Sande John P III
Form 4
March 29, 2013

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
Sande John P III

(Last) (First) (Middle)

10375 PROFESSIONAL CIRCLE

(Street)

RENO, NV 89521

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Employers Holdings, Inc. [EIG]

3. Date of Earliest Transaction (Month/Day/Year)
03/27/2013

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ 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 Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

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

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SEC 1474 (9-02)

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	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price Derivati Security (Instr. 5

Derivative Security					Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)						
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Dividend Equivalent Rights	(1)	03/27/2013	A		8		(1)	(1)	Common Stock, par value $0.01	8	$ 0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Sande John P III 10375 PROFESSIONAL CIRCLE RENO, NV 89521	X			

Signatures

/s/ John P. Sande, III	03/27/2013
**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) The dividend equivalent rights ("DERs") accrued on vested restricted stock units ("RSUs") previously granted to the reporting person where the reporting person has voluntarily deferred delivery of such RSUs until six months following termination of service on the board of directors. The DERs become exercisable proportionately with the RSUs to which they relate. Each DER is the economic equivalent of one share of common stock of Employers Holdings, Inc.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. gement believes that the Company will continue to be able to compete successfully based upon the quality, technological advancement and cost competitiveness of its products and services. As the electronic and software content of the Company's products increases, the Company may encounter future competition from electronics and aerospace companies whose activities historically have been largely unrelated to the Company's products and programs. The Company's ability to compete for defense contracts depends to a large extent on the impact and innovation of its research and development programs, its capability as a systems integrator, its willingness to partner with military depots, its ability to offer best value to its government customers, and its readiness in facilities, equipment and personnel to undertake the programs for which it competes. Historically, the Company concentrated on TCVs because it believes that TCVs provide better capability than wheeled combat vehicles. However, the U. S. Army has recently shown a strong interest in shifting at least some of its combat vehicles to a

wheeled platform, which the Company does not currently offer. (See Item 7, Overview, Interim Armored Vehicles, below). In some instances, programs are sole-sourced by the U.S. government to a single supplier, and in other cases involve a prime contractor and multiple suppliers. In cases where the Company is the sole-source provider, there may be other suppliers who have the capability to compete for the programs involved, but they can only enter or reenter the market if the U.S. government should choose to reopen the particular program to competition. The Company's customers, particularly the industrial facilities operated by DoD, often compete with the Company for aftermarket business, such as upgrade work and various overhaul and servicing work performed by the Company. Major Customers The Company's sales are predominantly derived from contracts with agencies of the U.S. government. See Note 13 to the Consolidated Financial Statements, included in Item 8. Backlog As of December 31, 2000, the Company's funded backlog was approximately $1.9 billion compared with $1.4 billion at the end of 1999. Approximately one half of the increase is due to the acquisition of Bofors during 2000. Funded backlog does not include the awarded but unfunded portion of total contract values. This backlog provides management with a useful tool to project sales and plan its business on an on-going basis. A substantial majority of this backlog is expected to be earned as revenues by the end of 2001. Intellectual Property Although the Company owns a number of patents and has filed applications for additional patents, it does not believe that its operations depend upon its patents. In addition, the Company's U.S. government contracts generally license it to use patents owned by others. Similar provisions in the U.S. government contracts awarded to other companies make it impossible for the Company to prevent the use by other companies of its patents in most domestic work. Additionally, the Company owns certain data rights in its products under certain of its government contracts. The protection of data developed by the Company from use by other government contractors is from time to time a source of negotiation between the Company and the U.S. government, and the extent of the Company's data rights in any particular product generally depends upon the degree to which that product was developed by the Company, rather than with U.S. government funds. The Company routinely enters into confidentiality and non- disclosure agreements with its employees to protect its trade secrets. Employees At December 31, 2000, the Company had approximately 5,350 employees and approximately 300 contract workers (excluding employees of the foreign joint ventures). Approximately 1,650 of these employees at six locations are represented by eight unions, including the Glass, Molders, Pottery, Plastics and Allied Workers (Anniston); the International Association of Machinists (Louisville and San Jose); the United Automobile, Aerospace and Agricultural Implement Workers (Minneapolis); the International Guards (Minneapolis); the International Brotherhood of Teamsters (San Jose); the United Steelworkers (York); the Swedish Trade Union Cooperation (Sweden); and the Federation of Salaried Employees in Industry and Services (Sweden). Sources and Availability of Raw Materials The Company's manufacturing operations require raw materials, primarily aluminum and steel, which are purchased in the open market and are normally available from a number of suppliers. The Company also purchases a variety of electronic and mechanical components for which the Company has multiple commercial sources. The Company has not experienced any significant delays in obtaining timely deliveries of essential raw materials. Environmental Matters The Company's operations are subject to federal, state and local laws and regulations relating to, among other things, emissions to air, discharges to water, the handling and disposal of hazardous and solid wastes and the cleanup of hazardous substances ("Environmental Laws"). The Company continually assesses its compliance status and believes that its operations currently are in substantial compliance with Environmental Laws. Operating and maintenance costs associated with environmental compliance and prevention of contamination at the Company's facilities are a normal, recurring part of operations, are not significant relative to total operating costs or cash flows, and are generally allowable as contract costs under the Company's contracts with the U.S. government ("Allowable Costs"). Such costs have not been material in the past and, based on information presently available to the Company and on U.S. government environmental policies relating to Allowable Costs in effect at this time (all of which are subject to change), are not expected to have a material adverse effect on the Company. Based on historical experience, the Company expects that a significant percentage of the total remediation and compliance costs associated with its facilities will continue to be Allowable Costs. As of December 2000 the Company has a reserve for $14 million to cover any remediation and compliance costs that may not be allowable costs under its U.S. government contracts. Management believes that the reserve is sufficient and does not expect that such costs will materially adversely affect the Company. In addition, pursuant to the terms of the acquisition agreement between Iron Horse and the Sellers, the Sellers are required to reimburse the Company for 75% of certain non-allowable remediation costs relating to operations prior to the acquisition. ITEM 2. Properties The table below sets forth information with respect to the

Company's manufacturing facilities and properties. The Company believes that its facilities are adequate for its operations. Location Leased/Owned Square Footage -------- ------------ -------------- Albany, GA Gov't Owned 42,600 Arlington, VA Leased 22,512 Anniston, AL Leased 96,000 Anniston, AL Owned 267,000 Aiken, SC Leased 21,000 Aiken, SC Owned 189,000 Aberdeen, SD Owned 105,000 Aberdeen, SD Leased 30,000 Fayette County, PA Leased 179,700 Fridley, MN* Gov't Owned 1,712,240 Fridley, MN* Owned 326,023 Louisville, KY Leased 633,609 Orlando, FL Leased 16,300 Hollister, CA Leased 1,218 acres Santa Clara, CA 1125 Coleman Leased 37,450 1205 Coleman Leased 124,940 1450 Coleman Leased 36,600 340 Brokaw Leased 4,400 328 Brokaw Leased 174,300 2830 De La Cruz Leased 86,785 2890 De La Cruz Leased 68,708 Triangle, VA Leased 6,000 York County, PA Owned 996,518 York County, PA Leased 10,000 Arlington Heights, IL Leased 55,904 Troy, MI Leased 16,814 East Moline, IL Leased 2,000 Karlskoga, Sweden Leased 417,500 *The U.S. government is currently attempting to divest its Fridley, Minnesota facility that has historically been provided rent free to the Company for production of systems and spares for the U.S. government. UDLP is currently in negotiations with the government for purchase of the facility. UDLP will be required to make the facility available for the performance of government contracts and subcontracts for a minimum of three years. ITEM 3. Legal Proceedings Alliant Techsystems, Inc. ("Alliant"), a subcontractor to the Company in connection with the M109A6 Paladin howitzer prime contract, filed a lawsuit against the Company and its prior owners in Minnesota state court. The lawsuit arose out of a U.S. Army-directed termination for convenience in 1996 of certain subcontract work under the program which, until the time of termination, had been performed by Alliant and was thereafter replaced by a subcontract which the Company awarded to another contractor, Sechan Electronics. The breach of contract litigation by Alliant Techsystems, Inc. against the Company was concluded by pretrial dismissal, without any judgment, damage award, or other adverse finding having been made against the Company. No settlement payment was made in connection with such dismissal. The Company is also a defendant in a so-called qui tam case filed jointly under the U.S. Civil False Claims Act (the "FCA") by one present and one former employee of the Company's Armament Systems Division ("ASD") in Fridley, Minnesota. The FCA, among other things, permits private parties (called "relators" under the FCA) to seek, on behalf of the U.S. Government, recovery of amounts which under certain circumstances have been improperly claimed from the Government by its contractors. Beyond recovery of the Government's actual damages, the FCA also authorizes the recovery of multiple penalties, and provides as well that the relators may personally receive 15-30% of any recovery obtained. The case, U.S. ex rel. Seman and Shukla v. United Defense, FMC Corp., --- and Harsco Corp., was filed against the Company and its prior owners on July 23, ----------------- 1997 in the U.S. District Court for the District of Minnesota and primarily alleges that the Company improperly obtained payment under various of ASD's government contracts by supplying components which did not comply with applicable technical specifications. The relators' complaint did not quantify the alleged damages, but sought the full range of treble damages, civil penalties, and attorney fees available under the FCA. Negotiations among the relators, the Company, its co-defendants, and the U.S. Government (which chose not to be a party to the litigation, but by statute is entitled to participate in any settlement or other recovery in qui tam cases) to settle the Seman/Shukla litigation are nearly complete. Under the proposed settlement agreement, the Company would pay a total of $6.0 million to settle the case, divided into installments payable over a three-year period. No finding of wrongdoing would be made against the Company, and no other administrative or legal action would be taken against the Company in respect of the matters alleged in the case. Completion of the settlement is subject to U.S. District Court review, but management expects the settlement to be concluded on such terms during the first part of 2001. The Company is also subject to other claims and lawsuits arising in the ordinary course of business. Management believes that the outcome of any such proceedings to which the Company is party will not have a material adverse effect on the Company. 16 ITEM 4. Submission of Matters to a Vote of Security Holders None. ITEM 5. Market for Registrant's Stock and Related Stockholder Matters The Company's common stock is not publicly traded. As of March 1, 2001, there were thirty nine holders of record of the Company's common stock. No dividends were paid in 2000. In addition, the Company's Senior Subordinated Notes include provisions restricting its ability to pay dividends in the future. See Note 8 to the Consolidated Financial Statements in Item 8 for further information. Item 6. Selected Financial Data (In thousands) The selected financial data presented below are derived from the Company's consolidated financial statements, audited by Ernst & Young and should be read in conjunction with such audited statements and the notes that are included in Item 8. Nine months || Three months ended || ended September 30,|| December 31, Year ended December 31, 1996 1997 || 1997 1998 1999 2000 -- Predecessor || || Net

sales $1,029,333 $ 913,925 || $ 342,627 $1,217,555 $1,213,526 $1,183,886 || Net income(loss) 98,170 68,893 || (36,259) (120,007) 1,541 21,645 || Total assets 644,979 610,475 || 1,246,083 989,741 873,998 918,094 Long term debt 647,800 490,343 326,757 246,491 Note: As a result of the Acquisition and the related revaluation of assets, net income and total assets for periods ended after September 30, 1997 are not comparable to prior periods. Information for Iron Horse is identical except its total assets were $991,080, $875,337 and $919,330 at December 31, 1998, 1999 and 2000, respectively and its net income was ($116,462), $1,477 and $20,765 for the years ended December 31, 1998, 1999 and 2000, respectively. ITEM 7. Management's Discussion and Analysis of the Results of Operations and Financial Condition The following discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information, included elsewhere in this report. Introduction In October 1997, the Company's direct parent, Iron Horse, was funded from several partnerships controlled by Carlyle. The equity was invested in the Company. On October 6, 1997, the Company acquired (the "Acquisition") directly or through its wholly owned subsidiary, UDLP Holdings Corp., 100% of the partnership interests in UDLP. United Defense Industries, Inc. is the only asset of Iron Horse. Accordingly, Management's Discussion and Analysis of the Results of Operations and Financial Condition is the same for both Iron Horse and United Defense Industries, Inc. The Company's subsidiary guarantors, UDLP Holdings Corp., UDLP and Barnes & Reinecke, Inc. ("BRI"), are directly or indirectly wholly owned by the Company and all such subsidiary guarantors have guaranteed the Company's 8 3/4% Senior Subordinated Notes on a full, unconditional, and joint and several basis. Accordingly, separate financial statements of those subsidiaries are not considered material or provided herein. Note 17 to the financial statements in Item 8 sets forth condensed consolidating Balance Sheets, Statement of Operations and Statement of Cash Flows for guarantor and non-guarantor subsidiaries for 2000. Overview Variability in Quarterly and Annual Performance. The Company's operating performance frequently varies significantly from period to period, depending upon the terms of and schedules for the Company's contracts, export sales, and, in particular, the award or expiration of one or more contracts and the timing of manufacturing and delivery of products under such contracts. As a result, period-to-period comparisons may show substantial increases and decreases disproportionate to underlying business activity and results for any given period should not be considered indicative of longer-term results. Interim Armored Vehicles. In October 1999 the U.S. Army embarked upon an initiative to create a so-called medium force, intended to be lighter and less heavily-armed than the Army's existing heavy divisions based on the M1 tank and Bradley Fighting Vehicle, but more lethal and survivable than lighter Army units such as the airborne forces. To equip the new units, known as Interim Brigade Combat Teams ("IBCT"), in April 2000 the Army commenced a solicitation for so- called Interim Armored Vehicles ("IAV"), emphasizing a thirty eight thousand pounds weight limit, rapid deployability using the Army's smallest air transports (C130 aircraft), and early fielding using off-the-shelf technology. United Defense participated in the competitive bidding for the IAVs, proposing the use of its tracked MTVL (stretched and upgraded M113) and M8 Armored Gun System vehicles (see Item 1. Description of Business) at a total price of $1.9 billion. Certain competitors proposed wheeled vehicles for the IAV program. For military combat vehicles, there are substantial manufacturing, design, and engineering differences between wheeled and tracked vehicles, and the Company historically has not produced wheeled vehicles. On November 16, 2000, the Army announced its award of the IAV contract at a price of $4.3 billion to a joint venture formed by General Motors of Canada and General Dynamics Land Systems (GM/GD). As many as 2,100 vehicles could be acquired under the IAV contract for up to six IBCT brigades over approximately a six-year period. The IAVs provided by GM/GD would be upgraded or redesigned versions of the Swiss light-duty LAV-III wheeled vehicle. On December 4, 2000, United Defense filed a formal protest with the General Accounting Office ("GAO") relating to the Army's IAV award, primarily on the grounds that (i) in a procurement where early fielding was stated to be of paramount importance, the LAV-III vehicles cannot be fielded, depending on specific vehicle type, until one to three years or more after their UDLP counterparts; (ii) the Army favored GM/GD during the competition by secretly applying new, unannounced evaluation factors which biased the selection in favor of a wheeled vehicle outcome; and (iii) in a best value procurement, the LAV-III selection cannot be justified when the vehicle is inferior in performance, requires an extensive development effort of uncertain outcome before it can ever be fielded, and will cost the Army more than double the price of the United Defense vehicles. UDLP's protest is pending before the GAO, whose decision is expected on or about March 14, 2001. By law, performance on the announced GM/GD contract is suspended until the GAO renders its decision. In adjudicating a protested procurement, the GAO can dismiss the protest, call for the competition to be reopened, or recommend that the procuring agency's award be cancelled and the contract be rewarded to the protester. Beyond the GAO proceeding,

