

UNOVA INC
Form 10-Q
November 10, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2005

OR

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

Commission file number 001-13279

UNOVA, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**6001 36th Avenue West
Everett, WA**

www.unova.com

(Address of principal executive
offices and internet site)

95-4647021

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

98203-1264

(Zip Code)

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

Edgar Filing: UNOVA INC - Form 10-Q

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

On October 31, 2005, there were 62,529,335 shares of Common Stock outstanding, exclusive of treasury shares.

UNOVA, INC.

INDEX

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED OCTOBER 2, 2005

PART I. FINANCIAL INFORMATION

<u>ITEM 1.</u>	<u>Financial Statements</u> <u>Consolidated Statements of Operations (unaudited)</u> <u>Three and Nine Months Ended October 2, 2005, and September 30, 2004</u> <u>Consolidated Balance Sheets (unaudited)</u> <u>October 2, 2005, and December 31, 2004</u> <u>Consolidated Statements of Cash Flows (unaudited)</u> <u>Nine Months Ended October 2, 2005, and September 30, 2004</u> <u>Notes to Consolidated Financial Statements (unaudited)</u>
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
<u>ITEM 4.</u>	<u>Controls and Procedures</u>

PART II. OTHER INFORMATION

<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>ITEM 6.</u>	<u>Exhibits</u>
<u>Signature</u>	

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNOVA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Revenues:				
Product	\$ 179,640	\$ 160,054	\$ 522,590	\$ 475,301
Service	40,174	34,760	111,178	99,097
Total Revenues	219,814	194,814	633,768	574,398
Costs and Expenses:				
Cost of product revenues	107,054	95,093	301,755	268,820
Cost of service revenues	25,083	20,345	67,053	58,353
Selling, general and administrative	74,106	70,588	222,854	203,659
Total Costs and Expenses	206,243	186,026	591,662	530,832
Operating Profit from Continuing Operations	13,571	8,788	42,106	43,566
Interest, net	(665)	(3,189)	(3,911)	(9,443)
Foreign currency exchange, net gain (loss)	(37)	(246)	163	(912)
Earnings from Continuing Operations before Income Taxes	12,869	5,353	38,358	33,211
Provision (Benefit) for Income Taxes	1,601	(1,493)	9,823	7,476
Earnings from Continuing Operations, Net of Tax	11,268	6,846	28,535	25,735
Loss from Discontinued Operations, Net of Tax	(6,697)	(943)	(8,416)	(3,647)
Net Earnings	\$ 4,571	\$ 5,903	\$ 20,119	\$ 22,088
Basic Earnings (Loss) per Share				
Continuing Operations	\$ 0.18	\$ 0.11	\$ 0.46	\$ 0.43
Discontinued Operations	(0.11)	(0.01)	(0.13)	(0.06)
Net Earnings per Share	\$ 0.07	\$ 0.10	\$ 0.33	\$ 0.37
Diluted Earnings (Loss) per Share				
Continuing Operations	\$ 0.18	\$ 0.11	\$ 0.45	\$ 0.42
Discontinued Operations	(0.11)	(0.01)	(0.13)	(0.06)
Net Earnings per Share	\$ 0.07	\$ 0.10	\$ 0.32	\$ 0.36
Shares Used in Computing Basic Earnings (Loss) per Share				
	62,077	60,631	61,509	60,408
Shares Used in Computing Diluted Earnings (Loss) per Share				
	63,635	62,098	63,071	62,079

Edgar Filing: UNOVA INC - Form 10-Q

See accompanying notes to consolidated financial statements.

UNOVA, INC.

CONSOLIDATED BALANCE SHEETS

(amounts in thousands)

(unaudited)

	October 2, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 179,562	\$ 217,899
Restricted cash		50,000
Accounts receivable, net of allowance for doubtful accounts of \$8,187 and \$9,771	177,919	157,833
Inventories	101,485	80,854
Net deferred tax assets	63,037	81,769
Assets held for sale	13,492	19,748
Current assets of discontinued operations	63,546	211,116
Other current assets	8,316	8,831
Total Current Assets	607,357	828,050
Property, Plant and Equipment, Net of Accumulated Depreciation of \$103,465 and \$99,714	29,619	30,375
Intangibles, Net	3,772	4,072
Net Deferred Tax Assets	186,362	134,978
Long-term Assets of Discontinued Operations	19,192	21,238
Other Assets	60,381	53,964
Total Assets	\$ 906,683	\$ 1,072,677
LIABILITIES AND SHAREHOLDERS INVESTMENT		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 174,220	\$ 160,001
Payroll and related expenses	25,848	30,077
Current portion of long-term debt		108,500
Current liabilities of discontinued operations	46,370	130,257
Total Current Liabilities	246,438	428,835
Long-term Debt	100,000	100,000
Other Long-term Liabilities	105,176	86,220
Long-term Liabilities of Discontinued Operations	11,773	46,388
Shareholders Investment:		
Common stock	625	611
Additional paid-in capital	729,200	703,416
Accumulated deficit	(286,576)	(306,695)
Accumulated other comprehensive income	47	13,902
Total Shareholders Investment	443,296	411,234
Total Liabilities and Shareholders Investment	\$ 906,683	\$ 1,072,677

See accompanying notes to consolidated financial statements.

UNOVA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Nine Months Ended	
	October 2, 2005	September 30, 2004
Cash and Cash Equivalents at Beginning of Period	\$ 217,899	\$ 238,447
Cash Flows from Operating Activities of Continuing Operations:		
Net earnings from continuing operations	28,535	25,735
Adjustments to reconcile net earnings to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	7,504	8,360
Change in prepaid pension costs, net	7,667	7,756
Deferred taxes	7,120	(7,981)
Stock-based compensation and other	888	751
Changes in operating assets and liabilities:		
Accounts receivable	(9,787)	(12,478)
Inventories	(21,604)	(12,349)
Other current assets	180	11,127
Accounts payable and accrued expenses	5,998	(9,500)
Payroll and related expenses	(5,002)	(2,829)
Other long-term liabilities	18,128	5,111
Other operating activities	(971)	(34)
Net Cash Provided by Operating Activities of Continuing Operations	38,656	13,669
Cash Flows from Investing Activities of Continuing Operations:		
Capital expenditures	(7,159)	(7,674)
Sale of property, plant and equipment	6,050	4,026
Restricted cash	50,000	(50,000)
Other investing activities	593	64
Net Cash Provided by (Used in) Investing Activities of Continuing Operations	49,484	(53,584)
Cash Flows from Financing Activities of Continuing Operations:		
Repayment of long-term obligations.	(108,500)	
Stock options exercised	16,373	2,836
Other financing activities	1,118	319
Net Cash Provided by (Used in) Financing Activities of Continuing Operations	(91,009)	3,155
Net Cash Used in Continuing Operations	(2,869)	(36,760)
Net Cash Used in Operating Activities of Discontinued Operations	(34,662)	(39,270)
Net Cash Used in Investing Activities of Discontinued Operations	(806)	(1,038)
Resulting Decrease in Cash and Cash Equivalents	(38,337)	(77,068)
Cash and Cash Equivalents at End of Period	\$ 179,562	\$ 161,379
Supplemental Disclosure of Cash Flow Information:		
Effect of exchange rates on cash and cash equivalents	\$ (6,397)	\$ 785
Interest paid	(12,064)	(14,815)
Income taxes paid	(5,249)	(5,709)

Edgar Filing: UNOVA INC - Form 10-Q

See accompanying notes to consolidated financial statements.

UNOVA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation

UNOVA, Inc. and subsidiaries (UNOVA or the Company), through its wholly owned subsidiary Intermec Technologies Corporation (Intermec), is a leader in global supply chain solutions, the development, manufacture and integration of wired and wireless automated data collection, Intellitag® RFID (radio frequency identification), mobile computing systems, bar code printers and label media. Intermec products and services are used by customers to improve productivity, quality and responsiveness of business operations such as supply chain management, warehouse operations, inventory management, field service, in-transit visibility, direct-store delivery, store operations and store management. Intermec products and services are sold globally to a diverse set of customers in markets such as industrial manufacturing, transportation and logistics, retail, consumer goods and government.

Effective the fourth quarter of 2004, the Company committed to a plan to sell its Industrial Automation Systems (IAS) businesses, comprising the Cincinnati Lamb division and the Landis Grinding Systems division after the Board of Directors concluded that the IAS businesses are no longer aligned with the Company's long-term strategy. Company management believes that divestiture of the IAS businesses will enable the Company to concentrate better on Intermec's core competencies and growth opportunities. The Company has classified the IAS businesses as discontinued operations for accounting purposes in the Company's consolidated financial statements and related notes. All prior periods presented have been restated to reflect this classification. The Company completed the sale of the Cincinnati Lamb business during the quarter ended April 3, 2005, and on October 27, 2005, signed an agreement to sell Landis Grinding Systems business (see Note 5 to the consolidated financial statements).

Beginning in 2005, the Company's interim financial periods are based on a thirteen-week internal accounting calendar. The Company does not believe this change has any material impact on comparability of the financial statements. The amounts included in this report are unaudited; however, in the opinion of management, all adjustments necessary for a fair presentation of results of operations, financial position and cash flows for the stated periods have been included. These adjustments are of a normal recurring nature. Certain prior-year amounts have been reclassified to conform to the current year presentation. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2004. The results of operations for the interim periods presented are not necessarily indicative of operating results for the entire year.

