

MCKESSON CORP
Form 4
August 05, 2005

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
MEYERSON IVAN D

(Last) (First) (Middle)
ONE POST STREET

(Street)

SAN FRANCISCO, CA 94104

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
MCKESSON CORP [MCK]

3. Date of Earliest Transaction
(Month/Day/Year)
08/05/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
EVP, Gen. Counsel & Secretary

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V Amount (D) Price			
Common Stock	08/05/2005		G	V 600 D 11 91,544		D	
Common Stock					14,824	I	By Trustee of PSIP
Common Stock					1,400	I	Cust'n Son Ca UTMA

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (Instr. 6)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MEYERSON IVAN D ONE POST STREET SAN FRANCISCO, CA 94104			EVP, Gen. Counsel & Secretary	

Signatures

Kristina Veaco,
Attorney-in-Fact

08/05/2005

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 600 shares owned directly have been gifted on August 5, 2005. No price is associated with this transaction.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.
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\$—
\$471,841
Accounts receivable, net —
190,740
20,541
—
211,281
Unbilled costs and accrued profits —
843

—
 —
 843
 Intercompany receivables 101,956
 109,177
 39,170
 (250,303
)
 —
 Inventories —
 185,032
 25,485
 —
 210,517
 Prepaid expenses and other current assets 2,316
 32,806
 2,965
 —
 38,087
 Total current assets 528,233
 542,477
 112,162
 (250,303
)
 932,569
 Property and equipment, net 2,052
 57,326
 20,551
 —
 79,929
 Goodwill, net —
 271,708
 1,988
 —
 273,696
 Patents, licenses and trademarks, net —
 130,216
 404
 —
 130,620
 Other assets 15,221
 2,089
 28,738
 —
 46,048
 Investment in subsidiaries 795,098
 117,776
 —
 (912,874
)
 —

Explanation of Responses:

Total assets \$1,340,604

\$1,121,592

\$163,843

\$(1,163,177

)

\$1,462,862

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt \$—

\$283

\$147

\$—

\$430

Short-term debt 341,752

—

2,522

—

344,274

Accounts payable 607

80,300

10,056

—

90,963

Accrued expenses and other current liabilities 16,660

65,346

18,918

—

100,924

Income taxes payable (5,105

)

12,257

1,615

—

8,767

Intercompany payables 115,076

22,682

112,545

(250,303

)

—

Total current liabilities 468,990

180,868

145,803

Explanation of Responses:

(250,303
)
 545,358
 Long-term debt, less current portion 149,528
 2,115
 267
 —
 151,910
 Other long-term liabilities 7,333
 3,142
 —
 —
 10,475
 Deferred income taxes 4,171
 39,390
 976
 —
 44,537
 Total liabilities 630,022
 225,515
 147,046
 (250,303
)
 752,280
 Stockholders' equity:

Preferred stock —
 1,450
 —
 (1,450
)
 —
 Common stock 415
 3,193
 7,852
 (11,045
)
 415
 Additional paid – in capital 525,890
 533,682
 14,778
 (548,460
)
 525,890
 Retained earnings (accumulated deficit) 257,991
 357,752
 (5,833
)

Explanation of Responses:

(351,919
)
 257,991
 Accumulated other comprehensive loss (1,397
)
 —
 —
 —
 (1,397
)
 Treasury stock (72,317
)
 —
 —
 —
 (72,317
)
 Total stockholders' equity 710,582
 896,077
 16,797
 (912,874
)
 710,582
 Total liabilities and stockholders' equity \$1,340,604
 \$1,121,592
 \$163,843
 \$(1,163,177
)
 \$1,462,862

F-47

Table of Contents

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Armor Holdings, Inc. and Subsidiaries
 Consolidating Statements of Operations

	Year ended December 31, 2006			Consolidated Total
	Parent	Guarantor	Nonguarantor	
		Subsidiaries	Subsidiaries	
		(In thousands)		

Explanation of Responses:

Revenues:					
Aerospace & Defense	\$	—\$ 1,899,991	\$ 51,239	\$ (20,871)	\$ 1,930,359
Products		— 297,390	26,824	—	324,214
Mobile Security		— 20,765	89,820	(4,274)	106,311
Total revenues		— 2,218,146	167,883	(25,145)	2,360,884
Costs and Expenses:					
Cost of revenues		— 1,787,515	134,966	(24,799)	1,897,682
Cost of vest exchange program/ warranty revision		— 3,600	—	—	3,600
Selling, general and administrative expenses	34,600	133,281	28,778	—	196,659
Amortization	—	20,641	1,843	—	22,484
Integration	532	1,767	209	—	2,508
Other charges	—	—	(1,530)	—	(1,530)
Operating (loss) income	(35,132)	271,342	3,617	(346)	239,481
Interest expense (income), net	31,207	(1,050)	(2)	—	30,155
Other income, net	(2,232)	(2,183)	(597)	—	(5,012)
Equity in earnings of subsidiaries	(178,970)	(4,426)	—	183,396	—
Related party interest expense (income), net	22	18	(40)	—	—
Income before (benefit) provision for income taxes	114,841	278,983	4,256	(183,742)	214,338
(Benefit) provision for income taxes	(19,721)	98,050	1,447	—	79,776
Net income	\$ 134,562	\$ 180,933	\$ 2,809	\$ (183,742)	\$ 134,562

F-48

Table of Contents

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Armor Holdings, Inc. and Subsidiaries
Consolidating Statements of Operations

	Year ended December 31, 2005				
	Parent	Guarantor	Nonguarantor	Eliminations	Consolidated
		Subsidiaries	Subsidiaries		Total
(In thousands)					
Revenues:					
Aerospace & Defense	\$	—\$ 1,199,262	\$ 24,515	\$ (10,664)	\$ 1,213,113
Products		— 253,862	30,501	—	284,363
Mobile Security		— 40,302	99,485	(333)	139,454
Total revenues		— 1,493,426	154,501	(10,997)	1,636,930
Costs and Expenses:					
Cost of revenues		— 1,137,457	122,136	(10,997)	1,248,596
		— 19,900	—	—	19,900

Explanation of Responses:

Cost of vest exchange program/ warranty revision					
Selling, general and administrative expenses	28,852	94,644	15,808	—	139,304
Amortization	—	8,621	6	—	8,627
Integration	625	3,044	—	—	3,669
Other charges	—	—	1,200	—	1,200
Operating (loss) income	(29,477)	229,760	15,351	—	215,634
Interest expense (income), net	6,254	(393)	420	—	6,281
Other income, net	(3,962)	(49)	(14)	—	(4,025)
Equity in earnings of subsidiaries	(157,015)	(4,833)	—	161,848	—
Related party interest expense (income), net	16	(19)	3	—	—
Income before (benefit) provision for income taxes	125,230	235,054	14,942	(161,848)	213,378
(Benefit) provision for income taxes	(7,280)	81,889	6,259	—	80,868
Net income	\$ 132,510	\$ 153,165	\$ 8,683	\$ (161,848)	\$ 132,510

F-49

Table of Contents

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Armor Holdings, Inc. and Subsidiaries
Consolidating Statements of Operations

	Year ended December 31, 2004				Consolidated Total
	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	
	(In thousands)				
Revenues:					
Aerospace & Defense	\$	— \$ 605,399	\$ 20,948	\$	— \$ 626,347
Products		— 204,121	24,695		— 228,816
Mobile Security		— 25,531	102,224	(3,235)	124,520
Total revenues		— 835,051	147,867	(3,235)	979,683
Costs and Expenses:					
Cost of revenues		— 599,505	117,922	(3,235)	714,192
Cost of vest exchange program/ warranty revision		— 5,000	—	—	5,000
Selling, general and administrative expenses		23,749	69,122	13,684	— 106,555
Amortization		—	4,243	12	— 4,255
Integration		529	2,029	—	— 2,558
Other charges		1,408	—	—	— 1,408

Explanation of Responses:

Related party management fees (income), net	—	(15)	15	—	—
Operating (loss) income	(25,686)	155,167	16,234	—	145,715
Interest expense, net	6,511	103	162	—	6,776
Other expense (income), net	1,917	421	(393)	—	1,945
Equity in earnings of subsidiaries	(108,631)	(2,691)	—	111,322	—
Related party interest expense (income), net	16	(18)	2	—	—
Income from continuing operations before (benefit) provision for income taxes	74,501	157,352	16,463	(111,322)	136,994
(Benefit) provision for income taxes	(6,038)	56,030	6,425	—	56,417
Income from continuing operations	80,539	101,322	10,038	(111,322)	80,577
Discontinued Operations:					
Loss from discontinued operations, net of income tax benefit	—	(38)	—	—	(38)
Net income	\$ 80,539	\$ 101,284	\$ 10,038	\$ (111,322)	\$ 80,539

