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ENGINEERED SUPPORT SYSTEMS INC

Form 11-K

July 01, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 11-K

Annual Report Pursuant to Section 15(d)
of the Securities Exchange Act of 1934

For the year ended December 31, 2001

Commission file number 0-13880

A. Full title of the Plan

ENGINEERED SUPPORT SYSTEMS, INC. EMPLOYEE STOCK OWNERSHIP PLAN

B. Name of the issuer of the securities held pursuant to the plan and the
address of its principal executive office:

ENGINEERED SUPPORT SYSTEMS, INC.
201 EVANS LANE
ST. LOUIS, MISSOURI 63121
(314) 553-4000

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the
Plan Administrator has duly caused this Annual Report to be signed by the
undersigned, thereunto duly authorized.

ENGINEERED SUPPORT SYSTEMS, INC.
EMPLOYEE STOCK OWNERSHIP PLAN

Date: June 28, 2002

/s/ Gary C. Gerhardt

Gary C. Gerhardt
Vice Chairman - Administration and
Chief Financial Officer of
Engineered Support Systems, Inc.
and Member of the Administrative
Committee of the Plan

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Report of Independent Accountants

To the Participants and Administrator of
Engineered Support Systems, Inc.
Employee Stock Ownership Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Engineered Support Systems, Inc. Employee Stock Ownership Plan (the "Plan") at December 31, 2001 and 2000, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) and Reportable Transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
June 28, 2002
St. Louis, Missouri

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

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Engineered Support Systems, Inc.
Employee Stock Ownership Plan

	December 31	
	2001	2000
Assets:		
Cash and cash equivalents	\$	\$ 357,324
Investments, at fair value	44,518,294	33,284,008
Employer contributions receivable	1,216,405	109,207
Net Assets Available for Plan Benefits	\$45,734,699	\$33,750,539

See notes to financial statements.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Engineered Support Systems, Inc.
Employee Stock Ownership Plan

	Year Ended December 31	
	2001	2000
Additions:		
Investment income:		
Net realized and unrealized gain on Engineered Support Systems, Inc. common stock	\$16,338,384	\$ 7,705,932
Net loss from common collective trusts	(1,230,447)	(335,646)
Net loss from registered investment companies	(1,280,814)	
Interest and dividend income	420,501	83,681
	14,247,624	7,453,967
Contributions:		
Participant	1,603,637	1,564,795
Employer	1,564,691	1,046,306
	3,168,328	2,611,101
Deductions:		
Benefits paid to participants	(5,431,792)	(2,674,498)

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Interest expense		(41,397)
	-----	-----
Total deductions	(5,431,792)	(2,715,895)
	-----	-----
Net increase	11,984,160	7,349,173
Net Assets Available for Plan Benefits at Beginning of Year	33,750,539	26,401,366
	-----	-----
Net Assets Available for Plan Benefits at End of Year	\$45,734,699	\$33,750,539
	=====	=====

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Engineered Support Systems, Inc.
Employee Stock Ownership Plan

December 31, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Engineered Support Systems, Inc. Employee Stock Ownership Plan (the Plan) are presented on the accrual basis of accounting. Benefits due to participants are recorded as a reduction in net assets available for Plan benefits when paid.

Investments in the Engineered Support Systems, Inc. (the Company) common stock are stated at fair value based on the last reported sales price on December 31, 2001 and 2000, respectively. Investments in registered investment companies, including the Dreyfus Premier Core Bond Fund-Class A, the Prudential Short-Term Corporate Bond Fund-Class A, the American Funds EuroPacific Growth Fund, the Alliance Growth & Income Fund-Class A, the Janus Twenty Fund, the Prudential Jennison Growth Fund-Class A, the Prudential Stock Index Fund-Class Z, the INVESCO Technology Fund-Investor Shares, the Franklin Small Cap Growth Fund II and the Prudential US Emerging Growth Fund-Class A, are stated at the fair value of the underlying portfolio of securities, as determined by the respective manager.

Investments in common collective trusts, including the Overseas Equity Portfolio (managed by Brandes Investment Partners), the Mid-Cap Value Portfolio (managed by Ariel Capital Management Inc.), the Small Company Growth Portfolio (managed by Credit Suisse Asset Management), the Large Company Value Portfolio (managed by Westwood Management Corporation), the Capital Growth Portfolio (managed by Montag & Caldwell), the Strategic Bond Portfolio (managed by Western Asset Management Company) and the Guaranteed Investment Contract Portfolio (managed by Mitchell Hutchins Asset Management) are stated at the fair value of the underlying portfolio of securities, as determined by the respective manager.

Investment income is recorded as earned. Net realized gains or losses on

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security transactions represent the difference between proceeds received and cost. In accordance with the policy of stating investments at fair value, net unrealized appreciation or depreciation is reflected in the Statements of Net Assets Available for Benefits and the change in net unrealized appreciation or depreciation is reflected in the Statements of Changes in Net Assets Available for Benefits.

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near-term could materially affect the amounts reported in the Statement of Net Assets Available for Benefits.

Notes receivable, representing loans to participants, are valued at their outstanding principal amount. These notes bear interest at a rate equal to the prime interest rate as of the effective date of the loan plus one percentage point.

Administrative expenses of the Plan are paid by the Company.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of net assets and changes in net assets during the reporting period. Actual results could differ from these estimates.

NOTE B - DESCRIPTION OF THE PLAN

The Plan is a combined 401(k) savings plan and a payroll-based employee stock ownership plan covering the salaried employees and all non-salaried employees not otherwise covered by a collective bargaining agreement of the Company's following wholly-owned subsidiaries: Engineered Air Systems, Inc., Engineered Specialty Plastics, Inc., Engineered Coil Company, d/b/a Marlo Coil, Keco Industries, Inc. and Engineered Electric Company, d/b/a Fermont. Eligible employees age 21 or older who have attained one year of service (90 days effective April 1, 2001) may enroll in the Plan. Upon enrollment, participants may elect to defer from 1% to 15% of their compensation in the Plan, up to a maximum of \$10,500 for the years ended December 31, 2001 and 2000, respectively. Under current Internal Revenue Service regulations, this maximum amount is adjusted annually.

Contributions under the Plan consist of the following:

1. The amount of the salary deferrals of all Plan participants (the employee contribution).
2. The Company's discretionary contribution (the employer discretionary contribution).
3. The Company's matching contribution of no less than 25% of each employee's contribution up to a maximum of 6% of the employee's earnings (the employer matching contribution).

All participant contributions are invested at the participant's discretion in the investment funds offered by the Plan and selected by the participant. Employee and employer contributions are 100% vested.

All contributions by the Company are made in the form of Engineered Support

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Systems, Inc. common stock.

The Plan allows participants to borrow from existing balances in their Plan investments. These loans are to be repaid with interest over a period not to exceed five years.

The Plan Administrator is Engineered Support Systems, Inc. acting through an Administrative Committee to administer the Plan. The Company bears all expenses of administering the Plan, including any compensation of the trustee, Prudential Trust Company. No trustee fees or other administrative expenses were paid from Plan assets during the years ended December 31, 2001 or 2000.

Information about the Plan, including provisions for vesting, allocation of earnings, withdrawal provisions and the impact of Plan termination is contained in the Summary Plan Description. Copies of the Summary Plan Description are available from the Company.

NOTE C - INVESTMENTS

The following schedule presents information regarding assets held for investments:

	December 31, 2001		D Fair
	Fair Value	Cost	
Engineered Support Systems, Inc. common stock, 707,162 and 793,583 shares, respectively	\$24,192,007	\$ 5,349,529	\$17,2
Prudential Short-Term Corporate Bond Fund-Class A, 464,968 shares	5,277,386	5,328,158	
Alliance Growth & Income Fund-Class A, 965,367 shares	3,465,667	3,638,182	
Janus Twenty Fund, 67,733 shares	2,605,007	3,113,701	
Dreyfus Premier Core Bond Fund-Class A, 160,526 shares	2,301,945	2,380,512	
American Funds EuroPacific Growth Fund, 76,041 shares	2,043,221	2,267,841	
Franklin Small Cap Growth Fund II, 179,992 shares	1,776,517	1,791,751	
Prudential US Emerging Growth Fund-Class A, 82,321 shares	1,240,578	1,349,207	
Prudential Jennison Growth Fund-Class A, 12,461 shares	182,175	180,309	

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Prudential Stock Index Fund-Class Z, 6,786 shares	173,374	173,496	
INVESCO Technology Fund - Investor Shares, 1,633 shares	53,182	53,802	
Capital Growth Portfolio, managed by Montag & Caldwell, 118,550 shares			3,8
Overseas Equity Portfolio, managed by Brandes Investment Partners, 118,068 shares			2,8
Large Company Value Portfolio, managed by Westwood Management Corporation, 47,214 shares			2,4
Small Company Growth Portfolio, managed by Credit Suisse Asset Management, 29,577 shares			2,1
Guaranteed Investment Contract Portfolio, managed by Mitchell Hutchins Asset Management, 70,128 shares			1,6
Mid-Cap Value Portfolio, managed by Ariel Capital Management, Inc., 58,393 shares			1,3
Strategic Bond Portfolio, managed by Western Asset Management Company, 56,904 shares			9
Notes receivable from participants with remaining maturities of 1 month to 5 years bearing interest rates ranging from 7.50% to 10.50% at December 31, 2001 and from 8.75% to 10.50% at December 31, 2000	1,207,235	1,207,235	8
	-----	-----	-----
Total	\$44,518,294	\$26,833,723	\$33,2
	=====	=====	=====

Engineered Support Systems, Inc. common stock includes both participant-directed and nonparticipant-directed investments. All other investments are solely participant-directed.

NOTE D - NONPARTICIPANT-DIRECTED INVESTMENTS

Information about the net assets and the significant components of the changes in net assets relating to nonparticipant-directed investments,

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primarily all of which represent investments in Engineered Support Systems, Inc. common stock, is as follows:

	Year Ended December 31	
	2001	2000
Net Assets at Beginning of Year	\$11,046,956	\$ 5,443,674
Contributions	1,564,691	1,046,306
Realized and unrealized gain	7,116,492	4,947,283
Benefits paid to participants	(2,731,381)	(348,910)
Interest expense		(41,397)
Net Assets at End of Year	\$16,996,758	\$11,046,956

NOTE E - CHANGES IN THE PLAN

Effective April 1, 2001, the Plan was amended to provide eligibility for those employees age 21 or older who have attained ninety (90) days of service, formerly one year of service. In addition, Prudential Trust Company was named Plan trustee. Effective December 14, 2001, the Plan was amended to allow Plan participants with five (5) years of service as a participant to direct Company-contributed Engineered Support Systems, Inc. common stock into other investment choices within the Plan.

The Plan had pledged shares of the Company's common stock, purchased with bank loan proceeds, as collateral for the loan. During 2000, the bank loan was retired and the remaining 48,176 shares of the Company's common stock previously held as collateral were released to Plan participants.

NOTE F - INCOME TAX STATUS

The Plan received a favorable letter of determination from the Internal Revenue Service dated May 23, 2002 indicating compliance with section 401(a) of the Internal Revenue Code and exemption under the provisions of section 501(a). Therefore, it is the opinion of the Plan Administrator that, as of December 31, 2001, the Plan is in compliance with section 401(a) of the Internal Revenue Code and is exempt under the provisions of section 501(a). Thus, provision for a federal income tax is not required in the accompanying financial statements.

Participants are not subject to federal income tax on amounts contributed to their accounts under the 401(k) provisions of the Plan, or on earnings attributable to such contributions, until such time as these amounts are distributed to or withdrawn by the participants.

NOTE G - RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2001 and 2000 to Form 5500:

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	2001 -----	2000 -----
Net assets available for benefits per the financial statements	\$45,734,699	\$33,750,539
Amounts allocated to withdrawing participants	(60,033)	(1,624,838)
	-----	-----
Net assets available for benefits per the Form 5500	\$45,674,666 =====	\$32,125,701 =====

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 2001 to Form 5500:

Benefits paid to participants per the financial statements	\$ 5,431,792
Add: Amounts allocated to withdrawing participants at December 31, 2001	60,033
Less: Amounts allocated to withdrawing participants at December 31, 2000	(1,624,838)

Benefits paid to participants per Form 5500	\$ 3,866,987 =====

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to the respective Plan year ends, but not yet paid as of that date.

NOTE H - RELATED PARTY AND PARTY-IN-INTEREST

The Company, as Plan administrator and sponsor, is a related party to the Plan. At December 31, 2001 and 2000, the Plan held shares of Company common stock with a market value of \$24,192,007 and \$17,260,430, respectively. For the year ended December 31, 2001, the Plan purchased \$1,764,084 and sold \$11,627,292 of Company common stock. For the year ended December 31, 2000, the Plan purchased \$261,888 and sold \$245,721 of Company common stock.

Prudential Trust Company as Trustee of the Plan's assets is a party-in-interest as defined by ERISA. For Plan assets managed by Prudential, the Plan held \$6,873,513 of investment funds and short-term investments at December 31, 2001.

These transactions are exempt party-in-interest transactions under Section 408(b)(8) of the ERISA statutes.

Engineered Support Systems, Inc.
Employee Stock Ownership Plan

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Schedule I

Schedule of Assets (Held at End of Year)

As of December 31, 2001

(a)	(b) Identity of Issuer	(c) Description of Asset	(d) Cos
*	Engineered Support Systems, Inc.	Common Stock \$.01 par value	\$5,349,5
*	Prudential Short-Term Corporate Bond Fund-Class A	Short-term bond mutual fund	5,328,1
	Alliance Growth & Income Fund-Class A	Large-cap value equity mutual fund	3,638,1
	Janus Twenty Fund	Large-cap growth equity mutual fund	3,113,7
	Dreyfus Premier Core Bond Fund - Class A	Intermediate-term bond mutual fund	2,380,5
	American Funds EuroPacific Growth Fund	Non-U.S. equity mutual fund	2,267,8
	Franklin Small Cap Growth Fund II	Small-cap growth equity fund	1,791,7
*	Prudential US Emerging Growth Fund-Class A	Mid-cap growth equity mutual fund	1,349,2
*	Prudential Jennison Growth Fund-Class A	Large-cap growth equity mutual fund	180,3
*	Prudential Stock Index Fund-Class Z	Large-cap blend equity mutual Fund	173,4
	INVESCO Technology Fund - Investor Shares	Technology equity mutual fund	53,8
	Participant Loans	Loans to Plan participants bearing interest rates from 7.50% to 10.50% with remaining maturities of 1 month to 5 years	1,207,2