

UNOVA INC
Form 10-Q
November 13, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

Commission file number 001-13279

UNOVA, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**6001 36th Avenue West
Everett, WA
www.unova.com**

(Address of principal executive
offices and internet site)

95-4647021

(I.R.S. Employer
Identification No.)

98203-1264

(Zip Code)

Registrant's telephone number, including area code: **(425) 265-2400**

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 No

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

On October 31, 2003 there were 59,429,022 shares of Common Stock outstanding, exclusive of treasury shares.

UNOVA, INC.

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REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2003

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Signature

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNOVA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share amounts)

(unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2003 | 2002 |
| Sales and Service Revenues | \$ 821,734 | \$ 939,266 |
| Costs and Expenses | | |
| Cost of sales and service | 564,417 | 636,865 |
| Selling, general and administrative | 226,033 | 222,588 |
| Depreciation and amortization | 19,651 | 24,814 |
| Special charges | 2,933 | 9,888 |
| Total Costs and Expenses | 813,034 | 894,155 |
| Operating Profit from Continuing Operations | 8,700 | 45,111 |
| Interest, net | (10,172) | (16,636) |
| Earnings (Loss) from Continuing Operations before Income Taxes | (1,472) | 28,475 |
| Provision for Income Taxes | (6,200) | (5,866) |
| Earnings (Loss) from Continuing Operations | (7,672) | 22,609 |
| Loss from Discontinued Operations | (9,346) | (4,206) |
| Net Earnings (Loss) | \$ (17,018) | \$ 18,403 |
| Basic Earnings (Loss) per Share | | |
| Continuing Operations | \$ (0.13) | \$ 0.39 |
| Discontinued Operations | (0.16) | (0.07) |
| Net Earnings (Loss) per share | \$ (0.29) | \$ 0.32 |
| Diluted Earnings (Loss) per Share | | |
| Continuing Operations | \$ (0.13) | \$ 0.38 |
| Discontinued Operations | (0.16) | (0.07) |
| Net Earnings (Loss) per share | \$ (0.29) | \$ 0.31 |

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| | | |
|--|--------|--------|
| Shares Used in Computing Basic Earnings (Loss) per Share | 58,621 | 57,713 |
| Shares Used in Computing Diluted Earnings (Loss) per Share | 58,621 | 58,592 |

See accompanying notes to consolidated financial statements.

UNOVA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share amounts)

(unaudited)

| | Three Months Ended September 30, | |
|--|-------------------------------------|------------|
| | 2003 | 2002 |
| Sales and Service Revenues | \$ 278,024 | \$ 318,165 |
| Costs and Expenses | | |
| Cost of sales and service | 185,036 | 206,379 |
| Selling, general and administrative | 76,479 | 74,464 |
| Depreciation and amortization | 6,249 | 7,864 |
| Special charges | 988 | 5,200 |
| Total Costs and Expenses | 268,752 | 293,907 |
| Operating Profit from Continuing Operations | 9,272 | 24,258 |
| Interest, net | (3,133) | (4,928) |
| Earnings from Continuing Operations before Income Taxes | 6,139 | 19,330 |
| Provision for Income Taxes | (2,000) | (3,517) |
| Earnings from Continuing Operations | 4,139 | 15,813 |
| Loss from Discontinued Operations | (5,474) | (1,502) |
| Net Earnings (Loss) | \$ (1,335) | \$ 14,311 |
| Basic Earnings (Loss) per Share | | |
| Continuing Operations | \$ 0.07 | \$ 0.27 |
| Discontinued Operations | (0.09) | (0.02) |
| Net Earnings (Loss) per share | \$ (0.02) | \$ 0.25 |
| Diluted Earnings (Loss) per Share | | |
| Continuing Operations | \$ 0.07 | \$ 0.26 |
| Discontinued Operations | (0.09) | (0.02) |
| Net Earnings (Loss) per share | \$ (0.02) | \$ 0.24 |
| Shares Used in Computing Basic Earnings (Loss) per Share | 58,970 | 58,005 |
| Shares Used in Computing Diluted Earnings (Loss) per Share | 60,830 | 58,687 |

See accompanying notes to consolidated financial statements.

UNOVA, INC.

CONSOLIDATED BALANCE SHEETS

(amounts in thousands)

(unaudited)

| | September 30, 2003 | December 31, 2002 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 226,264 | \$ 178,269 |
| Accounts receivable, net | 265,821 | 341,171 |
| Inventories, net of progress billings | 133,596 | 138,468 |
| Deferred tax assets | 68,269 | 78,612 |
| Assets held for sale | 30,022 | |
| Other current assets | 8,944 | 9,247 |
| Total Current Assets | 732,916 | 745,767 |
| Property, Plant and Equipment, Net of Accumulated Depreciation of \$218,717 and \$240,133 | 77,351 | 126,936 |
| Goodwill and Other Intangibles, Net | 75,236 | 75,345 |
| Deferred Tax Assets | 118,535 | 103,559 |
| Other Assets | 69,103 | 73,174 |
| Total Assets | \$ 1,073,141 | \$ 1,124,781 |
| LIABILITIES AND SHAREHOLDERS INVESTMENT | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 263,604 | \$ 286,715 |
| Payroll and related expenses | 61,633 | 72,211 |
| Total Current Liabilities | 325,237 | 358,926 |
| Long-term Obligations | 208,500 | 224,700 |
| Other Long-term Liabilities | 125,029 | 123,257 |
| Shareholders Investment | | |
| Common stock | 594 | 586 |
| Additional paid-in capital | 678,389 | 674,715 |
| Accumulated deficit | (255,317) | (238,299) |
| Accumulated other comprehensive loss | (9,291) | (19,104) |
| Total Shareholders Investment | 414,375 | 417,898 |
| Total Liabilities and Shareholders Investment | \$ 1,073,141 | \$ 1,124,781 |

See accompanying notes to consolidated financial statements.

