

UNOVA INC
Form 10-Q/A
August 16, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2002

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)

**21900 Burbank Boulevard
Woodland Hills, California**

www.unova.com
(Address of principal executive
offices and internet site)

Registrant's telephone number, including area code: (818) 992-3000

95-4647021
(I.R.S. Employer
Identification No.)

91367-7456
(Zip Code)

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

On July 31, 2002 there were 58,400,154 shares of Common Stock outstanding, exclusive of treasury shares.

UNOVA, INC.
INDEX
REPORT ON FORM 10-Q/A

FOR THE QUARTER ENDED JUNE 30, 2002

EXPLANATORY NOTE

The registrant (the "Company") is filing this Form 10-Q/A for the period ended June 30, 2002 solely to properly reflect that Unitrin, Inc. continues to own approximately 22% of the Company's outstanding common shares (See note 11). The number of shares owned by Unitrin, Inc., as disclosed in the Company's 2002 Proxy Statement and incorporated by reference in the Company's annual report on Form 10-K for the period ended December 31, 2001, has remained unchanged since the Company's inception.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNOVA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share amounts)
(unaudited)

	Six Months Ended June 30,	
	2002	2001
Sales and Service Revenues	\$ 647,630	\$ 814,903
Costs and Expenses		
Cost of sales and service	455,266	597,531

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	Six Months Ended June 30,	
	2002	2001
Selling, general and administrative	151,695	190,180
Depreciation and amortization	17,832	32,140
Interest, net	11,708	17,390
Total Costs and Expenses	636,501	837,241
Goodwill Impairment and Special Charges	(4,688)	(35,595)
Other Income		75,104
Earnings before Income Taxes	6,441	17,171
Provision for Income Taxes	(2,349)	(29,925)
Net Earnings (Loss)	\$ 4,092	\$ (12,754)
Basic and Diluted Earnings (Loss) per Share	\$ 0.07	\$ (0.23)
Shares Used in Computing Basic Earnings (Loss) per Share	57,565	56,504
Shares Used in Computing Diluted Earnings (Loss) per Share	58,542	56,504

See accompanying notes to consolidated financial statements.

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UNOVA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,	
	2002	2001
Sales and Service Revenues	\$ 355,249	\$ 411,894
Costs and Expenses		
Cost of sales and service	237,900	302,790
Selling, general and administrative	77,753	91,889
Depreciation and amortization	8,830	16,188
Interest, net	6,167	8,729
Total Costs and Expenses	330,650	419,596
Goodwill Impairment and Special Charges		(35,595)

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	Three Months Ended June 30,	
Other Income		75,104
Earnings before Income Taxes	24,599	31,807
Provision for Income Taxes	(2,349)	(34,609)
Net Earnings (Loss)	\$ 22,250	\$ (2,802)
Basic Earnings (Loss) per Share	\$ 0.39	\$ (0.05)
Diluted Earnings (Loss) per Share	\$ 0.38	\$ (0.05)
Shares Used in Computing Basic Earnings (Loss) per Share	57,582	56,515
Shares Used in Computing Diluted Earnings (Loss) per Share	58,612	56,515

See accompanying notes to consolidated financial statements.

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**UNOVA, INC.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands)
(unaudited)**

	June 30, 2002	December 31, 2001
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 86,804	\$ 103,714
Accounts receivable, net	377,386	375,883
Inventories, net of progress billings	185,407	189,427
Deferred tax assets	69,923	77,172
Other current assets	10,924	13,099
Total Current Assets	730,444	759,295
Property, Plant and Equipment, net of accumulated depreciation of \$254,748 (June 30, 2002) and \$245,051 (December 31, 2001)	144,831	174,136
Goodwill and Other Intangibles, Net	84,378	87,110
Deferred Tax Assets	106,918	101,477
Other Assets	81,932	84,960
Total Assets	\$ 1,148,503	\$ 1,206,978
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities		
Accounts payable and accrued expenses	\$ 275,503	\$ 324,063