the procurement may also be challenged in federal court. Although the Company believes that its arguments to overturn the Army's IAV award are compelling, management cannot predict the outcome of the GAO proceeding, or the likelihood of further legal proceedings regarding the IAV program. Regardless of the ultimate outcome of the IAV procurement decision, significant uncertainties will affect the future of the IAV program, including whether (i) the Bush Administration chooses to support the program and (ii) Congress chooses to fund the program in future years. To some degree, U.S. Government funding for other significant UDLP programs, such as the Crusader artillery system and upgrades to the Bradley fleet (see Item 1, Description of Business, above), may be adversely impacted by funding for the IAV program. Also, assuming that the IAV program were to proceed on some substantial scale, the Company's profits and revenues would likely be affected by whether the IAVs were procured from the Company, or instead from a competitor. Administration Defense Review. The Bush Administration has indicated that it is conducting a comprehensive review of the priorities, missions, and programs of the Department of Defense (DoD). The outcome of this review is uncertain, but the Administration's findings may have significant implications for the organization and funding of various elements and major weapons programs in each of the armed services. Accordingly, such outcome may beneficially or adversely affect programs in which the Company has a significant interest, including the Crusader and DD21 destroyer (both described in Item 1. Description of Business), as well as programs in which the Company may have an interest, such as the IAV program (described in Item 7. Overview, Interim Armored Vehicles, above), depending upon whether any such program was cancelled, scaled back, delayed, endorsed, expanded, or accelerated. Such outcome(s) would likely be determined both by the specific results of the Administration review and by the Congressional reaction thereto. As the Administration has to date withheld comment about the specific nature and content of its review, as well as its potential outcome, management is unable to predict the eventual impact thereof on the Company's products, operations, revenues, or profitability. Senior Subordinated Notes. The Company received authorization from its bank-lending group in February 1999 to purchase up to $50 million of the Senior Subordinated Notes. During December 2000 the Company acquired approximately $17 million of the notes. This authorization was granted due to the Company's performance of making bank debt prepayments in excess of scheduled amortization payments. The Company will continue to purchase the Senior Subordinated Notes in the open market if market conditions are appropriate and if excess cash is available to make a purchase. However, the Company may decide to continue to apply any excess cash balances towards the prepayment of bank debt as it has to date. Results of Operations Year Ended December 2000 Compared to Year Ended December 1999. Revenue. Revenue of $1,183.9 million for 2000 was lower by $29.6 million, or 2.4%, than the $1,213.5 million for 1999. The decline in revenue was due to the winding down and closing of the Paladin production operation in June 1999, lower billings for the Crusader development program, and the completion of shipments for several programs in 1999. The decline was substantially offset by the additional sales generated by business combinations consummated in 2000, increased shipments of Bradley upgrades and by engineering development sales for the advanced gun system for the DD21 class ship. Gross Profit. Gross profit increased $18.4 million, or 8.3% to $240.0 million for 2000 from $221.6 for 1999. This gross profit increase was primarily due to the reduced depreciation and amortization costs related to the Acquisition purchase price and higher award fees for the Crusader programs. The increase was partly offset by the lower sales volume described above and a greater impact in 2000 resulting from use of the LIFO inventory method. Selling, general and administrative expenses. Selling, general and administrative expenses were up $7.2 million to $175.1 million for 2000 compared with $167.9 million for 1999. The higher spending is primarily the result of heavy spending for marketing activity and proposals, most notably for the Interim Armored Vehicle program, and of expenses associated with businesses acquired in 2000. This increase in spending activity was partially offset by lower depreciation and amortization of intangible assets established in conjunction with the Acquisition. Research and development. Research and development costs were $15.8 million for 2000 compared with $12.8 million for 1999. During 2000 research and development spending was higher than normal to support the Company's effort to win an award related to the Interim Armored Vehicle program. Additionally, the net cost was lower in 1999 because of a reimbursement to the Company of research and development costs previously incurred related to development of the advanced gun system for the new DD21 class ship. Earnings from foreign affiliates. Earnings from foreign affiliates were $2.9 million in 2000 which was $2.4 million higher than the $.5 million recorded for 1999. The increase was due to a combination of higher operational activity from the Saudi joint venture and the liquidation of offset requirements related to the Turkish joint venture. Interest expense. Net interest expense for 2000 was $25.1 million which was $11.9 million below the $37.0 million in 1999 as a result of lower debt levels. Net income. As a result of the

foregoing, net income in 2000 was $21.6 million, including an extraordinary gain of $0.7 million for the early extinguishment of bond debt, compared with net income of $1.5 million for 1999. Year Ended December 31, 1999 Compared with Year Ended December 31, 1998 Revenue. Revenue for 1999 was $1,213.5 million, a slight decline of $4.0 million or 0.3%, from 1998. The lower revenue was largely due to the winding down of the Paladin artillery upgrade program at the end of the second quarter of 1999 and the completion of the self-propelled howitzer and the M113 shipments to foreign customers. This decline was offset by higher revenue from the shipments of vertical launcher systems, increased billings for the Crusader program, and new deliveries of M9 armored combat earth movers, self propelled howitzers and rebuilt AAV7 amphibious vehicles. Gross Profit. Gross profit increased $103.4 million, or 87.4%, to $221.6 million for 1999 from $118.3 million for 1998. The gross profit rate improved 8.6 percentage points to 18.3% for 1999. The improvement in 1999 was due to lower costs related to assets revalued in connection with the Acquisition. In 1998 reserves were established including a sizeable non-cash pension charge for restructuring the Company's Armament Systems Division, the write-off of unusable capitalized software, and other impaired assets which did not recur in 1999. Selling, general and administrative expenses. Selling, general and administrative expenses were $167.9 million in 1999, a decrease of $9.6 million, or 5.4% from 1998. The marginal decrease in expenses is attributable to lower depreciation and amortization of goodwill and other intangible assets related to assets revalued in connection with the Acquisition. Earnings from Foreign Affiliates. Earnings from foreign affiliates were $.5 million in 1999, a decline of $5.7 million from 1998. The decline was due to the establishment of additional reserves for the potential offset penalty for the joint venture in Turkey equivalent to dividends received from the venture in 1999. Interest Expense. Net interest expense including the amortization of financing costs was $37.0 million for 1999 which was $13.7 million or 27.1% lower than 1998. The decline in interest expense was the result of lower debt levels in 1999. Net Income. As a result of the foregoing, the Company earned net income of $1.5 million for 1999 compared with a net loss of $120.0 million for 1998. Liquity, Capital Resources and Financial Condition The Company's liquidity requirements depend on a number of factors relative to the timing of production and deliveries under its U.S. government and direct foreign sales ("DFS") contracts. The Company generally receives performance based payments or progress payments on U.S. government contracts based either on meeting performance milestones or on a percentage of contract expenditures, and it generally negotiates for the payment of advances from customers on DFS contracts. Advances on DFS contracts vary depending on the specific programs involved. These payments reduce the need for Company financed working capital, and changes in working capital between periods are frequently due to program status changes and the level of such payments for the specific programs by period. Cash provided by operating activities. Cash provided by operating activities for 2000, 1999 and 1998 was $95.3 million, $189.6 million and $197.3 million, respectively. During 2000, cash provided by operating activities was significantly lower than in recent years. The majority of cash was generated by net income plus depreciation and amortization, but it was adversely affected by increases in working capital, primarily to fund an increase in receivables and a decrease in advance payments due to the completion of several programs. In 1999 cash flow was principally due to net income plus depreciation and amortization of $137.4 million, and significant collections of progress payments from the U.S. Government and foreign advance payments. In 1998 the Company likewise generated a high volume of cash resulting from net loss plus depreciation and amortization of $58.0 million, and sizeable reductions in receivables and inventories as the U.S. government payment office paid all billings received by a certain deadline, and the Company aggressively reduced inventories consistent with shipping schedules. Current financial resources (working capital and short-term borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet cash requirements in the year 2001. Cash (used in) provided by investing activities. Cash provided by investing activities was $2.9 million in 2000 while cash used in investing activities was $23.7 million in 1999 and $.6 million in 1998. The generation of funds in 2000 was primarily due to cash acquired from the Bofors acquisition, which was $45.6 million in excess of the purchase price. Financing activities. Cash used for financing activities included the pay down of $79.1 million in debt for 2000, $157.1 million for 1999 and $152.8 million for 1998. In 1998, the Company raised $6.1 million from the sale of additional shares of its common stock to certain officers, directors and other management members of the Company and to individuals affiliated with Iron Horse. ITEM 7A. MARKET RISK Foreign Exchange Contracts. Bofors uses forward exchange contracts to reduce the effect of fluctuating currencies on short-term foreign currency- denominated transactions. The following table summarizes by major currency the contractual amounts of Bofors' forward exchange contracts and their termination market values. Contractual Currency Contractual Amount Termination Market Value

-- British pound 2.0 M 1.9 M European euro 1.2 M 1.2 M US dollar 9.9 M 8.8 M At December 31, 2000, the deferred unrealized gains and losses on forward exchange contracts were not material to the financial position or results of operations of the Company. ITEM 8. Consolidated Financial Statements and Supplementary Data The following consolidated financial statements of Iron Horse Investors, L.L.C. and United Defense Industries, Inc. are provided in response to the requirements of Item 8: IRON HORSE INVESTORS, L.L.C. AND UDLP Report of Independent Auditors... F1 Consolidated Balance Sheets as of December 31, 1999 and 2000............ F2 Consolidated Statements of Operations for the years ended December 31, 1998, 1999 and 2000.................................. F3 Consolidated Statements of Members' Capital for the years ended December 31, 1998, 1999 and 2000 .... F4 Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1999 and 2000 .... F5 Notes to Consolidated Financial Statements .... F6-22 UNITED DEFENSE INDUSTRIES, INC. Report of Independent Auditors... F23 Consolidated Balance Sheets as of December 31, 1999 and 2000............ F24 Consolidated Statements of Operations for the years ended December 31, 1998, 1999 and 2000.................................. F25 Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1999 and 2000.................................. F26 Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1999 and 2000.................................. F27 Notes to Consolidated Financial Statements.............................F28-48 Report of Ernst & Young LLP, Independent Auditors Board of Directors Iron Horse Investors, L.L.C. We have audited the accompanying consolidated balance sheets of Iron Horse Investors, L.L.C. and subsidiaries as of December 31, 1999 and 2000 and the related consolidated statements of operations, members' capital, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Iron Horse Investors, L.L.C. and subsidiaries at December 31, 1999 and 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. /s/ Ernst & Young LLP February 1, 2001 McLean, VA Iron Horse Investors, L.L.C. Consolidated Balance Sheets (In thousands) Assets December 31, 1999 December 31, 2000 -- Current assets: Cash and marketable securities $ 94,325 $ 113,357 Trade receivables 57,198 109,705 Inventories 254,750 259,238 Other current assets 4,056 13,083 -- Total current assets 410,329 495,383 Property, plant and equipment, net 84,693 80,775 Intangible assets, net 254,276 191,720 Prepaid pension and postretirement benefit cost 119,883 123,100 Restricted cash - 23,528 Other assets 6,156 4,824 -- Total assets $ 875,337 $ 919,330 == Liabilities and Capital Current liabilities: Current portion of long-term debt $ 23,086 $ 23,086 Accounts payable, trade and other 64,639 86,117 Advanced payments 303,065 342,394 Accrued and other liabilities 91,340 104,168 -- Total current liabilities 482,130 555,765 Long-term liabilities: Accrued pension and postretirement benefit cost 5,075 28,515 Long-term debt net of current portion 326,757 246,491 Other liabilities 35,675 41,428 -- Total liabilities 849,637 872,199 Minority interest 3,944 4,766 Commitments and contingencies (Notes 8 & 9) Members' capital 21,756 42,365 -- Total liabilities and members' capital $ 875,337 $ 919,330 == See accompanying notes. Iron Horse Investors, L.L.C. Consolidated Statements of Operations (In thousands) Year ended December 31 1998 1999 2000 -- Revenue: Sales $ 1,217,555 $ 1,213,526 $ 1,183,886 Costs and expenses: Cost of sales 1,099,291 991,907 943,892 Selling, general and administrative expenses 177,449 167,877 175,075 Research and development 13,021 12,782 15,760 -- Total expenses 1,289,761 1,172,566 1,134,727 Earnings related to investments in foreign affiliates 6,208 533 2,919 --

(Loss) income from operations (65,998) 41,493 52,078 Other income (expense): Interest income 1,396 1,820 4,152 Interest expense (52,155) (38,835) (29,265) -- Total other expense (50,759) (37,015) (25,113) -- (Loss) income before income taxes and minority interest (116,757) 4,478 26,965 Provision for income taxes 3,250 2,937 6,000 -- (Loss) income before minority interest (120,007) 1,541 20,965 Minority interest 3,545 (64) (880) -- (Loss) income before extraordinary item (116,462) 1,477 20,085 Extraordinary item - net gain from early extinguishment of bond debt - - 680 -- Net (loss) income $ (116,462) $ 1,477 $ 20,765 == See accompanying notes. Iron Horse Investors, LLC. Consolidated Statements of Members' Capital (In thousands) Balance, December 31, 1997 $ 136,741 Net loss for the year ended December 31, 1998 (116,462) --------- Balance, December 31, 1998 20,279 Net income for the year ended December 31, 1999 1,477 --------- Balance, December 31, 1999 21,756 Repurchase of common stock (excess over paid in capital) (156) Net income for the year ended December 31, 2000 20,765 --------- Balance, December 31, 2000 $ 42,365 ========= See accompanying notes. Iron Horse Investors, L.L.C. Consolidated Statements of Cash Flows (In thousands) For year ended December 31 1998 1999 2000 -- Operating activities Net (loss)income $ (116,462) $ 1,477 $ 20,765 Adjustments to reconcile net (loss) income to cash provided by operating activities: Depreciation 83,153 55,528 23,882 Amortization 94,806 80,317 72,562 Minority interest (3,545) 64 880 Net gain from early retirement of bond debt - - (680) Other 5,291 1,123 - Changes in assets and liabilities: Trade receivables 30,452 7,197 (35,954) Inventories 76,030 (407) 11,608 Other assets 1,636 474 700 Prepaid pension and postretirement benefit cost 15,519 4,029 (3,217) Accounts payable, trade and other (5,144) (23,858) 9,525 Advanced payments (3,006) 44,670 (9,522) Accrued and other liabilities 14,360 28,554 3,125 Accrued pension and postretirement benefit cost 4,212 (9,535) 1,672 -- Cash provided by operating activities 197,302 189,633 95,346 -- Investing activities Capital spending (24,020) (25,246) (19,721) Disposal of property, plant and equipment 7,298 1,532 560 Adjustment to purchase price of business 16,074 - - Purchase of Barnes & Reinecke, net of $1.2 million cash acquired - - (1,634) Purchase of Bofors Weapon Systems, net of $45.6 million cash acquired - - 23,663 -- Cash (used in)provided by investing activities (648) (23,714) 2,868 -- Financing activities Payments on long-term debt (152,814) (157,143) (79,071) Proceeds from sale of common stock by subsidiary 6,057 29 95 Repurchase of common stock by subsidiary - - (206) -- Cash used in financing activities (146,757) (157,114) (79,182) -- Increase in cash and marketable securities 49,897 8,805 19,032 Cash and marketable securities, beginning of year 35,623 85,520 94,325 -- Cash and marketable securities, end of year $ 85,520 $ 94,325 $ 113,357 == See accompanying notes. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements 1. Basis of Presentation Iron Horse Investors, L.L.C. together with its subsidiaries, (the "Company") was formed for the primary purpose of facilitating the acquisition of United Defense, L.P. ("UDLP") via its investment in United Defense Industries, Inc. ("UDI"). In October 1997, the Company was funded from an investment group led by the Carlyle Group ("Carlyle"), which was invested in UDI. On October 6, 1997, UDI acquired 100% of the partnership interests of UDLP from FMC Corporation ("FMC") and Harsco Corporation ("Harsco") (the "Sellers"). The Company through UDI designs, develops and manufactures various tracked armored combat vehicles and a wide spectrum of weapons delivery systems for the armed forces of the United States and nations around the world. The financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. 2. Summary of Significant Accounting Policies Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, in particular, estimates of contract cost and revenues used in the earnings recognition process. Actual results could differ from those estimates. Cash and Marketable Securities Cash and marketable securities consist of investments with initial maturities of three months or less. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Property, Plant and Equipment Property, plant and equipment is recorded at cost. Depreciation is provided principally on the sum-of-the-years digits and straight-line methods over estimated useful lives of the assets (land improvements--twenty years; buildings--twenty to thirty-five years; and machinery and equipment--two to twelve years). Maintenance and repairs are expensed as incurred.