UNOVA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2003 | 2002 |
| Cash and Cash Equivalents at Beginning of Period | \$ 178,269 | \$ 103,714 |
| Cash Flows from Operating Activities: | | |
| Net (loss) earnings | (17,018) | 18,403 |
| Adjustments to reconcile net (loss) earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 20,618 | 26,107 |
| Change in prepaid pension costs, net | 4,697 | 4,269 |
| Deferred taxes | (3,499) | 1,434 |
| Special charges | 2,933 | 9,888 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 84,972 | 33,805 |
| Inventories | 6,806 | 9,712 |
| Other current assets | 685 | 6,652 |
| Accounts payable and accrued expenses | (19,382) | (75,772) |
| Payroll and related expenses | (13,475) | (4,115) |
| Other long-term liabilities | (1,331) | 10,877 |
| Other operating activities | 1,082 | 4,802 |
| Net Cash Provided by Operating Activities | 67,088 | 46,062 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (14,072) | (7,043) |
| Sale of property, plant and equipment | 8,157 | 17,199 |
| Other investing activities | 585 | 4,865 |
| Net Cash (Used in) Provided by Investing Activities | (5,330) | 15,021 |
| Cash Flows from Financing Activities: | | |
| Repayment of long-term obligations | (16,200) | (52,800) |
| Other financing activities | 2,437 | 771 |
| Net Cash Used in Financing Activities | (13,763) | (52,029) |
| Resulting Increase in Cash and Cash Equivalents | 47,995 | 9,054 |
| Cash and Cash Equivalents at End of Period | \$ 226,264 | \$ 112,768 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | \$ 15,352 | \$ 22,275 |

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| | | | | |
|------------------------------|----|-------|----|-------|
| Income taxes paid (refunded) | \$ | 5,477 | \$ | (978) |
|------------------------------|----|-------|----|-------|

See accompanying notes to consolidated financial statements.

UNOVA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation

UNOVA, Inc. and subsidiaries (UNOVA or the Company) is a leading global supplier of automated data collection systems, wireless networks and mobile computing products for non-office applications and of manufacturing systems technologies primarily for the automotive, aerospace and heavy equipment industries. The Company relocated its headquarters to Everett, Washington during the second quarter 2003. The Company is incorporated in the state of Delaware.

The amounts included in this report are unaudited; however, in the opinion of management, all adjustments necessary for a fair presentation of results of operations, financial position and cash flows for the stated periods have been included. These adjustments are of a normal recurring nature. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2002. The results of operations for the interim periods presented are not necessarily indicative of operating results for the entire year.

2. Inventories, Net of Progress Billings

Inventories, net of progress billings comprise the following (thousands of dollars):

| | September 30, 2003 | December 31, 2002 |
|---------------------------------------|-----------------------|----------------------|
| Raw materials and work in process | \$ 147,151 | \$ 132,625 |
| Finished goods. | 13,152 | 23,406 |
| Less progress billings | (26,707) | (17,563) |
| Inventories, net of progress billings | \$ 133,596 | \$ 138,468 |

3. Long-term Obligations and Interest, net

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The Company maintains two secured long-term credit facilities: a \$100 million asset-based revolving credit facility (the Revolving Facility) and a £15.0 million (\$24.9 million) revolving facility and related overdraft facility (collectively, the UK Facility). In January 2003, the Company fully paid down and terminated the remaining \$16.2 million balance of a term loan (the Term Loan) and wrote off the related unamortized deferred financing costs of \$0.7 million.

Net of outstanding letters of credit and limitations on Minimum Availability, the Company had borrowing capacity at September 30, 2003, of \$17.9 million under the Revolving Facility and £8.3 million (\$13.8 million) under the UK Facility. The Company made no borrowings under the Revolving Facility or the UK Facility during the first nine months of 2003 and as of September 30, 2003, no borrowings were outstanding under either facility. As of September 30, 2003, the Company was in compliance with the financial covenants of each of these agreements.

On April 15, 2003, the Revolving Facility was amended to provide that proceeds from the sale of real estate, machinery and equipment can be utilized by the Company for its business purposes, subject to a Liquidity Availability requirement as defined in the agreement. Previously, such proceeds were required to be applied to the reduction of the Term Loan. Effective April 29, 2003, as provided in the terms of the Revolving Facility, the Company exercised its right to reduce the amount of the committed facility by \$100 million. This reduction of the committed facility had no impact on the Company's borrowing capacity as of the effective date.

In March 1998, the Company sold \$200.0 million principal amount of senior unsecured debt in an underwritten offering. The debt comprised \$100.0 million of 6.875% seven-year notes and \$100.0 million of 7.00% ten-year notes. Interest payments are due semi-annually. Including underwriting fees, discounts and other issuance costs, the effective interest rates on the seven-year and ten-year notes are 7.125% and 7.175%, respectively.

Interest, net comprises the following (thousands of dollars):

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|------------------|------------------------------------|-----------|-------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| Interest expense | \$ 12,767 | \$ 18,551 | \$ 4,061 | \$ 5,586 |
| Interest income | (2,595) | (1,915) | (928) | (658) |
| Interest, net | \$ 10,172 | \$ 16,636 | \$ 3,133 | \$ 4,928 |

4. **Special Charges and Restructuring Activities**

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Special charges comprise the following by segment (thousands of dollars):

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---------------------------------------|------------------------------------|------------|-------------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Industrial Automation Systems (IAS) | | | | |
| Segment | \$ (2,120) | \$ (4,688) | \$ (818) | \$ |
| Corporate | (813) | (5,200) | (170) | (5,200) |
| Special charges | \$ (2,933) | \$ (9,888) | \$ (988) | \$ (5,200) |

IAS Segment: The following table summarizes IAS restructuring activities during the nine months ended September 30, 2003 (thousands of dollars):

| | Workforce reduction | Consolidation of facilities | Total |
|---------------------------------------|------------------------|--------------------------------|-----------|
| Accrual balance at December 31, 2002 | \$ 13,572 | \$ 1,776 | \$ 15,348 |
| Total charges | 959 | 1,161 | 2,120 |
| Cash payments | (8,835) | (1,517) | (10,352) |
| Accrual balance at September 30, 2003 | \$ 5,696 | \$ 1,420 | \$ 7,116 |

In the fourth quarter 2002, as a result of the continued economic downturn in the global automotive, aerospace and heavy equipment industries, the Company initiated a plan to consolidate its Cincinnati Machine, Lamb Machining Systems and Lamb Body & Assembly Systems divisions into the new operating entity, UNOVA Manufacturing Technologies (UMT). The plan includes the relocation of certain Cincinnati Machine operations, outsourcing of certain manufacturing activities, termination of employees, and the sale of certain plant and equipment. This restructuring, which is expected to be substantially complete by December 31, 2003, resulted in fourth quarter 2002 charges for severance of \$14.7 million for the planned termination of 683

employees, early retirement of \$4.2 million for 42 employees, and plant closure costs of \$0.4 million. The related analysis of long-lived assets to be disposed of resulted in the non-cash impairment of property, plant and equipment of \$4.2 million in the fourth quarter 2002. The fair value of long-lived assets to be disposed of was estimated based on the current market value of similar assets.