The consolidated statements of cash flows for the nine months ended October 2, 2005 and September 30, 2004, reflect the reclassification of \$50 million in restricted cash from financing activities to investing activities.

Significant Accounting Policies

Revenue recognition for Rapid Start intellectual property (IP) royalties The Company licenses rights to use portions of its IP portfolio, including certain patents essential to and/or useful in the manufacture and sale of certain RFID products. As a result of the Company's Rapid Start RFID IP licensing program, which ended on August 31, 2005, the Company has expanded its revenue recognition policy to include the license fees from this program. Licensees participating in the

Rapid Start program typically paid a nonrefundable up-front fee and agreed to pay ongoing royalties based on their sales of products incorporating or using the Company's licensed RFID IP. Under the terms of such Rapid Start RFID license agreements, the licensees receive the right to certain future divisions, continuations and continuations-in-part of the licensed RFID patents. Non-refundable up-front fees related to the Company's Rapid Start RFID IP licensing program are recorded as deferred revenue and recognized over five years, representing the estimated future period the Company expects to receive patents on certain divisions, continuations and/or continuations-in-part for the licensed RFID patents and the Company's estimate of the average technology lifecycle for the automated data capture industry. The Company earns royalties on licensed RFID products sold worldwide by its licensees at the time that the licensees sales occur. The Company's licensees report and pay royalties owed for sales in any given quarter after the conclusion of that

quarter. The Company has determined that, due to the lack of historical trends coupled with the anticipated escalating business trends, the Company does not have the ability to reliably estimate the running royalties when earned. Therefore, the Company recognizes such royalty revenue in the quarter in which the royalties are reported to the Company by the licensees.

2. Stock-Based Compensation

As permitted by Statement of Financial Accounting Standards (SFAS) No. 123, the Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, under which compensation cost is recognized over the vesting period if the fair value is greater than the exercise price (the intrinsic value method) at the grant of stock options. Had compensation cost for these plans been determined consistent with SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net earnings and basic and diluted earnings per share for the three and nine months ended October 2, 2005, and September 30, 2004, would have been reduced to the pro forma amounts indicated in the following table (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Net earnings as reported	\$ 4,571	\$ 5,903	\$ 20,119	\$ 22,088
Add: stock-based compensation expense recorded under the intrinsic value method, net of tax effect	593	181	1,661	694
Less: stock compensation expense computed under the fair value method, net of tax effect	(1,599)	(758)	(4,449)	(2,471)
Pro forma net earnings	\$ 3,565	\$ 5,326	\$ 17,331	\$ 20,311
Net earnings per share as reported:				
Basic	\$ 0.07	\$ 0.10	\$ 0.33	\$ 0.37
Diluted	\$ 0.07	\$ 0.10	\$ 0.32	\$ 0.36
Pro forma net earnings per share:				
Basic	\$ 0.06	\$ 0.09	\$ 0.28	\$ 0.34
Diluted	\$ 0.06	\$ 0.09	\$ 0.27	\$ 0.33

During the nine months ended October 2, 2005, the Company issued 1,446,098 shares of Common Stock under its stock compensation plans, including 1,345,554 shares issued upon the exercise of options, 9,332 shares of restricted stock, 2,034 shares issued upon vesting of restricted stock units and 89,178 shares issued under the Employee Stock Purchase Plan and Directors Stock Option and Fee Plan. Also during the nine months ended October 2, 2005, 142,778 shares of restricted stock vested due to completion of the vesting period.

3. Inventories

Inventories comprise the following (thousands of dollars):

	October 2, 2005	December 31, 2004
Raw materials	\$ 62,593	\$ 53,714
Work in process	734	304
Finished goods	38,158	26,836
Inventories	\$ 101,485	\$ 80,854

4. Long-term Debt and Interest, net

As of October 2, 2005, the Company maintains two secured long-term credit facilities: a \$100 million revolving credit facility (the Revolving Facility) and a £15 million (\$26.5 million) revolving facility and related overdraft facility (collectively, the UK Facility).

Net of outstanding letters of credit and limitations on minimum availability, the Company had borrowing capacity at October 2, 2005, of \$32.1 million under the Revolving Facility and £5.6 million (\$9.9 million) under the UK Facility. The Company made no borrowings under the Revolving Facility or the UK Facility during the first nine months of 2005, and as of October 2, 2005, no borrowings were outstanding under either the Revolving Facility or the UK Facility. As of October 2, 2005, the Company was in compliance with the financial covenants of each of these agreements.

The key terms of the Revolving Facility are as follows:

The Company's obligations under the Revolving Facility are secured by substantially all the U.S. assets of the Company and its U.S. subsidiaries and a pledge of 65% of the stock of certain of its foreign subsidiaries.

Borrowings under the Revolving Facility bear interest at a variable rate equal to (at the Company's option) (i) LIBOR plus an applicable margin ranging from 1.5% to 2.5% based on consolidated leverage, or (ii) the greater of the federal funds rate plus 0.50% or the Bank's prime rate, plus an applicable margin ranging from 0.5% to 1.5% based on consolidated leverage.

If the Company sells subsidiaries within its Industrial Automation Systems segment, the net proceeds, or a portion thereof, as defined in the agreement, must be applied to repay borrowings outstanding under the Revolving Facility.

Until it retired its 6.875% Notes due March 15, 2005, the Company was required to maintain a minimum balance of \$50 million as restricted cash. This amount is classified as restricted cash on the Company's consolidated balance sheet as of December 31, 2004. This cash restriction has been removed as of October 2, 2005.

The Revolving Facility places certain restrictions on the ability of the Company and its subsidiaries to consolidate or merge, make acquisitions, create liens, incur additional indebtedness or dispose of assets.

Financial covenants include a Consolidated Leverage test, a Consolidated Interest Coverage test and a Consolidated Net Worth test, each as defined in the agreement.

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

the effective interest rates on the seven-year and ten-year notes are 7.125% and 7.175%, respectively. In March 2005, the Company retired the \$100.0 million seven-year notes. In July 2005, the Company also retired an \$8.5 million industrial revenue bond.

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

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Interest expense	\$ 2,257	\$ 4,112	\$ 8,656	\$ 12,251
Interest income	(1,592)	(923)	(4,745)	(2,808)
Interest, net	\$ 665	\$ 3,189	\$ 3,911	\$ 9,443

The Company also has letter-of-credit reimbursement agreements totaling \$29.9 million at October 2, 2005, compared to \$53.6 million at December 31, 2004. As of October 2, 2005, \$11.7 million of the agreements related to performance on contracts with current customers and vendors, and \$18.2 million of the agreements related to customer contracts assumed by the purchaser of the Cincinnati Lamb operations that were sold. The Company is indemnified by the purchaser on the entire \$18.2 million of letter-of-credit agreements related to Cincinnati Lamb and is the beneficiary of a backup letter-of-credit in the aggregate amount of \$6.6 million issued pursuant to the terms of the sale. The Company believes it is not practicable to estimate fair values of these instruments and considers the risk of non-performance on the contracts to be remote.

5. Discontinued Operations

Edgar Filing: UNOVA INC - Form 10-Q

During the fourth quarter of 2004, the Company committed to a plan to dispose of its IAS businesses, comprising the Cincinnati Lamb and Landis Grinding Systems businesses, after it was determined that they are no longer aligned with the Company's long-term strategy. In accordance with SFAS 144, Accounting for Disposal or Impairment of Long-Lived Assets, the IAS businesses are classified as discontinued operations in the Company's consolidated financial statements for all periods presented.

On October 27, 2005, the Company entered into a Purchase and Sale Agreement (The Agreement) to sell its Landis Grinding Systems division (Landis). Under the Agreement, the purchasing parties will acquire the global operations of Landis through the purchase of substantially all of the assets of the Landis Grinding Systems. The consideration for the purchased assets consists of \$69 million in cash, a \$10 million two-year note at an interest rate of five percent per annum guaranteed by the buyer's parent, and the buyer's assumption of certain liabilities, including certain pension and other post-retirement obligations. The purchase price is subject to possible adjustments based on the amount of net working assets at closing.

The Agreement contains customary covenants and closing conditions, including operation of Landis in the ordinary course until the closing, obtaining third-party consents to the transaction, and non-competition for five years in the U.S. and three years in the U.K.

On April 3, 2005, the Company completed the sale of the Cincinnati Lamb business. The consideration received for the Cincinnati Lamb business included (i) \$16 million, paid in cash on April 4, 2005, (ii) a \$10.0 million long-term secured note receivable with an estimated fair value of \$8.4 million and (iii) liabilities related to certain pension and other post-retirement obligations of \$39.1 million assumed by the buyer. The Company was also required to deliver to the buyer a guaranteed net working asset balance. Accordingly, during the second quarter of

2005 the Company reimbursed the buyer \$12.6 million for accounts payable related to the Cincinnati Lamb business, satisfying the net working asset adjustment.

In connection with the sale, during the second quarter of 2005 the Company loaned to the buyer \$1.5 million. This note receivable, the \$10.0 million long-term secured note and an additional \$1.0 million of face value were combined into a single \$12.5 million long-term note receivable secured by the assets sold, bearing interest at an annual rate of LIBOR plus three percent (6.9% as of October 2, 2005) with interest payable quarterly. Principal payments on the note are due in six semiannual installments beginning April 2007 of \$1.5 million, \$2.0 million, \$2.0 million, \$2.5 million, \$2.0 million and \$2.5 million. As of October 2, 2005, the estimated fair value of the note is \$10.4 million, based on the estimated cash flows from the note and a risk-adjusted discount rate equal to LIBOR plus eight percent. The Company's consolidated balance sheet as of October 2, 2005, classifies the \$10.4 million long-term note receivable as other assets.