Expenditures that extend the useful life of property, plant and equipment or increase its productivity are capitalized and depreciated. Long-lived Assets, Including Intangible Assets and Goodwill The Company evaluates on a quarterly basis its long-lived assets to be held and used, including certain identifiable intangible assets and goodwill, to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company would use an estimate of the undiscounted value of expected future operating cash flows to determine whether the asset is recoverable and measure the amount of any impairment as the difference between the carrying amount of the asset and its estimated fair value. Investments in Affiliated Companies The Company's investment in a majority owned foreign joint venture in Turkey is carried at cost since there is uncertainty regarding the ability to control the venture or to repatriate earnings. Income is recognized as dividends are received. Dividends received net of amounts accrued for taxes and future obligations were $4.6 million for the year ended December 31, 1998 and $1.4 million for the year ended December 31, 2000. A provision of $1.1 million was recorded for the year ended December 31, 1999. The Company's investment in a foreign joint venture in Saudi Arabia is accounted for by using the equity method. Equity in earnings from this investment was $1.6 million, $1.6 million and $1.5 million for the years ended December 31, 1998, 1999 and 2000, respectively. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Advanced Payments Advanced payments by customers for deposits on orders not yet billed and progress payments on contracts-in-progress are recorded as current liabilities. Revenue and Profit Recognition for Contracts-in-Progress The Company recognizes sales on most production contracts as deliveries are made or accepted. Gross margin on sales is based on the estimated margin to be realized over the life of the related contract. Sales under cost reimbursement contracts for research, engineering, prototypes, repair and maintenance and certain other contracts are recorded when funded, as costs are incurred and include estimated fees in the proportion that costs incurred to date bear to total estimated costs. Changes in estimates for sales and profits are recognized in the period in which they are determinable using the cumulative catch-up method. Claims are considered in the estimated contract performance at such time as realization is probable. Any anticipated losses on contracts (i.e., cost of sales exceeds sales) are charged to operations as soon as they are determinable. Stock-Based Compensation Provided the option price is not less than fair value of the common stock at the date an option is granted, the Company records no compensation expense in its consolidated statements of operations. See Note 10 for the pro forma effect on operating results had the Company recorded compensation expense for the fair value of stock options. Income Taxes As a limited liability company, income which has not been taxed previously is passed through to its members. The Company's corporate subsidiaries are responsible for income taxes on earnings at that level, and accordingly the Company's subsidiaries provide for income taxes at the corporate level determined under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws expected to be effective when these differences reverse. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Reclassifications Certain prior year amounts have been reclassified to conform with the current year presentation. New Accounting Standards Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended, requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. SFAS 133, which the Company will adopt effective January 1, 2001, is not expected to have a material impact to the Company's consolidated financial statements. 3. Business Purchase On October 5, 1997, the Company via its direct investment in UDI, acquired 100% of the partnership interests of UDLP and certain other related business assets of FMC. The purchase price including expenses was $864 million after an adjustment of $16 million agreed to during 1998. The Company financed the acquisition through a cash equity investment and debt (see Note 8). The acquisition was accounted for using the purchase method of accounting. On March 6, 2000, the Company via its direct investment in UDI, acquired all of the outstanding stock of Barnes & Reinecke, Inc. ("BRI"), a subsidiary of Allied Research Corporation ("ARC"), headquartered in Arlington Heights, Illinois. BRI specializes in providing systems technical support and performance upgrades of defense equipment for U.S. and foreign governments. BRI retained its current management structure and became a wholly owned subsidiary of UDI. As consideration for the purchase, the Company paid its former owner, ARC, $3.7 million in cash and notes. The

transaction was accounted for as a purchase. Accordingly, the financial statements reflect the results of operations of BRI since the date of acquisition. On September 6, 2000, the Company via its direct investment in UDI, acquired all of the outstanding stock of Bofors through a newly-created wholly- owned Swedish subsidiary of the Company, Bofors Defense Holding AB. The acquisition was structured so that Bofors will be an indirectly wholly owned Swedish subsidiary of UDI and each of Bofors and Bofors Defense Holding AB will be restricted subsidiaries as defined in the indenture to which the Company is a party with respect to the 8 3/4% Senior Subordinated Notes due 2007 issued by the Company. As consideration for the purchase, the Company paid Bofors' former owner, Celsius AB, 187.3 million Swedish Krona (approximately US $19.4 million) which was determined based on arm's length negotiation. The acquisition was accounted for as a purchase. Accordingly, the financial Statements reflect the results of operations of Bofors since the date of acquisition. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Bofors produces artillery systems, air defense and naval guns, combat vehicle turrets and smart munitions. Although the Swedish government is the primary customer, Bofors is dependent on exports for approximately half of its total sales. The unaudited pro forma results below (in thousands) assume the acquisition occurred at the beginning of each year presented. Year ended December 31 1999 2000 ----------------------------- Sales $1,470,016 $1,270,904 Net income $ 8,676 $ 22,098 The unaudited pro forma combined results of operations are not necessarily indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of the year indicated or of future operations under the ownership and management of the Company. 4. Inventories The majority of the Company's inventories are recorded at cost determined on a LIFO basis. Inventory costs include manufacturing overhead. The current replacement cost of LIFO inventories exceeded their recorded values by approximately $5.2 million at December 31, 1998 and 1999, and $12.6 million at December 31, 2000. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) 5. Property, Plant and Equipment Property, plant and equipment consist of the following (in thousands): December 31 1999 2000 ------------------------- Buildings $ 39,978 $ 42,413 Machinery and equipment 166,257 175,501 Land and improvements 8,126 8,338 Construction in progress 7,754 7,848 ------------------------- 222,115 234,100 Less: accumulated depreciation (137,422) (153,325) ------------------------- Net property, plant and equipment $ 84,693 $ 80,775 ========================= 6. Intangible Assets Intangible assets consist of the following (in thousands): December 31 1999 2000 ------------------------- Software and other intangibles $ 92,119 $ 94,432 Firm business and ongoing programs 225,103 225,103 Goodwill 124,339 132,473 ------------------------- 441,561 452,008 Less: accumulated amortization (187,285) (260,288) ------------------------- Net intangible assets $ 254,276 $ 191,720 ========================= The Company's software and other intangibles are being amortized over their estimated useful lives on a straight-line basis over three to five years or using other methods based on revenues of related contracts or programs. The excess of purchase cost over the fair value of the net assets acquired (goodwill) that resulted from the application of purchase accounting for the acquisition of UDLP is being amortized over thirty years. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) 7. Pensions and Other Postretirement Benefits The majority of the Company's domestic employees are covered by retirement plans. Plans covering salaried employees provide pension benefits based on years of service and compensation. Plans covering hourly employees generally provide benefits of stated amounts for each year of service. The Company's funding policy is to make contributions based on the projected unit credit method and to limit contributions to amounts that are currently deductible for tax purposes. With the exception of Bofors, most of the Company's employees are also covered by postretirement health care and life insurance benefit programs. Employees generally become eligible to receive benefits under these plans after they retire when they meet minimum retirement age and service requirements. The cost of providing most of these benefits is shared with retirees. The Company has reserved the right to change or eliminate these benefit plans. Bofors has a statutory pension obligation of $23.0 million which is included in "accrued pension and postretirement benefit cost" on the consolidated balance sheet at December 31, 2000. Bofors pension obligation is administered by an agent of the Swedish government using methods and assumptions different from those used to determine domestic amounts. Accordingly, the following tables do not include this liability. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) The change in benefit obligation and plan assets of the plans and prepaid or accrued pension and postretirement costs recognized in the balance sheets at December 31, 1999 and 2000 are as follows (in thousands): Pension Benefits Postretirement Benefits 1999 2000 1999 2000 --- Change in benefit obligation Benefit obligation at beginning of year $ 442,651 $422,314 $54,795 $49,187 Service cost 13,747 14,256 1,489 1,260 Interest cost 27,982

32,847 3,420 3,565 Net benefits paid, including settlements (25,174) (22,895) (5,594) (4,486) Actuarial (gain) loss (38,130) 13,309 (4,923) (296) Plan amendments 1,238 11,803 - - --- Benefit obligation at end of year 422,314 471,634 49,187 49,230 Change in plan assets Fair value of plan assets at beginning of year 548,003 537,769 60,412 51,828 Actual return on plan assets 13,874 78,974 (6,558) 11,581 Employer contributions 1,066 958 3,568 2,893 Net benefits paid, including settlements (25,174) (22,895) (5,594) (4,486) --- Fair value of plan assets at end of year 537,769 594,806 51,828 61,816 --- Funded status 115,455 123,945 2,641 12,586 Unrecognized actuarial (gain) loss (6,012) (25,029) (1,514) (8,418) Unrecognized prior service cost 4,238 14,528 - - --- Net amount recognized $ 113,681 $113,444 $ 1,127 $ 4,168 === Amounts recognized in the consolidated balance sheet consist of: Prepaid pension and postretirement benefit cost $ 118,756 $118,932 $ 1,127 $ 4,168 Accrued pension and postretirement benefit cost (5,075) (5,488) - - --- Net amount recognized $ 113,681 $113,444 $ 1,127 $ 4,168 === Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) The following table summarizes the assumptions used in the determination of net pension and postretirement benefit costs and benefit obligations for the years ended December 31, 1998, 1999 and 2000: Year ended December 31 1998 1999 2000 ------------------------------ Weighted-average assumptions --------------------------- Discount rate 6.50% 7.50% 7.50% Expected return on plan assets 9.00% 9.00% 9.00% Rate of compensation increase 3.50% 5.00% 5.00% The following tables show the components of the net periodic benefit cost (in thousands): Year ended December 31 Pension Benefits 1998 1999 2000 --------------- -------------------------------- Service cost $ 11,751 $ 13,747 $ 14,256 Interest cost 27,017 27,982 32,847 Expected return on plan assets (43,080) (45,213) (47,904) Net amortization and recognized losses 703 1,324 1,993 Special termination benefits and curtailments 27,500 650 - ------------------------------- Net periodic benefit (income)cost $ 23,891 $ (1,510) $ 1,192 ================================== Year ended December 31 Postretirement Benefits 1998 1999 2000 ---------------------- ------------------------------- Service cost $ 1,382 $ 1,489 $ 1,260 Interest cost 3,515 3,420 3,565 Expected return on plan assets (4,422) (4,797) (4,938) Net amortization and recognized losses - - (35) ------------------------------- Net periodic benefit cost (income) $ 475 $ 112 $ (148) ================================= Pension special termination benefits and curtailments cost relates to various early retirement incentive and involuntary workforce reduction programs related to the Company's downsizing and consolidation of operations. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $6.7 million, $3.2 million and zero, respectively, at December 31, 1999 and $12.6 million, $6.8 million and zero, respectively, at December 31, 2000. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) For measurement purposes, a 4% annual rate of increase in the per capita cost of covered health care benefits is assumed for 2001 and future years. Assumed health care cost trend rates have an effect on the amounts reported for the postretirement health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands): 1% Increase 1% Decrease ------------ ------------ Effect on total of service and interest cost components $ 159 $ (132) Effect on the postretirement benefit obligation $1,296 $(1,097) 8. Long-term Debt Borrowings under long-term debt arrangements are as follows: December 31 1999 2000 ------------------------ Senior credit facility $149,843 $ 86,757 Senior subordinated notes 200,000 182,820 ------------------------ 349,843 269,577 Less: current portion 23,086 23,086 ------------------------ $326,757 $246,491 ======================== Senior Credit Facility In October 1997, the Company entered into a senior credit facility that included $495 million of term loan facilities and a $230 million revolving credit facility. Outstanding borrowings on the term loan were $149,843 and $86,757 at December 31, 1999 and 2000, respectively. The term loan facilities bear interest at variable rates with a weighted average rate of 8.82% and 7.91% at December 31, 1999 and 2000, respectively. These loans are due through 2006 and provide for quarterly principal payments. The revolving credit facility provides for loans and letters of credit and matures in 2003. The Company has outstanding letters of credit under the facility of $142 million at December 31, 2000. There was $88 million available under the revolving credit facility at December 31, 2000. The Company is obligated to pay a fee of 0.25% on the unused revolving credit