During the nine months ended September 30, 2003, IAS recorded additional severance charges of \$1.0 million for 71 employees and \$1.1 million for other plant closure costs. As of September 30, 2003, the IAS segment had terminated 491 employees and paid \$9.9 million in severance, cumulatively, in conjunction with this plan. During the nine months ended September 30, 2003, 242 employees were terminated and \$7.3 million in severance was paid in conjunction with this plan.

During the fourth quarter 2001, the IAS segment initiated a plan to reduce vertical integration in its manufacturing process and consolidate plant facilities. The plan included outsourcing of certain manufacturing activities, termination of employees, and the disposition of plant and equipment by a combination of sale and abandonment. This action resulted in charges relating to severance for 75 employees totaling \$1.5 million and other plant closure costs of \$1.8 million. The related analysis of long-lived assets to be disposed of resulted in non-cash plant and equipment impairment charges of \$5.5 million. As of September 30, 2003, 71 employees had been terminated, 59 of whom were terminated in the nine months ended September 30, 2003. In conjunction with this plan, \$1.5 million in severance costs had been paid, cumulatively, all during the nine months ended September 30, 2003.

In March 2002, the IAS segment sold its plastics extrusion equipment business (*Plastics*) resulting in a loss of \$4.7 million, including \$2.8 million of allocated goodwill. The net assets and results of operations for *Plastics* are not material for all periods presented.

Corporate: The following table summarizes Corporate relocation activities during the nine months ended September 30, 2003 (thousands of dollars):

| | Workforce reduction | | Consolidation of facilities | | Total |
|---------------------------------------|------------------------|-------|--------------------------------|---------|----------|
| Accrual balance at December 31, 2002 | \$ | 2,008 | \$ | 4,443 | \$ 6,451 |
| Total charges | | | | 813 | 813 |
| Cash payments | | (381) | | (2,762) | (3,143) |
| Accrual balance at September 30, 2003 | \$ | 1,627 | \$ | 2,494 | \$ 4,121 |

During the third quarter 2002, the Company initiated a plan to relocate its corporate office to its existing Intermec Technologies Corporation facility in Everett, Washington. This action, which was substantially complete as of June 30, 2003, resulted in the accrual of severance costs for 19 employees totaling \$2.0 million and relocation and other facility move costs of \$3.2 million in the third quarter 2002. In the fourth quarter 2002, an additional accrual was recorded for relocation and other facility move costs of \$1.2 million. Additional charges of \$0.8 million for relocation and other facility move costs were recorded during the nine months ended September 30, 2003. As of September 30, 2003, 17 employees had been terminated and \$0.4 million in severance costs had been paid, cumulatively, of which 15 employee terminations and \$0.4 million in severance payments occurred during the nine months ended September 30, 2003.

5. Loss on Discontinued Operations

During the third quarter 2003, in conjunction with the consolidation plan described in Note 4, the Company sold substantially all the assets and existing backlog of its Lamb Body and Assembly Systems division for cash of \$16.9 million, which was approximately equal to the book value of the divested assets. The division meets the definition of a component of an entity and has been accounted for as a discontinued operation under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144). The results of operations for this division have been classified as discontinued operations. The nine and three month periods ended September 30, 2002 have been reclassified to present this division as discontinued operations for comparative purposes.

Sales and Service Revenue from discontinued operations for the nine and three month periods ended September 30, 2003 were \$32.8 million and \$10.8 million, respectively, and \$38.3 million and \$11.7 million for the nine and three months ended September 30, 2002. Losses from discontinued operations were \$9.3 million and \$5.5 million for the nine and three months ended September 30, 2003, including a \$3.1 million loss on disposal. Losses from discontinued operations for the nine and three months ended September 30, 2002 was \$4.2 million and \$1.5 million, respectively. Losses from discontinued operations did not have a tax effect, as the Company's tax benefits in 2002 and 2003 are offset by corresponding valuation allowances.

The Company's consolidated balance sheet as of September 30, 2003 includes \$8.1 million in current assets, including \$1.8 million of net property, plant and equipment classified as assets held for sale, and \$18.5 million in current liabilities pertaining to discontinued operations.

6. Provision for Income Taxes

The provision for income taxes for the nine and three months ended September 30, 2003, is primarily related to foreign and state taxes, as the domestic income tax benefit is offset by a corresponding valuation allowance. The provision for income taxes for the nine and three months ended September 30, 2002, is primarily related to foreign and state taxes.

7. **Earnings (Loss) per Share and Shareholders Investment**

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Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding and issuable for the applicable period. Diluted earnings per share is computed using basic weighted average shares plus the dilutive effect of unvested restricted stock and outstanding stock options using the treasury stock method.

| | | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|--|---------|------------------------------------|------------|-------------------------------------|------------|
| | | 2003 | 2002 | 2003 | 2002 |
| Weighted average common shares | Basic | 58,620,941 | 57,713,285 | 58,969,540 | 58,005,298 |
| Dilutive effect of unvested restricted shares and stock options | | | 878,610 | 1,860,875 | 682,112 |
| Weighted average shares | Diluted | 58,620,941 | 58,591,895 | 60,830,415 | 58,687,410 |

At September 30, 2003 and 2002, Company employees and directors held options to purchase 5,726,932 and 4,169,005 shares, respectively, of Company common stock. For the nine month period ended September 30, 2003, diluted weighted average shares exclude 740,684 options for which the average market price of the Company's common stock exceeds the exercise price as they would have been antidilutive due to the Company reporting a net loss. These options could become dilutive in future periods if the average market price of the Company's common stock exceeds the exercise price of the outstanding options and the Company reports net earnings. For the nine month period ended September 30, 2003, diluted weighted average shares exclude 476,236 weighted average unvested restricted shares because they would have been antidilutive due to the Company reporting a net loss.

8. Comprehensive Earnings (Loss)

The Company's comprehensive earnings (loss) amounts comprise the following (thousands of dollars):

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|--|------------------------------------|-----------|-------------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Net earnings (loss) | \$ (17,018) | \$ 18,403 | \$ (1,335) | \$ 14,311 |
| Change in equity due to foreign currency translation adjustments | 9,813 | 13,800 | 1,119 | 1,291 |
| Comprehensive earnings (loss) | \$ (7,205) | \$ 32,203 | \$ (216) | \$ 15,602 |

9. Segment Reporting

The Company has two reportable segments, Automated Data Systems (ADS) and Industrial Automation Systems (IAS). The former Integrated Production Systems (IPS) and Advanced Manufacturing Equipment (AME) segments are now combined and reported as the IAS segment due to the merger of the Cincinnati Machine and Lamb Machining Systems divisions. The corresponding prior year period has been restated to be consistent with the new presentation of reportable segments. Segments are determined principally on the basis of their products and services. The ADS segment comprises the Company's wholly owned subsidiary Intermec Technologies Corporation. The IAS segment comprises the UNOVA Manufacturing Technologies division and the Landis Grinding Systems division.

Corporate and Other amounts include corporate operating costs and currency transaction gains and losses. Intrasegment transactions have been eliminated and there are no material intersegment transactions.

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|------------------------------------|------------|-------------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Sales and Service Revenues | | | | |
| Automated Data Systems | \$ 520,643 | \$ 536,797 | \$ 178,721 | \$ 198,466 |
| Industrial Automation Systems | 301,091 | 402,469 | 99,303 | 119,699 |
| Total Sales and Service Revenues | \$ 821,734 | \$ 939,266 | \$ 278,024 | \$ 318,165 |
| Operating Profit (Loss) from Continuing Operations | | | | |
| Segment Operating Profit (Loss) | | | | |
| Automated Data Systems | \$ 52,674 | \$ 77,508 | \$ 22,177 | \$ 40,294 |
| Industrial Automation Systems | (22,850) | (2,462) | (6,419) | (4,153) |
| Total Segment Operating Profit | 29,824 | 75,046 | 15,758 | 36,141 |
| Corporate and Other | (18,191) | (20,047) | (5,498) | (6,683) |
| Special Charges | (2,933) | (9,888) | (988) | (5,200) |
| Operating Profit from Continuing Operations | \$ 8,700 | \$ 45,111 | \$ 9,272 | \$ 24,258 |

10. Related Party Transactions

Included in other assets are amounts due from certain Company officers and other executives of \$0.2 million and \$0.3 million at September 30, 2003 and December 31, 2002, respectively.

Unitrin, Inc., a significant shareholder of the Company, owning approximately 21% of the Company's outstanding common shares, and various of its subsidiaries (collectively, "Unitrin") participated as a lender in the Term Loan. In January 2003, the Company paid off the remaining \$16.2 million balance of the Term Loan, of which Unitrin had committed to and funded \$6.8 million. Interest expense associated with amounts funded by Unitrin was \$0.1 million for the nine months ended September 30, 2003, and \$2.7 million and \$0.6 million for the nine and three months ended September 30, 2002, respectively.

11. Stock-Based Compensation

As permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, the Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," under which compensation cost is recognized over the vesting period if the fair value is greater than the exercise price (the intrinsic value method) at the grant of stock options. Had compensation cost for these plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's pro forma net loss and basic and diluted loss per share for the nine and three months ended September 30, 2003 and 2002, would have been as follows (thousand of dollars):

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|--|------------------------------------|-----------|-------------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Net earnings (loss) as reported | \$ (17,018) | \$ 18,403 | \$ (1,335) | \$ 14,311 |
| Add: stock-based compensation expense recorded under the intrinsic value method | 1,082 | 1,289 | 494 | 342 |
| Less: stock compensation expense computed under the fair value method, net of tax effect | (3,755) | (4,422) | (1,463) | (1,088) |
| Pro forma net earnings (loss) | \$ (19,691) | \$ 15,270 | \$ (2,304) | \$ 13,565 |
| Basic earnings (loss) per share: | | | | |
| As reported | \$ (0.29) | \$ 0.32 | \$ (0.02) | \$ 0.25 |
| Pro forma | \$ (0.34) | \$ 0.26 | \$ (0.04) | \$ 0.23 |
| Diluted earnings (loss) per share: | | | | |
| As reported | \$ (0.29) | \$ 0.31 | \$ (0.02) | \$ 0.24 |
| Pro forma | \$ (0.34) | \$ 0.26 | \$ (0.04) | \$ 0.23 |

12. Commitments and Contingencies

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty claims. The following table indicates the change in the Company's warranty accrual included in current liabilities (thousands of dollars):

| | Product Warranty Liabilities | |
|---|---------------------------------|----------|
| Beginning balance as of December 31, 2002 | \$ | 34,873 |
| Payments | | (16,098) |
| Increase in liability | | 9,266 |
| Adjustments | | 2,474 |
| Ending Balance as of September 30, 2003 | \$ | 30,515 |

The Company has entered into a variety of agreements with third parties that include indemnification clauses, both in the ordinary course of business and in connection with our divestitures of certain product lines. These clauses require us to compensate these third parties for certain liabilities and damages incurred by them. FASB Interpretation No. 45, *Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* requires that the Company estimate and record the fair value of guarantees as a liability. The Company has not made any significant indemnification payments as a result of these clauses, nor does it believe the fair value of any of these guarantees has a material impact on the Company's financial position or results of operations.