The Company recognized a pre-tax loss on the sale of the Cincinnati Lamb business of \$34.7 million during the quarter ended April 3, 2005. During the second quarter of 2005 the Company recognized an additional \$1.2 million pre-tax loss on the sale of the Cincinnati Lamb business. The net assets sold of the Cincinnati Lamb business were recorded at \$36.7 million as of the date of the sale and comprised the following (thousands of dollars):

Current Assets:		
Accounts receivable, net	\$	125,217
Inventories, net		33,684
Other current assets		5,279
Impairment of current assets		(10,563)
Total current assets		153,617
Current Liabilities:		
Accounts payable and accrued expenses		71,280
Accrued payroll		6,470
Total current liabilities		77,750
Long-term Liabilities		39,127
Net Assets Sold	\$	36,740

Long-term liabilities in the above table represent pension and post-retirement obligations assumed by the buyer (see Note 13 to the Consolidated Financial Statements).

The loss on the sale includes an \$8.3 million gain related to cumulative translation adjustment and a \$12.9 million charge related to the adjustment to recognize minimum pension liability related to Cincinnati Lamb, which previously had been included in the accumulated other comprehensive income component of shareholders' investment (OCI). The Company also incurred \$5.3 million of transaction-related expense primarily for severance and professional services.

Edgar Filing: UNOVA INC - Form 10-Q

The following table sets forth the components of the loss from discontinued operations, net of tax, for the three and nine months ended October 2, 2005, and September 30, 2004 (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Product and service revenues	\$ 38,871	\$ 121,919	\$ 199,750	\$ 344,218
Operating loss	(7,781)	(1,007)	(12,496)	(3,610)
Loss on sale of Cincinnati Lamb			(35,926)	
Loss from discontinued operations, before tax	(7,781)	(1,007)	(48,422)	(3,610)
Provision (Benefit) for income taxes	(1,084)	(64)	(40,006)	37
Loss from discontinued operations, net of tax	\$ (6,697)	\$ (943)	\$ (8,416)	\$ (3,647)

Operating loss from discontinued operations for the three and nine months ended October 2, 2005, includes a \$9.5 million charge for the settlement of a lawsuit (see Note 12). Operating loss from discontinued operations for the nine months ended October 2, 2005, includes an impairment charge in the second quarter of \$2.0 million to write-down property, plant and equipment, classified as assets held for sale on the Company's consolidated balance sheets, to its estimated net realizable value.

The tax benefit for the nine months ended October 2, 2005, reflects an effective tax rate of 82.6% compared to the U.S. statutory tax rate of 35%. The increase is primarily due to tax benefits from the disposition of the Cincinnati Lamb business of approximately \$24.0 million. These benefits, including a tax effected capital loss carryforward in the U.S. in the amount of \$12.4 million, result from differences between the book basis of assets sold and the related tax basis of the stock and a benefit of \$6.9 million from a prior period election to treat a foreign subsidiary as a branch.

The Company ceased permanently reinvesting in Canada, Germany and Korea as a result of the disposition of the Cincinnati Lamb business. The tax on repatriated dividends was substantially offset by foreign tax credits.

The table below sets forth the assets and liabilities of discontinued operations as of October 2, 2005, and December 31, 2004 (thousands of dollars):

	October 2, 2005	December 31, 2004
Current assets of discontinued operations:		
Accounts receivable, net	\$ 35,270	\$ 160,118
Inventories, net	27,452	55,926
Other current assets	824	5,635
Impairment of current assets		(10,563)
Total current assets of discontinued operations	63,546	211,116
Long-term assets of discontinued operations:		
Property, plant and equipment, net	11,342	13,356
Goodwill	7,796	7,796
Other assets	54	86
Total long-term assets of discontinued operations	19,192	21,238
Current liabilities of discontinued operations:		
Accounts payable and accrued expenses	28,206	117,026
Accounts payable-Tower Automotive settlement	13,500	
Accrued payroll	4,664	13,231
Total current liabilities of discontinued operations	46,370	130,257
Long-term liabilities of discontinued operations	11,773	46,388
Net assets of discontinued operations	\$ 24,595	\$ 55,709

The Company's goodwill of \$7.8 million relates to its Landis Grinding Systems business and is classified as long-term assets of discontinued operations on the Company's consolidated balance sheets as of October 2, 2005, and December 31, 2004. Long-term liabilities of discontinued operations comprise pension and postretirement obligations.

As of October 2, 2005, accumulated other comprehensive income on the Company's consolidated balance sheet includes a credit balance of \$9.6 million related to Landis Grinding Systems cumulative translation adjustments.

6. Provision for Income Taxes

Edgar Filing: UNOVA INC - Form 10-Q

The tax provision for the three and nine months ended October 2, 2005, reflects effective tax rates for continuing operations of 12.4% and 25.6%, respectively, compared to a U.S. statutory provision rate of 35%. The reduction in the effective tax rates is primarily due to a reduction in the foreign tax contingency accrual as a result of the resolution of a German tax audit.

The tax benefit for the three months ended and the tax provision for the nine months ended September 30, 2004, reflects effective tax rates for continuing operations of 27.9% and 22.5%, respectively. The reduction in the effective tax rates is primarily due to the recognition of deferred tax assets and other tax benefits that were previously unrecognized.

7. **Shares Used in Computing Earnings per Share**

Edgar Filing: UNOVA INC - Form 10-Q

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

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Weighted average common shares - Basic	62,076,898	60,631,341	61,509,047	60,408,219
Dilutive effect of unvested restricted stock and stock options	1,557,960	1,466,819	1,561,772	1,671,055
Weighted average shares - Diluted	63,634,858	62,098,160	63,070,819	62,079,274

Company employees and directors held options to purchase 81,140 shares of Company common stock for the nine months ended October 2, 2005, and 2,069,320 and 967,313 shares for the three and nine months ended September 30, 2004, respectively, that were antidilutive to the diluted earnings per share computation. These options could become dilutive in future periods if the average market price of the Company's common stock exceeds the exercise price of the outstanding options and the Company reports net earnings. No options were antidilutive for the three months ended October 2, 2005.

8. Comprehensive Earnings

Edgar Filing: UNOVA INC - Form 10-Q

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

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Net earnings	\$ 4,571	\$ 5,903	\$ 20,119	\$ 22,088
Change in equity due to foreign currency translation adjustments	(668)	2,916	(23,044)	1,274
Change in equity due to minimum pension liability adjustment			9,144	
Unrealized gains on cash flow hedges	(34)	167	45	287
Comprehensive earnings	\$ 3,869	\$ 8,986	\$ 6,264	\$ 23,649

The change in equity due to foreign currency translation adjustments for the nine months ended October 2, 2005, includes a credit balance of \$8.3 million for cumulative translation adjustments that was previously included in accumulated other comprehensive income and recognized in net earnings in the first quarter of 2005 in connection with the sale of Cincinnati Lamb.

9. Intellectual Property Settlements

Edgar Filing: UNOVA INC - Form 10-Q

During the first quarter of 2004, the Company received compensation of \$19.7 million in relation to one settlement regarding certain of its intellectual property (IP). The terms of this settlement are confidential. The operating profit from the IP settlement, net of legal fees, for the nine months ended September 30, 2004, was \$15.7 million. IP settlement compensation is classified as sales revenues and the related legal costs are classified as cost of sales on the Company s consolidated statements of operations.

10. **Segment Reporting**

Edgar Filing: UNOVA INC - Form 10-Q

The Company's Intermec segment provides products and services that include rugged mobile computing solutions, wireless and automated data collection systems for field workers, on-premises and site-based workers as well as wireless network systems for untethered enablement of an enterprise, and barcode label and printing solutions. Intermec's rugged and robust systems, solutions and services enable Intermec's customers to more efficiently and effectively manage their supply chains and fulfillment activities.

Corporate and other amounts include corporate operating costs. Intercompany transactions have been eliminated. The following table sets forth the Company's operations by business segments (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Revenues				
Intermec Revenues	\$ 219,814	\$ 194,814	\$ 633,768	\$ 574,398
Operating Profit (Loss) from Continuing Operations				
Intermec	\$ 18,020	\$ 17,084	\$ 57,908	\$ 60,729
Corporate and Other	(4,449)	(8,296)	(15,802)	(17,163)
Total Operating Profit from Continuing Operations	\$ 13,571	\$ 8,788	\$ 42,106	\$ 43,566

Total assets at October 2, 2005, and December 31, 2004, are \$377 million and \$340 million for Intermec, respectively, and \$447 million and \$500 million for Corporate and Other, respectively. Total assets of discontinued operations are \$83 million and \$232 million as of October 2, 2005, and December 31, 2004, respectively.

11. Related Party Transactions

Unitrin, Inc. and its subsidiaries (Unitrin) is a significant shareholder of the Company, owning approximately 20% of the Company's outstanding shares. In January 2005, Unitrin's Life and Health Insurance segment agreed to hire the Company's Intermec subsidiary to develop the software for the next generation of Life and Health Insurance's handheld computers. During the three and nine months ended October 2, 2005, the Company recognized \$2.0 million and \$2.2 million in revenues from Unitrin, respectively. Also during the three and nine months ended October 2, 2005, the Company recorded \$0.3 million of deferred service revenue from Unitrin. The Company believes that the prices of goods and services sold to Unitrin are comparable to those received from unaffiliated third parties. As of October 2, 2005, the Company has \$2.2 million of accounts receivable from Unitrin.