facility. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Amounts outstanding under the senior credit facility are secured by a lien on all the assets of the Company and its domestic subsidiaries. Mandatory prepayments and reductions of outstanding principal amounts are required upon the occurrence of certain events. The senior credit facility contains customary covenants restricting the incurrence of debt, encumbrances on and sales of assets, limitations on mergers and certain acquisitions, limitations on changes in control, provision for the maintenance of certain financial ratios, and various other financial covenants and restrictions. Senior Subordinated Notes In October 1997, the Company issued $200 million of senior subordinated notes. The senior subordinated notes are unsecured, bear interest at 8.75% payable semiannually, and mature in 2007. The payment of principal and interest is subordinated in right of payment to all senior debt. The subordinated notes are not redeemable other than in connection with a public equity offering or a change in control prior to November 2002, at which time the notes may be redeemed at a premium, initially at 104.375% of the principal amount. The subordinated notes have customary covenants for subordinated debt facilities including the right to require repurchase upon a change in control, restrictions on payment of dividends, and restrictions on the acquisition of equity interests by the Company. The Company received authorization from its bank-lending group in February 1999 to purchase up to $50 million of the Senior Subordinated notes. During 2000 the Company purchased approximately $17 million of its subordinated notes in the open market. Annual Maturities Annual maturities of long-term debt are as follows (in thousands): Year ended December 31 --------------------- 2001 $ 23,086 2002 23,086 2003 23,085 2004 - 2005 8,903 Thereafter 191,417 --------- Total $ 269,577 ========= Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Cash paid for interest was $45.4 million, $36.2 million and $26.5 million for the years ended December 31, 1998, 1999 and 2000. 9. Commitments and Contingencies Operating Leases The Company leases office space, plants and facilities, and various types of manufacturing, data processing and transportation equipment. Rent expense for the years ended December 31, 1998, 1999, and 2000 was $13.5 million, $12.4 million and $14.2 million, respectively. Minimum future rentals under noncancellable leases are estimated to be $12.8 million in 2001, $13.0 million in 2002, $11.2 million in 2003, $10.6 million in 2004, $9.9 million in 2005 and $9.0 million thereafter. Legal Proceedings Alliant Techsystems, Inc. ("Alliant"), a subcontractor to the Company in connection with the M109A6 Paladin howitzer prime contract, filed a lawsuit against the Company and its prior owners in Minnesota state court. The lawsuit arose out of a U.S. Army-directed termination for convenience in 1996 of certain subcontract work under the program which, until the time of termination, had been performed by Alliant and was thereafter replaced by a subcontract which the Company awarded to another contractor, Sechan Electronics. The breach of contract litigation by Alliant against the Company was concluded by pretrial dismissal, without any judgment, damage award, or other adverse finding having been made against the Company. No settlement payment was made in connection with such dismissal. The Company is a defendant in a so-called qui tam case filed jointly under the U.S. Civil False Claims Act (the "FCA") by one present and one former employee of the Company's Armament Systems Division ("ASD") in Fridley, Minnesota. The case, U.S. ex rel. Seman and Shukla v. United Defense, FMC --- Corp., and Harsco Corp., was filed against the Company and its prior owners on ----------------------- July 23, 1997 in the U.S. District Court for the District of Minnesota and primarily alleges that the Company improperly obtained payment under various of ASD's government contracts by supplying components which did not comply with applicable technical specifications. The relators' complaint did not quantify the alleged damages, but sought the full range of treble damages, civil penalties, and attorney fees available under the FCA. Negotiations among the relators, the Company, its co-defendants, and the U.S. Government to settle the Seman/Shukla litigation are nearly complete. Under the proposed settlement agreement, the Company would pay a total of $6.0 million to settle the case. No finding of wrongdoing would be made against the Company, and no other administrative or legal action would be taken against the Company in respect of the matters alleged in the case. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Completion of the settlement is subject to U.S. District Court review, but management expects the settlement to be concluded on such terms during the first part of 2001. The Company is also subject to other claims and lawsuits arising in the ordinary course of business. Management believes that the outcome of any such proceedings to which the Company is party will not have a material adverse effect on the Company. Environmental Matters The Company spends certain amounts annually to maintain compliance with environmental laws and to remediate contamination. Operating and maintenance costs associated with environmental compliance and prevention of contamination at the Company's facilities are a normal, recurring part of operations, are not significant relative to total operating costs or cash flows, and are generally

allowable as contract costs under the Company's contracts with the U.S. government (Allowable Costs). As with compliance costs, a significant portion of the Company's expenditures for remediation at its facilities consists of Allowable Costs. As of December 31, 2000 the Company has a reserve of $14 million to cover any remediation and compliance costs that may not be Allowable Costs under U.S. government contracts. In addition, pursuant to the terms of the acquisition of UDLP, the Sellers are required to reimburse the Company for 75% of certain remediation costs relating to operations prior to the acquisition that are Non- Allowable Costs. The Company has recorded an asset for the amounts expected to be reimbursed by the Sellers under the terms of the acquisition agreement. Turkey Joint Venture Offset Reserves The Company's joint venture in Turkey is required by agreement with its customer to achieve a significant level of export sales by October 2002 to meet the "offset" requirements of the contract or pay a penalty of 9% of the unpaid offset obligations. Such payment could be as high as $40 million if no additional offset sales are completed. There can be no assurance that the joint venture will be able to completely fulfill its offset obligations or renegotiate an acceptable alternative. The Company has established reserves for its share of the potential "offset" obligation at December 31, 2000. Production from a newly signed contract with the government of Malaysia will partially satisfy the liability. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) 10. Subsidiary Equity Plans During 1998, UDI adopted the 1998 Stock Option Plan (the "Option Plan") under which 1,492,600 shares of common stock were reserved for issuance at December 31, 2000. The options generally vest over a period of 10 years; however, vesting may be accelerated over 5 years if certain targets related to earnings and cash flow are met. Year ended December 31 1998 1999 2000 ---------------------------------- Options outstanding, beginning of year - 1,436,000 1,457,900 Options granted 1,436,000 31,000 23,000 Options canceled - (6,200) (40,000) Options exercised - (2,900) (4,500) ---------------------------------- Options outstanding, end of year 1,436,000 1,457,900 1,436,400 ==================================== Options excercisable, end of year - 418,425 682,230 ==================================== Options granted in 1998 were at $10 per share and had an estimated grant date fair value of $4.51 per option. Options granted in 1999 were at $20 per share and had an estimated grant date fair value of $9.56 per option. Options were granted at $20 and $25 during the year ended December 31, 2000 and had an estimated weighted average fair value on the date of grant of $6.95. The weighted-average exercise price and weighted-average remaining contractual life of the stock options outstanding at December 31, 2000 was $10.30 and eight years, respectively. Had compensation cost for the UDI's stock option plans been determined based upon the fair value at the grant date for awards under the plan consistent with the methodology prescribed under Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation, the Company's net loss in 1998 would have increased by approximately $560,000, the net income in 1999 would have decreased by approximately $1,459,000, and the net income in 2000 would have decreased by approximately $1,250,000. The effect of applying SFAS No. 123 on the net income as stated above is not necessarily representative of the effects on reported net income (loss) for future years due to, among other things, (1) the vesting period of the stock options and (2) additional stock options that may be granted in future years. The fair value of each option grant is estimated on the date of grant using the minimum value model with the following assumptions used for grants in 1998, 1999 and 2000: dividend yield of 0%; risk-free interest rate of 6%, 6.5% and 5.5%; and expected life of the option term of 10 years, 10 years and 7 years. Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) Employee Stock Purchase Plan Under the Employee Stock Purchase Plan (the "ESPP") adopted by UDI, certain employees are provided the opportunity to purchase shares of the UDI's common stock at its estimated fair value. Certain of these purchases were eligible for financing provided by UDI. Related loans including interest at 7.5%, are due in five years. During 1998, 739,624 shares were sold at a price of $10 per share. 11. Income Taxes The provision for income taxes for year ended December 31, 1998 was solely for federal income taxes payable by the Company's Foreign Sales Corporation ("FSC") subsidiary. The FSC incurred income taxes amounting to $3.3 million, $1.7 million and $2.7 million during the years ended December 31, 1998, 1999 and 2000, respectively. For the years ended December 31, 1999 and 2000, the provision for income taxes also includes alternative minimum tax currently payable by the Company of $1.2 million and $1.9 million, respectively. For the year ended December 31, 2000, the provision also includes foreign income taxes related to Bofors of $1.4 million on income before income taxes of approximately $3 million. The components of the net deferred tax asset are as follows (in thousands): December 31 1999 2000 ---------------------- Deferred tax assets: Accrued expenses $ 43,113 $ 35,428 Net operating loss carryforwards 88,093 53,882 Depreciation 13,701 11,369 Other 2,954 1,633 ---------------------- 147,861 102,312 Deferred tax liabilities: Intangibles, accrued compensation, and benefits (84,994) (65,476) Other - 4,563

---------------------- (84,994) (60,913) ---------------------- Net deferred tax asset 62,867 41,399 Valuation allowance (62,867) (41,399) ---------------------- Net deferred taxes on balance sheet $ - $ - ====================== Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) The net deferred tax asset at December 31, 1999 and 2000 has been offset by a valuation allowance. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible and subject to any limitations applied to the use of carryforward tax attributes. The Company has approximately $135 million in net operating loss carryforwards which expire at varying dates through 2018. 12. Fair Value of Financial Instruments The carrying amount of the Company's financial instruments included in current assets and current liabilities approximates their fair value due to their short-term nature. At December 31, 1999, the fair market value of the Company's long-term debt was estimated to be $149.8 million and $191.5 million for the senior credit facility and subordinated debt, respectively. At December 31, 2000, fair market value of the Company's long-term debt was estimated to be $86.6 million and $171.9 million for the senior credit facility and subordinated debt, respectively. 13. Significant Customer and Export Sales Sales to various agencies of the U.S. Government aggregated $968.3 million, $995.0 million and $832.9 million during the years ended December 31, 1998, 1999 and 2000, respectively. At December 31, 1999 and 2000, trade accounts receivable from the U.S. Government totaled $29.8 million and $66.8 million, respectively. Export sales, including sales to foreign governments transacted through the U.S. Government, were $230.3 million, $218.6 million and $297.6 million during the years ended December 31, 1998, 1999 and 2000, respectively. In addition there were sales to foreign governments transacted by the Company's foreign subsidiary for $53.4 million at December 31, 2000. 14. Related Party Transactions During 1998, Carlyle provided consulting assistance in development of management operating policies and procedures, for which the Company incurred a charge to operations of Iron Horse Investors, L.L.C Notes to Consolidated Financial Statements (continued) $2.0 million. Additionally, the management agreement between the Company and Carlyle requires an annual fee of $2.0 million for various management services. During December 31, 1998, 1999 and 2000, the Company recorded charges of $2.0 million each year relating to these services. 15. Restructuring During the third quarter of 1998, the Company approved a restructuring plan designed to rationalize production and lower costs at the Armament Systems Division's Fridley, Minnesota facility. The plan calls for shifting a significant portion of production and final assembly to other Company sites and outsourcing certain other operations. In 1998 the Company recorded a charge of $36.2 million for estimated employee termination expenses, acceleration of recognition for benefit costs that were curtailed, and charges for impaired assets. This charge did not significantly impact operating funds as it mostly represents either asset write-offs or costs that will be provided for out of an overfunded pension plan. Remaining accrued expenses are $1.1 million at December 31, 2000. 16. Employees' Thrift Plan Substantially all of the Company's domestic employees are eligible to participate in defined contribution savings plans designed to comply with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and Section 401(k) of the Internal Revenue Code. Charges against income for matching contributions to the plans were $8.1 million, $8.1 million, and $7.9 million in the years ended December 31, 1998, 1999 and 2000, respectively. Report of Ernst & Young LLP, Independent Auditors Board of Directors United Defense Industries, Inc. We have audited the accompanying consolidated balance sheets of United Defense Industries, Inc. (a wholly owned subsidiary of Iron Horse Investors, L.L.C.) and subsidiaries as of December 31, 1999 and 2000 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Defense Industries, Inc. and subsidiaries at December 31, 1999 and 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally

accepted in the United States. /s/ Ernst & Young LLP February 1, 2001 McLean, VA United Defense Industries, Inc. Consolidated Balance Sheets (In thousands) Assets December 31, 1999 December 31, 2000 --- Current assets: Cash and marketable securities $ 94,325 $ 113,357 Trade receivables 57,198 109,705 Inventories 254,750 259,238 Other current assets 4,056 13,083 --- Total current assets 410,329 495,383 Property, plant and equipment, net 84,693 80,775 Intangible assets, net 254,276 191,720 Prepaid pension and postretirement benefit cost 119,883 123,100 Restricted cash - 23,528 Other assets 4,817 3,588 --- Total assets $ 873,998 $ 918,094 === Liabilities and Equity Current liabilities: Current portion of long-term debt $ 23,086 $ 23,086 Accounts payable, trade and other 64,639 86,117 Advanced payments 303,065 342,394 Accrued and other liabilities 91,340 104,168 --- Total current liabilities 482,130 555,765 Long-term liabilities: Accrued pension and postretirement benefit cost 5,075 28,515 Long-term debt net of current portion 326,757 246,491 Other liabilities 35,675 41,428 --- Total liabilities 849,637 872,199 Commitments and contingencies (Notes 8 & 9) Stockholders' Equity : Common Stock $.01 par value, 20,000,000 shares authorized; 18,042,524 and 18,036,667 issued and outstanding at December 31, 1999 and 2000 180 180 Additional paid-in-capital 180,245 180,031 Stockholders' loans (1,339) (1,236) Retained deficit (154,725) (133,080) --- Total stockholders' equity 24,361 45,895 --- Total liabilities and stockholders' equity $ 873,998 $ 918,094 === See accompanying notes. United Defense Industries, Inc. Consolidated Statements of Operations (In thousands) Year ended December 31 1998 1999 2000 -- Revenue: Sales $ 1,217,555 $ 1,213,526 $ 1,183,886 Costs and expenses: Cost of sales 1,099,291 991,907 943,892 Selling, general and administrative expenses 177,449 167,877 175,075 Research and development 13,021 12,782 15,760 -- Total expenses 1,289,761 1,172,566 1,134,727 Earnings related to investments in foreign affiliates 6,208 533 2,919 -- (Loss) income from operations (65,998) 41,493 52,078 Other income (expense): Interest income 1,396 1,820 4,152 Interest expense (52,155) (38,835) (29,265) -- Total other expense (50,759) (37,015) (25,113) -- (Loss) income before income taxes and extraordinary item (116,757) 4,478 26,965 Provision for income taxes 3,250 2,937 6,000 -- (Loss) income before extraordinary item (120,007) 1,541 20,965 Extraordinary item - net gain from extinguishment of bond debt - - 680 -- Net (loss)income $ (120,007) $ 1,541 $ 21,645 == See accompanying notes. United Defense Industries, Inc. Consolidated Statements of Stockholders' Equity (In thousands) Additional Common Paid-In Retained Stockholders' Stock Capital Deficit Loans Total --- Balance, December 31, 1997 $ 173 $ 172,827 $ (36,259) $ - $ 136,741 Issuance of Common Stock 7 7,389 - (1,339) 6,057 Net loss for the year ended December 31, 1998 - - (120,007) - (120,007) --- Balance, December 31, 1998 180 180,216 (156,266) (1,339) 22,791 Issuance of Common Stock - 29 - - 29 Net income for the year ended December 31, 1999 - - 1,541 - 1,541 --- Balance, December 31, 1999 180 180,245 (154,725) (1,339) 24,361 Issuance of Common Stock - 45 - 50 95 Repurchase of Common Stock - (259) - 53 (206) Net income for the year ended December 31, 2000 - - 21,645 - 21,645 --- Balance, December 31, 2000 $ 180 $ 180,031 $(133,080) $ (1,236) $ 45,895 === See accompanying notes. United Defense Industries, Inc. Consolidated Statements of Cash Flows (In thousands) Year ended December 31 1998 1999 2000 -- Operating activities Net (loss) income $ (120,007) $ 1,541 $ 21,645 Adjustments to reconcile net (loss) income to cash provided by operating activities: Depreciation 83,153 55,528 23,882 Amortization 94,806 80,317 72,562 Net gain from early retirement of bond debt - - (680) Other 5,291 1,123 - Changes in assets and liabilities: Trade receivables 30,452 7,197 (35,954) Inventories 76,030 (407) 11,608 Other assets 1,636 474 700 Prepaid pension and postretirement benefit cost 15,519 4,029 (3,217) Accounts payable, trade and other (5,144) (23,858) 9,525 Advanced payments (3,006) 44,670 (9,522) Accrued and other liabilities 14,360 28,554 3,125 Accrued pension and postretirement benefit cost 4,212 (9,535) 1,672