13. Intellectual Property Settlements

During the nine months ended September 30, 2003, the Company received compensation in relation to three settlements regarding certain of its intellectual property, two during the second quarter and one during the third quarter. Additionally, the Company received compensation in relation to three settlements during the nine months ended September 30, 2002, one in the second quarter and two in the third quarter, all regarding the same intellectual property. The terms of these settlements are confidential. Cash proceeds from these settlements resulted in a significant impact on the Company's revenues and results of operations for the nine and three months ended September 30, 2003 and 2002.

14. Recent Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement became effective for the Company on January 1, 2003. The adoption of this statement may affect the timing of expense recognition for the Company's restructuring activities.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others. This interpretation elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements and its obligation under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize at the inception of a guarantee a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements in the interpretation are effective for financial statements of interim or annual reports ending after December 15, 2002. The Company has adopted the required disclosure provisions and the initial recognition and initial measurement provisions. The adoption of this interpretation did not have a material impact on the Company's consolidated financial statements.

In November 2002, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. This consensus addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. In applying this consensus, generally, separate contracts with the same customer that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single contractual arrangement. This consensus also addresses how contract consideration should be measured and allocated to the separate deliverables in the arrangement. The application of this consensus may impact the timing of the Company's revenue recognition compared with historical practice when a contractual arrangement combines deliverables such as installation, hardware and maintenance. The Company applies this consensus prospectively to revenue arrangements entered on or after July 1, 2003. There was not a material impact on the timing of revenue recognition upon adoption.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 requires that variable interest entities be consolidated by an entity (company) if the company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the variable interest entity's residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 16, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN No. 46 had no material impact on the Company's consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivatives Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instrument and Hedging Activities. This statement is effective for contracts entered into or modified after June 30, 2003, except as stated below, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of this statement that relate to Statement No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The adoption of this statement had no material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement sets forth standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The remaining provisions of this statement are consistent with the FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this statement had no material impact on the Company's consolidated financial statements.

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

Results of Operations

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The Company has two reportable segments, Automated Data Systems (ADS) and Industrial Automation Systems (IAS). The former Integrated Production Systems (IPS) and Advanced Manufacturing Equipment (AME) segments are now combined and reported as the IAS segment due to the merger of the Cincinnati Machine and Lamb Machining Systems divisions. Corresponding prior year periods have been restated to be consistent with the new presentation of reportable segments. Segments are determined principally on the basis of their products and services. The ADS segment comprises the Company's wholly owned subsidiary Intermecc Technologies Corporation. The IAS segment comprises the UNOVA Manufacturing Technologies (UMT) division and the Landis Grinding Systems division. Sales and service revenues and segment operating profit (loss) for the nine and three months ended September 30, 2003 and 2002, were as follows (thousands of dollars):

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|------------------------------------|------------|-------------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Sales and Service Revenues | | | | |
| Automated Data Systems | \$ 520,643 | \$ 536,797 | \$ 178,721 | \$ 198,466 |
| Industrial Automation Systems | 301,091 | 402,469 | 99,303 | 119,699 |
| Total Sales and Service Revenues | \$ 821,734 | \$ 939,266 | \$ 278,024 | \$ 318,165 |
| Operating Profit (Loss) from Continuing Operations | | | | |
| Segment Operating Profit (Loss) | | | | |
| Automated Data Systems | \$ 52,674 | \$ 77,508 | \$ 22,177 | \$ 40,294 |
| Industrial Automation Systems | (22,850) | (2,462) | (6,419) | (4,153) |
| Total Segment Operating Profit | \$ 29,824 | \$ 75,046 | \$ 15,758 | \$ 36,141 |
| Corporate and Other | (18,191) | (20,047) | (5,498) | (6,683) |
| Special Charges | (2,933) | (9,888) | (988) | (5,200) |
| Operating Profit from Continuing Operations | \$ 8,700 | \$ 45,111 | \$ 9,272 | \$ 24,258 |

Sales and Service Revenues and Segment Operating Profit (Loss)

Total sales and service revenues for the nine months ended September 30, 2003, were \$821.7 million, a decrease of \$117.5 million, or 13%, compared with the corresponding prior year period. Operating profit from continuing operations for the nine months ended September 30, 2003 was \$8.7 million, a decrease of \$36.4 million, compared with the corresponding prior year period. During the nine months ended September 30, 2003, the Company received compensation in relation to three settlements regarding certain of its intellectual property, two during the second quarter and one during the third quarter. Additionally, the Company received compensation in relation to three settlements during the nine months ended September 30, 2002, one in the second quarter and two in the third quarter, all regarding the same intellectual property. The terms of these settlements are confidential. Cash proceeds from these settlements resulted in a significant, positive impact on the Company's revenues and results of operations for the nine and three months ended September 30, 2003 and 2002. For the nine months ended September 30, 2003, product and service revenue decreased approximately \$54.3 million, or 6%, compared with the corresponding prior year period. However, the related product and service operating profit increased \$7.4 million from the prior year comparable period.

Total sales and service revenues for the three months ended September 30, 2003, were \$278.0 million, a decrease of \$40.1 million, or 13%, compared with the corresponding prior year period. Segment operating profit from continuing operations was \$9.3 million for the three months ended September 30, 2003, compared with a segment operating profit from continuing operations of \$24.3 million for the corresponding prior year period. Third quarter 2003 product and service revenue decreased \$14.8 million, or 5%; however, the related operating profit increased \$3.3 million from the prior year comparable quarter.

Automated Data Systems: ADS segment revenues for the nine and three month periods ended September 30, 2003 were \$520.6 million and \$178.7 million, respectively, representing decreases of 3% and 10% from revenues of \$536.8 million and \$198.5 million for the same periods in 2002. The nine and three months ended September 30, 2003 and 2002 include significant revenue and operating profit related to IP settlements. In the nine months ended September 30, 2003, IP settlements resulted in \$13.8 million in operating profit, a \$52.7 million decrease in IP related operating profit from the comparable prior year period.