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	June 30, 2002	December 31, 2001
Payroll and related expenses	95,228	100,348
Total Current Liabilities	370,731	424,411
Long-term Obligations	249,800	281,500
Other Long-term Liabilities	110,118	103,093
Shareholders' Investment		
Common stock	584	581
Additional paid-in capital	672,665	669,389
Accumulated deficit	(236,634)	(240,726)
Accumulated other comprehensive loss cumulative currency translation adjustment	(18,761)	(31,270)
Total Shareholders' Investment	417,854	397,974
Total Liabilities and Shareholders' Investment	\$ 1,148,503	\$ 1,206,978

See accompanying notes to consolidated financial statements.

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UNOVA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(unaudited)

	Six Months Ended June 30,	
	2002	2001
Cash and Cash Equivalents at Beginning of Period	\$ 103,714	\$ 106,836
Cash Flows from Operating Activities:		
Net earnings (loss)	4,092	(12,754)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,832	32,140
Change in prepaid pension costs, net	2,728	(13,328)
Deferred taxes	(336)	24,146
Special charges	4,688	4,595
Goodwill impairment		31,000
Decrease in accounts receivable sold		(90,500)
Reversion of pension plan assets, net of gain		46,919
Changes in operating assets and liabilities:		
Accounts receivable	8,383	60,024
Inventories	3,720	6,204

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	Six Months Ended June 30,	
	2019	2018
Other current assets	2,560	1,000
Accounts payable and accrued expenses	(50,273)	737
Payroll and related expenses	(9,044)	(5,239)
Other long-term liabilities	9,285	(2,540)
Other operating activities	5,576	(1,447)
	—————	—————
Net Cash Provided by (Used in) Operating Activities	(789)	80,957
	—————	—————
Cash Flows from Investing Activities:		
Capital expenditures	(4,478)	(9,739)
Proceeds from sale of property, plant and equipment	15,464	7,769
Proceeds from sale of business	1,609	
Other investing activities	2,252	3,237
	—————	—————
Net Cash Provided by Investing Activities	14,847	1,267
	—————	—————
Cash Flows from Financing Activities:		
Net decrease in notes payable and revolving facilities		(108,214)
Repayment of long-term obligations	(31,700)	
Other financing activities	732	(1,038)
	—————	—————
Net Cash Used in Financing Activities	(30,968)	(109,252)
	—————	—————
Resulting Decrease in Cash and Cash Equivalents	(16,910)	(27,028)
	—————	—————
Cash and Cash Equivalents at End of Period	\$ 86,804	\$ 79,808
	—————	—————
Supplemental disclosure of cash flow information:		
Interest paid	\$ 12,774	\$ 19,088
Income taxes paid (refunded)	\$ 487	\$ (97)

See accompanying notes to consolidated financial statements.

**UNOVA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 is headquartered in Woodland Hills, California and incorporated in the state of Delaware.

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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. It is suggested that these consolidated financial statements 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, 2001. 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):

	June 30, 2002	December 31, 2001
Raw materials and work in process	\$ 174,497	\$ 182,942
Finished goods	31,830	28,115
Less progress billings	(20,920)	(21,630)
	\$ 185,407	\$ 189,427

3. Goodwill and Other Intangibles, Net

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which provides guidance on post-acquisition accounting for goodwill and intangibles, including the discontinuance of goodwill amortization, in favor of periodic impairment testing. SFAS 142 became effective for the Company on January 1, 2002, at which time the Company ceased amortizing its goodwill. Additionally, the Company has completed the transitional fair value based impairment test and determined that as of January 1, 2002 none of the recorded goodwill was impaired. Fair value was determined based on a discounted cash flow model.