-- Cash provided by operating activities 197,302 189,633 95,346 -- Investing activities Capital spending (24,020) (25,246) (19,721) Disposal of property, plant and equipment 7,298 1,532 560 Adjustment to purchase price of business 16,074 - - Purchase of Barnes & Reinecke, net of $1.2 million cash acquired - - (1,634) Purchase of Bofors Weapon Systems, net of $45.6 million cash acquired - - 23,663 -- Cash (used in) provided by investing activities (648) (23,714) 2,868 -- Financing activities Payments on long-term debt (152,814) (157,143) (79,071) Proceeds from sale of common stock 6,057 29 95 Repurchase of common stock - - (206) -- Cash used in financing activities (146,757) (157,114) (79,182) -- Increase in cash and marketable securities 49,897 8,805 19,032 Cash and marketable securities, beginning of year 35,623 85,520 94,325 -- Cash and marketable securities, end of year $ 85,520 $ 94,325 $ 113,357 == See accompanying notes. United Defense Industries, INC Notes to Consolidated Financial Statements 1. Basis of Presentation United Defense Industries, Inc. (the "Company") is a subsidiary of Iron Horse Investors, L.L.C. ("Iron Horse") and was formed for the primary purpose of facilitating the acquisition of United Defense, L.P. ("UDLP") by Iron Horse. Iron Horse is owned by an investment group led by the Carlyle Group ("Carlyle"). On October 6, 1997, the Company acquired 100% of the partnership interests of UDLP from FMC Corporation ("FMC") and Harsco Corporation ("Harsco") (the "Sellers"). The Company designs, develops and manufactures various tracked armored combat vehicles and a wide spectrum of weapons delivery systems for the armed forces of the United States and nations around the world. The financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. 2. Summary of Significant Accounting Policies Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, in particular, estimates of contract cost and revenues used in the earnings recognition process. Actual results could differ from those estimates. Cash and Marketable Securities Cash and marketable securities consist of investments with initial maturities of three months or less. United Defense Industries, INC Notes to Consolidated Financial Statements (continued) Property, Plant and Equipment Property, plant and equipment is recorded at cost. Depreciation is provided principally on the sum-of-the-years digits and straight-line methods over estimated useful lives of the assets (land improvements--twenty years; buildings--twenty to thirty-five years; and machinery and equipment--two to twelve years). Maintenance and repairs are expensed as incurred. Expenditures that extend the useful life of property, plant and equipment or increase its productivity are capitalized and depreciated. Long-lived Assets, Including Intangible Assets and Goodwill The Company evaluates on a quarterly basis its long-lived assets to be held and used, including certain identifiable intangible assets and goodwill, to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company would use an estimate of the undiscounted value of expected future operating cash flows to determine whether the asset is recoverable and measure the amount of any impairment as the difference between the carrying amount of the asset and its estimated fair value. Investments in Affiliated Companies The Company's investment in a majority owned foreign joint venture in Turkey is carried at cost since there is uncertainty regarding the ability to control the venture or to repatriate earnings. Income is recognized as dividends are received. Dividends received net of amounts accrued for taxes and future obligations were $4.6 million for the year ended December 31, 1998 and $1.4 million for the year ended December 31, 2000. A provision of $1.1 million was recorded for the year ended December 31, 1999. The Company's investment in a foreign joint venture in Saudi Arabia is accounted for by using the equity method. Equity in earnings from this investment was $1.6 million, $1.6 million and $1.5 million for the years ended December 31, 1998, 1999 and 2000, respectively. United Defense Industries, INC Notes to Consolidated Financial Statements (continued) Advanced Payments Advanced payments by customers for deposits on orders not yet billed and progress payments on contracts-in-progress are recorded as current liabilities. Revenue and Profit Recognition for Contracts-in-Progress The Company recognizes sales on most production contracts as deliveries are made or accepted. Gross margin on sales is based on the estimated margin to be realized over the life of

the related contract. Sales under cost reimbursement contracts for research, engineering, prototypes, repair and maintenance and certain other contracts are recorded when funded, as costs are incurred and include estimated fees in the proportion that costs incurred to date bear to total estimated costs. Changes in estimates for sales and profits are recognized in the period in which they are determinable using the cumulative catch-up method. Claims are considered in the estimated contract performance at such time as realization is probable. Any anticipated losses on contracts (i.e., cost of sales exceeds sales) are charged to operations as soon as they are determinable. Stock-Based Compensation Provided the option price is not less than fair value of the common stock at the date an option is granted, the Company records no compensation expense in its consolidated statements of operations. See Note 10 for the pro forma effect on operating results had the Company recorded compensation expense for the fair value of stock options. Income Taxes The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws expected to be effective when these differences reverse. Reclassifications Certain prior year amounts have been reclassified to conform with the current year presentation. United Defense Industries, INC Notes to Consolidated Financial Statements (continued) New Accounting Standards Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended, requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. SFAS 133, which the Company will adopt effective January 1, 2001, is not expected to have a material impact to the Company's consolidated financial statements. 3. Business Purchase On October 5, 1997, the Company acquired 100% of the partnership interests of UDLP and certain other related business assets of FMC. The purchase price including expenses was $864 million after an adjustment of $16 million agreed to during 1998. The Company financed the acquisition through a cash equity investment and debt. The excess purchase price over the book value of the net assets acquired in the amount of $733 million was allocated to inventory; property, plant and equipment; other tangible assets; and intangible assets based on management's estimate of their fair values. The excess purchase price over the fair value of the net assets acquired was allocated to goodwill. On March 6, 2000, the Company acquired all of the outstanding stock of Barnes & Reinecke, Inc. ("BRI"), a subsidiary of Allied Research Corporation ("ARC"), headquartered in Arlington Heights, Illinois. BRI specializes in providing systems technical support and performance upgrades of defense equipment for U.S. and foreign governments. BRI retained its current management structure and became a wholly owned subsidiary of the Company. As consideration for the purchase, the Company paid its former owner, ARC, $3.7 million in cash and notes. The transaction was accounted for as a purchase. Accordingly, the financial statements reflect the results of operations of BRI since the date of acquisition. On September 6, 2000, the Company acquired all of the outstanding stock of Bofors Defence ("Bofors") through a newly-created wholly-owned Swedish subsidiary of the Company, Bofors Defense Holding AB. The acquisition was structured so that Bofors will be an indirectly wholly owned Swedish subsidiary of the Company and each of Bofors and Bofors Defense Holding AB will be restricted subsidiaries as defined in the indenture to which the Company is a party with respect to the 8 3/4% Senior Subordinated Notes due 2007 issued by the Company. As consideration for the purchase, the Company paid Bofors' former owner, Celsius AB, 187.3 million Swedish Krona (approximately US $19.4 million) which United Defense Industries, INC Notes to Consolidated Financial Statements (continued) was determined based on arm's length negotiation. The acquisition was accounted for as a purchase. Accordingly, the financial statements reflect the results of operations of Bofors since the date of acquisition. Bofors produces artillery systems, air defense and naval guns, combat vehicle turrets and smart munitions. Although the Swedish government is the primary customer, Bofors is dependent on exports for approximately half of its total sales. The unaudited pro forma results below (in thousands) assume the acquisition occurred at the beginning of each year presented. Year ended December 31 1999 2000 ---------- ---------- Sales $1,470,016 $1,270,904 Net profit $ 8,676 $ 22,098 The unaudited pro forma combined results of operations are not necessarily indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of the year indicated or of future operations under the ownership and management of the Company. 4. Inventories The majority of the Company's inventories are recorded at cost determined on a LIFO basis. Inventory costs include manufacturing overhead. The current replacement cost of LIFO inventories exceeded their recorded values by approximately $5.2 million at December 31, 1998 and 1999, and $12.6 million at December 31, 2000. United Defense Industries, INC Notes to Consolidated Financial Statements (continued) 5. Property, Plant and Equipment Property, plant and equipment consist of the following (in thousands): December 31 1999 2000 ----------------------- Buildings $ 39,978 $

42,413 Machinery and equipment 166,257 175,501 Land and improvements 8,126 8,338 Construction in progress 7,754 7,848 ----------------------- 222,115 234,100 Less: accumulated depreciation (137,422) (153,325) ----------------------- Net property, plant and equipment $ 84,693 $ 80,775 ======================== 6. Intangible Assets Intangible assets consist of the following (in thousands): December 31 1999 2000 ------------------------- Software and other intangibles $ 92,119 $ 94,432 Firm business and ongoing programs 225,103 225,103 Goodwill 124,339 132,473 ------------------------- 441,561 452,008 Less: accumulated amortization (187,285) (260,288) ------------------------- Net intangible assets $ 254,276 $ 191,720 ========================== The Company's software and other intangibles are being amortized over their estimated useful lives on a straight-line basis over three to five years or using other methods based on revenues of related contracts or programs. The excess of purchase cost over the fair value of the net assets acquired (goodwill) that resulted from the application of purchase accounting for the acquisition of UDLP is being amortized over thirty years. United Defense Industries, INC Notes to Consolidated Financial Statements (continued) 7. Pensions and Other Postretirement Benefits The majority of the Company's domestic employees are covered by retirement plans. Plans covering salaried employees provide pension benefits based on years of service and compensation. Plans covering hourly employees generally provide benefits of stated amounts for each year of service. The Company's funding policy is to make contributions based on the projected unit credit method and to limit contributions to amounts that are currently deductible for tax purposes. With the exception of Bofors, most of the Company's employees are also covered by postretirement health care and life insurance benefit programs. Employees generally become eligible to receive benefits under these plans after they retire when they meet minimum retirement age and service requirements. The cost of providing most of these benefits is shared with retirees. The Company has reserved the right to change or eliminate these benefit plans. Bofors has a statutory pension obligation of $23.0 million which is included in "accrued pension and postretirement benefit cost" on the consolidated balance sheet at December 31, 2000. Bofors pension obligation is administered by an agent of the Swedish government using methods and assumptions different from those used to determine domestic amounts. Accordingly, the following tables do not include this liability. United Defense Industries, INC Notes to Consolidated Financial Statements (continued) The change in benefit obligation and plan assets of the plans and prepaid or accrued pension and postretirement costs recognized in the balance sheets at December 31, 1999 and 2000 are as follows (in thousands): Pension Benefits Postretirement Benefits 1999 2000 1999 2000 --- Change in benefit obligation Benefit obligation at beginning of year $442,651 $422,314 $54,795 $49,187 Service cost 13,747 14,256 1,489 1,260 Interest cost 27,982 32,847 3,420 3,565 Net benefits paid, including settlements (25,174) (22,895) (5,594) (4,486) Actuarial (gain) loss (38,130) 13,309 (4,923) (296) Plan amendments 1,238 11,803 - - --- Benefit obligation at end of year 422,314 471,634 49,187 49,230 Change in plan assets Fair value of plan assets at beginning of year 548,003 537,769 60,412 51,828 Actual return on plan assets 13,874 78,974 (6,558) 11,581 Employer contributions 1,066 958 3,568 2,893 Net benefits paid, including settlements (25,174) (22,895) (5,594) (4,486) --- Fair value of plan assets at end of year 537,769 594,806 51,828 61,816 --- Funded status 115,455 123,945 2,641 12,586 Unrecognized actuarial (gain) loss (6,012) (25,029) (1,514) (8,418) Unrecognized prior service cost 4,238 14,528 - - --- Net amount recognized $113,681 $113,444 $ 1,127 $ 4,168 === Amounts recognized in the consolidated balance sheet consist of: Prepaid pension and postretirement benefit cost $118,756 $118,932 $ 1,127 $ 4,168 Accrued pension and postretirement benefit cost (5,075) (5,488) - - --- Net amount recognized $113,681 $113,444 $ 1,127 $ 4,168 === United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) The following table summarizes the assumptions used in the determination of net pension and postretirement benefit costs and benefit obligations for the years ended December 31, 1998, 1999 and 2000: Year ended December 31 1998 1999 2000 --------------------------------- Weighted-average assumptions --------------------------- Discount rate 6.50% 7.50% 7.50% Expected return on plan assets 9.00% 9.00% 9.00% Rate of compensation increase 3.50% 5.00% 5.00% The following tables show the components of the net periodic benefit cost (in thousands): Year ended December 31 Pension Benefits 1998 1999 2000 --------------- -------------------------------- Service cost $ 11,751 $ 13,747 $ 14,256 Interest cost 27,017 27,982 32,847 Expected return on plan assets (43,080) (45,213) (47,904) Net amortization and recognized losses 703 1,324

1,993 Special termination benefits and curtailments 27,500 650 - -------------------------------- Net periodic benefit cost (income) $ 23,891 $ (1,510) $ 1,192 =================================== Year ended December 31 Postretirement Benefits 1998 1999 2000 ---------------------- ---------------------------------- Service cost $ 1,382 $ 1,489 $ 1,260 Interest cost 3,515 3,420 3,565 Expected return on plan assets (4,422) (4,797) (4,938) Net amortization and recognized losses - - (35) ---------------------------------- Net periodic benefit cost(income) $ 475 $ 112 $ (148) =================================== Pension special termination benefits and curtailments cost relates to various early retirement incentive and involuntary workforce reduction programs related to the Company's downsizing and consolidation of operations. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) $6.7 million, $3.2 million and zero, respectively, at December 31, 1999 and $12.6 million, $6.8 million and zero, respectively, at December 31, 2000. For measurement purposes, a 4% annual rate of increase in the per capita cost of covered health care benefits is assumed for 2001 and future years. Assumed health care cost trend rates have an effect on the amounts reported for the postretirement health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands): 1% Increase 1% Decrease ------------- -------------- Effect on total of service and interest cost components $ 159 $ (132) Effect on the postretirement benefit obligation $1,296 $(1,097) 8. Long-term Debt Borrowings under long-term debt arrangements are as follows: December 31 1999 2000 ------------------------ Senior credit facility $149,843 $ 86,757 Senior subordinated notes 200,000 182,820 ------------------------ 349,843 269,577 Less: current portion 23,086 23,086 ------------------------ $326,757 $246,491 ======================== Senior Credit Facility In October 1997, the Company entered into a senior credit facility that included $495 million of term loan facilities and a $230 million revolving credit facility. Outstanding borrowings on the term loan were $149,843 and $86,757 at December 31, 1999 and 2000, respectively. The term loan facilities bear interest at variable rates with a weighted average rate of 8.82% and 7.91% at December 31, 1999 and 2000, respectively. These loans are due through 2006 and provide for quarterly principal payments. United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) The revolving credit facility provides for loans and letters of credit and matures in 2003. The Company has outstanding letters of credit under the facility of $142 million at December 31, 2000. There was $88 million available under the revolving credit facility at December 31, 2000. The Company is obligated to pay a fee of 0.25% on the unused revolving credit facility. Amounts outstanding under the senior credit facility are secured by a lien on all the assets of the Company and its domestic subsidiaries. Mandatory prepayments and reductions of outstanding principal amounts are required upon the occurrence of certain events. The senior credit facility contains customary covenants restricting the incurrence of debt, encumbrances on and sales of assets, limitations on mergers and certain acquisitions, limitations on changes in control, provision for the maintenance of certain financial ratios, and various other financial covenants and restrictions. Senior Subordinated Notes In October 1997, the Company issued $200 million of senior subordinated notes. The senior subordinated notes are unsecured, bear interest at 8.75% payable semiannually, and mature in 2007. The payment of principal and interest is subordinated in right of payment to all senior debt. The subordinated notes are not redeemable other than in connection with a public equity offering or a change in control prior to November 2002, at which time the notes may be redeemed at a premium, initially at 104.375% of the principal amount. The subordinated notes have customary covenants for subordinated debt facilities including the right to require repurchase upon a change in control, restrictions on payment of dividends, and restrictions on the acquisition of equity interests by the Company. The Company received authorization from its bank-lending group in February 1999 to purchase up to $50 million of the Senior Subordinated notes. During 2000 the Company purchased approximately $17 million of its subordinated notes in the open market. United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) Annual Maturities Annual maturities of long-term debt are as follows (in thousands): Year ended December 31 --------------------- 2001 $ 23,086 2002 23,086 2003 23,085 2004 - 2005 8,903 Thereafter 191,417 --------- Total $ 269,577 ========= Cash paid for interest was $45.4 million, $36.2 million and $26.5 million for the years ended December 31, 1998, 1999 and 2000. 9. Commitments and Contingencies Operating Leases The Company leases office space, plants and facilities, and various types of manufacturing, data processing and transportation equipment. Rent expense for the years ended December 31, 1998, 1999, and 2000 was $13.5 million, $12.4 million and $14.2 million, respectively. Minimum future rentals under noncancellable leases are estimated to be $12.8 million in 2001, $13.0 million in 2002, $11.2 million in 2003, $10.6 million in 2004, $9.9 million in 2005 and $9.0 million thereafter. Legal