F-50

Table of Contents

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Armor Holdings, Inc. and Subsidiaries
Consolidating Statements of Cash Flows

	Year ended December 31, 2006				Consolidated Total
	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	
			(In thousands)		
Cash flows from continuing operating activities:					
Income from continuing operations:	\$ 134,562	\$ 180,933	\$ 2,809	\$(183,742)	\$ 134,562
Adjustments to reconcile income from operations to cash provided by operating activities:					
Depreciation and amortization	7,110	34,362	5,570	—	47,042
Loss on disposal of fixed assets	(1,234)	1,368	173	—	307
Gain on sale of land	(2,206)	—	—	—	(2,206)
Deferred income taxes	4,378	8,087	(3,194)	—	9,271
Non-cash SERP expense	2,900	—	—	—	2,900
Windfall tax benefit of stock options	(3,005)	—	—	—	(3,005)
Fair value gain on put options	(710)	—	—	—	(710)
Equity in earnings of subsidiaries	(168,089)	(15,307)	—	183,396	—
Changes in operating assets and liabilities, net of acquisitions:					

Explanation of Responses:

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Increase in accounts receivable	—	(15,438)	(2,524)	—	(17,962)
Decrease (increase) in intercompany receivables & payables	108,253	(124,143)	15,890	—	—
Increase in unbilled costs and accrued profits	—	(34,287)	—	—	(34,287)
(Increase) decrease in inventories	—	(10,664)	(6,307)	346	(16,625)
Increase in progress based payment	—	(46,601)	—	—	(46,601)
(Increase) decrease in prepaid expenses and other assets	(770)	484	803	—	517
Increase in accounts payable, accrued expenses and other current liabilities	18,900	43,768	4,216	—	66,884
Increase (decrease) in income taxes payable	8,949	(9,864)	(641)	—	(1,556)
Net cash provided by operating activities	109,038	12,698	16,795	—	138,531
Cash flows from investing activities:					
Purchase of property and equipment	(423)	(29,690)	(3,936)	—	(34,049)
Proceeds from the sale of land	3,440	—	—	—	3,440
Purchase of patents and trademarks	—	(82)	(14)	—	(96)
Purchase of equity investment	(57)	—	—	—	(57)
Purchase of short-term investment securities	538,310	—	—	—	538,310
Proceeds from sales of short-term investment securities	(538,310)	—	—	—	(538,310)
Financing lease receivable	—	428	—	—	428
Additional consideration for purchased businesses	(243)	—	—	—	(243)
Purchase of businesses, net of cash acquired	(794,739)	—	—	—	(794,739)
Net cash used in investing activities:	(792,022)	(29,344)	(3,950)	—	(825,316)
Cash flows from financing activities:					
Proceeds from exercise of stock options	2,156	—	—	—	2,156
Taxes paid for withheld shares on restricted stock issuances	(430)	—	—	—	(430)
Windfall tax benefit of stock options	3,005	—	—	—	3,005
Cash paid for financing costs	(7,232)	—	—	—	(7,232)
Increase in bank overdrafts	—	10,280	—	—	10,280
Borrowings of long-term debt	100,000	—	—	—	100,000
Repayments of long-term debt	—	(25,282)	(182)	—	(25,464)
Borrowings under lines of credit	844,775	—	3,226	—	848,001
Repayments under lines of credit	(672,277)	61	(4,173)	—	(676,389)
Net cash provided by (used in) financing activities	269,997	(14,941)	(1,129)	—	253,927
Effect of exchange rate on cash and cash equivalents	—	5,717	(4,387)	—	1,330
Net increase in cash and cash equivalents	(412,987)	(25,870)	7,329	—	(431,528)
Cash and cash equivalents, beginning of period	423,961	23,879	24,001	—	471,841
Cash and cash equivalents, end of period	\$ 10,974	\$ (1,991)	\$ 31,330	\$	— \$ 40,313

F-51

[Table of Contents](#)

Explanation of Responses:

10

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

Armor Holdings, Inc. and Subsidiaries
Consolidating Statements of Cash Flows

	Year ended December 31, 2005				Consolidated Total
	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries (In thousands)	Eliminations	
Cash flows from continuing operating activities:					
Income from continuing operations:	\$ 132,510	\$ 153,165	\$ 8,683	\$(161,848)	\$ 132,510
Adjustments to reconcile income from operations to cash provided by operating activities:					
Depreciation and amortization	2,694	16,960	2,754	—	22,408
Loss on disposal of fixed assets	52	402	480	—	934
Deferred income taxes	4,265	(7,588)	(88)	—	(3,411)
Non-cash SERP expense	2,427	—	—	—	2,427
Fair value gain on put options	(5,905)	—	—	—	(5,905)
Equity in earnings of subsidiaries	(202,661)	40,813	—	161,848	—
Changes in operating assets and liabilities, net of acquisitions:					
Increase in accounts receivable	—	(32,385)	(3,005)	—	(35,390)
(Increase) decrease in unbilled costs and accrued profits	—	50	—	—	50
Decrease (increase) in intercompany receivables & payables	71,573	(107,672)	36,099	—	—
(Increase) decrease in inventories	—	(36,805)	5,670	—	(31,135)
Decrease in prepaid expenses and other assets	642	22,391	508	—	23,541
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	7,904	17,306	(922)	—	24,288
Increase (decrease) in income taxes payable	6,141	744	(2,327)	—	4,558
Net cash provided by operating activities	19,642	67,381	47,852	—	134,875
Cash flows from investing activities:					
Purchase of property and equipment	(2,195)	(11,292)	(2,106)	—	(15,593)
Purchase of patents and trademarks	—	(814)	(239)	—	(1,053)
Purchase of equity investment	—	—	(31,082)	—	(31,082)
Purchase of short-term investment securities	(754,300)	—	—	—	(754,300)
Proceeds from sales of short-term investment securities	754,300	—	—	—	754,300
Financing lease receivable	—	(1,187)	—	—	(1,187)
Additional cash received from sale of business	—	300	—	—	300
Additional consideration for purchased businesses	(826)	(5,702)	—	—	(6,528)
Purchase of businesses, net of cash acquired	(1,261)	(45,544)	—	—	(46,805)
Net cash used in investing activities:	(4,282)	(64,239)	(33,427)	—	(101,948)
Cash flows from financing activities:					

(Increase) decrease in intercompany receivables & payables					
Increase in inventories	—	(58,293)	(14,813)	—	(73,106)
Increase in prepaid expenses and other assets	(1,397)	(20,321)	(357)	—	(22,075)
Increase in accounts payable, accrued expenses and other current liabilities	2,302	68,341	6,775	—	77,418
Increase (decrease) in income taxes payable	17,080	(3,350)	3,594	—	17,324
Net cash (used in) provided by operating activities from continuing operations	(202,359)	215,986	3,638	—	17,265
Net cash used in operating activities from discontinued operations	—	(407)	—	—	(407)
Net cash (used in) provided by operating activities	(202,359)	215,579	3,638	—	16,858
Cash flows from investing activities:					
Purchase of property and equipment	(3,615)	(10,125)	(5,679)	—	(19,419)
Purchase of patents and trademarks	—	(112)	—	—	(112)
Purchase of equity investment	—	(5,275)	—	—	(5,275)
Proceeds from sale of equity investment	—	5,823	—	—	5,823
Purchase of short-term investment securities	(286,430)	—	—	—	(286,430)
Proceeds from sales of short-term investment securities	286,430	—	—	—	286,430
Collection of note receivable	2,175	—	—	—	2,175
Decrease in restricted cash	2,600	—	—	—	2,600
Sale of business, net of cash disposed	—	125	—	—	125
Additional consideration for purchased businesses	—	(2,808)	—	—	(2,808)
Purchase of businesses, net of cash acquired	—	(158,442)	—	—	(158,442)
Net cash provided by (used in) investing activities from continuing operations	1,160	(170,814)	(5,679)	—	(175,333)
Net cash used in investing activities from discontinued operations	—	(263)	—	—	(263)
Net cash provided by (used in) investing activities:	1,160	(171,077)	(5,679)	—	(175,596)
Cash flows from financing activities:					
Proceeds from exercise of stock options	25,192	—	—	—	25,192
Proceeds from the issuance of common stock	142,500	—	—	—	142,500
Cash paid for common stock offering costs	(1,339)	—	—	—	(1,339)
Taxes paid for withheld shares on restricted stock issuances	(2,585)	—	—	—	(2,585)
Cash paid for financing costs	(6,156)	—	—	—	(6,156)
Borrowings of short-term debt	341,550	—	—	—	341,550
Repayments of long-term debt	—	(34,371)	(145)	—	(34,516)
Borrowings under lines of credit	22,700	5	1,883	—	24,588
Repayments under lines of credit	(22,700)	—	(349)	—	(23,049)
Net cash provided by (used in) financing activities from continuing operations	499,162	(34,366)	1,389	—	466,185
Net cash used in financing activities from discontinued operations	—	(125)	—	—	(125)
Net cash provided by (used in) financing activities	499,162	(34,491)	1,389	—	466,060
	—	—	1,961	—	1,961