At December 31, 2004, other assets included a receivable due from a certain non-executive Company officer of \$0.2 million. This receivable was fully paid during the first quarter of 2005.

12. **Commitments and Contingencies**

Edgar Filing: UNOVA INC - Form 10-Q

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

	Product Warranty Liabilities	
Beginning balance as of January 1, 2005	\$	4,878
Payments		(5,493)
Increase in liability for new warranties issued		6,319
Ending balance as of October 2, 2005	\$	5,704

The Company has entered into a variety of agreements with third parties that include indemnification clauses, both in the ordinary course of business and in connection with our divestitures of certain product lines. These clauses require the Company to compensate these third parties for certain liabilities and damages incurred by them.

FASB Interpretation No. 45, *Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires that the Company estimate and record the fair value of guarantees as a liability. The Company does not believe it has any significant exposure related to such guarantees and therefore has not recorded a liability as of October 2, 2005, or December 31, 2004. The Company has not made any significant indemnification payments as a result of these clauses, nor does it believe the fair value of any of these guarantees has a material effect on the Company's financial position or results of operations.

The Company is currently, and is from time to time, subject to claims and suits arising in the ordinary course of its business. The Company believes it has valid defenses with respect to legal matters pending against it. Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or by the creation of significant expenses.

Tower Automotive Products Co. v. Lamb Technicon Body and Assembly is a lawsuit filed on March 11, 2002, in the Kent County Circuit Court in Michigan, generally alleging a breach of contract involving a frame assembly production line. No specific claim for damages was made in the Complaint by Tower Automotive Products Co. (Tower). On September 15, 2005, the parties agreed to settle this lawsuit. Tower agreed to dismiss the complaint with prejudice and to release the Company from any and all claims it may have had against the Company. The Company agreed to dismiss its counter claim with prejudice and to release Tower from any and all claims it may have had against Tower. In accordance with the terms of the settlement, the Company paid \$13.5 million to Tower on October 12, 2005. The settlement resulted in a charge of \$9.5 million, classified as loss from discontinued operations on the Company's consolidated statements of operations for the three and nine months ended October 2, 2005. On the Company's consolidated balance sheet as of October 2, 2005, this liability is classified as current liabilities of discontinued operations.

The settlement agreement was subject to approval of the U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) in the case captioned in re: Tower Automotive, Inc., et al. The Bankruptcy Court approved the settlement agreement on September 27, 2005.

On March 10, 2005, Symbol Technologies, Inc. (Symbol) terminated its original equipment manufacturing (OEM) agreement with Intermec to supply laser scan engines and stopped shipping laser scan engines to the Company. On March 10, 2005, Symbol filed a lawsuit in the United States District Court for the District of Delaware seeking a declaratory judgment that its termination of the OEM agreement is lawful (the Contract Case). The Company believes that the termination of the OEM agreement by Symbol will not have a material adverse effect on operations.

Also on March 11, 2005, Symbol announced that it had filed a lawsuit against Intermec on March 10, 2005, in the United States District Court for the District of Delaware for wireless patent infringement (the Wireless Case). On March 23, 2005, the Company filed its answer to Symbol s wireless patent infringement complaint and filed counterclaims against Symbol for infringing Intermec s wireless access, terminal and software patents. The Company simultaneously filed its answer to Symbol s declaratory judgment action and filed counterclaims against Symbol for breach of the OEM agreement.

On April 28, 2005, Symbol announced that it had filed a lawsuit against Intermec in the United States District Court for the Western District of Wisconsin for infringing Symbol s barcode decoding patents (the Decoding Case). On July 14, 2005, in response to a motion by the Company, the Decoding Case was transferred to the United States District Court for the District of Delaware. That case has now been consolidated for purposes of discovery with the Wireless Case. The Company has denied liability in the Decoding Case and pursuant to the standstill agreement discussed below retains the right to file counterclaims against Symbol in the Decoding Case.

On June 30, 2005, Intermec filed a complaint with the U.S. International Trade Commission (the ITC) alleging that Symbol is illegally importing products that infringe Intermec patents that cover pocket-sized handheld computing devices, modular handheld computing devices and recharging and data exchanging cradles (the ITC Case). On July 29, 2005, the ITC voted to investigate Intermec s allegations against Symbol. Pursuant to the standstill agreement, discussed below, the Company asked the ITC to dismiss and close the investigation. On September 26, 2005, in response to the Company s request, the Administrative Law Judge terminated the investigation. On October 12, 2005, the ITC entered a Notice Not to Review the Order terminating the investigation.

The Complaints in Symbol s wireless and barcode decoding lawsuits do not contain sufficient details for the Company to assess what Symbol will claim regarding the relationship between its cited patents and Intermec products. However, based on prior Company analysis of the cited Symbol patents, the Company believes it has substantial defenses to each of those patent infringement claims and the Company intends to vigorously defend itself against the claims made in Symbol s lawsuits.

On September 1, 2005, the parties agreed that they would try to resolve their patent disputes through negotiation. To facilitate that effort, the parties entered into a standstill agreement pursuant to which they sought the court s permission to postpone litigation activity in the cases pending in the U.S. District Court for the District of Delaware (the Contract, Wireless and Decoding Cases) until December 1, 2005, and to postpone filing any new patent infringement law suits against each other until March 1, 2006. The standstill agreement s only exception to the agreed ban on new lawsuits until March 1, 2006, allows the Company to file counterclaims against Symbol in the Decoding Case and to file a case in the United States District Court for the District of Delaware alleging infringement by Symbol of the patents asserted by the Company in the ITC case. According to the standstill agreement these permitted counterclaims and new action must be filed no sooner than December 1, 2005, and no later than December 9, 2005. The parties also agreed not to pursue or seek temporary restraining orders, preliminary injunctions or ITC exclusion orders against each other for a period of two years. The United States District Court for the District of Delaware has granted the scheduling changes required to effectuate the standstill agreement of the parties.

13. **Pension and Other Postretirement Benefit Plans**

Edgar Filing: UNOVA INC - Form 10-Q

The information in this note represents the net periodic pension and post-retirement benefit costs and related components in accordance with SFAS 132(R). The components of net pension and postretirement periodic benefit cost (credit) for the three and nine months ended October 2, 2005, and September 30, 2004, are as follows (thousands of dollars):

Three Months Ended October 2, 2005, and September 30, 2004:	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Other Postretirement Benefit Plans	
	2005	2004	2005	2004	2005	2004
Service Cost	\$ 1,701	\$ 2,417	\$ 827	\$ 1,440	\$ 33	\$ 39
Interest Cost	2,407	2,238	1,126	2,347	166	671
Expected return on plan assets	(2,537)	(2,448)	(1,006)	(2,414)		
Amortization and deferrals:						
Transition asset		(11)	(82)	(84)		
Actuarial loss	765	785	239	477	17	209
Prior service cost (benefit)	161	179				(299)
Net pension and postretirement periodic benefit cost	\$ 2,497	\$ 3,160	\$ 1,104	\$ 1,766	\$ 216	\$ 620

Nine Months Ended October 2, 2005, and September 30, 2004:	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Other Postretirement Benefit Plans	
	2005	2004	2005	2004	2005	2004
Service Cost	\$ 6,511	\$ 7,252	\$ 2,946	\$ 4,317	\$ 100	\$ 117
Interest Cost	7,447	6,715	4,831	7,034	1,395	2,087
Expected return on plan assets	(7,549)	(7,345)	(4,686)	(7,235)		
Amortization and deferrals:						
Transition asset		(32)	(254)	(253)		
Actuarial loss	2,465	2,360	1,000	1,430	357	705
Prior service cost (benefit)	519	538			(598)	(897)
Special termination benefits	264					
Curtailment loss (gain)	57		(5,396)		(12,274)	
Settlement gain			(332)		(21,090)	
Net pension and postretirement periodic benefit cost (credit)	\$ 9,714	\$ 9,488	\$ (1,891)	\$ 5,293	\$ (32,110)	\$ 2,012

The Company's pre-tax loss on the sale of Cincinnati Lamb in the first quarter of 2005 (see Note 5) takes into consideration the curtailment and settlement gains totaling \$39.1 million, comprising \$33.4 million relating to the postretirement benefit plans, and \$5.7 million relating to the Non-U.S. Defined Benefit Plans. These curtailment and settlement gains comprise the pension and post-retirement obligations assumed by the buyer. In addition, the pre-tax loss on the sale of Cincinnati Lamb includes a loss of \$12.9 million representing the cumulative adjustment to recognize the minimum pension liability of the Company's Non-U.S. defined benefit plans, which prior to the sale, had been deferred in the other comprehensive loss component of shareholders' investment on the Company's consolidated balance sheets.

During the nine months ended October 2, 2005, the Company contributed approximately \$8.8 million to its pension and other postretirement benefit plans, comprising \$1.8 million in benefits paid pertaining to unfunded U.S. defined benefit plans, \$1.8 million in matching contributions to its 401(k) plan, \$3.5 million in contributions to its foreign pension plans, and \$1.7 million in benefits paid pertaining to its other postretirement benefits plans. The Company expects to contribute an additional \$2.1 million to these plans during the remainder of 2005, of which \$0.5 million relates to benefit payments on its unfunded U.S. defined benefit plans, \$0.5 million in matching contributions to its 401(k) plan, \$0.8 million in contributions to its foreign pension plans and \$0.3 million in benefit payments pertaining to its other postretirement benefit plans.