Proceedings Alliant Techsystems, Inc. ("Alliant"), a subcontractor to the Company in connection with the M109A6 Paladin howitzer prime contract, filed a lawsuit against the Company and its prior owners in Minnesota state court. The lawsuit arose out of a U.S. Army-directed termination for convenience in 1996 of certain subcontract work under the program which, until the time of termination, had been performed by Alliant and was thereafter replaced by a subcontract which the Company awarded to another contractor, Sechan Electronics. The breach of contract litigation by Alliant against the Company was concluded by pretrial dismissal, without any judgment, damage award, or other adverse finding having been made against the Company. No settlement payment was made in connection with such dismissal. United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) The Company is a defendant in a so-called qui tam case filed jointly under the U.S. Civil False Claims Act (the "FCA") by one present and one former employee of the Company's Armament Systems Division ("ASD") in Fridley, Minnesota. The case, U.S. ex rel. Seman and Shukla v. United Defense, FMC -- Corp., and Harsco Corp., was filed against the Company and its prior owners on ---------------------- July 23, 1997 in the U.S. District Court for the District of Minnesota and primarily alleges that the Company improperly obtained payment under various of ASD's government contracts by supplying components which did not comply with applicable technical specifications. The relators' complaint did not quantify the alleged damages, but sought the full range of treble damages, civil penalties, and attorney fees available under the FCA. Negotiations among the relators, the Company, its co-defendants, and the U.S. Government to settle the Seman/Shukla litigation are nearly complete. Under the proposed settlement agreement, the Company would pay a total of $6.0 million to settle the case. No finding of wrongdoing would be made against the Company, and no other administrative or legal action would be taken against the Company in respect of the matters alleged in the case. Completion of the settlement is subject to U.S. District Court review, but management expects the settlement to be concluded on such terms during the first part of 2001. The Company is also subject to other claims and lawsuits arising in the ordinary course of business. Management believes that the outcome of any such proceedings to which the Company is party will not have a material adverse effect on the Company. Environmental Matters The Company spends certain amounts annually to maintain compliance with environmental laws and to remediate contamination. Operating and maintenance costs associated with environmental compliance and prevention of contamination at the Company's facilities are a normal, recurring part of operations, are not significant relative to total operating costs or cash flows, and are generally allowable as contract costs under the Company's contracts with the U.S. government (Allowable Costs). As with compliance costs, a significant portion of the Company's expenditures for remediation at its facilities consists of Allowable Costs. As of December 31, 2000 the Company has a reserve of $14 million to cover any remediation and compliance costs that may not be Allowable Costs under U.S. government contracts. In addition, pursuant to the terms of the acquisition of UDLP, the Sellers are required to reimburse the Company for 75% of certain remediation costs relating to operations prior to the acquisition that are Non- United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) Allowable Costs. The Company has recorded an asset for the amounts expected to be reimbursed by the Sellers under the terms of the acquisition agreement. Turkey Joint Venture Offset Reserves The Company's joint venture in Turkey is required by agreement with its customer to achieve a significant level of export sales by October 2002 to meet the "offset" requirements of the contract or pay a penalty of 9% of the unpaid offset obligations. Such payment could be as high as $40 million if no additional offset sales are completed. There can be no assurance that the joint venture will be able to completely fulfill its offset obligations or renegotiate an acceptable alternative. The Company has established reserves for its share of the potential "offset" obligation at December 31, 2000. Production from a newly signed contract with the government of Malaysia will partially satisfy the liability. 10. Stockholders' Equity Common Stock Options During 1998, the Company adopted the 1998 Stock Option Plan (the "Option Plan") under which 1,492,600 shares of common stock were reserved for issuance at December 31, 2000. The options generally vest over a period of 10 years; however, vesting may be accelerated over 5 years if certain targets related to earnings and cash flow are met. Year ended December 31 1998 1999 2000 ----------------------------------- Options outstanding, beginning of year - 1,436,000 1,457,900 Options granted 1,436,000 31,000 23,000 Options canceled - (6,200) (40,000) Options exercised - (2,900) (4,500) ----------------------------------- Options outstanding, end of year 1,436,000 1,457,900 1,436,400 =================================== Options excercisable, end of year - 418,425 682,230 =================================== Options granted in 1998 were at $10 per share and had an estimated grant date fair value of $4.51 per option. Options granted in 1999 were at $20 per share and had an estimated grant date fair value of $9.56 per option. Options were granted at $20 and $25 during the year ended

December 31, 2000 and had an estimated weighted average fair value on the date of grant of $6.95. The weighted-average exercise price and weighted-average United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) remaining contractual life of the stock options outstanding at December 31, 2000 was $10.30 and eight years, respectively. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under the plan consistent with the methodology prescribed under Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation, the Company's net loss in 1998 would have increased by approximately $560,000, the net income in 1999 would have decreased by approximately $1,459,000, and the net income in 2000 would have decreased by approximately $1,250,000. The effect of applying SFAS No. 123 on the net income as stated above is not necessarily representative of the effects on reported net income (loss) for future years due to, among other things, (1) the vesting period of the stock options and (2) additional stock options that may be granted in future years. The fair value of each option grant is estimated on the date of grant using the minimum value model with the following assumptions used for grants in 1998, 1999 and 2000: dividend yield of 0%; risk-free interest rate of 6%, 6.5% and 5.5%; and expected life of the option term of 10 years, 10 years and 7 years. Employee Stock Purchase Plan Under the Employee Stock Purchase Plan (the "ESPP"), certain employees are provided the opportunity to purchase shares of the Company's common stock at its estimated fair value. Certain of these purchases were eligible for financing provided by the Company. Related loans including interest at 7.5%, are due in five years. During 1998, 739,624 shares were sold at a price of $10 per share. 11. Income Taxes The provision for income taxes for year ended December 31, 1998 was solely for federal income taxes payable by the Company's Foreign Sales Corporation ("FSC") subsidiary. The FSC incurred income taxes amounting to $3.3 million, $1.7 million and $2.7 million during the years ended December 31, 1998, 1999 and 2000, respectively. For the years ended December 31, 1999 and 2000, the provision for income taxes also includes alternative minimum tax currently payable by the Company of $1.2 million and $1.9 million, respectively. For the year ended December 31, 2000, the provision also includes foreign income taxes related to Bofors of $1.4 million on income before income taxes of approximately $3 million. United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) The components of the net deferred tax asset are as follows (in thousands): December 31 1999 2000 ---------------------- Deferred tax assets: Accrued expenses $ 43,113 $ 35,428 Net operating loss carryforwards 88,093 53,882 Depreciation 13,701 11,369 Other 2,954 1,633 ---------------------- 147,861 102,312 Deferred tax liabilities: Intangibles, accrued compensation, and benefits (84,994) (65,476) Other - 4,563 ---------------------- (84,994) (60,913) ---------------------- Net deferred tax asset 62,867 41,399 Valuation allowance (62,867) (41,399) ---------------------- Net deferred taxes on balance sheet $ - $ - ====================== The net deferred tax asset at December 31, 1999 and 2000 has been offset by a valuation allowance. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible and subject to any limitations applied to the use of carryforward tax attributes. The Company has approximately $135 million in net operating loss carryforwards which expire at varying dates through 2018. 12. Fair Value of Financial Instruments The carrying amount of the Company's financial instruments included in current assets and current liabilities approximates their fair value due to their short-term nature. At United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) December 31, 1999, the fair market value of the Company's long-term debt was estimated to be $149.8 million and $191.5 million for the senior credit facility and subordinated debt, respectively. At December 31, 2000, fair market value of the Company's long-term debt was estimated to be $86.6 million and $171.9 million for the senior credit facility and subordinated debt, respectively. 13. Significant Customer and Export Sales Sales to various agencies of the U.S. Government aggregated $968.3 million, $995.0 million and $832.9 million during the years ended December 31, 1998, 1999 and 2000, respectively. At December 31, 1999 and 2000, trade accounts receivable from the U.S. Government totaled $29.8 million and $66.8 million, respectively. Export sales, including sales to foreign governments transacted through the U.S. Government, were $230.3 million, $218.6 million and $297.6 million during the years ended December 31, 1998, 1999 and 2000, respectively. In addition there were sales to foreign governments transacted by the Company's foreign subsidiary for $53.4 million at December 31, 2000. 14. Related Party Transactions During 1998, Carlyle provided consulting assistance in development of management operating policies and procedures, for which the Company incurred a charge to operations of $2.0 million. Additionally, the management agreement between the Company and Carlyle requires an annual fee of $2.0 million for various

management services. During December 31, 1998, 1999 and 2000, the Company recorded charges of $2.0 million each year relating to these services. 15. Restructuring During the third quarter of 1998, the Company approved a restructuring plan designed to rationalize production and lower costs at the Armament Systems Division's Fridley, Minnesota facility. The plan calls for shifting a significant portion of production and final assembly to other Company sites and outsourcing certain other operations. In 1998 the Company recorded a charge of $36.2 million for estimated employee termination expenses, acceleration of recognition for benefit costs that were curtailed, and charges for impaired United Defense Industries, Inc. Notes to Consolidated financial Statements (continued) assets. This charge did not significantly impact operating funds as it mostly represents either asset write-offs or costs that will be provided for out of an overfunded pension plan. Remaining accrued expenses are $1.1 million at December 31, 2000. 16. Employees' Thrift Plan Substantially all of the Company's domestic employees are eligible to participate in defined contribution savings plans designed to comply with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and Section 401(k) of the Internal Revenue Code. Charges against income for matching contributions to the plans were $8.1 million, $8.1 million, and $7.9 million in the years ended December 31, 1998, 1999 and 2000, respectively. 17. Financial Information for Subsidiary Guarantors and Non-Guarantors The outstanding loans under the senior credit facility and senior subordinated notes are general obligations of the Company and are jointly and severally guaranteed by the wholly-owned subsidiary guarantors of the Company (Note 8). Bofors is the only subsidiary non-guarantor of the Company. The following information presents a consolidating Balance Sheet, Statement of Operations and Statement of Cash Flows for the year ended December 31, 2000. United Defense Industries, Inc. Notes to Consolidated Financial Statements (continued) United Defense Industries, Inc. Consolidating Balance Sheet As of December 31, 2000 (In millions) Subsidiary Subsidiary Non- Parent Guarantors Guarantors Eliminations Consolidated -- Assets Current assets: Cash and maketable securities $ - $ 63.6 $ 49.8 $ - $ 113.4 Trade receivables - 88.1 21.6 - 109.7 Inventories - 247.8 11.4 - 259.2 Other current assets - 3.9 9.2 - 13.1 -- Total current assets - 403.4 92.0 - 495.4 Property, plant and equipment, net - 77.6 3.2 - 80.8 Intangible assets, net - 186.9 4.8 - 191.7 Prepaid pension and postretirement benefit cost - 123.1 - - 123.1 Restricted cash - - 23.5 - 23.5 Due from subsidiary 19.9 - - (19.9) - Investments in and advances to subsidiaries 295.5 - - (295.5) - Other assets - 3.1 0.5 - 3.6 -- Total assets $ 315.4 $ 794.1 $ 124.0 $ (315.4) $ 918.1 == Liabilities and Equity Current liabilities: Current portion of long-term debt $ 23.1 $ - $ - $ - $ 23.1 Accounts payable, trade and other - 73.5 12.6 - 86.1 Advanced payments - 295.2 47.2 - 342.4 Accrued and other liabilities - 94.4 9.8 - 104.2 -- Total current liabilities 23.1 463.1 69.6 - 555.8 Long-term liabilities: Due to parent - - 19.9 (19.9) - Accrued pension and postretirement benefit cost - 5.5 23.0 - 28.5 Long-term debt net of current portion 246.4 - - - 246.4 Other liabilities - 34.3 7.2 - 41.5 -- Total liabilities 269.5 502.9 119.7 (19.9) 872.2 Stockholders' Equity : Common Stock 0.2 - - - 0.2 Additional paid-in-capital 180.0 - - - 180.0 Stockholders' loans (1.2) - - - (1.2) Retained earnings/(deficit) (133.1) 291.2 4.3 (295.5) (133.1) -- Total stockholders' equity 45.9 291.2 4.3 (295.5) 45.9 -- Total liabilities and stockholders' equity $ 315.4 $ 794.1 $ 124.0 $ (315.4) $ 918.1 == United Defense Industries, Inc. Notes to Consolidated Financial Statements (continued) United Defense Industries, Inc. Consolidating Statement of Operations For the Fiscal Year ended December 31, 2000 (In millions) Subsidiary Subsidiary Non- Parent Guarantors Guarantors Eliminations Consolidated --- Revenue: Sales $ - $ 1,130.5 $ 53.4 $ - $ 1,183.9 Costs and expenses: Cost of sales - 900.1 43.8 - 943.9 Selling, general and administrative expenses - 169.3 5.8 - 175.1 Research and development - 14.5 1.2 - 15.7 --- Total expenses - 1,084.0 50.8 - 1,134.7 Earnings related to investments in foreign affiliates and subsidiaries 54.0 2.9 - (54.0) 2.9 --- Income(loss) from operations 54.0 49.4 2.6 (54.0) 52.1 Other income (expense): Interest income 0.4 3.3 1.0 (0.5) 4.2 Interest expense (29.3) - (0.5) 0.5 (29.3) --- Total other expense (28.9) 3.3 0.5 - (25.1) --- Income(loss) before income taxes and extraordinary item 25.1

52.7 3.1 (54.0) 26.9 Provision for income taxes 4.6 - 1.4 - 6.0 -- Income(loss) before extraordinary item 20.5 52.7 1.7 (54.0) 20.9 Extraordinary item - net gain from extinguishment of bond debt 1.1 (0.4) - - 0.7 -- Net income(loss) $ 21.6 $ 52.3 $ 1.7 $ (54.0) $ 21.6 == United Defense Industries, Inc. Notes to Consolidated Financial Statements (continued) United Defense Industries, Inc. Consolidating Condensed Statement of Cash Flows December 31, 2000 (In millions) Subsidiary Subsidiary Non-Parent Guarantors Guarantors Eliminations Consolidated -- Cash provided by operating activities $ 155.6 $ 124.7 $ 4.2 $(189.1) $ 95.4 Cash (used in)provided by investing activities (76.4) (20.4) 23.3 76.4 2.9 Cash (used in)provided by financing activities (79.2) (135.0) 22.3 112.7 (79.2) -- Net change in cash and marketable securities - (30.7) 49.8 - 19.1 Cash and marketable securities, beginning of period - 94.3 - - 94.3 -- Cash and marketable securities, end of period $ - $ 63.6 $ 49.8 $ - $ 113.4 == ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure None. ITEM 10: Directors and Executive Officers The following table sets forth certain information with respect to the members of the Board of Directors and the executive officers of the Company. Executive officers of the Company are chosen by the Board of Directors and serve at its discretion. The Board of Directors maintains an Executive Committee, a Compensation Committee, and an Audit and Ethics Committee. Bill Conway and Allan Holt serve as President and Chairman, respectively, of Iron Horse; and Peter Clare, Daniel D'Aniello and David Rubenstein each serve as Vice Presidents of Iron Horse. Messrs. D'Aniello and Rubenstein have been Managing Directors of The Carlyle Group for the past six years. Officers of Iron Horse receive no compensation for their position.
-- Years with Name Position Age Co./1/
-- William E. Conway, Jr. Chairman 51 ------
-- Frank C. Carlucci Director 70 ------
-- Peter J. Clare Director 35 ------ --
Allan M. Holt Director 49 ------
-- Robert M. Kimmitt Director 53 ------
-- J.H. Binford Peay, III Director 60 ------
-- John M. Shalikashvili Director 64 ------
-- Thomas W. Rabaut Director, President, Chief Executive Officer 52 23
-- Francis Raborn Director, Vice President & Chief Financial Officer 57 23
-- David V. Kolovat Vice President, General Counsel & Secretary 56 12
-- Arthur L. Roberts Vice President, General Manager-International Division 60 33
-- Frederick M. Strader Vice President, General Manager-Armament Systems Div. 48 20
-- Dennis A. Wagner, III Vice President, Business Development & Marketing 50 19
-- Peter C. Woglom Vice President, General Manager-Ground Systems Division 56 27
-- William E.