Effect of exchange rate on cash and cash equivalents

Net increase in cash and cash equivalents	297,963	10,011	1,309	—	309,283
Cash and cash equivalents, beginning of period	90,764	11,160	10,002	—	111,926
Cash and cash equivalents, end of period	\$ 388,727	\$ 21,171	\$ 11,311	\$ —	\$ 421,209

F-53

Table of Contents

ARMOR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

23. VEST EXCHANGE PROGRAM/WARRANTY REVISION

As a result of our voluntary Zylon[®] Vest Exchange Program relating to our Zylon[®]-vests, we recorded a pre-tax charge of \$4 million and \$20 million in the years ended December 31, 2006 and 2005, respectively. The \$4 million charge incurred in 2006 resulted from higher redemption rate estimates on our existing Zylon[®] vest replacement program. The \$20 million charge incurred in 2005 includes originally estimated exchange program costs and inventory write-offs. This liability has been classified in accrued expenses and other current liabilities on the Consolidated Balance Sheet.

Zylon [®] Vest Exchange Program	2006	2005
	(In thousands)	
Program cost	\$ 3,600	\$ 17,391
Inventory write-offs	—	3,624
Total cost of ZVE	3,600	21,015
Reversal of accrual from 2004 Exchange Program	—	(1,115)
Net cost of ZVE	\$ 3,600	\$ 19,900

The above costs were estimated based on the expected cost to be incurred under the ZVE program for the physical replacement or compensation for qualifying vests surrendered under the program, including administrative costs. This may be in the form of cash or the expected cost of replacement products. Inventory write-offs represent the cost of existing on-hand, unusable Zylon[®] inventory. As the charge has been based upon various estimates, differences in actual return rates and program costs could result in material adjustments to the recorded charge.

24. CONCENTRATION OF REVENUES

Approximately 79.5%, 75.7% and 65.3% of our consolidated revenues were from our ten largest customers for the years ended December 31, 2006, 2005 and 2004, respectively. Our largest customer, the U.S. Federal Government, accounted for approximately 64.2%, 59.3% and 57.8% of our consolidated revenues for the years ended December 31, 2006, 2005 and 2004, respectively. Approximately 77.5%, 72.7% and 60.7% of our consolidated revenues came from direct or indirect U.S. military contracts for the years ended December 31, 2006, 2005 and 2004, respectively.

Our Aerospace & Defense Group's ten largest customers accounted for approximately 95.1%, 98.3% and 93.9% of segment revenues for the years ended December 31, 2006, 2005 and 2004, respectively. The Aerospace & Defense Group's largest customer, the U.S. Federal Government, accounted for approximately 77.6%, 79.3% and 87.1% of the segments revenue for the years ended December 31, 2006, 2005 and 2004, respectively.

The Products Group's ten largest customers accounted for approximately 21.0%, 25.3% and 26.6% of segment revenues of the Products Division for the years ended December 31, 2006, 2005 and 2004, respectively. The Product Division's largest customer, the U.S. Federal Government, accounted for approximately 5.6%, 9.0% and 12.2% of the segments revenue for the years ended December 31, 2006, 2005 and 2004, respectively.

The Mobile Security Division's ten largest customers accounted for approximately 39.4%, 52.6% and 43.6% of segment revenues for the years ended December 31, 2006, 2005 and 2004, respectively. Mobile Security's largest customer accounted for approximately 8.0%, 12.5% and 11.6% of segment revenue for the years ended December 31, 2006, 2005 and 2004.

Military and governmental contracts generally are awarded on a periodic or sporadic basis. If the Aerospace & Defense Group were to lose the FMTV contract, which continues through September 2008, or additional orders for next-generation Humvees known as the M1151/52 Up-Armored HMMWVs, our financial performance would experience a material adverse effect.