14. Recent Accounting Pronouncements

Edgar Filing: UNOVA INC - Form 10-Q

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a Replacement of APB Opinion No. 20 and FASB Statement No. 3, which changes the requirements for the accounting and reporting of a change in accounting principle. The Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement requires retrospective application to prior periods financial statements of a change in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company is required to adopt this statement during the first quarter of 2006, and does not expect the adoption of this statement to have a material impact on its consolidated financial condition or results of operations.

In March 2005, the FASB issued Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations, to clarify the requirement to record liabilities stemming from a legal obligation to clean up and retire fixed assets, such as a plant or factory, when an asset retirement depends on a future event. The

Company plans to adopt FIN 47 in the first quarter of fiscal 2006, and does not expect the application of FIN 47 to have a material impact on its results of operations, cash flows or financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). Under the provisions of SFAS 123R, companies are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exception). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. On April 14, 2005, the Securities and Exchange Commission (SEC) approved a delay to the effective date of SFAS 123R. Under the new SEC rule, SFAS 123R is effective for annual periods that begin after June 15, 2005. SFAS 123R applies to all awards granted, modified, repurchased or cancelled by the Company after December 31, 2005, and to unvested options at the date of adoption. The Company is currently evaluating pricing models and the transition provisions of SFAS 123R and will begin expensing stock-based compensation in accordance with the standard in the first quarter of 2006. The Company has not yet determined whether the adoption of SFAS 123R will result in an impact to its consolidated financial statements similar to the current pro forma disclosures under SFAS 123.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an Amendment of ARB No. 43, Chapter 4. This standard provides clarification that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. Additionally, this standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

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

Overview

UNOVA, Inc. and subsidiaries (UNOVA or the Company), through its wholly owned subsidiary Intermec Technologies Corporation (Intermec), is a leader in global supply chain solutions, the development, manufacture and integration of wired and wireless automated data collection, Intellitag® RFID (radio frequency identification), mobile computing systems, bar code printers and label media. Intermec products and services are used by customers to improve productivity, quality and responsiveness of business operations such as supply chain management, warehouse operations, inventory management, field service, in-transit visibility, direct-store delivery, store operations and store management. Intermec products and services are sold globally to a diverse set of customers in markets such as industrial manufacturing, transportation and logistics, retail, consumer goods and government.

Effective the fourth quarter of 2004, the Company committed to a plan to sell its Industrial Automation Systems (IAS) businesses, comprising the Cincinnati Lamb division and the Landis Grinding Systems division after the Board of Directors concluded that the IAS segment no longer aligned with the Company s long-term strategy. Company management believes that divesting the IAS businesses will enable the Company to concentrate better on Intermec s core competencies and growth opportunities. The Company has classified the IAS businesses as discontinued operations for accounting purposes in the Company s consolidated financial statements and related notes (see Note 5 to the consolidated financial statements). All prior periods presented have been conformed to reflect this classification. The Company completed the sale of the Cincinnati Lamb business during the quarter ended April 3, 2005, and expects to complete the sale of the Landis Grinding Systems business in the fourth quarter of 2005.

The Company s strategy for its Intermec segment revolves around continued investment in technology, intellectual property, research and development and innovation; expanding and strengthening the product portfolio; providing integrated solutions; partnering with global industry leaders; delivering value to customers and working to reduce costs and improve profitability; and working to profitably increase market share and the scale of the business. The technology and innovation for which the Company focuses its research and development efforts are related to developing products, processes and services that help improve productivity, efficiency, information and controls in a variety of manufacturing, distribution, retail, field service and logistics supply chain applications.

Intermec s results appear to confirm management s belief that Intermec products tend to lead information technology (IT) spending recoveries due to the high returns on investment and short payback periods associated with customer implementation of the Company s systems and solutions. The Company believes that there are future growth opportunities for Intermec products as a result of increasing interest in RFID (radio frequency identification), the next generation item-tracking technology; increasing interest in item-tracking technologies within the government market, such as Defense and Homeland Security; improved access for Intermec to non-traditional markets as a result of broadening the product line to support these markets; and partnering arrangements with industry leaders to provide integrated solutions to customers. The Company s financial strength and ability to adapt to the current market and economic conditions are dependent in part on the generation of cash flow, effective management of working capital, funding commitments and other obligations, as well as the growth of the business.

Results of Operations

Edgar Filing: UNOVA INC - Form 10-Q

The following discussion compares the Company's results of operations for the three and nine months ended October 2, 2005 and September 30, 2004. Results from continuing operations include the Intermec segment and the Corporate and Other segment. The operating results of the IAS business are classified as discontinued operations. Results of operations were as follows (millions of dollars):

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Product and Service Revenues	\$ 219.8	\$ 194.8	\$ 633.8	\$ 574.4
Costs and Expenses:				
Cost of product and service revenues	132.1	115.4	368.8	327.2
Selling, general and administrative	74.1	70.6	222.9	203.6
Total Costs and Expenses	206.2	186.0	591.7	530.8
Operating Profit from Continuing Operations	13.6	8.8	42.1	43.6
Interest, net	(0.7)	(3.2)	(3.9)	(9.5)
Foreign currency exchange, net gain (loss)		(0.3)	0.1	(0.9)
Earnings from Continuing Operations before Income Taxes				
Taxes	12.9	5.3	38.3	33.2
Provision (Benefit) for Income Taxes	1.6	(1.5)	9.8	7.5
Earnings from Continuing Operations, net of tax	11.3	6.8	28.5	25.7
Loss from Discontinued Operations, net of tax	(6.7)	(0.9)	(8.4)	(3.6)
Net Earnings	\$ 4.6	\$ 5.9	\$ 20.1	\$ 22.1

Edgar Filing: UNOVA INC - Form 10-Q

Revenues

Revenues by category and as a percentage of related revenues from continuing operations for the three and nine months ended October 2, 2005 and September 30, 2004 were as follows (millions of dollars):

	Three Months Ended					
	October 2, 2005		September 30, 2004		Change	Percent Change
	Amount	Percent of Revenues	Amount	Percent of Revenues		
Revenues:						
Product	\$ 179.6	81.7%	\$ 160.0	82.1%	\$ 19.6	12.3%
Service	40.2	18.3%	34.8	17.9%	5.4	15.5%
Total Revenues	\$ 219.8	100.0%	\$ 194.8	100.0%	\$ 25.0	12.8%

Quarterly revenue growth of 12.8% was driven by strong, broad based product demand, including a good balance of large enterprise account rollouts across Intermecc's industry segments and strong growth from the Company's indirect channel. Product revenues for the three months ended October 2, 2005, were \$179.6 million, an increase of \$19.6 million, or 12.3%, compared with the corresponding prior-year period. Systems and solutions revenue increased by 11.8% and printer/media products increased 10.0%. Service revenue increased 15.8% over the corresponding prior-year period from technical engineering services for government contracts, which are increasing as a result of the AIT III contract, and continued growth in Latin America. Geographically, product and service revenue in North America increased 18.3% over the corresponding prior-year period, Europe, Middle East and Africa increased 6.6%, and the rest of the world increased 2.3%.

	Nine Months Ended					
	October 2, 2005		September 30, 2004		Change	Percent Change
	Amount	Percent of Revenues	Amount	Percent of Revenues		
Revenues:						
Product related	\$ 522.6	82.5%	\$ 455.6	79.3%	\$ 67.0	14.7%
IP settlement			19.7	3.4%	(19.7)	(100.0)%
Total Product Revenues	522.6	82.5%	475.3	82.7%	47.3	10.0%
Service	111.2	17.5%	99.1	17.3%	12.1	12.2%
Total Revenues	\$ 633.8	100.0%	\$ 574.4	100.0%	\$ 59.4	10.3%

Product revenues for the nine months ended September 30, 2004 include \$19.7 million of revenue and \$15.7 million of operating profit from compensation related to a settlement regarding certain of the Company's intellectual property (IP settlement). Product related revenue increased 14.7% and service revenue increased 12.2%, resulting in a combined increase of 14.3% for the nine months ended October 2, 2005, compared with the corresponding prior-year period. Geographically, product and service revenue in North America increased 16.8% over the corresponding prior-year period, Europe, Middle East and Africa increased 9.3% and the rest of the world increased 14.3%.

The Company is currently the plaintiff in a patent infringement lawsuit regarding its battery power-management patents, which may result in future revenue and operating profit. Settlements relating to the battery power-management patents have been reached to date with companies that in the aggregate represent approximately ninety percent of U.S. laptop sales. In addition, the Company is also the plaintiff in various other patent infringement lawsuits which may result in future revenue and operating profit. Management cannot predict the outcome of any of these lawsuits or the timing or amount of future settlements or judgments.