Conway, Jr. was elected as a Director of the Company in 1997. He has been a Managing Director of The Carlyle Group, a Washington, DC-based global investment firm, since 1987. Mr. Conway was Senior Vice President and Chief Financial Officer of MCI Communications Corporation from 1984 until 1987, and was a Vice President and Treasurer of MCI from 1981 to 1984. Mr. Conway presently serves on the Board of Directors of Nextel Communications, Inc., Global Crossing Ltd., and several privately held companies. Frank C. Carlucci was elected as a Director of the Company in 1997. He is Chairman of The Carlyle Group, a Washington, DC-based global investment firm. Prior to joining The Carlyle Group in 1989, Mr. Carlucci served as Secretary of Defense from 1987-1989. Previously, he had served as President Reagan's National Security Advisor in 1987. Mr. Carlucci is Chairman of the following boards: Neurogen Corporation; Nortel Networks; and the US-ROC (Taiwan) Business Council. He also serves a member on the following Boards: Ashland, Inc.; Kaman Corporation; The Quaker Oats Company; SunResorts, Ltd., NV; Texas Biotechnology Corporation; Pharmacia Corporation; and the Board of Trustees for the RAND Corporation. ___________________ /1/ Includes the Company and its predecessors. Peter J. Clare was elected as a Director of the Company in 1997. He is currently a Managing Director with The Carlyle Group, a Washington, DC-based global investment firm, which he joined in 1992. Mr. Clare was previously with First City Capital, a private investment group. From 1987 to 1989, he worked in the mergers and acquisitions and merchant banking groups at Prudential-Bache. Mr. Clare currently serves on the board of KorAm Bank, as well as several privately held companies. Allan M. Holt was elected as a Director of the Company in 1997. He is a Managing Director of The Carlyle Group, a Washington, DC-based global investment firm, which he joined in 1991. Mr. Holt was previously with Avenir Group, a private investment and advisory group, and from 1984 to 1987 was Director of Planning and Budgets at MCI Communications Corporation, which he joined in 1982. Mr. Holt currently serves on the boards of several privately-held companies. Robert M. Kimmitt was elected as a Director of the Company in 1998. He is Vice Chairman and President of Commerce One, Inc., an e-commerce company headquartered in Pleasanton, California. Previously, from 1997-2000, he was a partner in the law firm of Wilmer, Cutler and Pickering. From 1993 to 1997, he was a Managing Director of Lehman Brothers. Mr. Kimmitt served as American Ambassador to Germany from 1991 to 1993. Previously, he served as Under Secretary of State for Political Affairs, General Counsel to the Treasury Department, and a member of the National Security Council Staff. Mr. Kimmitt serves on the Boards of Allianz Life Insurance Company of North America, Mannesmann AG, Siemens AG, and Xign Corporation, as well as numerous non-profit boards. J. H. Binford Peay, III was elected as a Director of the Company in 1997. General Peay is a career U.S. Army officer who attained the rank of General and retired from the Army on October 1, 1997. He is the former Commander-In-Chief of the U.S. Central Command (1994-1997), and also served as Vice Chief of Staff, United States Army (1993-1994). Prior to serving as Vice Chief of Staff, he was Deputy Chief of Staff for Operations and Plans, Department of the Army and Senior Army Member, U.S. Military Committee, United Nations in Washington, DC (1991-1993), and was Commanding General, 101/st/ Airborne Division (Air Assault) at Ft. Campbell, Kentucky (1989 to 1991), leading the Division during Operations Desert Shield and Desert Storm and its attack into Iraq. General Peay serves as the Chairman and Chief Executive Officer of Allied Research Corporation, and is a Trustee of George C. Marshall Foundation, and a Trustee of Virginia Military Institute Foundation. He is also the President and Chief Executive Officer of the Fort Campbell Historical Foundation, Inc. John M. Shalikashvili was elected as Director of the Company in June 1998. He currently is a visiting Professor to the Center for International Security at Stanford University. Previously, General Shalikashvili was a career U.S. Army Officer who attained the rank of General and retired from the Army in September 1997. He was appointed the 13/th/ Chairman of the Joints Chiefs of Staff on October 25, 1993. Prior major commands were Supreme Allied Commander, Commander Operation PROVIDE COMFORT (the relief operation that returned hundreds of thousands of Kurdish refugees to Northern Iraq), Deputy Commander-In-Chief, United States Army, Europe and Seventh Army, and Commander of the 9/th/ Infantry Division (Motorized). The General was born in Warsaw, Poland on June 27, 1936. General Shalikashvili serves on the Boards of the Boeing Company, L3 Communications Corporation, the Frank Russell Trust Company, and Plug Power, Inc. Thomas W. Rabaut has been President and Chief Executive Officer of UDLP since its formation in 1994. Before joining UDLP, Mr. Rabaut worked at FMC since 1977 and held several executive positions, including General Manager of FMC's Steel Products Division from 1986 to 1988, Operations Director and then Vice President and General Manager of FMC's Ground Systems Division from 1988 to 1993, and General Manager of FMC's Defense Systems Group, overseeing operations in the U.S., Turkey, Pakistan, and Saudi Arabia for U.S. and allied armies, navies, and marines from 1993 to 1994. In 1994, he was also elected Vice President of FMC. Mr. Rabaut

graduated from the U.S. Military Academy at West Point and from the Harvard Business School. Mr. Rabaut is Chairman of the Board of Directors of the National Defense Industrial Association, and is a Trustee of Stevens Institute of Technology. Francis Raborn was elected as a Director of the Company in 1997. He has been Vice President and Chief Financial Officer of UDLP since its formation in 1994, with responsibility for financial, contract, administrative and government compliance matters. Mr. Raborn joined FMC in 1977, and held a variety of financial and accounting positions, including Controller of FMC's Defense Systems Group from 1985 to 1993, and Controller of FMC's Special Products Group from 1979 to 1985. Mr. Raborn received a B.S. in Economics from the University of Pennsylvania's Wharton School and an MBA from UCLA. David V. Kolovat has been Vice President and General Counsel of UDLP since its formation in 1994. He has also served as FMC's Associate General Counsel in charge of defense business legal work from 1988 until consummation of the Acquisition. Mr. Kolovat served as Vice President and General Counsel of Premisys, Inc., from 1986 to 1988, during which Premisys was acquired by Pacific Telesis Corporation, and from 1984 to 1986 as Vice President and General Counsel of Robot Defense Systems, Inc. Mr. Kolovat received his undergraduate degree from the University of Iowa, and his law degree from Stanford Law School. Arthur L. Roberts has been Vice President and General Manager-International Division of UDLP since its formation in 1994. His responsibilities include management of joint ventures in Turkey and Saudi Arabia and development of new co-production programs. Prior to joining UDLP, Mr. Roberts was General Manager of FMC's Defense Systems International Division since 1993. Mr. Roberts held a number of positions at FMC since 1967, including management of the Turkey joint venture program from its initial proposal in 1988 through 1992. Mr. Roberts holds a Bachelor's Degree in Mechanical Engineering from Yale University and an MBA from Harvard Business School. Frederick M. Strader has been Vice President and General Manager-Armament Systems Division of UDLP since May 1994. Prior to joining UDLP, Mr. Strader was Division Manager of FMC's Agricultural Machinery Division from October 1992 to May 1994, and Manager of FMC's Strategic Planning Group from September 1991 to October 1992. Prior thereto, he held a number of operations, planning and financial positions at the Steel Products Division of FMC. Mr. Strader received his BA Degree from Ripon College and his MBA Degree from the Wharton School at the University of Pennsylvania. Dennis A. Wagner, III has been Vice President, Business Development and Marketing of UDLP since its formation in 1994 with responsibility for the development and coordination of world-wide strategies for the design, manufacture, and sale of combat vehicles. Mr. Wagner joined FMC's Defense Systems Group in 1982 and held a number of marketing and management positions, including Division General Manager of FMC's Steel Products Division from 1989 to 1994 and Program Director for the M113 family of vehicles from 1987 to 1989. Mr. Wagner received a BS in General Engineering from the U.S. Military Academy and an MBA in Finance from the University of Detroit. Peter C. Woglom has been Vice President and General Manager-Ground Systems Division of UDLP since 1994. Prior thereto, he held a number of line and executive positions at FMC after joining FMC in 1973, including Vice President and General Manager of FMC's Ground Systems Division from 1993 to 1994, and Vice President and Director, Business Strategies and Initiatives for FMC's Defense Systems Group from 1990 to 1993. Mr. Woglom received BSCE and Master of Engineering Degrees from Cornell University and an MBA from the University of Pittsburgh. ITEM 11: Executive Compensation The following table sets forth information with respect to the compensation paid by the Company for services rendered for the years ended December 31, 2000, 1999, and 1998 to the Chief Executive Officer and to each of the four other most highly compensated executive officers of the Company (the "Named Executive Officers"). Summary Compensation Table ------------------------- Annual Compensation Long-Term Compensation -- --- Awards Payouts ------------------------- ------- Other Annual Restricted Securities All Other Name and Compen- Stock Underlying LTIP Compen- Principal Salary Bonus sation ($)/1/ Award(s) Options Payouts sation Position Year ($) ($) ($)/2/ (#) ($) ($)/3/ ---------------- ---- ------- ------- ------------- ---------- ---------- ------- --------- Thomas W. Rabaut 2000 407,917 386,052 0 0 0 0 39,554 President & CEO 1999 364,167 421,341 0 0 0 0 40,094 1998 331,547 393,082 0 0 200,000 0 31,650 Peter C. Woglom 2000 257,087 180,989 0 0 0 0 22,849 Vice President, 1999 245,587 237,728 0 0 0 0 20,895 General Manager - 1998 234,528 239,922 0 0 100,000 0 15,997 Ground Systems Francis Raborn 2000 248,400 198,919 0 0 0 0 21,386 Vice President & 1999 210,600 206,177 0 0 0 0 20,161 CFO 1998 201,993 211,083 0 0 100,000 0 14,361 Frederick M. Strader 2000 214,078 180,853 0 0 0 0 18,264 Vice President, 1999 198,749 158,721 0 0 0 0 22,137 General Manager - 1998 192,348 168,420 0 0 100,000 0 21,108 Armament Systems Arthur L. Roberts 2000 185,796 204,376 0 0 0 0 17,163 Vice President, 1999 182,645 133,806 0 0 0 0 20,797 General Manager - 1998 174,427 166,927 0 0 65,000 0 17,845 International Division ____________________ /1/ Amounts of less than

$50,000 or 10% of the Named Executive Officer's compensation are excluded. /2/ There are no Company Restricted Stock Awards. /3/ Includes matching contributions under the Company's 401(k) Plan for salaried employees for 1999 and 1998 Directors Compensation --------------------- The three outside directors (Messrs. Peay, Kimmitt and Shalikashvili) are paid annual retainers of $25,000 for all services rendered. There are no other fees paid for attendance at meetings, etc. These three directors may elect to receive their annual retainer in cash, options to purchase Company stock, or a combination. The Company does not maintain a medical, dental, or retirement benefits plan for these directors. The remaining directors are employed either by The Carlyle Group or the Company, and are not separately compensated for their service as directors. Compensation Committee Interlocks and Insider Participation -- The Compensation Committee of the Board of Directors is a standing committee charged with the responsibilities, subject to full Board approval, of establishing, periodically re-evaluating and (as appropriate) adjusting, and administering policies concerning compensation of management personnel, including the CEO and all of the Company's other executive officers. The Compensation Committee was established in 1998 and Messrs. Peay and Clare serve on the Committee. Mr. Clare is a member of The Carlyle Group, which is the majority stockholder of the Company. By virtue of his position as President and Chief Executive Officer, Mr. Rabaut has been invited to attend all meetings of the Committee, but he is not a voting member. Retirement Plan -------------- Each Named Executive Officer is covered under the UDLP Salaried Employees' Retirement Plan (the "Pension Plan") and the UDLP Excess Pension Plan (the "Excess Plan") described below. The following table shows the estimated annual pension benefits under such plans for the specified compensation and years of service. A portion of the retirement benefits for service prior to 1986, computed under the Pension Plan, is payable from annuity contracts maintained by Aetna Life Insurance Company. Pension Plan Table ------------------ Estimated Annual Retirement Benefits For years of Service Indicated -- Final Average Earnings 15 Years 20 Years 25 Years 30 Years 35 Years -------------- --------------- ---------------- --------------- ----------------- ----------------- $ 150,000 $ 31,270 $ 41,693 $ 52,117 $ 62,540 $ 72,963 250,000 53,770 71,693 89,617 107,540 125,463 350,000 76,270 101,693 127,117 152,540 177,963 450,000 98,770 131,693 164,617 197,540 230,463 550,000 121,270 161,693 202,117 242,540 282,963 650,000 143,770 191,693 239,617 287,540 335,463 900,000 200,020 266,693 333,367 400,040 466,713 Compensation included in the final average earnings for the pension benefit computation includes base annual salary and annual bonuses, but excludes payments for most other compensation. Unreduced retirement pension benefits are calculated pursuant to the Pension Plan's benefit formula as an individual life annuity payable at age 65. Benefits may also be payable as a joint and survivor annuity or a level income option. Final average earnings in the above table means the average of covered remuneration for the highest 60 consecutive calendar months out of the 120 calendar months immediately preceding retirement. Benefits applicable to a number of years of service or final average earnings different from those in the above table are equal to the sum of (A) 1 percent of allowable Social Security Covered Compensation ($33,066) for a participant retiring at age 65 in 1999 times years of credited service and (B) 1.5 percent of the difference between final average earnings and allowable Social Security Covered Compensation times years of credited service. ERISA limits the annual benefits that may be paid from a tax-qualified retirement plan. Accordingly, as permitted by ERISA, the Company has adopted the excess plan to maintain total benefits upon retirement at the levels shown in the table. Messrs. Rabaut, Woglom, Strader, Raborn, and Roberts currently have 23, 27, 20, 23 and 33 years of service under the Pension Plan, respectively. The Company also maintains the Supplemental Thrift and Savings Plan designed to provide select employees a benefit equal to the benefit the participant would receive under the 401(k) plan if the Code and such plan did not require the exclusion of compensation above a certain level. All Named Executive Officers are eligible to participate in the Supplemental Thrift and Savings Plan. Severance Arrangements --------------------- In 1999, the Company entered into executive compensation agreements with certain management employees. These agreements generally provide that in the event the executive's employment is terminated by the company other than for "cause" or by the executive with "good reason" (each as defined therein), including an acquisition or merger, the executive will be entitled to (i) a payment equal to a multiple (ranging from one to three) of the executive's base pay and target bonus; (ii) Company-paid outplacement services; and (iii) the right to continue to participate in the Company's health, life and accidental death and dismemberment and long-term disability benefits plan for one year to three years at the rates in effect for active employees. The Company also maintains a severance plan that generally covers most salaried and non-union hourly employees, and provides severance payments in the event of the employee's involuntary