ADS product and service revenue for the nine and three months ended September 30, 2003 increased 10.3% and 3.5%, respectively, from the prior year comparable period. For the three months ended September 30, 2003, systems and solutions revenues increased by 6.0%, service increased by 9.0% and printer/media decreased by 5.0% over the corresponding prior year period. Geographically, third quarter 2003 product and service revenue for EMEA (Europe, Middle East, and Africa) increased 42.0%, North America decreased 4.0%, and the rest of the world, comprising Asia Pacific and Latin America, decreased 27.0% compared with the corresponding prior year period. Favorable foreign exchange rates contributed approximately \$5 million of the revenue increase from the comparable prior year quarter.

For the nine and three months ended September 30, 2003, ADS reported an operating profit of \$52.7 million and \$22.2 million, respectively, compared with operating profit of \$77.5 million and \$40.3 million in the corresponding prior year periods. ADS product and service operating profit of \$38.9 million and \$12.9 million for the nine and three months ended September 30, 2003 resulted in operating margins of 7.7% for both periods, compared with related operating margins of 2.4% and 4.6%, respectively, for the comparable prior year periods. In the third quarter 2003, cost control initiatives combined with the improved leverage from the increase in product and service revenues resulted in a related gross margin improvement of three percentage points.

Industrial Automation Systems: IAS segment revenues from continuing operations decreased \$101.4 million, or 25.2%, and \$20.4 million, or 17.0% for the nine and three month periods ended September 30, 2003, respectively, compared with corresponding prior year periods. The decline in revenue is due to continuing global weakness in capital spending, primarily in the North American automotive and worldwide aerospace industries. As a result of this weakness, IAS operating losses for the nine and three months ended September 30, 2003 were \$22.9 million and \$6.4 million, respectively, compared with operating losses of \$2.5 million and \$4.2 million for the same periods in 2002.

Backlog for the IAS segment was \$282.6 million at September 30, 2003, compared with \$214.0 million at December 31, 2002, adjusted to exclude discontinued operations. Bookings continue to be negatively impacted by delayed or canceled capital equipment investment by the U.S. automotive and worldwide aerospace industries and by weakness in the domestic machine tool market. The Company believes that increased capital equipment investment by its automotive customers will be necessary to facilitate introduction of new vehicles and engines. However, the timing of renewed capital equipment investments is unclear. The Company does not expect significant improvement in the near term.

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During the quarter ended September 30, 2003, IAS signed an alliance agreement with Shenyang, the largest machine tool supplier in China. The new partnership is expected to result in an increase in machine tool content from China and may result in an increase in bidding activities on diesel and large-volume gasoline engine programs in China.

Costs and Expenses

Cost of sales and service decreased \$72.5 million, or 11.4%, from \$636.9 million for the nine months ended September 30, 2002 to \$564.4 million for the same period in 2003 and decreased \$21.4 million, or 10.3%, from \$206.4 million for the three months ended September 30, 2002, to \$185.0 million for the same period in 2003. The decreases reflect the lower sales volume for IAS and ADS gross margin improvement of three and two percentage points in the three and nine months ended September 30, 2003, respectively, compared with the corresponding prior year periods. Cost of sales and service as a percentage of sales increased to 68.7% and 66.6% for the nine and three months ended September 30, 2003, compared with 67.8% and 64.9% for the nine and three months ended September 30, 2002. The increase was due to the impact of the difference in amounts of IP settlements in the second and third quarters of 2003 as compared with the same quarters of 2002.

Product and service cost of sales as a percentage of related revenue decreased to 69.5% and 68.5% for the three and nine months ended September 30, 2003, respectively, compared with 72.3% and 71.4% for the comparable prior year periods. The improvement in gross margin was primarily due to the higher ADS gross margins coupled with the change in revenue mix. ADS product and service revenue for the quarter ended September 30, 2003 represents 63% of total UNOVA product and service revenue compared with 57% in the corresponding prior year periods.

Selling, general and administrative (SG&A) expenses were \$226.0 million and \$76.5 million for the nine and three months ended September 30, 2003, respectively, compared with SG&A expenses of \$222.6 million and \$74.5 million for the corresponding prior year period. The increase is primarily due to ADS growth.

Depreciation and amortization expense for the nine and three months ended September 30, 2003 were \$19.7 million and \$6.2 million, respectively, compared with \$24.8 million and \$7.9 million for the corresponding prior year periods. The decreases of \$5.1 million and \$1.7 for the respective periods are primarily due to lower property, plant and equipment balances resulting from reductions in capital expenditures, asset sales and IAS asset impairments in 2002.

Net interest expense was \$10.2 million and \$3.1 million for the nine and three months ended September 30, 2003, respectively, compared with \$16.6 million and \$4.9 million for the same periods in 2002, reflecting lower average debt and higher cash and cash equivalent balances during the 2003 periods compared with the corresponding prior year periods.

Special Charges

IAS Segment: In the fourth quarter of 2002, as a result of the continued economic downturn in the global automotive, aerospace and heavy equipment industries, the Company initiated a plan to consolidate its Cincinnati Machine, Lamb Machining Systems and Lamb Body & Assembly Systems divisions into the new operating entity, UNOVA Manufacturing Technologies (UMT). The plan includes the relocation of certain Cincinnati Machine operations, outsourcing of certain manufacturing activities, termination of employees, and the sale of certain plant and equipment. This restructuring, which is expected to be substantially complete by December 31, 2003, resulted in fourth quarter 2002 charges for severance of \$14.7 million for the planned termination of 683 employees, early retirement of \$4.2 million for 42 employees, and plant closure costs of \$0.4 million. The related analysis of long-lived assets to be

disposed of resulted in the non-cash impairment of property, plant and equipment of \$4.2 million in the fourth quarter of 2002. The fair value of long-lived assets to be disposed of was estimated based on the current market value of similar assets.

During the nine months ended September 30, 2003, IAS recorded additional severance charges of \$1.0 million for 71 employees and \$1.1 million for other plant closure costs. As of September 30, 2003, the IAS segment had terminated 491 employees and paid \$9.9 million in severance, cumulatively, in conjunction with this plan. During the nine months ended September 30, 2003, 242 employees were terminated and \$7.3 million in severance was paid in conjunction with this plan.