Gross Profit

Gross profit and gross margin by revenue category for the three and nine months ended October 2, 2005, and September 30, 2004 were as follows (millions of dollars):

	Three Months Ended			
	October 2, 2005		September 30, 2004	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Product related	\$ 72.6	40.4%	\$ 65.0	40.6%
Service	15.1	37.6%	14.4	41.5%
Total Gross Profit and Gross Margin	\$ 87.7	39.9%	\$ 79.4	40.7%

Product and service gross profit for the three months ended October 2, 2005, increased \$8.3 million, or 10.4% compared to the corresponding prior-year period as a result of the revenue increase. The product gross margin decreased by 0.2 points due to the mix of growth in the US compared to Europe, in Latin America compared to Asia and more significantly to lower margins realized from large enterprise accounts. The decrease in service margins of 3.9 points is due primarily to the mix of large enterprise accounts.

	Nine Months Ended			
	October 2, 2005		September 30, 2004	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Product related	\$ 220.9	42.3%	\$ 190.8	41.9%
IP Settlement			15.7	79.7%
Total Product	220.9	42.3%	\$ 206.5	43.4%
Service	44.1	39.7%	40.7	41.1%
Total Gross Profit and Gross Margin	\$ 265.0	41.8%	\$ 247.2	43.0%

Gross profit for the nine months ended September 30, 2004, includes \$15.7 million from compensation related to the IP settlement. Total gross profit for the nine months ended October 2, 2005, increased \$17.8 million or 7.2% compared with the corresponding prior-year period. Product related gross profit for the nine months ended October 2, 2005, increased \$30.1 million, or 15.8%, compared with the corresponding prior-year period as a result of the 14.7% increase in revenue combined with the 0.4 point improvement in gross margin. The increase in service revenue for the nine months ended October 2, 2005, contributed a \$3.4 million increase in gross profit compared with the corresponding 2004 period.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses were \$74.1 million and \$222.9 million for the three and nine months ended October 2, 2005, respectively, compared with SG&A expenses of \$70.6 million and \$203.7 million for the corresponding prior-year period. Intermec's SG&A expense for the three months ended October 2, 2005, was \$69.7 million, or 31.8% of revenue, compared with 32.0% of revenue for the corresponding prior-year period. The decrease in Intermec SG&A expense as a percentage of revenue was primarily due to the ability to leverage Intermec's SG&A structure as product and service revenues increase, partially offset by incremental legal expense of \$5.7 million in the quarter primarily associated with the pursuit of a legal remedy for the Company's many disputes with Symbol Technologies. Intermec's R&D expense decreased to 7.1% of revenues for the quarter ended October 2, 2005 compared with 8.3% for the corresponding prior-year period primarily due to the improved leverage as a result of the revenue increase.

Edgar Filing: UNOVA INC - Form 10-Q

Operating expenses for Corporate and Other were \$4.4 million and \$8.3 million for the three months ended October 2, 2005, and September 30, 2004, respectively, and \$15.8 million and \$17.2 million for the corresponding nine month periods. Corporate and Other expenditures for the first quarter of 2004 included the reversal of a \$2.0 million legal accrual due to a favorable ruling in an Intellectual Property dispute during the quarter.

Operating Profit

Operating profit and operating profit margin by revenue category for the three and nine months ended October 2, 2005, and September 30, 2004, were as follows (millions of dollars):

	Three Months Ended			
	October 2, 2005		September 30, 2004	
	Operating Profit	Operating Profit Margin	Operating Profit	Operating Profit Margin
Operating Profit from Continuing Operations				
Intermec	\$ 18.0	8.2%	\$ 17.1	8.8%
Corporate and Other	(4.4)	(2.0)%	(8.3)	(4.3)%
Total Operating Profit from Continuing Operations	\$ 13.6	6.2%	\$ 8.8	4.5%

Intermec operating profit for the three months ended October 2, 2005, including the impact of \$5.7 million of incremental legal expense, increased \$0.9 million, or 5%, compared with the corresponding prior-year period. Total operating profit from continuing operations for the three months ended October 2, 2005, increased \$4.8 million, or 55%, compared with the corresponding prior-year period, due to the \$3.9 million decrease in Corporate and Other expense combined with \$0.9 million improvement in Intermec operating profit.

	Nine Months Ended			
	October 2, 2005		September 30, 2004	
	Operating Profit	Operating Profit Margin	Operating Profit	Operating Profit Margin
Operating Profit from Continuing Operations				
Intermec:				
Product and Service	\$ 57.9	9.1%	\$ 45.0	7.8%
IP Settlements			15.7	2.7%
Total Intermec	57.9	9.1%	60.7	10.5%
Corporate and Other	(15.8)	(2.5)%	(17.1)	(3.0)%
Total Operating Profit from Continuing Operations	\$ 42.1	6.6%	\$ 43.6	7.6%

Intermec product and service operating profit for the nine months ended October 2, 2005, increased \$12.9 million, or 28.7%, compared with the corresponding prior-year period. Intermec operating profit for the nine months ended October 2, 2005, decreased \$2.8 million compared with the corresponding prior-year period due to the \$15.7 million impact of the IP settlement in the first quarter of 2004.

Interest, Net

Net interest expense was \$0.7 million and \$3.9 million for the three and nine months ended October 2, 2005, respectively, compared with \$3.2 million and \$9.4 million for the corresponding prior year period. The reduction in net interest expense primarily reflects the lower average debt balances during the three and nine months ended October 2, 2005, compared with the corresponding prior-year periods.

Provision for Income Taxes

The tax provision for the three and nine months ended October 2, 2005, reflects effective tax rates for continuing operations of 12.4% and 25.6%, respectively, compared to a U.S. statutory provision rate of 35%. The reduction in the effective tax rates is primarily due to a reduction in the foreign tax contingency accrual as a result of the resolution of a German tax audit.

The tax benefit for the three months ended and the tax provision for the nine months ended September 30, 2004, reflect effective tax rates for continuing operations of 27.9% and 22.5%, respectively. The reduction in the effective tax rates is primarily due to the recognition of deferred tax assets and other tax benefits that were previously unrecognized.

Loss from Discontinued Operations

During the fourth quarter of 2004, the Company committed to a plan to dispose of its IAS businesses, comprising the Cincinnati Lamb and Landis Grinding Systems businesses, after it was determined that they are no longer aligned with the Company's long-term strategy. During the first quarter of 2005, the Company completed the sale of the Cincinnati Lamb business. In accordance with SFAS 144, Accounting for Disposal or Impairment of Long-Lived Assets, the IAS businesses are classified as discontinued operations in the Company's consolidated financial statements for all periods presented.

On April 3, 2005, the Company completed the sale of the Cincinnati Lamb business. The consideration received for the Cincinnati Lamb business included (i) \$16 million, paid in cash on April 4, 2005, (ii) a \$10.0 million long-term secured note receivable with an estimated fair value of \$8.4 million and (iii) liabilities related to certain pension and other post-retirement obligations of \$39.1 million assumed by the buyer. The Company was also required to deliver to the buyer a guaranteed net working asset balance. Accordingly, during the second quarter of 2005 the Company reimbursed the buyer \$12.6 million for accounts payable related to the Cincinnati Lamb business, satisfying the net working asset adjustment.

In connection with the sale, during the second quarter of 2005 the Company loaned to the buyer \$1.5 million. This note receivable, the \$10.0 million long-term secured note and an additional \$1.0 million of face value were combined into a single \$12.5 million long-term note receivable secured by the assets sold, bearing interest at an annual rate of LIBOR plus three percent (6.9% as of October 2, 2005) with interest payable quarterly. Principal payments on the note are due in six semiannual installments beginning April 2007 of \$1.5 million, \$2.0 million, \$2.0 million, \$2.5 million, \$2.0 million and \$2.5 million. As of October 2, 2005, the estimated fair value of the note is \$10.4 million, based on the estimated cash flows from the note and a risk-adjusted discount rate equal to LIBOR plus eight percent. The Company's consolidated balance sheet as of October 2, 2005, classifies the \$10.4 million long-term note receivable as other assets.

Edgar Filing: UNOVA INC - Form 10-Q

The Company recognized a pre-tax loss on the sale of the Cincinnati Lamb business of \$34.7 million during the quarter ended April 3, 2005. During the second quarter of 2005 the Company recognized an additional \$1.2 million pre-tax loss on the sale of the Cincinnati Lamb business. The net assets sold of the Cincinnati Lamb business were recorded at \$36.7 million as of the date of the sale and comprised the following (thousands of dollars):

Current Assets:	
Accounts receivable, net	\$ 125,217
Inventories, net	33,684
Other current assets	5,279
Impairment of current assets	(10,563)
Total current assets	153,617
Current Liabilities:	
Accounts payable and accrued expenses	71,280
Accrued payroll	6,470
Total current liabilities	77,750
Long-term Liabilities	39,127
Net Assets Sold	\$ 36,740

Long-term liabilities in the above table represent pension and post-retirement obligations assumed by the buyer (see Note 13 to the Consolidated Financial Statements).

The loss on the sale includes an \$8.3 million gain related to cumulative translation adjustment and a \$12.9 million charge related to the adjustment to recognize minimum pension liability related to Cincinnati Lamb, which previously had been included in the accumulated other comprehensive income component of shareholders' investment (OCI). The Company also incurred \$5.3 million of transaction-related expense primarily for severance and professional services.