F-54

Table of Contents

ARMOR HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)

25. OFF BALANCE SHEET ARRANGEMENTS

On September 24, 2004, we entered into an off-balance sheet leasing arrangement for an aircraft for Company use. Upon expiration of this lease on September 24, 2009, a subsidiary of the Company has the option to renew the lease at fair market value subject to approval by the lessor, or, buy the aircraft for approximately \$10 million, or return the aircraft to the lessor and, under a guarantee, pay any shortfall in sales proceeds from a third party in an amount not to exceed \$8 million. Annual rental expense related to this agreement is approximately \$1 million. Excluding this leasing arrangement, we do not have any off balance sheet arrangements.

26. PUT OPTION TRANSACTIONS

We account for put option transactions on Company stock in accordance with Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150"). SFAS 150 requires put options to be measured at fair value and recognized on the balance sheet as liabilities.

During fiscal 2005, we sold put options in various private transactions covering 3.5 million shares of Company stock for \$7 million in premiums. During fiscal 2005, put options covering 2.5 million shares of Company stock expired unexercised leaving outstanding put options covering 1 million shares outstanding (2.8% of outstanding shares at December 31, 2005) at a weighted average strike price of \$40.00 per share. In February 2006, the remaining outstanding put options covering 1 million shares expired unexercised. Accordingly, we recognized \$710,000 in other income, net, in fiscal 2006. In fiscal 2005, we recognized fair value gains of \$6 million recorded in other income, net, of which \$5 million was recognized on the 2.5 million previously expired and unexercised put options. The fair values of the put options of Company stock are obtained from our counter-parties and represent the estimated amount we would have received or paid to terminate the put options, taking into account the consideration we received for the sale of the put options. We had no outstanding put options on Company stock remaining as of December 31, 2006.

27. INTEREST EXPENSE, NET

Interest expense, net is comprised of the following:

	2006	2005	2004
	(In thousands)		
Interest expense	\$ 40,296	\$ 20,541	\$ 10,535
Interest income	(10,141)	(14,260)	(3,759)
Interest expense, net	\$ 30,155	\$ 6,281	\$ 6,776

28. OTHER ASSETS

Other assets are comprised of the following:

	2006	2005
	(In thousands)	
Fair value of available-for-sale securities	\$ 48	\$ 28,597
Deferred costs related to issuance of debt	9,505	8,871
Net amount recognized for defined benefit plans	—	4,906
Fair value of interest rate swaps	283	1,427
Other	9,145	2,247
Total other assets	\$ 18,981	\$ 46,048

F-55

SIGNATURES

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

ARMOR HOLDINGS, INC.

/s/ Warren B.

Kanders

Warren B. Kanders

Chairman of the Board of Directors and

Chief Executive Officer

Dated: February 26, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ Warren B. Kanders
Warren B. Kanders

/s/ Robert R. Schiller
Robert R. Schiller

Explanation of Responses:

Chairman of the Board of Directors and Chief Executive Officer February 26, 2007 /s/ Glenn J. Heiar Glenn J. Heiar Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) February 26, 2007 /s/ Burt R. Ehrlich Burt R. Ehrlich Director February 26, 2007 /s/ David R. Haas David R. Haas Director February 26, 2007	President and Chief Operating Officer February 26, 2007 /s/ Nicholas Sokolow Nicholas Sokolow Director February 26, 2007 /s/ Deborah A. Zoullas Deborah A. Zoullas Director February 26, 2007
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Table of Contents

INDEX TO FINANCIAL STATEMENT SCHEDULES

Schedule II — Valuation and Qualifying Accounts and Reserves

All other schedules have been omitted because they are not applicable, not required or the information is included elsewhere herein.

Table of Contents

ARMOR HOLDINGS, INC.
VALUATION AND QUALIFYING ACCOUNTS
(In Thousands)

COLUMN A	COLUMN B	COLUMN C	COLUMN C	COLUMN D	COLUMN E
Description	Balance at beginning of period	Additions – Charged to expense	Additions – Acquisitions	Deductions – Write-offs and other	Balance at end of period
Allowance for doubtful accounts:					
2006	6,763	1,150	4,767	(4,777)	7,903
2005	3,077	680	—	3,006	6,763

Explanation of Responses:

2004	1,726	1,925	—	(574)	3,077
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The 2006 allowance for doubtful accounts addition related to acquisitions is a result of our acquisition of Stewart & Stevenson. The additions to the allowance for doubtful accounts related to the other acquisitions we made in 2005 and 2004, are immaterial for presentation.