During the fourth quarter 2001, the IAS segment initiated a plan to reduce vertical integration in its manufacturing process and consolidate plant facilities. The plan included outsourcing of certain manufacturing activities,

termination of employees, and the disposition of plant and equipment by a combination of sale and abandonment. This action resulted in charges relating to severance for 75 employees totaling \$1.5 million and other plant closure costs of \$1.8 million. The related analysis of long-lived assets to be disposed of resulted in non-cash plant and equipment impairment charges of \$5.5 million. As of September 30, 2003, 71 employees had been terminated, 59 of whom which were terminated in the nine months ended September 30, 2003. In conjunction with this plan, \$1.5 million in severance costs had been paid, cumulatively, all during the nine months ended September 30, 2003.

In March 2002, the IAS segment sold its plastics extrusion equipment business (*Plastics*) resulting in a loss of \$4.7 million, including \$2.8 million of allocated goodwill. The net assets and results of operations for *Plastics* are not material for all periods presented.

Corporate: During the third quarter of 2002, the Company initiated a plan to relocate its corporate office to its existing Intermec Technologies Corporation facility in Everett, Washington. This action, which was substantially complete by June 30, 2003, resulted in the accrual of severance costs for 19 employees totaling \$2.0 million and other facility closure costs of \$3.2 million in the third quarter of 2002. In the fourth quarter of 2002, an additional accrual was recorded for facility closure costs of \$1.2 million. Additional charges of \$0.8 million for facility move and employee relocation expense were recorded in the nine months ended September 30, 2003. As of September 30, 2003, 17 employees had been terminated and \$0.4 million in severance costs had been paid, cumulatively, of which 15 employee terminations and \$0.4 million in severance payments occurred during the nine months ended September 30, 2003.

Provision for Income Taxes

The provision for income taxes for the nine and three months ended September 30, 2003, is primarily related to foreign and state taxes, as the domestic income tax benefit is offset by a corresponding valuation allowance. The provision for income taxes for the nine and three months ended September 30, 2002, is primarily related to foreign and state taxes.

Loss from Discontinued Operations

During the third quarter 2003, in conjunction with the consolidation plan described above, the Company sold substantially all the assets and existing backlog of its Lamb Body and Assembly Systems division for a price approximately equal to the book value of the divested assets. The transaction is accounted for and reported under Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (*SFAS No. 144*). The results of operations for this division have been classified as discontinued operations. The nine and three month periods ended September 30, 2002 have been restated to present this division as discontinued operations.

Sales and Service Revenue from discontinued operations for the nine and three month periods ended September 30, 2003 were \$32.8 million and \$10.8 million, respectively, and \$38.3 million and \$11.7 million for the nine and three months ended September 30, 2002. Losses from discontinued operations were \$9.3 million and \$5.5 million for the nine and three months ended September 30, 2003, including a \$3.1 million loss on disposal. Losses from discontinued operations for the nine and three months ended September 30, 2002 was \$4.2 million and \$1.5 million, respectively. Losses from discontinued operations did not have a tax effect, as the Company's tax benefits in 2002 and 2003 are offset by

corresponding valuation allowances.

Liquidity and Capital Resources

Cash and cash equivalents increased to \$226.3 million at September 30, 2003, from \$178.3 million at December 31, 2002. Total debt decreased to \$208.5 million at September 30, 2003, from \$224.7 million at December 31, 2002. During the nine months ended September 30, 2003, net cash, defined as cash and cash equivalents less total debt, improved \$64.2 million to \$17.8 million, compared with \$(46.4) million at December 31, 2002. The improvement in net cash primarily reflects cash generated from normal operations, IP settlements and the sale of certain long-lived assets.

The Company maintains two secured long-term credit facilities: a \$100 million asset-based revolving credit facility (the Revolving Facility) and a £15.0 million (\$24.9 million) revolving facility and related overdraft facility (collectively, the UK Facility). In January 2003, the Company fully paid down and terminated the remaining \$16.2 million balance of a term loan (the Term Loan) and wrote off the remaining \$0.7 million of related unamortized deferred financing costs.

The Company made no borrowings under the Revolving Facility or the UK Facility during the nine months of 2003 and as of September 30, 2003, no borrowings were outstanding under either facility. As of September 30, 2003, the Company was in compliance with the financial covenants of each of these facilities.

On April 15, 2003, the Revolving Facility was amended to provide that proceeds from the sale of real estate, machinery and equipment can be utilized by the Company for its business purposes, subject to a Liquidity Availability requirement as defined in the agreement. Previously, such proceeds were required to be applied to the reduction of the Term Loan. Effective April 29, 2003, as provided in the terms of the Revolving Facility, the Company exercised its right to reduce the amount of the committed facility by \$100 million. This reduction of the committed facility had no impact on the Company's borrowing capacity as of the effective date.

In March 1998, the Company sold \$200.0 million principal amount of senior unsecured debt in an underwritten offering. The debt comprised \$100.0 million of 6.875% seven-year notes and \$100.0 million of 7.00% ten-year notes. Interest payments are due semi-annually. Including underwriting fees, discounts and other issuance costs, the effective interest rates on the seven-year and ten-year notes are 7.125% and 7.175%, respectively.

Management believes that cash and cash equivalents on hand combined with projected cash flow from operations will provide adequate funding to meet its expected working capital, capital expenditure, and restructuring cost requirements for the next twelve months. Projected cash flows from operations are largely based on the Company's revenue estimates, cost estimates, and the related timing of cash receipts and cash disbursements. If actual performance differs from estimated performance, cash flow from operations could be positively or negatively impacted. Additional sources of liquidity for the Company include the Revolving Facility and the UK Facility. Net of outstanding letters of credit and limitations on Minimum Availability, the Company had borrowing capacity of \$17.9 million under the Revolving Facility and £8.3 million (\$13.8 million) under the UK Facility, each as of September 30, 2003.

Contractual Obligations

The Company's contractual commitments as of September 30, 2003, have not changed materially from those disclosed in Item 7 of the Company's annual report on Form 10-K for the year ended December 31, 2002, except that the Term Loan, which had an outstanding balance of \$16.2 million at December 31, 2002, was fully paid down and terminated in January 2003.