The following table sets forth the components of the loss from discontinued operations, net of tax, for the three and nine months ended October 2, 2005, and September 30, 2004 (thousands of dollars):

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 30, 2004	October 2, 2005	September 30, 2004
Product and service revenues	\$ 38,871	\$ 121,919	\$ 199,750	\$ 344,218
Operating loss.	(7,781)	(1,007)	(12,496)	(3,610)
Loss on sale of Cincinnati Lamb			(35,926)	
Loss from discontinued operations, before tax	(7,781)	(1,007)	(48,422)	(3,610)
Provision (Benefit) for income taxes..	(1,084)	(64)	(40,006)	37
Loss from discontinued operations, net of tax	\$ (6,697)	\$ (943)	\$ (8,416)	\$ (3,647)

Operating loss from discontinued operations for the three and nine months ended October 2, 2005, includes a \$9.5 million charge for the settlement of a lawsuit (see Note 12). Operating loss from discontinued operations for the nine months ended October 2, 2005, includes an impairment charge in the second quarter of \$2.0 million to write-down property, plant and equipment, classified as assets held for sale on the Company's consolidated balance sheets, to its estimated net realizable value.

Edgar Filing: UNOVA INC - Form 10-Q

The tax benefit for the nine months ended October 2, 2005, reflects an effective tax rate of 82.6% compared to the U.S. statutory tax rate of 35%. The increase is primarily due to tax benefits from the disposition of the Cincinnati Lamb business of approximately \$24.0 million. These benefits, including a tax effected capital loss carryforward in the U.S. in the amount of \$12.4 million, result from differences between the book basis of assets sold and the related tax basis of the stock and a benefit of \$6.9 million from a prior period election to treat a foreign subsidiary as a branch.

The Company ceased permanently reinvesting in Canada, Germany and Korea as a result of the disposition of the Cincinnati Lamb business. The tax on repatriated dividends was substantially offset by foreign tax credits.

The table below sets forth the assets and liabilities of discontinued operations as of October 2, 2005, and December 31, 2004 (thousands of dollars):

	October 2, 2005	December 31, 2004
Current assets of discontinued operations:		
Accounts receivable, net	\$ 35,270	\$ 160,118
Inventories, net	27,452	55,926
Other current assets	824	5,635
Impairment of current assets		(10,563)
Total current assets of discontinued operations	63,546	211,116
Long-term assets of discontinued operations:		
Property, plant and equipment, net	11,342	13,356
Goodwill	7,796	7,796
Other assets	54	86
Total long-term assets of discontinued operations	19,192	21,238
Current liabilities of discontinued operations:		
Accounts payable and accrued expenses	28,206	117,026
Accounts Payable-Tower Automotive settlement	13,500	
Accrued payroll	4,664	13,231
Total current liabilities of discontinued operations	46,370	130,257
Long-term liabilities of discontinued operations	11,773	46,388
Net assets of discontinued operations	\$ 24,595	\$ 55,709

The Company's goodwill of \$7.8 million relates to its Landis Grinding Systems business and is classified as long-term assets of discontinued operations on the Company's consolidated balance sheets as of October 2, 2005, and December 31, 2004. Long-term liabilities of discontinued operations comprise pension and postretirement obligations.

As of October 2, 2005, accumulated other comprehensive income on the Company's consolidated balance sheet includes a credit balance of \$9.6 million related to Landis Grinding Systems cumulative translation adjustments.

Liquidity and Capital Resources

The Company's cash and cash equivalent position as of October 2, 2005, was \$180 million. In March 2005, the Company retired \$100 million of its bonds and thus removed the cash restriction of \$50 million required under the Company's credit agreements as of December 31, 2004. In July 2005, the Company also retired its \$8.5 million industrial revenue bonds. Excluding the impact of the bond retirements and the restricted cash, cash and cash equivalents increased by \$20 million compared with the December 31, 2004 balance. The increase comprised \$55 million provided by continuing operations offset by \$35 million used by discontinued operations.

Operating activities of continuing operations provided \$39 million, comprised of \$51 million from operations, partially offset by \$12 million of interest payments. Investing activities of continuing operations for the nine months of 2005 provided net cash flow of \$49 million due to proceeds from the sale of assets held for sale and the removal of the restriction on \$50 million of restricted cash, partially offset by capital expenditures of \$7 million. Financing activities of continuing operations reflect the use of \$108 million for the repayment of debt, partially offset by \$16 million of proceeds from stock option exercises during the nine months ended October 2, 2005. Operating activities of discontinued operations used \$35 million. Investing activities of discontinued operations used \$1 million.

Net of outstanding letters of credit and limitations on minimum availability, the Company had borrowing capacity at October 2, 2005, of \$32.1 million under the Revolving Facility and £5.6 million (\$9.9 million) under the UK Facility. The Company made no borrowings under the Revolving Facility or the UK Facility during the first nine months of 2005, and as of October 2, 2005, no borrowings were outstanding under either the Revolving Facility or the UK Facility. As of October 2, 2005, the Company was in compliance with the financial covenants of each of these agreements.

The key terms of the Revolving Facility are as follows:

The Company's obligations under the Revolving Facility are secured by substantially all the U.S. assets of the Company and its U.S. subsidiaries and a pledge of 65% of the stock of certain of its foreign subsidiaries.

Borrowings under the Revolving Facility bear interest at a variable rate equal to (at the Company's option) (i) LIBOR plus an applicable margin ranging from 1.5% to 2.5% based on consolidated leverage, or (ii) the greater of the federal funds rate plus 0.50% or the Bank's prime rate, plus an applicable margin ranging from 0.5% to 1.5% based on consolidated leverage.

If the Company sells subsidiaries within its Industrial Automation Systems segment, the net proceeds, or a portion thereof, as defined in the agreement, must be applied to repay borrowings outstanding under the Revolving Facility.

Until it retired its 6.875% Notes due March 15, 2005, the Company was required to maintain a minimum balance of \$50 million as restricted cash. This amount is classified as restricted cash on the Company's consolidated

balance sheet as of December 31, 2004. This cash restriction has been removed as of October 2, 2005.

The Revolving Facility places certain restrictions on the ability of the Company and its subsidiaries to consolidate or merge, make acquisitions, create liens, incur additional indebtedness or dispose of assets.

Financial covenants include a Consolidated Leverage test, a Consolidated Interest Coverage test and a Consolidated Net Worth test, each as defined in the agreement.

In March 1998, the Company sold \$200.0 million principal amount of senior unsecured debt in an underwritten offering. The debt comprised \$100.0 million of 6.875% seven-year notes and \$100.0 million of 7.00% ten-year notes. Interest payments are due semi-annually. Including underwriting fees, discounts and other issuance costs, the effective interest rates on the seven-year and ten-year notes are 7.125% and 7.175%, respectively. In March 2005,

the Company retired the \$100.0 million seven-year notes. In July 2005, the Company retired the \$8.5 million industrial revenue bond.

Management believes that cash and cash equivalents on hand, combined with projected cash flow from operations, the sale of discontinued operations and assets held for sale and available borrowings under the Company's Revolving Facility will be sufficient to fund the Company's operations, research and development efforts, anticipated capital expenditures, liabilities, commitments, and other capital requirements, for at least the next twelve months.

Subsequent events

On October 27, 2005 the Company entered into a Purchase and Sale Agreement ("The Agreement") to sell its Landis Grinding Systems division ("Landis"). Under the Agreement, the purchasing parties will acquire the global operations of Landis through the purchase of substantially all of the assets of the Landis Grinding Systems. The consideration for the purchased assets consists of \$69 million in cash, a \$10 million two-year note at an interest rate of five percent per annum guaranteed by the buyer's parent, and the buyer's assumption of certain liabilities, including certain pension and other post-retirement obligations. The purchase price is subject to possible adjustments based on the amount of net working assets at closing.

The Agreement contains customary covenants and closing conditions, including operation of Landis in the ordinary course until the closing, obtaining third-party consents to the transaction, and non-competition for five years in the U.S. and three years in the U.K.

Contractual Obligations

In March 2005, Symbol Technologies, Inc. ("Symbol") terminated its original equipment manufacturing ("OEM") agreement with Intermec to supply laser scan engines and stopped shipping laser scan engines to the Company. The Company believes that the termination of the OEM agreement by Symbol will not have a material adverse effect on its future operations. The Company believes Symbol breached the terms of the contract and that all related purchase commitments under this contract of \$18 million and \$16 million for 2005 and 2006, respectively, are eliminated.

On March 15, 2005, the Company retired \$100 million of bonds. In July 2005, the Company retired the \$8.5 million industrial revenue bond.

Except for the elimination of the purchase commitments with Symbol and the reduction of long-term debt obligations noted above, the Company's contractual commitments as of October 2, 2005, have not changed materially from those disclosed in Item 7 of the Company's annual report on Form 10-K for the year ended December 31, 2004.

Critical Accounting Policies

Edgar Filing: UNOVA INC - Form 10-Q

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual amounts could differ from those estimates under different assumptions or conditions. Management's beliefs regarding significant accounting policies have not changed significantly from those disclosed in Item 7 of the Company's annual report on Form 10-K for the year ended December 31, 2004.

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities,

and the reported amounts of revenues and expenses. Actual amounts could differ from those estimates under different assumptions or conditions. Significant estimates and assumptions were used to determine the provisions for uncollectible accounts receivable, excess and obsolete inventory, tax valuation allowances, recoverability of goodwill and other intangible assets, warranty costs, percentage-of-completion on long-term contracts, retiree medical and pension obligations, estimated proceeds on businesses to be divested, estimated net realizable value of assets held for sale and litigation loss contingencies. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the financial statements and related footnotes provide a meaningful and fair perspective of the Company. Management's beliefs regarding significant accounting policies have not changed significantly from those disclosed in Item 7 of the Company's annual report on Form 10-K for the year ended December 31, 2004.

