense Systems segment. The Ship Repair and Maintenance segment gross profit rate for the three months and nine months ended September 30, 2002 was 15.7%.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended September 30, 2002 declined by 28.6% to $37.5 million, compared with $52.6 million in the prior period. Selling, general and administrative expenses were $98 million for the nine months ended September 30, 2002, which declined $33.1 million, or 25%, from the prior period. Decreases for the three and nine month periods in 2002 were attributable to lower amortization of intangible assets, including goodwill, related to acquisitions and payment of performance bonuses and consulting and management fees associated with a recapitalization in 2001 in the Defense Systems segment. These decreases were partially offset by an increase from the inclusion of USMR this quarter.

Research and development

Research and development costs were $7.6 million for the three months ended September 30, 2002 compared with $6.8 million for the same prior period. This increase was primarily associated with spending for technologies that potentially can be used on Defense Systems Future Combat Systems program. Research and development costs increased $6.4 million to $22.9 million for the nine months ended September 30, 2002. The increased spending was associated with projects related to Advanced Gun System development work for the DD(X) destroyer and technologies that potentially can be used on the Defense System segment Future Combat Systems program.

Earnings (loss) from foreign affiliates

Our Defense Systems segment currently has joint ventures in Turkey and Saudi Arabia (see Note 3.). Earnings (loss) from foreign affiliates of ($0.6) million for the three months ended September 30, 2002 was $9.8 million lower than the same period last year. Earnings from foreign affiliates were $6.7 million in the nine months ended September 30, 2002, a decrease of $2.5 million from $9.2 million in the same prior period. For the three-month and nine-month periods in 2002 the decrease was primarily due to higher earnings in 2001 from Defense Systems segment joint venture in Turkey. The higher earnings in 2001 were a result of the positive impact of $8.6 million from the joint venture being able to liquidate its offset requirement. The earnings for the nine months ended September 30, 2002 were below expectations due to customer acceptance issues. These issues have been addressed and should be resolved in the fourth quarter.

Earnings before interest and taxes (EBIT)

EBIT for the three months ended September 30, 2002 was $57.0 million compared with $9.4 million in the same prior period. EBIT for the nine months ended September 30, 2002 was $118.3 million, higher by $71.6 million than $46.7 million in the comparable 2002 period. EBIT for Defense Systems was $55.7 million and $32.0 million for the three months ended September 30, 2002 and 2001, respectively, and $125.0 million and $78.5 million for the nine months ended September 30, 2002 and 2001, respectively. The increase in Defense Systems EBIT for the three-month and nine-month periods for 2002 was primarily due to higher profit on increased sales, lower operating expenses due to not amortizing goodwill in 2002 and lower amortization of other intangible assets related to acquisitions, partially offset by decreased earnings from foreign affiliates. EBIT for Ship Repair and Maintenance was $6.9 million for the three and nine month periods for 2002. Ship Repair and Maintenance includes the operating results of USMR, a newly consolidated segment acquired on July 2, 2002.

Interest expense

Net interest expense was $9.8 million in the three months ended September 30, 2002 compared with $4.9 million in the same period in 2001. Net interest expense was $20.0 million in the nine months ended September 30, 2002 compared with $14.6 million in the same prior period. The higher interest expense in 2002 was due to the increased debt level from the acquisition of USMR offset slightly by the effect of a lower interest rate on our variable rate debt in 2002.

Extraordinary item

The extraordinary item was $1.6 million in the three months ended September 30, 2002 compared with $22.6 million in the comparable period last year. The extraordinary item was $1.9 million in the nine months ended September 30, 2002 compared with $22.6 million in the comparable period last year. In 2001 we had a charge of $22.6 million for the early liquidation of senior subordinated notes. The $22.6 million consisted of an $18.1 million tender premium paid to the debt holders and a write-off of $4.5 million of unamortized financing costs. The $1.6 million and $1.9 million extraordinary items in the three and nine months ended September 30, 2002, respectively were write-offs of unamortized financing costs for early payment of debt.

Net income

As a result of the foregoing factors, we had a net income of $45.1 million in the three months ended September 2002, compared with a loss of $18.1 million in the prior period. For the nine months ended September 30, 2002 and 2001 we had net income of $91.4 million and $2.8 million, respectively.

Liquidity, Capital Resources and Financial Condition

Cash provided by operating activities was $75.7 million for the nine-month period ended September 30, 2002 compared with $17.0 million in the same period in 2001. The primary reasons for the increase in 2002 were net income plus non-cash amortization and depreciation, which almost doubled over the prior year and advance payments related to international contracts with Korea, Italy, and Canada exceeding the inventory requirements for these contracts.

Cash used in investing activities was $324.7 million for the nine-month period ended September 30, 2002, compared with $13.3 million in the prior year period. The purchases of USMR and Cell ITS AB were the reasons for this increase in investing activity in 2002 from the prior period. Expenditures for manufacturing and computer equipment and software primarily represent the capital expenditure component of cash used for investing activities.

Cash provided by financing activities was $206.9 million for the nine-month period ended September 30, 2002, compared with $5.4 million during the same period in 2001. On July 2, 2002 we amended our credit facility to borrow an additional $300 million for the purchase of USMR. This increase was partially offset by the repayment of $90.9 million of debt during the nine-month period. In the prior period the net cash provided was primarily the result of our August 2001 refinancing of $600 million, offset by principal repayments on that debt of $269.6 million, by a distribution of $289.7 million, and by refinancing costs of $37.3 million.