termination of employment due to a reduction in force. Severance payments are calculated as a percentage (up to 100% maximum) of base pay. Stock Option Plan ---------------- The Company adopted an option plan for key employees (including the Named Executive Officers) of the Company, pursuant to which options to purchase an aggregate of approximately 8% of the Company's fully-diluted common stock at the Closing Date were granted, subject to vesting requirements based on performance and/or length of service after the options were granted. None of the Named Executive Officers received option grants in 2000. AGGREGATED OPTIONS EXERCISED IN 2000 ---------------------------------- Shown below is information with respect to options to purchase the Company's common stock awarded to the Named Executive Officers and the value and number of unexercised options held at December 31, 2000 by such Named Executive Officers. Aggregated Options Exercised in 2000 And Option Values at 12/31/00 -- Shares Number of Securities Acquired on Value Underlying Unexercised Value of Unexercised Name Exercise Realized Options Options * ---- ----------- -------- --- Exercisable Unexercisable Exercisable Unexercisable ----------- ------------- ----------- ------------- TW Rabaut 0 0 90,000 110,000 $2,250,000 $2,750,000 PC Woglom 0 0 50,000 50,000 $1,250,000 $1,250,000 FM Strader 0 0 50,000 50,000 $1,250,000 $1,250,000 F Raborn 0 0 50,000 50,000 $1,250,000 $1,250,000 AL Roberts 0 0 32,500 32,500 $ 812,500 $ 812,500 * The value of the unexercised options is based on an internal valuation prepared by the Company in 2000 of $25 per share. Item 12: Principal Stockholders The following table sets forth certain information regarding the beneficial ownership of the common stock of the Company by each person known by the Company to be the owner of 5% or more of the common stock of the Company, by each person who is a Director or Named Executive Officer of the Company and by all Directors and Executive Officers of the Company as a group: Percentage of All Beneficial Owner/(1)/ Number of Shares Outstanding Shares TCG Holdings, L.L.C. /(2)(3)/ 17,300,000 96% William E. Conway, Jr. (3) (5) 100,000 * Allan M. Holt (3)(5) 25,000 * Peter J. Clare (3)(5) 20,000 * Frank C. Carlucci (3)(5) 20,000 * Robert M. Kimmitt (4) 5,000 * J. H. Binford Peay, III (4) - * John M. Shalikashvili (4) - * Thomas W. Rabaut (4) 10,000 * Francis Raborn (4) 75,000 * David V. Kolovat (4) 31,428 * Arthur L. Roberts (4) 34,000 * Frederick M. Strader (4) 20,000 * Dennis A. Wagner, III (4) 5,000 * Peter C. Woglom (4) 10,000 * All Directors and Executive Officers as a Group (14) 355,428 2% ___________________ (1) Beneficial ownership is determined in accordance with the rules of the SEC. Except as otherwise indicated, each beneficial owner has the sole power to vote, as applicable, and to dispose of all Units owned by such beneficial owner. (2) Carlyle Partners II, L.P., a Delaware limited partnership, Carlyle Partners III, L.P., a Delaware limited partnership, Carlyle International Partners II, L.P., a Cayman Islands limited partnership, Carlyle International Partners III, L.P., a Cayman Islands limited partnership, and certain additional partnerships formed by Carlyle (collectively, the "Investment Partnerships") and certain investors with respect to which TC Group, L.L.C. or an affiliate exercises investment discretion and management constitute all of the members of Iron Horse. TC Group, L.L.C. is the sole general partner of the Investment Partnerships, and TCG Holdings, L.L.C., a Delaware limited liability company, is the sole managing member of TC Group, L.L.C. William E. Conway, Jr., Daniel A.D'Aniello, and David M. Rubenstein, as the managing members of TCG Holdings, L.L.C. may be deemed to share beneficial ownership of the shares shown as beneficially owned by TCG Holdings, L.L.C. Such persons disclaim such beneficial ownership. (3) The address of such person is c/o The Carlyle Group, 1001 Pennsylvania Avenue, NW, Washington, DC 20004. (4) The address of such person is c/o United Defense Industries, Inc., 1525 Wilson Boulevard, Suite 700, Arlington, Virginia 22209-2411. (5) Individual also owns an interest in Iron Horse through Carlyle - UDLP Partners, L.P. *Denotes less than 1% beneficial ownership. ITEM 13. Certain Transactions Concurrently with the closing of the acquisition, the Company entered into a management agreement (the "Management Agreement") with TCG Holdings, L.L.C. (or another affiliate of Carlyle) for certain management and financial advisory services and oversight to be provided to the Company and its subsidiaries. The Management Agreement provides for the payment to Carlyle of an annual management fee of $2.0 million. ITEM 14. Exhibits and Financial Data Schedule (a) The index of the financial statements has been included with Item 8. (b) Reports on Form 8-K filed in the third quarter of 2000. None. (c) Index of Exhibits. See below. (d) Financial Statement Schedules. None required. EXHIBIT INDEX Exhibit Number Description ------ ----------- +2.1 Purchase Agreement dated as of August 25, 1997 among FMC Corporation, Harsco Corporation, Harsco UDLP Corporation and Iron Horse Acquisition Corp. (a copy of the schedules to this agreement will be furnished supplementally upon request of the Commission). ++2.2 Supplemental Agreement No. 1 to Purchase Agreement dated as of August 25, 1997 among FMC Corporation, Harsco Corporation, Harsco UDLP Corporation and Iron Horse Acquisition Corp. +3.1a Certificate

of Incorporation of Iron Horse Acquisition Corp. (n/k/a) United Defense Industries, Inc. +3.1b Certificate of Amendment of Certificate of Incorporation Before Payment of Any Part of the Capital of Iron Horse Acquisition Corp. (n/k/a United Defense Industries, Inc.) +3.1c Certificate of Amendment of the Certificate of Incorporation of United Defense Industries, Inc. ++++3.1d Certificate of Amendment of the Certificate of Incorporation of United Defense Industries, Inc. +3.2 By-laws of United Defense Industries, Inc. +3.3 Certificate of Incorporation of UDLP Holdings Corp. +3.4 By-laws of UDLP Holdings Corp. +3.5 Amended and Restated Agreement of Limited Partnership of United Defense, L.P. +3.6 Certificate of Amendment to Certificate of Limited Partnership of United Defense, L.P. +3.7 Certificate of Formation of Iron Horse Investors, L.L.C. +3.8 Limited Liability Company Agreement of Iron Horse Investors, L.L.C. +4.1 Indenture dated as of October 6, 1997 among United Defense Industries, Inc., United Defense, L.P., UDLP Holdings Corp. and Norwest Bank Minnesota, National Association +4.2 Specimen Certificate of 8 3/4% Senior Subordinated Notes due 2007 (included in Exhibit 4.1 hereto) +4.3 Purchase Agreement dated October 1, 1997 among United Defense Industries, Inc., UDLP Holdings Corp., Iron Horse Investors, L.L.C., United Defense, L.P., Lehman Brothers Inc., BT Alex. Brown Incorporated and Chase Securities Inc. +4.4 Registration Rights Agreement dated as of October 6, 1997 among United Defense Industries, Inc., United Defense, L.P., UDLP Holdings Corp., Iron Horse Investors, L.L.C., Lehman Brothers Inc., BT Alex. Brown Incorporated and Chase Securities Inc. ++4.5 Credit Agreement dated as of October 6, 1997 among Iron Horse Investors, L.L.C., United Defense Industries, Inc., various lending institutions party thereto, Citicorp USA, Inc. and Lehman Commercial Paper Inc. as Documentation Agents, and Bankers Trust Company as Administrative Agent and as Syndication Agent ++++4.7 Form of Stockholders Agreement, by and among Iron Horse Investors, L.L.C., United Defense Industries, Inc. and each other holder of Common Stock. ++++4.8 Stockholders Agreement, dated as of July 22, 1998, by and between Iron Horse Investors, L.L.C., United Defense Industries, Inc., the UDLP Non-Qualified Trust and United Defense, L.P. ++++4.9 UDLP Amended and Restated Supplemental Retirement and Savings Plan. (1) ++++4.10 United Defense Stock Option Plan. (1) ++++4.11 Form of Option Contract. (1) ++++4.12 United Defense Industries, Inc. Equity Purchase Plan. (1) ++10.1 Lease Agreement dated as of June 1, 1994 among Calhoun Economic Development Council and United Defense, L.P. *10.2 Facilities use agreement number M67004-99-C0022 dated April 12, 1999 among United Defense, L.P. and the Marine Corps Logistics Base, Albany, Georgia for the use of the government owned property located at Building 1121, Bay 4 and rail sidings, and associated maintenance service agreement. ++10.3 Sub-Lease Agreement among the Louisville/Jefferson County Development Authority, Inc. and United Defense, L.P., as amended by that certain First Amendment to Sublease of Real and Personal Property Agreement among the Louisville/Jefferson County Development Authority, Inc. and United Defense, L.P. ++10.4 Facilities contract number N00024-93-E-8521, dated November 16, 1992 among United Defense, L.P., Armament Systems Divisions and the U.S. Government Naval Sea Systems Command for the use of the government owned facility located at 4800 East River Road, Minneapolis, MN 55459. ++10.5 Lease Agreement dated January 22, 1996 among Lewis F. Holmes III and United Defense, L.P. ++10.6 Lease Agreement dated November 1, 1993 among Brier Hill Steel Company, Inc. and Harsco Corporation, as amended by that certain Lease Novation Agreement among Harsco Corporation, Brier Hill Steel Company, Inc. and United Defense, L.P. and by that certain Lease Modification dated June 17, 1996 among United Defense, L.P. and Brier Hill Steel Company, Inc. *10.7 Lease Agreements dated April 1999 among ATP Associates L.P. and United Defense L.P. (Buildings A and C). +10.11 Transition Services Agreement dated as of October 6, 1997 among FMC Corporation, United Defense, L.P. and United Defense Industries, Inc. +10.12 Technology and Environmental Services Agreement dated as of October 6, 1997 among FMC Corporation and United Defense Industries, Inc. +10.13 Amended and Restated Lease Agreement dated as of October 6, 1997 among FMC Corporation and United Defense, L.P. +10.14 Amended and Restated Harsco Intellectual Property Agreement dated as of October 6, 1997 among Harsco Corporation and United Defense, L.P. +10.15 Amended and Restated FMC Intellectual Property Agreement dated as of October 6, 1997 among FMC Corporation and United Defense, L.P. +10.16 Management Agreement dated October 6, 1997 among United Defense Industries, Inc., United Defense, L.P. and TC Group Management, L.L.C. +++10.17 Professional Service Agreement with J.H. Binford Peay, III. +++10.18 Professional Service Agreement with John M. Shalikashvili. +++++10.19 Professional Service Agreement with Robert M. Kimmitt. **10.20 Executive Compensation Agreement with Thomas W. Rabaut. **10.22 Executive Compensation Agreement with Frederick M. Strader. **10.23 Executive Compensation Agreement with Peter C. Woglom. **10.24 Executive Compensation Agreement with David V. Kolovat. **10.25 Executive Compensation Agreement with Francis Raborn. **10.26 Executive Compensation Agreement with Dennis

A. Wagner, III. *21.1 Subsidiaries of United Defense Industries, Inc. *23.1 Consent of Ernst & Young LLP, Independent Auditors * Filed herewith ** Incorporated by reference to the identical exhibit number in the Company's Report on Form 10-Q for the quarter ended June 30, 1999 + Incorporated by reference to the identical exhibit number in the Company's Registration Statement on Form S-4 (333-43619) filed with the Securities and Exchange Commission on December 22, 1997. ++ Incorporated by reference to the identical exhibit number in the Company's Amendment No. 1 to Form S-4 (333-43619) filed with the Securities and Exchange Commission February 6, 1998. +++ Incorporated by reference to exhibits to the Company's Report on Form 10-Q for the quarter ended June 30, 1998. ++++ Incorporated by reference to the identical exhibit number in the Company's Registration Statement on Form S-8 (333-60207) filed with the Securities and Exchange Commission on July 30, 1998. +++++ Incorporated by reference to the identical exhibit number in the Company's Report on Form 10-K for the year ended December 31, 1998. SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant and each Co-Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. By: /s/ Francis Raborn ---------------------- Francis Raborn Chief Financial Officer and Principal Financial and Accounting Officer of the Registrant and each Co-Registrant Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and each Co-Registrant in the capacities and on the dates indicated. Name Title Date ---- ----- ---- /s/ Thomas W. Rabaut President, Chief Executive March 1, 2001 -------------------------- Thomas W. Rabaut Officer and Director of United Defense Industries, Inc. ("UDI") and UDLP Holdings Corp. (for UDLP Holdings Corp. itself and as the corporate general partner of United Defense, L.P.) /s/ Francis Raborn Director of UDI and UDLP March 1, 2001 -------------------------- Francis Raborn Holdings Corp. (for UDLP Holdings Corp. itself and as the corporate general partner of United Defense, L.P.) /s/ William E. Conway, Jr. Chairman of the Board of UDI March 1, 2001 -------------------------- William E. Conway, Jr. /s/ Frank C. Carlucci Director of UDI March 1, 2001 -------------------------- Frank C. Carlucci /s/ Peter J. Clare Director of UDI March 1, 2001 -------------------------- Peter J. Clare /s/ Allan M. Holt Director of UDI and Chairman March 1, 2001 -------------------------- Allan M. Holt of Iron Horse Investors, L.L.C. /s/ Robert M. Kimmitt Director of UDI March 1, 2001 -------------------------- Robert M. Kimmitt /s/ John M. Shalikashvili Director of UDI March 1, 2001 -------------------------- John M. Shalikashvili /s/ J. H. Binford Peay, III Director of UDI March 1, 2001 -------------------------- J. H. Binford Peay, III /s/ David V. Kolovat Director of UDLP March 1, 2001 -------------------------- David V. Kolovat Holdings Corp. (for UDLP Holdings Corp. itself and as the corporate general partner of United Defense, L.P.) /s/ Robert N. Sankovich Director of UDLP March 1, 2001 -------------------------- Robert N. Sankovich Holdings Corp. (for UDLP Holdings Corp. itself and as the corporate general partner of United Defense, L.P.)