As of January 1, 2002, all of the Company's goodwill is allocated to its Integrated Production Systems ("IPS") segment. The changes in the carrying amount of goodwill for the six months ended June 30, 2002 were as follows (thousands of dollars):

Goodwill:	
Balance as of December 31, 2001	\$ 71,362
Amount allocated to sale of business	(2,781)
Foreign currency translation adjustment	636
	\$ 69,217

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The following table sets forth net earnings (loss) and basic and diluted earnings (loss) per share, excluding goodwill amortization (thousands of dollars, except per share amounts):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
Net earnings (loss)				
Reported net earnings (loss)	\$ 4,092	\$ (12,754)	\$ 22,250	\$ (2,802)
Add back: goodwill amortization, net of tax		6,899		3,450
	\$ 4,092	\$ (5,855)	\$ 22,250	\$ 648

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	Six Months Ended June 30,		Three Months Ended June 30,	
Basic earnings (loss) per share				
Reported basic earnings (loss) per share	\$ 0.07	\$ (0.23)	\$ 0.39	\$ (0.05)
Add back: goodwill amortization, net of tax, per share		0.13		0.07
Adjusted basic earnings (loss) per share	\$ 0.07	\$ (0.10)	\$ 0.39	\$ 0.02
Diluted earnings (loss) per share				
Reported diluted earnings (loss) per share	\$ 0.07	\$ (0.23)	\$ 0.38	\$ (0.05)
Add back: goodwill amortization, net of tax, per share		0.13		0.07
Adjusted diluted earnings (loss) per share	\$ 0.07	\$ (0.10)	\$ 0.38	\$ 0.02

SFAS 142 requires that intangible assets that do not meet the criteria for recognition apart from goodwill be reclassified and that intangibles with indefinite lives cease to be amortized in favor of periodic impairment testing. The Company determined that as of January 1, 2002, the classification and useful lives of identifiable intangible assets continue to be appropriate.

The gross carrying amount and accumulated amortization of the Company's amortized intangibles are as follows (thousands of dollars):

Other Intangibles:	June 30, 2002	December 31, 2001
Gross carrying amount	\$ 23,557	\$ 23,159
Accumulated amortization	(8,396)	(7,411)
Other intangibles, net	\$ 15,161	\$ 15,748

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Amortization expense on intangible assets for the six and three months ended June 30, 2002 was \$0.7 million and \$0.4 million, respectively, and was \$1.5 million and \$0.7 million for the respective corresponding prior year periods. Estimated amortization expense for the current and succeeding five fiscal years are as follows (thousands of dollars):

Year Ending December 31,

2002	\$ 1,470
2003	1,470
2004	1,470
2005	1,377
2006	1,100
2007	1,100

4. Debt and Interest

The Company maintains three secured long-term credit facilities: a \$200 million asset-based revolving credit facility (the "Revolving Facility"), a term loan (the "Term Loan") and a £15.0 million revolving facility and related overdraft facility (collectively, the "UK Facility").

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On March 1, 2002, the financial covenants of the Revolving Facility and Term Loan were amended. Effective for the year 2002, the amendments remove the Fixed Charge Coverage test and add a Free Cash Flow test, as defined in the amendments. The Free Cash Flow test is only applicable if average Availability on the Revolving Facility is less than \$50.0 million and outstanding borrowings on the Revolving Facility exceed \$10.0 million. Provisions were added, applicable for the remaining term of the Revolving Facility, to maintain Minimum Availability of \$30.0 million and remove the Minimum Domestic EBITDA test.

As of June 30, 2002, \$41.3 million was outstanding under the Term Loan at an annual interest rate of 13.0% and no borrowings were outstanding under the Revolving Facility or the UK Facility.

In July 2002, the Company received cash proceeds from intellectual property settlements (See note 12) and used \$20.0 million of the proceeds to repay a portion of the Term Loan.

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
Interest expense	\$ 12,965	\$ 19,285	\$ 6,663	\$ 9,617
Interest income	(1,257)	(1,895)	(496)	(888)
Interest, net	\$ 11,708	\$ 17,390	\$ 6,167	\$ 8,729

5. Special Charges and Exit Activities

In March 2002, the IPS 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.