Critical Accounting Policies

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Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual amounts could differ from those estimates under different assumptions or conditions. Management's beliefs regarding significant accounting policies have not changed significantly from those disclosed in Item 7 of the Company's annual report on Form 10-K for the year ended December 31, 2002.

New Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The statement requires companies to recognize costs associated with

exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement became effective for the Company on January 1, 2003. The adoption of this statement may affect the timing of expense recognition for the Company's restructuring activities.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others. This interpretation elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements and its obligation under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize at the inception of a guarantee a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements in the interpretation are effective for financial statements of interim or annual reports ending after December 15, 2002. The Company has adopted the required disclosure provisions and the initial recognition and initial measurement provisions. The adoption of this interpretation did not have a material impact on the Company s consolidated financial statements.

In November 2002, the FASB s Emerging Issues Task Force reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. This consensus addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. In applying this consensus, generally, separate contracts with the same customer that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single contractual arrangement. This consensus also addresses how contract consideration should be measured and allocated to the separate deliverables in the arrangement. The application of this consensus may impact the timing of the Company s revenue recognition compared with historical practice when a contractual arrangement combines deliverables such as installation, hardware and maintenance. The Company applies this consensus prospectively to revenue arrangements entered on or after July 1, 2003. There was not a material impact on the timing of revenue recognition upon adoption.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 requires that variable interest entities be consolidated by an entity (company) if the company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the variable interest entity s residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 16, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN No. 46 had no material impact on the Company s consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivatives Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instrument and Hedging Activities. This statement is effective for contracts entered into or modified after June 30, 2003, except as stated below, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of this statement that relate to Statement No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The adoption of this statement had no material impact on the Company s consolidated financial statements.

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definition of

liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The remaining provisions of this statement are consistent with the FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this statement had no material impact on the Company's consolidated financial statements.

Forward-Looking Statements and Risk Factors

All statements in this report that are not historical facts or that include such words as expect, project, estimate, believe, could, may or other similar words are forward-looking statements that the Company deems to be covered by and to qualify for the safe harbor protection of the Private Securities Litigation Reform Act of 1995 (alternatively: Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements include, but are not limited to, statements about the following:

The anticipated demand for the Company's products and services;

Anticipated improvements of existing products and development of new products in the Company's ADS segment;

The Company's view of the short- and long-term outlook for and trends in the markets for the Company's products and services;

The Company's ability to

meet its working capital and capital expenditure requirements;

achieve its goals with respect to revenues and cost savings in each of its segments;

successfully manage and complete large-scale industrial systems contracts for customers;

successfully obtain critical components for its products;

complete large-scale mobile computing installations;

Forward-looking statements are not guarantees of future performance. Several factors govern whether the Company will or can achieve any forward-looking statement made in this report. Any one of these factors could cause the Company's actual results to differ materially from those discussed in a forward-looking statement. The Company outlines these risk factors in reports that it files with the SEC, in press releases and on its website, www.unova.com. Such risk factors include, but are not limited to:

Continued weakness in the automotive and aerospace markets could lead to reduced demand for the Company's products.

Technological changes and consequent market shifts could adversely impact demand for the Company's products and systems.

Some of the Company's competitors have greater financial and other resources than the Company and, as a result, may be able to adapt more quickly to market trends or price declines.

If the Company is unable to obtain key components of its products from its current suppliers, the cost of manufacturing the Company's products could increase, the Company might have to re-engineer some products, and delivery times of some of the Company's products could be delayed.

The Company's inability to successfully manage the reorganization of its IAS segment and reduce its operating costs could have a material adverse effect on its financial condition.

Political instability outside of the U.S. and hostility against U.S. companies in foreign jurisdictions could adversely affect the Company's international operations.

Changes in U.S. and foreign government regulations regarding radio emissions could adversely affect the Company's ability to sell its ADS products or complete development of anticipated new products.

Readers should consider the foregoing risk factors in evaluating the Company's ability to achieve expected results or objectives set forth in any forward-looking statement. In addition, readers should not place undue reliance on forward-looking statements in making investment decisions regarding the Company. The Company disclaims any obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to interest rate risk primarily from its long-term debt and earnings on cash and cash equivalents. The Company has foreign exchange rate risk with respect to its foreign operations and from foreign currency transactions.

At September 30, 2003, the estimated fair value of the Company's \$200 million fixed interest rate debentures was approximately \$192 million, compared with \$166 million at December 31, 2002. Estimated fair value is determined by recent market trade values.

Due to its global operations, the Company's cash flows and earnings are exposed to foreign exchange rate fluctuations. When appropriate, the Company may attempt to limit its exposure to changing foreign exchange rates by entering into short-term foreign currency exchange contracts. At September 30, 2003, the Company held short-term contracts for the purpose of hedging foreign currency cash flows with an aggregate notional amount of \$145.4 million, compared with \$162.4 million at December 31, 2002.

Except as noted in the preceding paragraphs, as of September 30, 2003, there have been no material changes in information provided in Item 7A of the Company's annual report on Form 10-K for the year ended December 31, 2002, which contains a complete discussion of the Company's material exposures to interest rate and foreign exchange rate risks.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation, as of September 30, 2003, the Company's Chief Executive Officer and Chief Financial Officer have concluded the Company's disclosure controls and procedures (as defined in rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated as of November 13, 2003.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated as of November 13, 2003.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated as of November 13, 2003.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated as of November 13, 2003.

(b) Reports on Form 8-K:

On July 29, 2003, the Company filed a Form 8-K in regard to its press release announcing its financial results for the quarter ended June 30, 2003.

On September 10, 2003, the Company filed a Form 8-K in regard to its having amended an earlier purchase and sale agreement for its Cincinnati Oakley campus. Under terms of the amendment, the transaction is scheduled to close in the fourth quarter of 2003.

SIGNATURE

SIGNATURE

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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.

UNOVA, INC.
(Registrant)

By /s/ Michael E. Keane

Michael E. Keane
*Senior Vice President and
Chief Financial Officer*

November 13, 2003