Based on current levels of operations and anticipated growth, we believe that our cash from operations, together with other available sources of liquidity, including borrowings available under the revolving credit facility, will be sufficient to fund anticipated capital expenditures and make required payments of principal and interest on debt, including payments due under our senior credit facility, for the foreseeable future.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk September 30, 2002***

All of our financial instruments that are sensitive to market risk are entered into for purposes other than trading.

Forward Currency Exchange Risk

We conduct some of our operations outside the U.S. in functional currencies other than the U.S. dollar. To mitigate the risk associated with fluctuating currencies on short-term foreign currency-denominated transactions, Bofors Defence enters into foreign currency forward exchange contracts. The following table provides information concerning the U.S. dollar functional currency of Bofors forward exchange contracts at September 30, 2002. The table presents the U.S. dollar equivalent notional amounts and weighted average contractual exchange rates by expected maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

	Expected Maturity Date				
	2002	2003	2004	Total	Fair Value
	(U.S. $ equivalent in thousands)				
Receive Swedish krona/pay U.S. dollars					
Contract amount	$1,448	$	$	$1,448	$1,534
Average contractual exchange rate	8.81			8.81	
Receive British pounds/pay Swedish krona					
Contract amount	$3,474	$	$	$3,474	$3,569
Average contractual exchange rate	14.15			14.15	
Receive euro/pay Swedish krona					
Contract amount	$1,057	$	$	$1,057	$1,046
Average contractual exchange rate	9.24			9.24	
Receive Swedish krona/pay euro					
Contract amount	$	$3,053	$3,054	$6,107	$5,944
Average contractual exchange rate		9.54	9.54	9.54	

Interest Rate Risk

Borrowings under our senior secured credit facility are sensitive to changes in interest rates. The weighted average interest rate on our borrowings outstanding under the senior secured credit facility as of September 30, 2002 was 4.6%.

In January 2002, we entered into an interest rate protection agreement to mitigate risks associated with variable interest rate borrowings under our senior secured credit facility. The notional amount of this interest rate swap agreement is $173 million. We entered into this agreement as a hedge to manage interest costs and risks associated with fluctuating interest rates. The agreement entitles us to pay a base interest rate of 3.45%, in return for the right to receive a floating interest rate which is based on three-month LIBOR as of each quarterly measurement date. In the event the three-month LIBOR at the measurement date exceeds 6%, the base interest rate is adjusted to the then effective LIBOR up to a maximum of 8%. The net cash amounts paid or received on the agreement are accrued and recognized as an adjustment to interest expense. The fair value of the interest rate swap agreement was ($5.3) million and is included in other liabilities and accumulated comprehensive loss in stockholders equity.

USMR had also entered into an interest rate protection agreement to mitigate risks associated with variable interest rate borrowings. The agreement entitles us to pay our lenders at a fixed rate in return for the right to receive variable interest at a rate approximating the underlying variable rate of our debt, thereby creating the equivalent of a fixed rate obligation. The net cash amounts paid or received on the agreement are accrued and recognized as an adjustment to interest expense. The following table summarizes the financial terms of interest rate swap agreements as of September 30, 2002:

Notional Value	Fixed Rate	Effective Date	Expiration Date	Fair Value
$40M	6.08%	3/10/2000	3/10/2003	($0.9)
$20M	3.77%	1/29/2002	1/20/2004	($0.6)

Item 4. ***Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

Within the 90-day period prior to the filing of this report, an evaluation was performed under the supervision and with the participation of United Defense Industries, Inc. management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, our management, including our principal executive officer and our principal financial officer, concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II

OTHER INFORMATION

September 30, 2002

Item 1. ***Legal Proceedings***

We are subject to claims and lawsuits arising in the ordinary course of business. Management believes that the outcome of any such proceedings to which we are a party will not have a material adverse effect on the Company.

Item 6. ***Exhibits and Reports on Form 8-K***

(a) Exhibits

10.1 Amendment No. 1 to the United Defense Stock Option Plan.

10.2 Amendment No. 2 to the United Defense Stock Option Plan.

(b) Reports on Form 8-K

On July 17, 2002 the Company filed a report on Form 8-K regarding the completion of its acquisition of United States Marine Repair, Inc. (USMR).

On August 13, 2002, the Company filed a report on Form 8-K setting forth the certifications respectively provided by our Chief Executive and Chief Financial Officers regarding the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 and certain other Company reports under the Securities Exchange Act of 1934.

On September 13, 2002 the Company filed a report on Form 8-K, providing financial statements and pro forma financial information reflecting the acquisition of USMR.

SIGNATURE

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

By: /s/ FRANCIS RABORN

Francis Raborn
Principal Financial and Accounting Officer
and Authorized Signatory

Dated: November 14, 2002

CERTIFICATIONS

Certification of Chief Executive Officer and Director

I, Thomas W. Rabaut, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Defense Industries, 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 the 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: November 14, 2002

/s/ THOMAS W. RABAUT

Title: Chief Executive Officer

Certification of Vice President, Chief Financial Officer and Director

I, Francis Raborn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Defense Industries, 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 the 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: November 14, 2002

/s/ FRANCIS RABORN

Title: Vice President,
Chief Financial Officer and Director