During the second quarter 2001, the IPS segment initiated closure of substantially all of its R&B Machine Tool Company and MM&E, Inc. facilities. Certain remaining manufacturing activities were consolidated into other IPS units. This action, which was substantially complete at

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December 31, 2001, resulted in the accrual of severance costs for 217 employees totaling \$3.0 million and other plant closure costs of \$1.6 million. The related review of goodwill and long-lived assets for impairment resulted in a non-cash goodwill impairment charge of \$31.0 million. The estimated fair value of goodwill was computed based on discounted expected future cash flows from remaining operations.

During the fourth quarter 2001, the AME segment initiated a plan to reduce vertical integration in its manufacturing process and consolidate plant facilities. The plan includes outsourcing of certain manufacturing activities, termination of employees and the disposition of plant and equipment by a combination of sale and abandonment. This action, which is now expected to be substantially complete in 2003, resulted in the accrual of severance costs for 75 employees totaling \$1.5 million and other plant closure costs of \$1.8 million. As of June 30, 2002, amounts paid and charged against these accruals were not material and no employees have been terminated.

During the fourth quarter 2001, the ADS segment initiated a plan to eliminate certain engineering activities, terminate related employees and close a leased facility, resulting in the accrual of severance costs for 42 employees totaling \$1.5 million and lease termination and other closure costs of \$5.9 million. During the six months ended June 30, 2002, \$1.3 million in severance costs were paid and charged against the accrual. All other actions under this plan were substantially complete as of June 30, 2002.

6. Other Income

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During the second quarter 2001, the Company completed a partial settlement of its U.S. defined benefit pension plan obligations through the purchase of nonparticipating annuity contracts. In connection with the settlement, surplus plan assets of \$175.7 million reverted to the Company. After applicable excise and income taxes, the Company received net cash of \$122.0 million and real estate with a fair value of \$15.3 million. The settlement resulted in pension income of \$114.0 million, and a net pre-income tax book gain of \$75.1 million after excise taxes. The Company also reduced the related prepaid pension asset in accordance with Statement of Financial Accounting Standards No. 88 "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination of Benefits."

7. Provision for Income Taxes

The provision for income taxes for the six and three months ended June 30, 2002 is primarily related to foreign and state taxes, as domestic income taxes are offset by net operating loss carryforwards. The provision for income taxes for the six and three months ended June 30, 2001, reflects the impact of nondeductible goodwill impairment and nondeductible excise taxes relating to the reversion of surplus pension plan assets.

8. Earnings (Loss) per Share and Shareholders' Investment

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding and issuable for the applicable period. Diluted earnings (loss) 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. Shares used for basic and diluted earnings (loss) per share were computed as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
Weighted average common shares Basic	57,564,816	56,503,995	57,582,087	56,515,196
Dilutive effect of unvested restricted shares and stock options	976,859		1,029,706	
Weighted average shares Diluted	58,541,675	56,503,995	58,611,793	56,515,196

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At June 30, 2002 and 2001, Company employees and directors held options to purchase 4,273,105 and 6,554,340 shares, respectively, of Company common stock that were antidilutive to the diluted earnings (loss) per share computation. 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 six and three month periods ended June 30, 2001, diluted weighted average shares exclude 368,706 and 364,354 weighted average unvested restricted shares, respectively, due to the Company reporting a net loss.

9. Comprehensive Earnings (Loss)

The Company's comprehensive earnings (loss) amounts were computed as follows (thousands of dollars):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
Net earnings (loss)	\$ 4,092	\$ (12,754)	\$ 22,250	\$ (2,802)
Change in equity due to foreign currency translation adjustments	12,509	(10,904)	13,488	(1,906)

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	Six Months Ended June 30,		Three Months Ended June 30,	
Comprehensive earnings (loss)	\$ 16,601	\$ (23,658)	\$ 35,738	\$ (4,708)

10. Segment Reporting

The Company has three reportable segments, Automated Data Systems ("ADS"), Integrated Production Systems ("IPS") and Advanced Manufacturing Equipment ("AME"). 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 ("Intermec"). The IPS segment comprises the Lamb Machining Systems division, the Lamb Body & Assembly Systems division and the Landis Grinding Systems division. The AME segment comprises the Cincinnati Machine division. For evaluation purposes, the Company aggregates the IPS and AME reportable segments into the Industrial Automation Systems ("IAS") business. The Company uses operating profit or loss, which is computed by adding net interest expense to earnings or loss before taxes on income, to evaluate performance.