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections—a Replacement of APB Opinion No. 20 and FASB Statement No. 3, which changes the requirements for the accounting and reporting of a change in accounting principle. The Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement requires retrospective application to prior periods' financial statements of a change in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company is required to adopt this statement during the first quarter of 2006, and does not expect the adoption of this statement to have a material impact on its financial condition or results of operations.

In March 2005, the FASB issued Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations, to clarify the requirement to record liabilities stemming from a legal obligation to clean up and retire fixed assets, such as a plant or factory, when an asset retirement depends on a future event. The Company plans to adopt FIN 47 in the first quarter of fiscal 2006, and does not expect the application of FIN 47 to have a material impact on its results of operations, cash flows or financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). Under the provisions of SFAS 123R, companies are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exception). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. On April 14, 2005, the Securities and Exchange Commission (SEC) approved a delay to the effective date of SFAS 123R. Under the new SEC rule, SFAS 123R is effective for annual periods that begin after June 15, 2005. SFAS 123R applies to all awards granted, modified, repurchased or cancelled by the Company after December 31, 2005, and to unvested options at the date of adoption. The Company is currently evaluating pricing models and the transition provisions of SFAS 123R and will begin expensing stock-based compensation in accordance with the standard in the first quarter of 2006. The Company has not yet determined whether the adoption of SFAS 123R will result in an impact to its consolidated financial statements similar to the current pro forma disclosures under SFAS 123.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs—an Amendment of ARB No. 43, Chapter 4. This standard provides clarification that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. Additionally, this standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

Forward-Looking Statements and Risk Factors

Edgar Filing: UNOVA INC - Form 10-Q

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 (alternatively: Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those reflected in such forward-looking statements. These factors include but

are not limited to the Company's ability to continue to improve profit of its business segment, reduce expenses, improve efficiency, leverage its research and development investment to drive significant future revenue, complete its divestiture of its IAS businesses and realize the estimated market values. Such forward-looking statements involve and are dependent upon certain risks and uncertainties. When used in this document and documents referenced, the words anticipate, believe, will, intend, and expect and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this quarterly report. Forward-looking statements include, but are not limited to, statements about the following:

The Company's expected divestiture of its remaining IAS business and assets held for sale and the timing of those transactions;

The estimated market value of the Company's remaining IAS business and assets held for sale;

The estimated cash flow for the Company's businesses and the timing of that cash flow;

The Company's anticipated corporate and other expenses;

The Company's expected effective tax rate;

The Company's expected growth profile and growth range;

The anticipated revenues and operating profit in the Company's Intermec business;

The anticipated cost of goods sold or cost of services sold in the Company's Intermec business;

The Company's anticipated spending on research and development;

The anticipated revenues from licensing the Company's intellectual property and the timing of such revenues;

Edgar Filing: UNOVA INC - Form 10-Q

The anticipated costs of enforcing or defending the Company's intellectual property and the timing of such costs;

The Company's prospects for obtaining licenses under intellectual property owned or otherwise controlled by a third party;

The anticipated costs associated with intellectual property owned or otherwise controlled by a third party and licensed by the Company and the timing of such costs;

The Company's prospects for realization of deferred tax assets;

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

The prospects for selling Intermec products and services to major enterprise accounts and government agencies;

The anticipated improvements in existing Intermec products and services and the development of new Intermec products and services;

The timing of the introduction of new Intermec products and services and the phase-out of old Intermec products and services;

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

The Company's anticipated contributions to its pension and other post-retirement benefit plans;

The Company's belief regarding the outcome of pending or threatened litigation;

The Company's belief regarding the timing and outcome of national and international standards-setting activities that could impact Intermec products and systems;

The Company's ability to:

Meet its debt obligations, as well as working capital and capital expenditure requirements;

Achieve its goals with respect to revenues and cost savings;

Successfully obtain critical components for its products at reasonable prices;

Successfully complete large-scale mobile computing installations.

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

The Company's inability to realize (within the next 12 months or thereafter) the estimated market value of its IAS business and the assets held for sale;

Weakness in the automotive and aerospace markets could lead to reduced demand for the IAS business products and services and could reduce the Company's net realizable value from the planned divestiture of the IAS business;

If the Company is unable to generate anticipated cash flows from its businesses during the anticipated time frame, that could adversely impact the Company's ability to meet debt obligations, working capital or capital expenditure requirements;

Unexpected increases in corporate and other expenses could adversely impact the Company's net income;

If the Company is unable to achieve the expected effective tax rate, that could adversely impact the Company's net income;

If the Company is unable to realize deferred tax assets, that could adversely impact the Company's net income;

If the Company is unable to sell Intermec products and services to major enterprise accounts and government agencies, that could adversely impact the Company's revenues and operating profit;

If the Company does not make the anticipated level of investment in research and development, that could adversely impact its future growth;

If the Company's research and development effort does not yield marketable improvements in existing Intermec products and services and new Intermec products and services that could adversely impact results of operations and the Company's future growth;

If improvements in existing Intermec products and services or new Intermec products and services are not completed in a timely fashion, that could adversely impact results of operations and the Company's future growth;

Other companies may infringe the Company's intellectual property. If the Company is unable to enforce its intellectual property through appropriate licensing agreements, litigation or other means, demand for the Company's products, royalty revenues and results of operations could be adversely affected;

If the Company is unable to realize anticipated royalty revenue during the anticipated time frame, that could adversely impact results of operations;

Technological changes and consequent shifts in the Intermec market could adversely impact demand for the Company's Intermec products and services and the Company's revenues and operating profit;

If the Company is unable to obtain licenses under third party intellectual property at a reasonable cost or is enjoined from practicing an invention based on third party intellectual property, the Company could be prevented from selling a particular Intermec product or family of products which could adversely impact results of operations and the Company's future growth;

Approval of national and international standards applicable to Intermec products and systems could adversely impact demand for the Company's products and systems;

Changes in U.S. and foreign government regulations applicable to Intermec products and services could adversely impact demand for the Company's products and services or prevent the Company from selling some of its products and services in some jurisdictions;

Unexpected increases in the Company's cost of goods sold or cost of services sold in its Intermec business or the Company's inability to reduce those costs to expected levels could adversely impact the Company's operating profit;

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

If the Company is unable to obtain key components of its Intermec products at a reasonable cost and in a timely manner, the cost of manufacturing those products could increase, the Company might have to discontinue or re-engineer some of those products, and delivery of some of those products might be delayed, which could adversely impact results of operations and the Company's future growth;

If pending litigation results in an unfavorable outcome, the Company's financial position, results of operations, cash flows or future growth could be adversely affected;

Acts of terrorism within the U.S. could adversely affect the Company's domestic operations;

Acts of terrorism, political instability and hostility to U.S. companies in foreign jurisdictions could adversely affect the Company's international operations.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to interest rate risk primarily from its short-term and long-term borrowings and to foreign exchange rate risk with respect to its foreign operations and from foreign currency transactions.

Due to its global operations, the Company's cash flows and earnings are exposed to foreign exchange rate fluctuations. When appropriate, the Company may attempt to limit its exposure to changing foreign exchange rates by entering into short-term foreign currency exchange contracts. As of October 2, 2005, the Company held short-term contracts for the purpose of hedging foreign currency cash flows with an aggregate notional amount of \$198.3 million.

Except as noted in the preceding paragraph, as of October 2, 2005, there have been no material changes in information provided in Item 7A of the Company's annual report on Form 10-K for the year ended December 31, 2004, which contains a complete discussion of the Company's material exposures to interest rate and foreign exchange rate risks.

ITEM 4. CONTROLS AND PROCEDURES

Edgar Filing: UNOVA INC - Form 10-Q

The Company maintains disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to Company management, including the Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of Company management, including the CEO and CFO, an evaluation was performed on the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, Company management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of October 2, 2005.

An evaluation was also performed under the supervision and with the participation of Company management, including the CEO and CFO, of any change in the Company's internal controls over financial reporting that occurred during the last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. That evaluation did not identify any change in the Company's internal controls over financial reporting that occurred during the latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**(c) Issuer Purchases of Equity Securities**

	(a) Total Number of Shares Purchased		(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs
July 4 to July 31, 2005	5,213	\$	27.82		
August 1 to August 28, 2005					
August 29 to October 2, 2005	20,463		34.21		
Total	25,676	\$	32.91		

The purchased shares indicated in the above table were surrendered to the Company to pay the exercise price in connection with the exercise of employee stock options and to satisfy tax withholding obligations in connection with the vesting of restricted stock.

ITEM 6. EXHIBITS

- 4.1 Thomas O. Miller Employment Agreement, dated as of October 21, 2005.
- 4.2 Purchase and Sale Agreement among UNOVA, Inc., UNOVA Industrial Automation Systems, Inc., UNOVA IP Corp. and UNOVA U.K. Limited as Selling Entities and Compagnie De Fives-Lille, Cinetic Landis Grinding Corp. and Cinetic Landis Grinding Limited as Purchasing Entities, dated as of October 27, 2005.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated as of November 8, 2005.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated as of November 8, 2005.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated as of November 8, 2005.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated as of November 8, 2005.

SIGNATURE

SIGNATURE

Edgar Filing: UNOVA INC - Form 10-Q

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

UNOVA, INC.
(Registrant)

By /s/ Fredric B. Anderson

Fredric B. Anderson
Vice President and Controller
(Acting Chief Financial Officer)

November 9, 2005