Corporate and other amounts include corporate operating costs and currency transaction gains and losses. Assets classified as corporate and other amounts consist of cash and cash equivalents, prepaid pension costs, deferred tax assets relating to net operating loss and tax credit carryforwards and other corporate assets. Activities are primarily product sales oriented. Export sales are not material. Intrasegment transactions have been eliminated and there are no material intersegment transactions.

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Operations by Business Segment (millions of dollars)

		Industrial Automation Systems				
		Automated Data Systems	Integrated Production Systems	Advanced Manufacturing Equipment	Corporate and Other Amounts	Total
Six Months Ended June 30:						
Sales and service revenues	2002	\$338.3	\$239.4	\$69.9		\$647.6
	2001	359.5	343.0	112.4		814.9
Operating profit (loss)	2002	37.2	4.7(a)	(5.7)	\$(13.4)	22.8
	2001	3.2	21.2(b)	(5.6)	(23.7)(c)	(4.9)
Three Months Ended June 30:						
Sales and service revenues	2002	198.0	119.0	38.2		355.2
	2001	189.5	166.4	56.0		411.9
Operating profit (loss)	2002	37.9	1.7	(2.7)	(6.1)	30.8
	2001	8.8	7.8(b)	(5.1)	(10.5)(c)	1.0

- (a) excludes special charges of \$4.7 million (See note 5).
(b) excludes special charges of \$35.6 million (See note 5).
(c) excludes other income of \$75.1 million (See note 6).

11. Related Party Transactions

Included in other assets are amounts due from certain Company officers and other executives of \$0.6 million and \$0.9 million at June 30, 2002 and December 31, 2001, respectively.

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Unitrin, Inc., a significant shareholder of the Company, owning approximately 22% of the Company's outstanding common shares, and various of its subsidiaries (collectively, "Unitrin") participates as a lender in the Term Loan. As of June 30, 2002, Unitrin had committed and funded \$17.3 million of the \$41.3 million outstanding under the Term Loan. Interest expense associated with amounts funded by Unitrin for the six and three months ended June 30, 2002 was \$1.7 and \$0.7 million, respectively.

During the six and three months ended June 30, 2001, the Company leased executive offices that are located in a building that was owned by the UNOVA Master Trust, an entity which holds the assets of the Company's primary U.S. pension plans. In conjunction with the reversion of surplus pension plan assets in June 2001, ownership of the building was transferred to the Company and the lease agreement was terminated. Rental expense under the provisions of this lease for the six and three months ended June 30, 2001 was \$0.4 million and \$0.1 million, respectively. In April 2002, the Company sold the building to an independent buyer.

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12. Intellectual Property Settlements

During the second quarter 2001, the Company received compensation in relation to a settlement regarding certain of its intellectual property. Additionally, the Company received compensation in relation to another settlement in the second quarter 2002 and two settlements during July 2002, 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 six and three months ended June 30, 2001 and 2002. Cash proceeds from the July 2002 settlements will also result in a significant, positive impact on the Company's revenues and results of operations for the nine and three months ending September 30, 2002.

13. Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", SFAS No. 44, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and SFAS No. 64, "Accounting for Intangible Assets of Motor Carriers" and amends SFAS 13, "Accounting for Leases" and other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. This statement becomes effective for the Company on January 1, 2003. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In July 2002, the 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 becomes effective for the Company on January 1, 2003. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

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SIGNATURE

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

UNOVA, INC.
(Registrant)

By /s/ MICHAEL E. KEANE

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

QuickLinks

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS