UNITED DEFENSE INDUSTRIES INC
Form PREM14A
March 25, 2005

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under §240.14a-12

United Defense Industries, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
o No fee required.
þ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common stock, par value $0.01 per share, of United Defense Industries (UDI common stock)

(2) Aggregate number of securities to which transaction applies:
51,215,251 shares of UDI common stock; 2,498,532 options to purchase shares of UDI common stock, all as of February 28, 2005.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
The filing fee was determined by multiplying 0.0001177 by the sum of:

(a) the product of $75.00 and 51,215,251 (outstanding shares of UDI common stock), plus

(b) the product of $53.33 (equal to $75.00 minus $21.67, the weighted average per share exercise price of outstanding options to purchase shares of UDI common stock, which pursuant to the merger agreement are to be cancelled at the effective time for the applicable spread) and 2,498,532 (the aggregate number of shares of UDI common stock subject to such options).

(4) Proposed maximum aggregate value of transaction:

$3,974,390,537

(5) Total fee paid:
$467,786

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION MARCH 24, 2005

1525 Wilson Boulevard, Suite 700
Arlington, VA 22209
(703) 312-6100

2005 ANNUAL MEETING OF STOCKHOLDERS
MERGER PROPOSED YOUR VOTE IS IMPORTANT

[ ], 2005

Dear Stockholder:

You are cordially invited to attend the 2005 annual meeting of stockholders of United Defense Industries, Inc., or UDI, which will be held at [ ] on [ ], 2005 at [ ] local time.

On March 6, 2005, we entered into a merger agreement with BAE Systems North America Inc., or BAE Systems, providing for the acquisition by BAE Systems of all the outstanding shares of our common stock for a price of $75.00 per share in cash, without interest. At the annual meeting, we will ask you to adopt this merger agreement, among other matters.

After careful consideration, our board of directors has unanimously (with one director not participating) determined that the merger is advisable and fair to, and in the best interests of, UDI and its stockholders and recommends that you vote FOR adoption of the merger agreement.

The accompanying document provides a detailed description of the proposed merger and the merger agreement. We urge you to read the enclosed materials carefully. If you have any questions or need assistance, please call our proxy solicitor, MacKenzie Partners, Inc. at (800) 322-2885 (toll-free) or (212) 929-5500 (collect). In addition, you may obtain information about us from the documents that we have filed with the Securities and Exchange Commission.

Your vote is very important. Because adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the annual meeting, a failure to vote will have the same effect as a vote against adoption of the merger agreement.

Whether or not you are able to attend the annual meeting in person, please complete, sign, and date the enclosed proxy card and return it in the postage prepaid envelope provided as soon as possible. Giving your proxy will not limit your right to vote in person if you wish to attend the annual meeting and vote in person.

Thank you for your cooperation and your continued support.

Sincerely,

Thomas W. Rabaut
President and Chief Executive Officer

THIS PROXY STATEMENT IS DATED [ ], 2005 AND IS FIRST BEING MAILED TO STOCKHOLDERS ON OR ABOUT [ ], 2005.

1525 Wilson Boulevard, Suite 700
Arlington, VA 22209
(703) 312-6100

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on [ ], 2005

To the Stockholders of United Defense Industries, Inc.:

Notice is hereby given that the 2005 annual meeting of stockholders of United Defense Industries, Inc., a Delaware corporation, or UDI, will be held at [ ] on [ ], 2005 at [ ] local time for the following purposes:

to consider and vote upon a proposal to adopt the Agreement and Plan of Merger dated as of March 6, 2005, among UDI, BAE Systems North America Inc., a Delaware corporation, or BAE Systems, and Ute Acquisition Company Inc., a Delaware corporation and a wholly owned subsidiary of BAE Systems, or Acquisition Sub, pursuant to which, upon the merger becoming effective:

Acquisition Sub will be merged with and into UDI with UDI continuing as the surviving corporation and a wholly owned subsidiary of BAE Systems, and

each share of common stock, par value $0.01 per share, of UDI issued and outstanding immediately prior to the merger becoming effective (other than shares owned by UDI, BAE Systems, or Acquisition Sub, or any of their wholly owned subsidiaries), will be converted into the right to receive $75.00 in cash, without interest;

to elect nine directors to serve on our board of directors;

to consider and vote upon a proposal to adjourn the annual meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement; and

to consider such other business as may properly come before the meeting or any adjournment or postponement thereof.

Only holders of record of our common stock as of the close of business on [ ], 2005 will be entitled to notice of, and to vote at, the annual meeting and at any adjournments or postponements thereof. The affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the annual meeting is required to adopt the merger agreement.

Under the General Corporation Law of the State of Delaware, holders of our common stock who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the merger agreement and if they comply with the procedures under the General Corporation Law of the State of Delaware explained in the accompanying proxy statement. See *The Merger Appraisal Rights.*

The UDI board of directors recommends that stockholders vote **FOR** adoption of the merger agreement.

By Order of the Board of Directors

David V. Kolovat
Secretary

Arlington, Virginia
[ ], 2005

YOUR VOTE IS IMPORTANT.

Whether or not you are able to attend the annual meeting in person, please complete, sign, and date the enclosed proxy card and return it in the postage prepaid envelope provided as soon as possible. Giving your proxy will not affect your right to attend the meeting and vote in person.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger and the annual meeting. These questions and answers may not address all questions that may be important to you as a stockholder. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement.

In this proxy statement, the terms we, us, our, our company, and UDI refer to United Defense Industries, Inc. The term BAE Systems refers to BAE Systems North America Inc. The term Acquisition Sub refers to Ute Acquisition Company Inc.

Q. What is the proposed transaction?

A. The proposed transaction provides for the acquisition of UDI by BAE Systems. The proposed transaction would be accomplished through a merger of Acquisition Sub, a wholly owned subsidiary of BAE Systems, with and into UDI, with UDI surviving, which we refer to as the merger. As a result of the merger:

UDI will become a wholly owned subsidiary of BAE Systems,

our common stock will cease to be listed on the New York Stock Exchange, or the NYSE, and will no longer be publicly traded, and

each outstanding share of our common stock (other than shares owned by UDI, BAE Systems, or Acquisition Sub, or any of their wholly owned subsidiaries) will be converted into the right to receive $75.00 in cash, without interest.

Q. What is the purpose of the annual meeting?

A. At the annual meeting we will be asking our stockholders to adopt the agreement and plan of merger among BAE Systems, Acquisition Sub, and UDI, which we refer to as the merger agreement, pursuant to which the merger will occur. We will also be asking our stockholders to elect nine directors to serve on our board of directors and to approve the adjournment, if necessary, of the annual meeting.

Q. Where and when is the annual meeting?

A. The annual meeting will take place at [ ], on [ ], 2005, at [ ] local time.

Q. Who is entitled to vote at the annual meeting?

A. Only holders of record of our common stock as of the close of business on [ ], 2005 are entitled to receive notice of the annual meeting and to vote the shares of our common stock that they held on that date at the annual meeting, or at any adjournments or postponements of the annual meeting. As of the close of business on [ ], 2005, [ ] shares of our common stock were outstanding.

Q. What vote of stockholders is required to adopt the merger agreement?

A. Adoption of the merger agreement requires the affirmative vote of stockholders holding a majority of the outstanding shares of our common stock entitled to vote at the annual meeting. Each share of our common stock is entitled to one vote.

Q. How does the board of directors recommend that I vote?

A. Our board of directors unanimously (with one director not participating) recommends that our stockholders vote FOR adoption of the merger agreement. You should read *The Merger Our Reasons for the Merger* for a discussion of the factors that our board of directors considered in deciding to recommend adoption of the merger agreement.

Q. What other matters am I being asked to vote on?

A. In addition to the adoption of the merger agreement, we will also be asking you to elect nine directors to serve on our board of directors, to approve a proposal to adjourn the annual meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement, and to approve any other matters that may properly come before the annual meeting.

Q. If the merger is completed, what will I receive for my shares of UDI common stock?

A. In the merger, each share of our common stock that is issued and outstanding (other than shares owned by UDI, BAE Systems, or Acquisition Sub, or any of their wholly owned subsidiaries) will be converted into the right to receive $75.00 in cash, without interest, which we refer to as the merger consideration. As a result of the merger, upon the surrender of your stock certificate(s), you will receive a total amount equal to the product obtained by multiplying the merger consideration by the number of shares of our common stock that you own. In the event of a transfer of ownership of common stock that is not registered in the records of our transfer agent, the merger consideration may, subject to certain requirements, be paid to a person other than the person in whose name the certificate so surrendered is registered. See *The Merger Conversion of Shares; Procedures for Exchange of Certificates.*

Q. Will the merger consideration I receive in the merger increase if the results of operations of UDI improve or if the price of UDI common stock increases above $75.00 per share?

A. No. The value of the merger consideration is fixed. The merger agreement does not contain any provision that would adjust the merger consideration based on fluctuations in the price of our common stock, the amount of working capital we hold at the consummation of the merger, or improvements in our results of operations prior to the consummation of the merger.

Q. Is the merger subject to the fulfillment of certain conditions?

A. Yes. Before completion of the merger, UDI, BAE Systems, and Acquisition Sub must fulfill or waive the closing conditions contained in the merger agreement. If these conditions are not satisfied or waived, the merger will not be completed. See *The Merger Agreement Conditions to the Merger.*

Q. Am I entitled to appraisal rights?

A. Yes. You are entitled to appraisal rights under the General Corporation Law of the State of Delaware, which we refer to as the DGCL, in connection with the merger. See *The Merger Appraisal Rights.*

Q. What happens if a third party makes an offer to acquire UDI before the merger is completed?

A. Prior to the adoption of the merger agreement by our stockholders, our board of directors may, subject to certain requirements and rights of BAE Systems under the merger agreement, terminate the merger agreement in order to enter into a superior acquisition agreement with a third party contemplating the acquisition of UDI if our board of directors determines in good faith after consultation with a financial advisor of nationally recognized reputation that the consideration payable to our stockholders under that superior acquisition agreement has a higher value than the consideration to be received by our stockholders in the merger and that the transaction contemplated by the superior acquisition agreement is reasonably capable of being completed. See *The Merger Agreement Termination of the Merger Agreement.* In the event that our board of directors terminates the merger agreement in order for UDI to enter into a superior acquisition agreement with a third party, as well as in certain other circumstances, we would be obligated to pay BAE Systems a termination fee of $119,233,768. See *The Merger Agreement Termination Fee.*

Q. When is the merger expected to be completed?

A. We expect the merger to occur in the second quarter of 2005 as soon as possible after all the conditions to the merger are satisfied or waived. In order to complete the merger, we must obtain stockholder approval and satisfy

the other closing conditions under the merger agreement.

Q. What do I need to do now?

A. After carefully reading and considering the information contained in this proxy statement, including its annexes, please complete, sign, and date the enclosed proxy card and return it in the postage prepaid envelope provided as soon as possible.

Q. May I vote in person?

A. Yes. You may attend the annual meeting and vote your shares in person rather than by signing and returning your proxy card. If you wish to vote in person and your shares are held by a broker or other nominee, you need to obtain a proxy from the broker authorizing you to vote your shares held in the broker s name.

Q. May I vote via the Internet or telephone?

A. Yes, if your shares are held through a broker or bank and such a service is provided by your broker or bank, you may vote by completing and returning the voting form provided by your broker or bank or via the Internet or by telephone through your broker or bank. To vote via the Internet or telephone, you should follow the instructions on the voting form provided by your broker or bank. If your shares are registered in your name, you may only vote by returning a signed proxy card or voting in person at the annual meeting, and you will not be able to vote via the Internet or telephone.

Q. What happens if I do not vote?

A. Because the required vote of our stockholders to adopt the merger agreement is based upon the total number of outstanding shares of our common stock, rather than upon the shares actually voted, the failure to return your proxy card or to otherwise vote will have the same effect as voting AGAINST adoption of the merger agreement. Failure to vote or voting to abstain will have no effect on approval of the other matters being considered at the annual meeting. If you return a properly signed proxy card but do not indicate how you want to vote, your proxy will be counted as a vote FOR adoption of the merger agreement, FOR approval of any proposal to adjourn the annual meeting to solicit additional proxies in favor of adoption of the merger agreement, and FOR the election of the nine director nominees named in this proxy statement to serve on our board of directors.

Q. If my shares are held in street name by my broker, will my broker vote my shares for me?

A. Yes, but your broker will only be permitted to vote your shares of UDI common stock on the adoption of the merger agreement and the proposal to adjourn the annual meeting if you instruct your broker how to vote. Your broker may have authority under the rules of the NYSE to vote your shares of UDI common stock on the election of directors even if you do not instruct your broker how to vote. You should follow the procedures provided to you by your broker regarding how to instruct your broker to vote your shares.

Q. Should I send in my stock certificates now?

A. No. After the merger is completed, you will be sent detailed instructions informing you how to send in your stock certificates in order to receive the merger consideration. You will receive the merger consideration as soon as practicable after receipt by the paying agent for the merger consideration of your stock certificates, together with the completed documents required in the instructions. **Do not send any stock certificates with your proxy.**

Q. Will I owe taxes as a result of the merger?

A. Generally, the merger will be a taxable transaction for U.S. holders of our common stock. As a result, assuming you are a U.S. holder, any gain you recognize as a result of the merger will be subject to United States federal income tax and also may be taxed under applicable state, local, and other tax laws. In general, you will recognize gain or loss equal to the difference between (1) the amount of cash you receive and (2) the adjusted tax basis of your shares of our common stock converted in the merger. See *The Merger Material U.S. Federal Income Tax Consequences of the Merger to Our U.S. Stockholders* for a more detailed explanation of the tax consequences of the merger. You should consult your tax advisor on how specific tax consequences of the merger apply to you.

Q. Where can I find more information about UDI?

A. We file periodic reports and other information with the Securities and Exchange Commission, which we refer to as the SEC. You may read and copy this information at the SEC s public reference facility. Please call the SEC at

1-800-SEC-0330 for information about this facility. This information is also available on the internet site maintained by the SEC at http://www.sec.gov. For a more detailed description of the information available, please refer to the section entitled *Where You Can Find More Information.*

Q. Who can help answer my questions?

A. If you have questions about the annual meeting or the merger after reading this proxy statement, or would like additional copies of this proxy statement or the proxy card, you should contact MacKenzie Partners, Inc. at (800) 322-2885 (toll-free) or (212) 929-5500 (collect).

SUMMARY

This summary highlights important information in this proxy statement. Because this summary may not contain all of the information that is important to you, you should carefully read this entire proxy statement and the other documents to which this proxy statement refers you for a more complete understanding of the merger, including, in particular, the copy of the merger agreement, the opinion of J.P. Morgan Securities Inc. and the opinion of Lehman Brothers Inc. that are attached to this proxy statement as Annexes A, B, and C, respectively.

The Proposed Transaction

The proposed transaction provides for the acquisition of UDI by BAE Systems. The proposed transaction would be accomplished through a merger of Acquisition Sub, a wholly owned subsidiary of BAE Systems, with and into UDI, with UDI surviving, which we refer to as the merger. As a result of the merger:

- UDI will become a wholly owned subsidiary of BAE Systems,
- our common stock will cease to be listed on the NYSE and will no longer be publicly traded, and
- each outstanding share of our common stock (other than shares owned by UDI, BAE Systems, or Acquisition Sub, or any of their wholly owned subsidiaries) will be converted into the right to receive $75.00 in cash, without interest.

When the Merger will be Completed

We are working to complete the merger as quickly as possible. We currently expect to complete the merger in the second quarter of 2005 as soon as possible after all the conditions to the merger are satisfied or waived.

The Companies

United Defense Industries, Inc. (page 12)

UDI is headquartered in Arlington, Virginia. UDI designs, develops, and produces combat vehicles, artillery systems, naval guns, missile launchers, and precision munitions used by the U.S. Department of Defense and allies worldwide, and provides non-nuclear ship repair, modernization, and conversion services to the U.S. Navy and other U.S. government agencies.

Our principal executive offices are located at 1525 Wilson Boulevard, Suite 700, Arlington, Virginia 22209, and our telephone number is (703) 312-6100.

BAE Systems North America Inc. (page 13)

BAE Systems is headquartered in Rockville, Maryland. BAE Systems is a wholly owned subsidiary of BAE Systems plc, a public limited company incorporated in England and Wales, also referred to in this proxy statement as BAE Parent. BAE Systems is a leading electronics, information systems, and technology services company, and one of the largest providers of systems and services for the U.S. Department of Defense. BAE Systems currently employs approximately 30,000 people across some 30 states, generating sales of more than $5 billion. BAE Systems designs, develops, manufactures, and supports a wide range of advanced aerospace products, electronic systems, and information technology for the U.S. government and commercial customers.

BAE Systems principal executive offices are located at 1601 Research Boulevard, Rockville, Maryland 20850, and its telephone number is (301) 838-6000.

Ute Acquisition Company Inc. (page 13)

Acquisition Sub is a Delaware corporation organized in connection with the merger and to date has engaged in no activities other than those incidental to its formation and the consummation of the merger. Acquisition Sub is a wholly owned subsidiary of BAE Systems. The mailing address of Acquisition Sub s principal executive offices is 1601 Research Boulevard, Rockville, Maryland 20850, and its telephone number is (301) 838-6000.

Recommendation of Our Board of Directors (page 20)

After careful consideration, our board of directors unanimously (with one director not participating):

- determined that the terms of the merger, the merger agreement, and the other transactions contemplated by the merger agreement are fair to, and in the best interest of, our stockholders;
- approved the merger and the merger agreement and declared the merger and the merger agreement advisable; and
- recommended that our stockholders adopt the merger agreement.

For a discussion of the material factors considered by our board of directors in reaching its conclusion, see *The Merger Our Reasons for the Merger.*

Opinions of Our Financial Advisors

J.P. Morgan Securities Inc. (page 21)

On March 6, 2005, J.P. Morgan Securities Inc., or JPMorgan, rendered its oral opinion to our board of directors, which was subsequently confirmed in writing, that, as of March 6, 2005, and based upon and subject to the assumptions made, matters considered, and limits of the review undertaken by JPMorgan, the merger consideration was fair, from a financial point of view, to the holders of our common stock.

The full text of the written opinion of JPMorgan, dated March 6, 2005, which sets forth the assumptions made, procedures followed, matters considered, and limits of the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement. You are encouraged to read the opinion carefully in its entirety. JPMorgan provided its opinion for the information and assistance of our board of directors in connection with its consideration of the merger. The JPMorgan opinion is not an opinion or recommendation as to how you should vote with respect to the merger agreement.

Lehman Brothers Inc. (page 22)

On March 6, 2005, Lehman Brothers Inc., or Lehman Brothers, rendered its oral opinion to our board of directors, which was subsequently confirmed in writing, that, as of March 6, 2005, and based upon and subject to the assumptions made, matters considered, and limits of the review undertaken by Lehman Brothers, the merger consideration was fair, from a financial point of view, to the holders of our common stock.

The full text of the written opinion of Lehman Brothers, dated March 6, 2005, which sets forth the assumptions made, procedures followed, matters considered, and limits of the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement. You are encouraged to read the opinion carefully in its entirety. Lehman Brothers provided its opinion for the information and assistance of our board of directors in connection with its consideration of the merger. The Lehman Brothers opinion is not an opinion or recommendation as to how you should vote with respect to the merger agreement.

Matters to be Considered (page 10)

You will be asked to adopt the merger agreement. We will also be asking you to elect nine directors to serve on our board of directors, to approve the adjournment, if necessary, of the annual meeting to solicit proxies in favor of adoption of the merger agreement, and to approve any other matters that may properly come before the annual meeting.

The Annual Meeting (page 10)

Date, Time, and Place (page 10)

The annual meeting will be held on [ ], 2005 at [ ] local time at [ ].

Record Date and Voting (page 10)

If you owned shares of our common stock at the close of business on [ ], 2005, the record date for the annual meeting, you are entitled to receive notice of and to vote at the annual meeting. As of the close of business on [ ], 2005, there were [ ] shares of our common stock outstanding and entitled to be voted at the annual meeting.

Required Vote (page 10)

Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote. Failure to vote by proxy or in person will have the same effect as a vote AGAINST adoption of the merger agreement.

With respect to the other matters being considered at the annual meeting, the director nominees receiving the highest number of votes will be elected to our board of directors and the approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the shares of our common stock voting in person or by proxy at the annual meeting.

Quorum (page 10)

Holders of at least a majority of the shares of our common stock issued and outstanding as of the record date and entitled to vote at the annual meeting must be present in person or represented by proxy at the annual meeting to constitute a quorum to conduct business at the annual meeting. In the event that a quorum is not present in person or by proxy at the annual meeting, we currently expect that we will adjourn or postpone the meeting to solicit additional proxies.

Voting by Proxy (page 11)

You may authorize your shares to be voted by proxy by returning the enclosed proxy card. If you hold your shares through a broker or other nominee, you must follow the procedures provided by your broker.

Revocability of Proxy (page 12)

You may revoke your proxy at any time before it is voted at the annual meeting. If you have not authorized your shares to be voted through your broker, you may revoke your proxy by:

sending a later-dated proxy;

giving written notice of revocation to the Secretary of UDI at our principal executive offices; or

voting in person at the annual meeting.

Simply attending the annual meeting, without voting, will not constitute revocation of your proxy. If your shares of our common stock are held in street name, you must follow the instructions of your broker or other holder of record regarding revocation of proxies.

Material U.S. Federal Income Tax Consequences of the Merger to Our U.S. Stockholders (page 25)

The receipt of the merger consideration in cash for each share of our common stock pursuant to the merger will be a taxable transaction to U.S. holders for U.S. federal income tax purposes. For U.S. federal income tax purposes, each of our stockholders that is a U.S. holder generally will recognize taxable gain or loss as a result of the merger measured by the difference, if any, between the merger consideration and the adjusted tax basis in the shares of our common stock owned by the stockholder. That gain or loss will be a capital gain or loss if the share is held as a capital asset in the hands of the stockholder, and will be long-term capital gain or loss if the share has been held for more than twelve months at the time of the completion of the merger. **Stockholders are urged to consult their own tax advisors as to the particular tax consequences to them of the merger.**

Interests of Directors and Executive Officers in the Merger (page 27)

When considering the recommendation by our board of directors in favor of adoption of the merger agreement, you should be aware that our directors and executive officers have interests in the merger that are different from, or in addition to, yours, including the following:

- our directors and executive officers will have their unvested stock options and restricted stock accelerated and their vested and unvested stock options and restricted stock cashed out in connection with the merger, meaning that they will receive cash payments for each share underlying their options equal to the excess of $75.00 per share over the exercise price per share of their options and $75.00 per share of restricted stock, subject to any required withholding for taxes;

- our executive officers may be entitled to benefits under their employment or severance agreements, which generally provide for lump sum cash payments in an amount equal to the equivalent of (i) one, two, or three times their annual salaries and their target bonuses and (ii) a pro rata target bonus for the year of termination and continued employee benefits for the period their annual salaries continue, in each case, in the event that an executive officer s employment is terminated by us other than for cause or by the executive for good reason, and provide for an additional gross-up lump sum payment to cover the costs of excise taxes, if any, to which our executive officers may be subject;

- certain indemnification and insurance arrangements for our current and former directors and officers will be continued following completion of the merger;

- Thomas W. Rabaut, our president and chief executive officer, has been offered the position of head of BAE Systems global land systems business following the merger. Discussions regarding the terms on which Mr. Rabaut would take on this role are in progress and no definitive agreement has been reached by the parties; and

- BAE Systems has indicated that it may be interested in talking with one or more members of our current board of directors about joining the board of directors of BAE Systems following completion of the merger.

Conversion of Shares; Procedures For Exchange of Certificates (page 30)

Upon completion of the merger, each issued and outstanding share of our common stock not owned by UDI, BAE Systems, or Acquisition Sub, or any of their wholly owned subsidiaries, will be converted into the right to receive $75.00 in cash, without interest. As soon as reasonably practicable after the completion of the merger, you will receive from the paying agent for the merger consideration a letter of transmittal and instructions advising you how to surrender your stock certificates in exchange for your merger consideration. At that time, you must send to the paying agent your stock certificates with your completed letter of transmittal. You will receive your merger consideration after you deliver to the paying agent your stock certificates and other documents required by the paying agent.

Regulatory Approvals Required for the Merger (page 31)

The Hart-Scott-Rodino Antitrust Improvements Act of 1976 provides that transactions such as the merger may not be completed until certain information has been submitted to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice and certain waiting period requirements have been satisfied. On March 14, 2005, we and BAE Parent each filed a Notification and Report Form with the Antitrust Division and the Federal Trade Commission and requested an early termination of the waiting period. If early termination is not granted, the waiting period will expire at 11:59 p.m. on April 13, 2005 unless a request for additional information is made.

Section 721 of Title VII of the United States Defense Production Act of 1950, as amended by Section 5021 of the Omnibus Trade and Competitiveness Act of 1988, which we refer to as Exon-Florio, authorizes the President of the United States to make an investigation to determine the effects on national

security of mergers, acquisitions and takeovers by or with foreign persons which could result in foreign control of persons engaged in interstate commerce in the United States. The merger is subject to review under Exon-Florio because BAE Systems is a wholly owned subsidiary of a foreign corporation. On March 16, 2005, we and BAE Systems filed a joint voluntary notification with the Committee on Foreign Investment in the United States, which we refer to as CFIUS, which has been delegated authority to review transactions under Exon-Florio. Unless CFIUS takes further action, the waiting period will expire at 11:59 p.m. on April 15, 2005.

The Swedish Competition Act provides that transactions such as the merger may not be completed until certain information has been submitted to the Swedish Competition Authority, and the Swedish Competition Authority has decided not to oppose the merger. We and BAE Systems expect to file the required notification with the Swedish Competition Authority prior to the end of March. The Swedish Competition Authority must decide within 25 working days of the filing of the required notification whether to oppose the merger or to initiate an in-depth investigation.

The Law on Protection of Competition of Turkey provides that transactions such as the merger may not be completed until certain information has been submitted to the Turkish Competition Authority, and the Turkish Competition Authority has cleared the merger. We and BAE Systems expect to file the required notification with the Turkish Competition Authority prior to the end of March. The Turkish Competition Authority must decide either to clear the merger or to initiate an in-depth investigation within 30 days from the date of filing of the notification.

In addition, the merger may be subject to review by the relevant authorities in Germany, under its Act Against Restraints on Competition, and in Norway, under its Competition Act.

UDI and BAE Parent also intend to make filings in Japan, under its Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade and with Japan s Ministry of Finance, and in South Korea, under its Monopoly Regulation and Fair Trade Act. The merger may be completed prior to the clearance by the relevant authorities in these jurisdictions, but the relevant authority retains jurisdiction following completion of the merger to assess the competitive impact of the merger.

Under the merger agreement, both UDI and BAE Systems have agreed to use their reasonable best efforts, subject to certain limitations, to obtain all required governmental approvals in connection with the completion of the merger. Except as noted above with respect to the required filings under the Hart-Scott-Rodino Act, a review under Exon-Florio, other foreign governmental filings, and the filing of a certificate of merger in Delaware at or before the effective date of the merger, we are unaware of any material approvals of federal, state, or foreign governmental entities required for the completion of the merger.

Merger Consideration (page 32)

Upon completion of the merger, each share of our common stock issued and outstanding will be converted into the right to receive $75.00 in cash, without interest. As a result of the merger, you will receive a total amount equal to the product obtained by multiplying $75.00 by the number of shares of our common stock that you own upon surrender of your stock certificates. We expect the merger to close in the second quarter of 2005 as soon as possible after all the conditions to the merger are satisfied or waived; however, there can be no assurance that the merger will close at that time, or at all.

Treatment of Stock Options and Restricted Stock (page 32)

Upon completion of the merger, all of our outstanding stock options will become fully vested, and option holders will be entitled to receive, for each option held, a cash payment (less withholding taxes and without interest) equal to the excess of $75.00 in cash, without interest, over the exercise price per share of the option, multiplied by the number of shares of our common stock subject to the option. In addition, upon completion of the merger, each share of restricted stock will become fully vested and free of restriction on transfer and the holder thereof will be entitled to receive $75.00 in cash, without interest, for each share of restricted stock held.

Stockholders Seeking Appraisal (page 28)

Record holders of our common stock have the right under the DGCL to exercise appraisal rights and to receive payment in cash for the fair value of their shares of our common stock determined in accordance with the DGCL, if such rights are properly perfected. The fair value of shares of our common stock as determined in accordance with the DGCL may be more or less than the merger consideration to be paid to holders of our common stock who choose not to exercise their appraisal rights. To preserve their rights, record holders of our common stock who wish to exercise appraisal rights must precisely follow specific procedures set forth in the DGCL. These procedures are described in this proxy statement, and the provisions of the DGCL that grant appraisal rights and govern such procedures are attached as Annex D to this proxy statement.

Conditions to the Merger (page 37)

As more fully described in this proxy statement and the merger agreement, the completion of the merger depends on the satisfaction or waiver of a number of conditions. If these conditions are not satisfied or waived, the merger will not be completed.

No Solicitation of Other Offers; Adverse Recommendation Change (page 39)

We have agreed in the merger agreement that we will not, and will not authorize or permit any of our representatives to, directly or indirectly (i) solicit, initiate, knowingly encourage, or knowingly facilitate any inquiry or the making of any proposal that constitutes or is reasonably likely to lead to a takeover proposal or (ii) participate in any discussions or negotiations regarding a takeover proposal. Notwithstanding these limitations, prior to the adoption of the merger agreement by our stockholders, we may furnish information in response to and engage in discussions and negotiations with respect to an unsolicited takeover proposal that our board of directors determines in good faith after consultation with a financial advisor of nationally recognized reputation constitutes or is reasonably likely to lead to a superior proposal. See *The Merger Agreement No Solicitation of Other Offers; Adverse Recommendation Change; Termination to Accept a Superior Proposal* for a further description of these restrictions.

Termination of the Merger Agreement (page 41)

The merger agreement may be terminated as follows:

by mutual written consent of BAE Systems, Acquisition Sub, and UDI;

by either BAE Systems or UDI:

if the merger has not been consummated by December 6, 2005, except that a party who has willfully and materially breached the merger agreement cannot terminate on this basis;

if a governmental entity permanently enjoins the consummation of the merger and such action has become final and nonappealable;

if our stockholders do not adopt the merger agreement; or

if the shareholders of BAE Parent do not approve the merger.

by BAE Systems:

if we have breached the merger agreement and such breach would cause the condition to the merger relating to our representations and warranties or our covenants and agreements not to be satisfied, and such breach cannot be or has not been cured within 30 days of notice; or

our board of directors changes in any manner adverse to BAE Systems or withdraws its recommendation that our stockholders adopt the merger agreement, approves or recommends a takeover proposal from a third party, or determines that the merger agreement or the merger is no longer

advisable or recommends that our stockholders reject the merger agreement, the merger, or the related transactions.

by UDI:

if either BAE Systems or Acquisition Sub has breached the merger agreement and such breach would cause the condition to the merger relating to their representations and warranties or their covenants and agreements not to be satisfied, and such breach cannot be or has not been cured within 30 days of notice;

if we enter into a definitive agreement for a superior proposal and pay the termination fee to BAE Systems and Acquisition Sub; or

if the board of directors of BAE Parent does not recommend the approval of the merger by the shareholders of BAE Parent in the circular sent to shareholders of BAE Parent or the board of directors of BAE Parent changes in a manner adverse to us or withdraws its recommendation of the merger to the shareholders of BAE Parent or recommends that the shareholders of BAE Parent reject the merger.

Termination Fee (page 42)

Upon termination of the merger agreement by our board of directors in order for UDI to enter into a superior acquisition agreement, we are obligated under the merger agreement to pay BAE Systems a termination fee of $119,233,768. We are also obligated to pay this termination fee to BAE Systems in certain other circumstances following termination of the merger agreement. See *The Merger Agreement Termination Fee* for additional detail.

THE ANNUAL MEETING OF OUR STOCKHOLDERS

Date, Time, Place, and Purpose of Annual meeting

The annual meeting will be held on [ ], 2005 at [ ] local time at [ ].

At the annual meeting we will ask you to consider and vote on the proposal to adopt the merger agreement. Our board of directors has declared that the merger and the merger agreement are advisable and fair to, and in the best interests of, UDI and our stockholders, has approved the merger, the merger agreement, and the related transactions, and has directed that the merger be submitted for consideration at the annual meeting. **Our board of directors recommends that our stockholders vote FOR adoption of the merger agreement.**

We will also be asking you to elect nine directors to serve on our board of directors, to approve the adjournment, if necessary, of the annual meeting to solicit proxies in favor of adoption of the merger agreement, and to vote on any other matters that may properly come before the annual meeting. Our board of directors recommends that you vote FOR the director nominees and FOR the adjournment proposal. The proposals for the election of nine directors to serve on our board of directors and to approve the adjournment, if necessary, will not affect the vote on the proposal to adopt the merger agreement.

Stock Entitled to Vote; Record Date

The holders of record of shares of our common stock as of the close of business on [ ], 2005, which is the record date for the annual meeting, are entitled to notice of and to vote at the annual meeting. On the record date, there were [ ] shares of our common stock outstanding, held by approximately [ ] stockholders of record.

Vote Required; Quorum

The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of our common stock outstanding on the record date and entitled to vote at the annual meeting. Each holder of a share of our common stock is entitled to one vote per share. Because the vote is based on the number of shares of our common stock outstanding and entitled to vote rather than on the number of votes

cast, failure to return your completed proxy card or to vote in person will have the same effect as a vote AGAINST adoption of the merger agreement.

With respect to the other matters being considered at the annual meeting, the director nominees receiving the highest number of votes will be elected to our board of directors and the approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the shares of our common stock voting in person or by proxy at the annual meeting.

Holders of at least a majority of the shares of our common stock issued and outstanding as of the record date and entitled to vote at the annual meeting must be present in person or represented by proxy at the annual meeting to constitute a quorum to conduct business at the annual meeting. In the event that a quorum is not present in person or by proxy at the annual meeting, we currently expect that we will adjourn or postpone the meeting to solicit additional proxies.

Abstentions and Broker Non-Votes

Shares of our common stock held by brokers for customers who have not provided voting instructions on a matter as to which the broker lacks discretion to vote the customer s shares are referred to generally as broker non-votes. Under the rules of the NYSE, brokers do not have discretion to vote your shares for or against the merger or the proposal to adjourn the annual meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement. A properly executed proxy marked ABSTAIN and broker non-votes will be treated as shares of stock that are present and entitled to vote at the annual meeting for purposes of determining whether a quorum exists and will have the same effect as votes AGAINST adoption of the merger agreement.

Brokers who hold shares of our common stock in street name for customers who are the beneficial owners of such shares have discretion to vote these shares on routine matters. Brokers will have discretionary authority to vote shares held in street name on the proposals to elect nine directors to serve on our board of directors.

Share Ownership of Directors and Executive Officers

As of [ ], 2005, the directors and executive officers of UDI owned approximately [ ]% of the outstanding shares of our common stock. To our knowledge, these directors and executive officers intend to vote in favor of adoption of the merger agreement.

Voting by Proxy

This proxy statement is being sent to you on behalf of our board of directors for the purpose of requesting that you allow your shares of our common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of our common stock represented by properly executed proxies received in time for the annual meeting will be voted at the annual meeting in the manner specified by the holder. If a written proxy card is signed by a stockholder and returned without instructions, the shares of our common stock represented by the proxy card will be voted FOR adoption of the merger agreement, FOR approval of any proposal to adjourn the annual meeting to solicit additional proxies in favor of adoption of the merger agreement, and FOR the election of the nine director nominees named in this proxy statement to serve on our board of directors. Our board of directors recommends a vote FOR adoption of the merger agreement.

Stockholders who have questions or requests for assistance in completing and submitting proxy cards should contact MacKenzie Partners, Inc., our proxy solicitor, at (800) 322-2885 (toll-free) or (212) 929-5500 (collect).

Stockholders who hold their shares of our common stock in street name, meaning in the name of a bank, broker or other person who is the record holder, must either direct the record holder of their shares of our common stock how to vote their shares or obtain a proxy from the record holder to vote their shares at the annual meeting.

Revocability of Proxies

You can revoke your proxy at any time before it is voted at the annual meeting. If you have not authorized your shares to be voted through your broker, you may revoke your proxy by:

submitting another properly completed proxy bearing a later date;

giving written notice of revocation to UDI, addressed to the Secretary (United Defense Industries, Inc., 1525 Wilson Blvd., Suite 700, Arlington, Virginia 22209); or

attending the annual meeting and voting by in person.

Simply attending the annual meeting, without voting, will not constitute a revocation of a proxy. If your shares of our common stock are held in the name of a bank, broker, trustee, or other holder of record, you must follow the instructions of your broker or other holder of record to revoke a previously given proxy.

Solicitation of Proxies

In addition to solicitation by mail, we may use our directors, officers, and employees to solicit proxies by telephone, other electronic means or in person. These people will not receive any additional compensation for their services, but we will reimburse them for their out-of-pocket expenses. We will reimburse banks, brokers, nominees, custodians, and fiduciaries for their reasonable expenses in forwarding copies of this proxy statement to the beneficial owners of shares of our common stock and in obtaining voting instructions from those owners. We will pay all costs and expenses relating to filing, printing, and mailing this proxy statement and relating to the solicitation of proxies.

We have engaged MacKenzie Partners, Inc. to assist in the solicitation of proxies for the annual meeting and will pay MacKenzie Partners, Inc. a fee of not more than $10,000, plus reimbursement of out-of-pocket expenses. The address of MacKenzie Partners, Inc. is 105 Madison Avenue, New York, New York 10016. MacKenzie Partners, Inc. s telephone number is (800) 322-2885 (toll-free) or (212) 929-5500 (collect).

Other Business

We do not expect that any matters other than the proposals to (i) adopt the merger agreement, (ii) elect nine directors to serve on our board of directors, and (iii) adjourn the annual meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement will be brought before the annual meeting. If, however, any other matter properly comes before the annual meeting, or in the event of any adjournment or postponement of the annual meeting, the proxy holders will vote thereon in accordance with their discretion.

Adjournments and Postponements

Although it is not expected, the annual meeting may be adjourned or postponed for the purpose of soliciting additional proxies. Any adjournment may be made without notice, other than by announcement made at the annual meeting, by approval of the holders of at least a majority of the shares of our common stock present in person or represented by proxy at the annual meeting, whether or not a quorum exists. Any adjournment or postponement of the annual meeting for the purpose of soliciting additional proxies in favor of adopting the merger agreement will allow our stockholders who have already sent in their proxies to revoke them at any time prior to their use.

THE COMPANIES

United Defense Industries, Inc.

UDI was incorporated in 1997 to acquire United Defense, L.P., a global leader in the design, development, and production of combat vehicles, artillery systems, naval guns, and missile launchers used by the U.S. Department of Defense and allied militaries throughout the world. In 2000, we acquired Bofors Defence, or Bofors, based in Sweden, a leading producer of artillery systems, air defense and naval guns, and precision munitions. In 2002, we acquired United States Marine Repair, Inc., or USMR, the leading provider of ship repair, maintenance, and modernization services to the U.S. Navy, other U.S. defense related agencies, and commercial customers. With the acquisition of USMR, we are now organized into two separate product and service lines: Defense Systems and Ship Repair and Maintenance. Our Defense Systems program

portfolio consists of a mix of weapons system development, production, upgrade, and life cycle support programs. Our Ship Repair and Maintenance business segment consists of ship repair, maintenance, and modernization service programs.

Our Defense Systems segment s primary military programs include upgrades of the Bradley Fighting Vehicle, or BFV, and its derivatives, naval ordnance production and development programs, and development of several ground vehicle types within the Army s Future Combat Systems, or FCS, program, including the Non-Line-of-Sight Cannon. Since 1981, the BFV has served as the leading domestically produced vehicle able to fulfill the dual role of troop transport and armored fighting vehicle. We have maintained our prime contractor position on the BFV program since production began, and have added a number of technology-based upgrades and derivative vehicles that continue to extend the program s life cycle. In addition to managing the BFV vehicle programs, we serve as the prime contractor for a number of military programs, several of which have spanned decades, including the M88 tank recovery vehicle since 1960, the M113 armored personnel carrier since 1960, and the U.S. Navy s Mk45 naval gun system since 1968.

The Ship Repair and Maintenance segment s primary military contracts relate to long-term maintenance programs on U.S. surface ships, including guided missile destroyers, cruisers, mine countermeasures ships, cargo, and amphibious ships.

Our principal executive offices are located at 1525 Wilson Boulevard, Suite 700, Arlington, Virginia 22209, and our telephone number is (703) 312-6100.

BAE Systems North America Inc.

BAE Systems is headquartered in Rockville, Maryland. BAE Systems is a wholly owned subsidiary of BAE Parent. BAE Systems is a leading electronics, information systems, and technology services company, and one of the largest providers of systems and services for the U.S. Department of Defense. BAE Systems currently employs approximately 30,000 people across some 30 states, generating sales of more than $5 billion. BAE Systems designs, develops, manufactures, and supports a wide range of advanced aerospace products, electronic systems, and information technology for the U.S. government and commercial customers.

BAE Systems principal executive offices are located at 1601 Research Boulevard, Rockville, Maryland 20850, and its telephone number is (301) 838-6000.

Ute Acquisition Company Inc.

Acquisition Sub is a Delaware corporation organized in connection with the merger and to date has engaged in no activities other than those incidental to its formation and the consummation of the merger. Acquisition Sub is a wholly owned subsidiary of BAE Systems. The mailing address of Acquisition Sub s principal executive offices is 1601 Research Boulevard, Rockville, Maryland 20850, and its telephone number is (301) 838-6000.

THE MERGER

Background of the Merger

Over the course of the past three years, our board of directors and senior management, including Thomas W. Rabaut, our president and chief executive officer, Francis Raborn, our vice president and chief financial officer, and David V. Kolovat, our vice president, secretary, and general counsel, have periodically reviewed and assessed our business strategy, the various trends and conditions impacting our business and various strategic alternatives available to our company, including strategic corporate acquisitions of third parties.

On January 19, 2005, Mr. Rabaut received a telephone call from a representative of a financial advisor acting on behalf of a potential acquiror in the defense industry, which we refer to as Company A. During this call, this representative informed Mr. Rabaut that Company A desired to engage in discussions with us about a potential acquisition of our company. On January 20, 2005, we received a telephone call from Mr. Mark Ronald, president and chief executive officer of BAE Systems, who indicated that he wished to discuss the possibility of an acquisition of our company by BAE Systems.

Messrs. Rabaut and Raborn informed William E. Conway, Jr., chairman of our board of directors, about these unsolicited inquiries and, thereafter, approached JPMorgan and Lehman Brothers in order to seek advice on strategic alternatives, including with regard to potential strategies for soliciting proposals, pricing and valuation if our board of directors decided to pursue a sale of our company. Messrs. Rabaut, Raborn, and Kolovat and other members of our senior management also consulted with our legal counsel, Gibson, Dunn & Crutcher LLP, or Gibson Dunn, regarding legal and structural issues relating to our strategic alternatives, including a potential sale of our company. On January 21, 2005, Messrs. Rabaut, Raborn, and Kolovat met with representatives of JPMorgan, Lehman Brothers, and Gibson Dunn to discuss our alternatives in response to the inquiries from BAE Systems and Company A. Based on these discussions, the participants determined that, while no decision had yet been made as to whether our company would be offered for sale, Mr. Rabaut should contact Mr. Ronald and senior management from Company A to discuss each company s respective interest in a possible acquisition of our company.

On January 21, 2005, Messrs. Rabaut and Raborn met with Mr. Ronald and Walter Havenstein, executive vice president of BAE Systems, to discuss further BAE Systems interest in a possible acquisition of our company. Messrs. Ronald and Havenstein described BAE Systems strategic interest in a possible acquisition of our company. Mr. Rabaut stated that our company was not for sale but indicated that he would communicate BAE Systems interest to our board of directors. During this meeting, Mr. Ronald provided a draft confidentiality and non-disclosure agreement to Messrs. Rabaut and Raborn. Following this meeting, Mr. Rabaut telephoned Mr. Ronald to request that BAE Systems submit a letter summarizing its interest in a possible acquisition of our company, including a proposed acquisition price, and indicated that he would communicate BAE Systems interest to our board of directors.

At a meeting of our board of directors on January 24, 2005, Mr. Rabaut provided a report, summarizing the communications with BAE Systems and Company A. At this meeting, our board of directors authorized our senior management to continue exploratory discussions with BAE Systems and Company A to determine if it would become appropriate to commence a process for the sale of our company. Also at this meeting, our senior management reported to our board of directors that we engaged JPMorgan and Lehman Brothers as financial advisors and Gibson Dunn as legal advisors in connection with considering a possible sale of our company.

On January 26, 2005, BAE Parent sent a letter to Mr. Rabaut, setting forth a non-binding indication of interest for a possible acquisition of our company at a price of $56 in cash per share. On January 27, 2005, we announced net income for 2004 of $3.15 per fully diluted share, an increase of 18% over net income for 2003. We also announced that our board of directors had authorized the repurchase of an additional $100 million in stock under our existing stock buyback program, and had for the first time following our initial public offering authorized a quarterly dividend payment of $0.125.

On February 1, 2005, Messrs. Conway, Rabaut, Raborn, and Kolovat participated in a teleconference with representatives of JPMorgan, Lehman Brothers, and Gibson Dunn to review this letter and possible responses. Following these discussions, Mr. Rabaut called Mr. Ronald on February 1, 2005 and stated again that our company was not for sale but indicated that we would be willing to explore the indication of interest further.

While preliminary discussions with BAE Systems described above were continuing, we also engaged in discussions with Company A regarding a possible acquisition of our company. On January 27, 2005, Messrs. Rabaut and Raborn met with two senior executives from Company A. During this meeting, the Company A executives described Company A s strategic interest in a possible acquisition of our company and their desire to enter into more substantive discussions. These executives also indicated that Company A would be willing to structure the proposed acquisition as an all-cash transaction. Mr. Rabaut indicated that our company was not for sale, but again asked Company A to summarize its proposal for the acquisition of our company in writing. Mr. Rabaut again stated that he would communicate a proposal submitted by Company A to our board of directors. On February 2, 2005, Company A delivered a letter to us, expressing its interest in a possible acquisition of our company at a price range of $56-$60 in cash per share.

JPMorgan and Lehman Brothers sent drafts of their respective engagement letters to us on February 2, 2005, and we subsequently engaged JPMorgan and Lehman Brothers to act as financial advisors in connection with a possible acquisition of our company.

At a meeting of our board of directors on February 4, 2005, representatives of JPMorgan and Lehman Brothers made a presentation regarding prospective interested parties, the valuation of our company, pricing parameters and strategic issues to consider in pursuing a potential sale of our company. At this meeting, our board of directors also considered the indication of interest letters submitted by BAE Systems and Company A. Also, at this meeting, Gibson Dunn reviewed the fiduciary duties and other legal responsibilities of directors in the context of a potential acquisition of our company. After discussions with our senior management and financial and legal advisors, our board of directors determined that while our company was not for sale and no public auction process should be initiated at that time, the possibility of a sale of our company should be explored and, depending on the level of interest received from third parties, our board of directors would then decide whether to pursue a sale of our company. To facilitate the process outlined above, our board of directors decided that we should provide more information to interested parties in the form of management presentations and financial projections. In addition, our board of directors and senior management believed that an acquisition of our company, with its portfolio of land systems, naval business capabilities and precision munitions, represented an important strategic opportunity for BAE Systems, Company A as well as two additional leading publicly traded companies in the defense industry. Based on this belief, our board of directors decided that the two additional companies, which we refer to as Company C and Company D, should be contacted to discuss their possible interest in an acquisition of our company.

On February 4, 2005, Mr. Rabaut contacted representatives of Company C and Company D to assess their interest in a potential acquisition of our company. On February 8, 2005, Messrs. Rabaut and Raborn met with two senior executives from Company D to discuss its interest in a potential acquisition of our company. On February 9, 2005, Messrs. Rabaut and Raborn met with Richard L. Olver, chairman of BAE Parent, and Mr. Ronald to discuss, among other things, BAE Systems interest in a potential acquisition of our company.

On February 10, 2005, Company C sent a letter to Mr. Rabaut, indicating its interest in acquiring our company at a price per share in the range of $58-$62 in cash per share. Despite expressing some initial interest in a possible acquisition of our company, Company D did not submit a written indication of interest to us or our advisors.

Between February 8, 2005 and February 17, 2005, we negotiated and executed confidentiality, non-disclosure and standstill agreements with each of BAE Systems, Company A and Company C. Between February 11, 2005 and February 22, 2005, our senior management made substantially similar management presentations to the senior management and financial advisors of each of BAE Systems, Company A and Company C, during which, among other things, financial data, including financial projections, and operational data were discussed. Separately, in anticipation of a potential acquisition of our company, Gibson Dunn began preparation of a draft merger agreement on February 8, 2005.

As a follow-up to the management presentation provided to representatives of BAE Systems on February 11, 2005, there were several conversations between the general counsel and the chief financial officer of BAE Systems and Messrs. Raborn and Kolovat regarding various legal, regulatory and financial matters relating to our company, and in response to questions, we provided certain additional information to BAE Systems. On February 14, 2005, President Bush sent a supplemental budget request for fiscal year 2005 to Congress, which was in accord with prior administration budget decisions that had been reported in the weeks leading up to February 14 and which included requests for significant increases in spending on several of our major programs. On February 25, 2005, our financial advisors provided a draft of our Annual Report on Form 10-K for the year ended December 31, 2004 to BAE Systems, Company A and Company C and their respective financial advisors.

Our board of directors convened a meeting on February 17, 2005, at which Mr. Raborn made a presentation regarding our financial projections and discussions with the four potentially interested companies. Although our board of directors had not determined to sell our company, it indicated it would be willing to review proposals from interested parties. Our board of directors also discussed the possibility of contacting additional parties in the defense industry. While our board of directors determined it was in the best interests of our stockholders to

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continue discussions with BAE Systems, Company A and Company C, it also decided that Company E, another leading publicly traded company in the defense industry, should be contacted to assess its interest in a possible acquisition of our company. Our board of directors directed our senior management and financial advisors to solicit proposals from each of BAE Systems, Company A and Company C by February 28, 2005 to be considered as soon as practicable following receipt of the revised proposals.

Also on February 17, 2005, Mr. Raborn met with a senior executive from Company C to discuss its interest in a potential acquisition of our company. Mr. Rabaut also met with the chief executive officer of Company C on February 22, 2005 to discuss further its interest in a potential transaction. On February 18, 2005, our financial advisors contacted representatives of Company E to assess its interest in a possible acquisition of our company, which Company E decided not to pursue.

On February 23, 2005, JPMorgan and Lehman Brothers sent a letter to representatives of BAE Systems, Company A and Company C requesting that, based on publicly available information and the information presented at the management presentations and in our financial projections, written proposals, including price, for an acquisition of our company be submitted by February 28, 2005. This letter indicated that our board of directors would consider these proposals as soon as practicable after February 28, 2005 to decide whether to continue discussions regarding a potential acquisition of our company. This letter also requested information from each of the interested parties regarding financing, regulatory and other approvals, and anticipated timing for closing of an acquisition of our company.

On February 28, 2005, we received written proposals from BAE Systems, Company A and Company C. BAE Systems proposed to acquire our company for $67 per share in cash. On its own initiative, BAE Systems included a draft merger agreement with its proposal, which contemplated a one-step merger transaction. BAE Systems proposal also indicated that it would be willing to move quickly to negotiate and execute a definitive merger agreement for an acquisition of our company and indicated that it would not require any further due diligence from us prior to execution of a definitive merger agreement. Company A proposed to acquire our company at a price of $62 in cash per share, and Company C proposed to acquire our company at a price of $64 in cash per share. These proposals from Company A and Company C each indicated that further due diligence would be required prior to execution of a definitive merger agreement.

On March 1, 2005, representatives of BAE Systems met with our representatives at Gibson Dunn s offices in Washington, D.C. to discuss regulatory and shareholder approvals required in connection with a possible acquisition of our company by BAE Systems. Representatives of our company and BAE Systems as well as representatives of Gibson Dunn and Cravath, Swaine & Moore LLP, who we refer to as Cravath, legal counsel to BAE Systems, also engaged in a brief discussion at the end of this meeting regarding the structure and timing of a potential acquisition of our company by BAE Systems and the terms of the draft merger agreement provided by BAE Systems. Beginning on February 28, 2005, our senior management and Gibson Dunn commenced their review of and comment on the draft merger agreement provided by BAE Systems as part of its proposal.

On March 2, 2005, our board of directors held a meeting, during which the members of our board of directors, along with our senior management and financial and legal advisors, reviewed the proposals submitted on February 28, 2005. At this meeting, representatives of our financial advisors made a detailed financial presentation regarding a possible acquisition of our company, including a valuation analysis of our company. Our board of directors discussed the prices, timing considerations, financing issues and other elements of each proposal as well as the appropriate strategy for responding to the February 28 proposals. Following these discussions, our board of directors discussed that while it had not determined to sell our company, it determined that representatives of our financial advisors should contact BAE Systems, Company A and Company C, and inform each of them that our board of directors would be willing to continue discussions regarding an acquisition of our company, provided they would be willing to increase their proposed price per share to $70 in cash and to negotiate and execute a definitive merger agreement within a few days following the March 2 meeting.

During the morning of March 3, 2005, representatives of our financial advisors contacted representatives of the financial advisors of BAE Systems, Company A and Company C in accordance with the instructions of our board of directors. In response, that same day, Company A and Company C each requested a draft merger

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agreement. Later on March 3, 2005, Gibson Dunn circulated a draft merger agreement to both Company A and Company C, which draft merger agreement contemplated a two-step acquisition (i.e., a cash tender offer followed by a cash merger).

On March 3, 2005, representatives of BAE Systems financial advisors contacted representatives of JPMorgan and Lehman Brothers to inform them that BAE Systems was willing to increase its proposed price to $70 per share in cash, subject to several conditions, including that the parties move promptly to execute the definitive merger agreement. Later on March 3, 2005, Gibson Dunn provided to BAE Systems and Cravath a mark-up reflecting our comments on the draft merger agreement.

At a meeting of our board of directors on March 4, 2005, Messrs. Rabaut and Raborn provided an update regarding the status of discussions with each of the interested parties and briefly reviewed the merits of the proposals received.

Beginning in the early afternoon of March 4, 2005, Messrs. Raborn and Kolovat, along with representatives of Gibson Dunn, met with representatives of BAE Systems and Cravath at Gibson Dunn s offices in Washington, D.C. to negotiate the draft merger agreement. These discussions and negotiations focused principally on conditions to closing, operating covenants, the amount of the proposed termination fee and the circumstances under which it would be payable and the scope of our representations and warranties.

In the evening of March 4, 2005, JPMorgan and Lehman Brothers communicated to our senior management that Company A had increased its offer to acquire us to $70 per share in cash. As part of this revised proposal, Company A indicated that it would be willing to move quickly to execute a definitive merger agreement within the time-frame contemplated by our board of directors. Company A also requested an opportunity to perform limited additional due diligence, which it completed the next day. Later in the evening of March 4, 2005, counsel for Company A provided to us and to Gibson Dunn a mark-up of the draft merger agreement Gibson Dunn had distributed on March 3, 2005. Neither we nor our financial advisors received a response from Company C to our request for a revised proposal.

Based on Company A s revised proposal and the advice of JPMorgan and Lehman Brothers, on March 5, 2005, representatives of our company requested best and final offers from BAE Systems and Company A by noon on March 6, 2005. In the evening of March 5, Gibson Dunn distributed a final bid procedures letter to the financial advisers for BAE Systems and Company A, which set forth the process for submitting best and final offers. A meeting of our board of directors was scheduled to take place on March 6, 2005 as promptly as practicable after receiving the best and final offers.

On March 5, 2005, Cravath circulated a revised draft of the merger agreement based on the prior day s discussions. Negotiations on the merger agreement between Messrs. Raborn and Kolovat and representatives of Gibson Dunn, on the one hand, and representatives of BAE Systems and Cravath, on the other hand, continued at the offices of Gibson Dunn in Washington, D.C. Negotiations focused principally on the amount of the termination fee and the circumstances under which it would be payable as well as operating covenants and the scope of our representations and warranties. By the evening of March 5, we had substantially completed negotiations with BAE Systems regarding its proposed merger agreement.

On March 5, 2005, Messrs. Raborn and Kolovat, along with Gibson Dunn, participated in a series of teleconferences with representatives of Company A and its legal advisors, during which the parties reviewed and negotiated the draft merger agreement that had been presented to Company A and Company A s comments thereto. These discussions and negotiations focused principally on the structure of the proposed transaction, conditions to closing, operating covenants, the amount of the proposed termination fee and the circumstances under which it would be payable and the scope of our representations and warranties. Messrs. Raborn and Kolovat, along with Gibson Dunn and our financial advisors, also participated in a separate call with Company A and its legal advisors and proposed financing providers regarding the contemplated financing that Company A intended to arrange to fund its proposed acquisition of our company. Following these discussions and negotiations, Gibson Dunn circulated a revised draft merger agreement to Company A early in the morning of March 6, 2005.

BAE Systems and Company A each submitted final proposals to JPMorgan and Lehman Brothers around noon on March 6, 2005. Company A submitted a proposal that included a price per share in cash that

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was greater than the price per share that it offered on March 4, 2005 but less than the price per share offered by BAE Systems.

BAE Systems submitted a proposal for the acquisition of our company at a price of $75 per share in cash. BAE Systems proposal was not subject to any financing condition, and BAE Systems indicated in its proposal that it had access to all cash resources necessary to complete its proposed acquisition of our company. BAE Systems proposal also indicated that it would be prepared immediately following the meeting of our board of directors to execute the form of merger agreement that had been negotiated the prior day.

Our board of directors convened a meeting at 1:00 p.m. on March 6, 2005 to consider the final proposals made by BAE Systems and Company A. During this meeting, the members of our board of directors, with the assistance of our senior management and representatives of our financial and legal advisors, reviewed and discussed the contents of the letters submitted by BAE Systems and Company A earlier that day. Gibson Dunn reported on the status and terms of the proposed merger agreements, including the terms relating to closing conditions and the amount of the proposed termination fee and the circumstances under which it would be payable. After consideration of the merits of the final proposals, our board of directors determined that BAE Systems proposal was clearly superior to Company A s proposal in price and other respects.

Our board of directors then requested that its financial and legal advisors provide additional information regarding the merger agreement with BAE Systems and the fairness, from a financial point of view, of the merger consideration to be received by our stockholders pursuant to the merger agreement with BAE Systems. Gibson Dunn provided our board of directors with additional detail regarding the terms of the proposed merger agreement with BAE Systems, including: the scope of our representations and warranties; operating covenants; provisions regarding treatment of our employees and employee benefits; the conditions to closing; termination rights of the parties; the amount of the termination fee and the circumstances under which it would be payable; and the terms of the guarantee by BAE Parent of BAE Systems and Acquisition Sub s obligation to pay the merger consideration in accordance with the terms of the merger agreement.

Representatives of JPMorgan and Lehman Brothers then delivered their oral opinions, which were subsequently confirmed in writing, that, as of March 6, 2005, and based upon and subject to the factors and assumptions set forth in their opinions, the merger consideration to be received by our stockholders pursuant to the merger agreement with BAE Systems was fair, from a financial point of view, to such holders. The full text of the written opinion of JPMorgan, dated March 6, 2005, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion is attached as Annex B to this proxy statement. The full text of the written opinion of Lehman Brothers, dated March 6, 2005, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion is attached as Annex C to this proxy statement.

After further deliberation and discussion, our board of directors: determined that the terms of the merger, the merger agreement and the transactions contemplated by the merger agreement are fair to, and in the best interests of, our stockholders; declared the merger and the merger agreement advisable; approved the merger agreement and the transactions contemplated by the merger agreement; and recommended that our stockholders adopt the merger agreement. The vote was unanimous, except for one director, who did not participate in the meeting.

Later on March 6, we, BAE Systems, and Acquisition Sub executed the definitive merger agreement. On March 7, 2005, we and BAE Systems announced the execution of the merger agreement.

Our Reasons for the Merger

Our board of directors unanimously (with one director not participating):

approved the merger agreement, the merger, and the related transactions;

determined that the terms of the merger, the merger agreement, and the related transactions are fair to and in the best interests of our stockholders;

declared the merger agreement and the merger advisable; and

recommended that our stockholders adopt the merger agreement.

In reaching its determination, our board of directors consulted with our management, as well as our legal and financial advisors, and considered the following material factors:

Other strategic alternatives available to us, including pursuing growth through strategic corporate acquisitions and continuing to operate as an independent public company. Although our board of directors believed that our prospects remained strong as an independent company, a sale of UDI as a whole at the price offered by BAE Systems was more likely to maximize stockholder value than remaining an independent company and other structural alternatives. Moreover, our board of directors considered that there were risks and uncertainties associated with remaining an independent public company.

The merger consideration of $75.00 per share to be received by our stockholders represents a substantial premium to the historic trading prices of our common stock. The merger consideration represents a 28.7% premium over the closing price of our common stock on March 4, 2005 (the last trading day preceding the announcement of the merger agreement), a 43.3% premium over the average closing price of our common stock over the 30 calendar days preceding March 4, 2005, a 67.7% premium over the average closing price of our common stock over the 180 calendar days preceding March 4, 2005, and a 91.1% premium over the average closing price of our common stock over the one year period preceding March 4, 2005.

The merger consideration consists solely of cash, which provides certainty of value to our stockholders.

The general terms and conditions of the merger agreement, including the parties representations, warranties and covenants, the conditions to their respective obligations as well as the likelihood of the consummation of the merger, the proposed transaction structure, the termination provisions of the merger agreement, and our board of directors evaluation of the likely time period necessary to close the merger.

BAE Systems obligation to consummate the merger is not subject to any financing contingencies.

Our board of directors view of BAE Systems ability to fund the merger consideration either directly or with the support of its ultimate parent company, BAE Parent.

Our board of directors and management s view that it is unlikely that any other party would propose to enter into a transaction more favorable to our stockholders.

Prior to adoption of the merger agreement by our stockholders, the merger agreement permits us, under certain conditions and subject to certain requirements and rights of BAE Systems, to provide information to, and negotiate with, any third party that makes an unsolicited acquisition proposal if our board of directors determines in good faith that the acquisition proposal is reasonably likely to result in a superior proposal

Prior to adoption of the merger agreement by our stockholders, the merger agreement can be terminated by us if our board of directors receives a superior proposal, subject to certain requirements and rights of BAE Systems and payment of a termination fee.

The likelihood that the merger would be approved by the requisite regulatory authorities.

The presentation of JPMorgan on March 6, 2005 and its opinion that, as of March 6, 2005, and based upon and subject to the factors and assumptions set forth in its opinion, the $75.00 in cash per share of UDI common stock to be received by our stockholders pursuant to the merger agreement was fair, from a financial point of view, to

our stockholders. The full text of the written opinion of JPMorgan, dated March 6, 2005, which sets forth the assumptions made, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement.

The presentation of Lehman Brothers on March 6, 2005 and its opinion that, as of March 6, 2005, and based upon and subject to the factors and assumptions set forth in its opinion, the $75.00 in cash per share of UDI common stock to be received by our stockholders pursuant to the merger agreement was

fair, from a financial point of view, to our stockholders. The full text of the written opinion of Lehman Brothers, dated March 6, 2005, which sets forth the assumptions made, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement.

In the course of its deliberations, our board of directors also considered a variety of risks and other potentially negative factors, including the following:

The merger agreement precludes us from actively soliciting alternative proposals, although, prior to adoption of the merger agreement by our stockholders, our board of directors is permitted to provide information to, and negotiate with, any third party that makes an unsolicited acquisition proposal if the board determines in good faith that the acquisition proposal is reasonably likely to result in a superior proposal.

We are obligated to pay BAE Systems a termination fee of $119,233,768 if the merger agreement is terminated under certain circumstances. It is possible that these provisions could discourage a competing proposal to acquire us or reduce the price in an alternative transaction.

The merger consideration consists solely of cash and will therefore generally be taxable to our U.S. stockholders for U.S. federal income tax purposes. In addition, because our stockholders are receiving cash for their stock, they will not participate after the closing in future dividends, our future growth, or the benefits of synergies resulting from the merger.

The merger is subject to, among other things, the approval of the shareholders of BAE Parent.

Certain of our directors and executive officers may have conflicts of interest in connection with the merger, as they may receive certain benefits that are different from, and in addition to, those of our other stockholders. See *Interests of Directors and Executive Officers in the Merger.*

We may incur significant risks and costs if the merger does not close, including the diversion of management and employee attention during the period after the signing of the merger agreement, potential employee attrition, and the potential effect on our business and customer relations. In that regard, under the merger agreement, we must conduct our business in the ordinary course and we are subject to a variety of other restrictions on the conduct of our business prior to completion of the merger or termination of the merger agreement, which may delay or prevent us from undertaking business opportunities that may arise or preclude actions that would be advisable if we were to remain an independent public company.

The foregoing discussion of the information and factors considered by our board of directors, while not exhaustive, includes the material factors considered by our board. In view of the variety of factors considered in connection with its evaluation of the merger, our board of directors did not find it practicable to, and did not, quantify or otherwise assign relative or specific weights or values to any of these factors, and individual directors may have given different weight to different factors. It should be noted that this explanation of our board of directors reasoning and other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading *Special Note Regarding Forward-Looking Statements.*

Recommendation of Our Board of Directors

Our board of directors evaluated the factors described above, including asking questions of our management and legal and financial advisors. **After careful consideration, our board of directors (with one director not participating) unanimously determined that the merger is advisable and fair to, and in the best interests of, our stockholders, approved the merger agreement, and recommended that our stockholders vote FOR adoption of the merger agreement.**

Opinion of Our Financial Advisors JPMorgan and Lehman Brothers

On January 19, 2005, we contacted JPMorgan and Lehman Brothers to request that each act as our financial advisor in connection with the potential acquisition of our company. At the meeting of our board of directors on March 6, 2005, each of JPMorgan and Lehman Brothers rendered its oral opinion to our board of directors, which was subsequently confirmed in writing, that, as of such date, based upon and subject to the assumptions made, matters considered and limits of the review undertaken by JPMorgan and Lehman Brothers, the consideration to be paid to holders of our common stock in the proposed merger was fair, from a financial point of view, to such stockholders. No limitations were imposed by our board of directors upon either JPMorgan or Lehman Brothers with respect to the investigations made or procedures followed by either of them in rendering their respective opinions.

We have included as Annexes B and C the full text of the separate, written opinions of each of JPMorgan and Lehman Brothers dated as of March 6, 2005. We are incorporating each such opinion into this proxy statement by reference. Each opinion sets forth the assumptions made, matters considered, and limits on the review undertaken by each financial advisor in rendering its opinion. Our stockholders may refer to Annexes B and C in order to read each opinion in its entirety. JPMorgan s and Lehman Brothers written opinions are addressed to our board of directors, are directed only to the consideration to be paid in the merger, and do not constitute a recommendation to any of our stockholders as to how such stockholder should vote at the annual meeting. The summary of each of the opinions of JPMorgan and Lehman Brothers set forth in this proxy statement is qualified in its entirety by reference to the full text of each such opinion.

Opinion of JPMorgan

In arriving at its opinion, JPMorgan, among other things:

- reviewed a draft dated March 5, 2005 of the merger agreement;
- reviewed certain publicly available business and financial information concerning UDI and the industries in which we operate;
- compared the proposed financial terms of the merger with the publicly available financial terms of certain transactions involving companies JPMorgan deemed relevant and the consideration received for such companies;
- compared our financial and operating performance with publicly available information concerning certain other companies JPMorgan deemed relevant and reviewed the current and historical market prices of our common stock and certain publicly traded securities of such other companies;
- reviewed certain internal financial analyses and forecasts prepared by our management relating to our business; and
- performed such other financial studies and analyses and considered such other information as JPMorgan deemed appropriate for the purposes of its opinion.

JPMorgan also held discussions with certain members of our management and the management of BAE Systems with respect to certain aspects of the merger, and our past and current business operations, our financial condition and future prospects and operations, and certain other matters JPMorgan believed necessary or appropriate to its inquiry.

JPMorgan relied upon and assumed, without assuming responsibility or liability for independent verification, the accuracy and completeness of all information that was publicly available or that we furnished to or discussed with JPMorgan and BAE Systems or otherwise reviewed by or for JPMorgan. JPMorgan did not conduct and was not provided with any valuation or appraisal of any assets or liabilities, nor did JPMorgan evaluate our solvency or the solvency of BAE Systems under any state, federal, or international laws relating to bankruptcy, insolvency, or similar matters. In relying on financial analyses and forecasts provided to it, JPMorgan assumed that they were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by our management as to our expected future results of operations and financial condition to which such analyses or forecasts relate.

JPMorgan expressed no view as to such analyses or forecasts or the assumptions on which they were based. JPMorgan also assumed that the merger and the

other transactions contemplated by the merger agreement will be consummated as described in the merger agreement, and that the merger agreement, as executed, would not differ in any material respect from the draft thereof provided to JPMorgan. JPMorgan relied as to all legal matters relevant to the rendering of its opinion upon the advice of counsel. JPMorgan further assumed that all material governmental, regulatory, or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on us or on the contemplated benefits of the merger.

The projections for UDI furnished to JPMorgan were prepared by our management. We do not publicly disclose internal management projections of the type provided to JPMorgan in connection with JPMorgan s analysis of the merger, and such projections were not prepared with a view toward public disclosure or compliance with published guidelines of the SEC or the American Institute of Certified Public Accountants regarding prospective financial information. These projections were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of our management, including, without limitation, factors related to general economic and competitive conditions and prevailing interest rates. Accordingly, actual results could vary significantly from those set forth in such projections.

JPMorgan s opinion is based on economic, market, and other conditions as in effect on, and the information made available to JPMorgan as of, the date of such opinion. Subsequent developments may affect JPMorgan s opinion, and JPMorgan does not have any obligation to update, revise, or reaffirm such opinion. JPMorgan s opinion is limited to the fairness, from a financial point of view, of the consideration to be received by the holders of our common stock in the proposed merger, and JPMorgan has expressed no opinion as to the fairness of the merger to, or any consideration of, the holders of any other class of our securities, our creditors, or other of our constituencies, or our underlying decision to engage in the merger. JPMorgan expressed no opinion as to the price at which our common stock will trade at any future time.

Opinion of Lehman Brothers

In arriving at its opinion, Lehman Brothers reviewed and analyzed:

the merger agreement and the specific terms of the merger, including the necessary regulatory approvals;

publicly available information concerning us that Lehman Brothers believed to be relevant to its analysis, including, our earnings announcement for the fiscal year 2004 that was filed on Form 8-K on January 27, 2005, our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004;

financial and operating information with respect to our business, operations, and prospects furnished to Lehman Brothers by us, including a draft of our Annual Report on Form 10-K for the fiscal year ended December 31, 2004;

a trading history of our common stock from its commencement of trading on the NYSE on December 14, 2001 to March 4, 2005 and a comparison of that trading history with those of other companies that Lehman Brothers deemed relevant;

a comparison of our historical financial results and present financial condition with those of other companies that Lehman Brothers deemed relevant;

a comparison of the financial terms of the merger with the financial terms of certain other recent transactions that Lehman Brothers deemed relevant;

independent research analysts estimates of our future financial performance published by The Institutional Brokers Estimate System, or I/B/E/S; and

the results of our efforts and the efforts of Lehman Brothers and JPMorgan to solicit indications of interest from third parties with respect to a sale of UDI.

In addition, Lehman Brothers had discussions with our management concerning our business, operations, assets, financial condition, and prospects. Lehman Brothers also undertook such other studies, analyses, and investigations as it deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of our management that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to our financial projections, upon our advice, Lehman Brothers assumed that such projections had been reasonably prepared on a basis reflecting the best currently available estimates and judgments of our management as to our future financial performance and that we will perform substantially in accordance with such projections. Lehman Brothers also assumed that our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as filed with the SEC would not differ in any material respect from the draft thereof furnished to it. In arriving at its opinion, Lehman Brothers did not conduct a physical inspection of our properties and facilities and did not make or obtain any evaluations or appraisals of our assets or liabilities. Lehman Brothers opinion was necessarily based upon market, economic, and other conditions as they existed on, and could be evaluated as of, the date of its opinion.

The projections for UDI furnished to Lehman Brothers were prepared by our management. We do not publicly disclose internal management projections of the type provided to Lehman Brothers in connection with Lehman Brothers analysis of the merger, and such projections were not prepared with a view toward public disclosure or compliance with published guidelines of the SEC or the American Institute of Certified Public Accountants regarding prospective financial information. These projections were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of our management, including, without limitation, factors related to general economic and competitive conditions and prevailing interest rates. Accordingly, actual results could vary significantly from those set forth in such projections.

Summary of the Financial Analyses Performed by Our Financial Advisors

In accordance with customary investment banking practice, JPMorgan and Lehman Brothers employed generally accepted valuation methods in reaching their respective opinions. The following is a summary of the material financial analyses utilized by JPMorgan and Lehman Brothers in connection with providing their opinions. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the opinions.

Public Trading Multiples

JPMorgan and Lehman Brothers compared selected financial data of UDI with similar publicly available data for selected publicly traded companies engaged in businesses which JPMorgan and Lehman Brothers judged to be analogous to our business. The following companies were selected by JPMorgan and Lehman Brothers:

Boeing

Lockheed Martin

Northrop Grumman

General Dynamics

Raytheon

L-3 Communications

Alliant Techsystems

DRS Technologies

Armor Holdings

EDO Corp.

For each comparable company, JPMorgan and Lehman Brothers calculated multiples of enterprise value over earnings before interest, taxes, depreciation, and amortization, referred to as EBITDA, and multiples of share price over earnings per fully diluted share, referred to as EPS, based upon estimates of EBITDA and EPS for each of the calendar years ended December 31, 2005 and 2006. JPMorgan and Lehman Brothers applied a range of multiples derived from this analysis to our projected EBITDA and EPS, as applicable, for

each of the calendar years ended December 31, 2005 and 2006, yielding implied stand-alone public market trading values for our common stock of approximately $45.00 to $63.00 per fully diluted share. These implied stand-alone public market trading values did not include any value an acquiror may derive from consolidated ownership such as synergies, cost savings, and enhanced revenue opportunities, including sales outside the United States.

Selected Transaction Analysis

Using publicly available information, JPMorgan and Lehman Brothers examined selected acquisitions and acquisition proposals of companies in the defense industry. Specifically, JPMorgan and Lehman Brothers reviewed the following transactions:

Northrop Grumman s acquisition of Newport News

L-3 Communications acquisition of Aircraft Integration Systems

Our acquisition of United States Marine Repair

General Dynamics acquisition of Advanced Technical Products

Northrop Grumman s acquisition of TRW

General Dynamics acquisition of General Motors Defense

DRS acquisition of Integrated Defense

General Dynamics acquisition of Alvis (acquisition proposed, but not consummated)

BAE Parent s acquisition of Alvis

For each selected transaction, JPMorgan and Lehman Brothers calculated multiples of transaction value to EBITDA for the twelve months prior to the date of announcement. JPMorgan and Lehman Brothers applied a range of multiples derived from this analysis to our EBITDA for the twelve months ending December 31, 2004, and arrived at an estimated range of equity values of between $49.50 and $63.00 per fully diluted share of our common stock.

Discounted Cash Flow Analysis

JPMorgan and Lehman Brothers conducted a discounted cash flow analysis for the purpose of determining the equity value per fully diluted share for our common stock. JPMorgan and Lehman Brothers calculated the unlevered free cash flows that we are expected to generate during fiscal years 2005 through 2009 based upon financial projections prepared by our management for fiscal years 2005 through 2007, extrapolated financial information developed by JPMorgan and Lehman Brothers in collaboration with, and approved by, our management for fiscal years 2008 and 2009, and financial and other information from our public filings. JPMorgan and Lehman Brothers also calculated a range of terminal asset values of UDI at the end of the 5-year period ending December 31, 2009 by applying a perpetual growth rate ranging from 1.00% to 2.50% of our unlevered free cash flow during the final year of the 5-year period.

The unlevered free cash flows and the range of terminal asset values were then discounted to present values using discount rates ranging from 8.50% to 9.00%, which range was based upon an analysis of our weighted average cost of capital. The present value of the unlevered free cash flows and the range of terminal asset values were then adjusted for our cash and cash equivalents and total debt, yielding a range of equity values of between $52.00 and $67.25 per fully diluted share of our common stock. At the midpoint of the discount rate range, the equity value range was between $53.50 and $64.50 per fully diluted share of our common stock. These equity values per fully diluted share of our common stock did not include the value an aquiror may derive from synergies, cost savings, and enhanced revenue opportunities, such as additional sales outside the United States.

General

The summary set forth above does not purport to be a complete description of the analyses or data presented by JPMorgan and Lehman Brothers. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Furthermore, in arriving at their

opinions, JPMorgan and Lehman Brothers did not attribute any particular weight to any analysis or factor they considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. JPMorgan and Lehman Brothers believe that the summary set forth above and their analyses must be considered as a whole and that selecting portions thereof, without considering all of their analyses, could create an incomplete view of the processes underlying their analyses and opinions. JPMorgan and Lehman Brothers based their analyses on assumptions that they deemed reasonable, including assumptions concerning general business and economic conditions and industry-specific factors. The other principal assumptions upon which JPMorgan and Lehman Brothers based their analyses are set forth above under the description of each such analysis. JPMorgan s and Lehman Brothers analyses are not necessarily indicative of actual values or actual future results that might be achieved, which values may be higher or lower than those indicated. Moreover, JPMorgan s and Lehman Brothers analyses are not and do not purport to be appraisals or otherwise reflective of the prices at which businesses actually could be bought or sold.

As a part of their respective investment banking businesses, JPMorgan and its affiliates and Lehman Brothers and its affiliates are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate, and other purposes. JPMorgan and Lehman Brothers were each selected to advise us with respect to the merger on the basis of such experience and its familiarity with the defense industry and UDI in particular.

JPMorgan, Lehman Brothers, and their respective affiliates, in the ordinary course of their business have, from time to time, provided, and in the future may continue to provide, commercial and investment banking services to us, BAE Systems, and their respective affiliates, in each case for customary compensation. In the ordinary course of their businesses, JPMorgan, Lehman Brothers, and their respective affiliates may actively trade the debt and equity securities of UDI or BAE Systems for their own account or for the accounts of customers and, accordingly, they may at any time hold long or short positions in such securities.

For services rendered in connection with the merger, we have agreed to pay each of JPMorgan and Lehman Brothers an engagement fee of $250,000, which was payable upon execution of the engagement letter, an opinion fee of $1.5 million, which was payable upon delivery of its respective fairness opinion, and a transaction fee of approximately $9.5 million, which is payable upon the consummation of the merger. In addition, we have agreed to reimburse each of JPMorgan and Lehman Brothers for its reasonable expenses incurred in connection with its services, including the fees and disbursements of counsel, and will indemnify each of JPMorgan and Lehman Brothers against certain liabilities arising out of its engagement, including liabilities arising under federal securities laws.

Financing Condition

The merger is not conditioned on BAE Systems ability to obtain financing.

Material U.S. Federal Income Tax Consequences of the Merger to Our U.S. Stockholders

The following is a general discussion of the material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) whose shares of our common stock are converted into the right to receive cash consideration of $75.00 per share in the merger. This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations and administrative and judicial interpretations thereof all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This discussion addresses only persons that hold shares of our common stock as a capital asset (generally, property held for investment) and does not address all aspects of U.S. federal income taxation that may be relevant in light of a particular U.S. holder s special tax status or situation. In particular, this discussion does not address the tax consequences to non-U.S. holders, dealers in securities, banks or other financial institutions, insurance companies, tax-exempt organizations, partnerships or other pass-through entities, investors that hold shares of our common stock as part of a hedge, straddle or conversion transaction and stockholders who acquired shares of our common stock pursuant to the exercise of options or otherwise as compensation or through a tax-qualified retirement plan. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction.

For purposes of this discussion, a U.S. holder is any individual, corporation, estate or trust that is a holder of our common stock and that is, for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to U.S. federal income tax regardless of its source; or

a trust (a) if a U.S. court is able to exercise primary supervision over the trust s administration and one or more U.S. persons have the authority to control all substantial decisions of the trust; or (b) which has a valid election in place to be treated as a U.S. person.

If our common stock is held by a partnership or other pass-through entity, the U.S. federal income tax treatment of a partner or owner of such partnership or other pass-through entity generally will depend upon the status of the partner or owner and the activities of the partnership or pass-through entity. Accordingly, we urge partnerships and other pass-through entities that are holders of our common stock, and partners or owners in such partnerships or pass-through entities, to consult their own tax advisors regarding the consequences to them of the merger.

You should consult your tax advisor in determining the tax consequences of the merger, including the application of U.S. federal income tax considerations, as well as the application of state, local, foreign and other tax laws.

The receipt of cash for shares of our common stock in the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder whose shares of our common stock are converted into the right to receive cash pursuant to the merger will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash received and the U.S. holder s adjusted tax basis in the shares of our common stock converted into the right to receive cash pursuant to the merger. Gain or loss will be determined separately for each block of shares (*i.e.*, shares acquired at the same cost in a single transaction) converted into the right to receive cash in the merger. Such gain or loss will be long-term capital gain or loss provided that a U.S. holder s holding period for such shares is more than 12 months at the time of the completion of the merger. Long-term capital gains of individuals are eligible for reduced rates of taxation. There are limitations on the deductibility of capital losses.

Backup withholding will apply to all cash payments to which a U.S. holder is entitled pursuant to the merger agreement, unless such U.S. holder provides a taxpayer identification number (Social Security number, in the case of individuals, or employer identification number, in the case of other stockholders), certifies under penalty of perjury that such number is correct, and otherwise complies with the backup withholding tax rules. Each of our U.S. holders should complete and sign the Substitute Form W-9 which will be included as part of the letter of transmittal and return it to the paying agent, in order to provide the information and certification necessary to avoid backup withholding tax, unless an exemption applies and is established in a manner satisfactory to the paying agent. Stockholders who are not U.S. holders should consult their tax advisors regarding the applicability of the backup withholding rules to their situation, including the proper documentation, if any, needed to avoid backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

U.S. holders considering the exercise of their appraisal rights should consult their own tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the exercise of such rights arising under the laws of any other taxing jurisdiction.

The discussion set forth above is included for general information purposes only and may not be applicable to you depending on your particular situation. You should consult the your tax advisors regarding the tax consequences of the merger including the tax consequences under state, local, foreign and other tax laws and the possible effects of

changes in U.S. federal or other tax laws.

Interests of Directors and Executive Officers in the Merger

In considering the recommendation of our board of directors with respect to the merger agreement, holders of shares of our common stock should be aware that our executive officers and directors have interests in the merger and arrangements that are different from, or in addition to, those of our stockholders generally. These interests and arrangements may create potential conflicts of interest. Our board was aware of these potential conflicts of interest and considered them, among other matters, in reaching its decision to approve the merger agreement and to recommend that our stockholders vote FOR adoption of the merger agreement.

Stock Options and Restricted Stock

The merger agreement provides that at the completion of the merger each option, whether vested or unvested, to purchase shares of our common stock, including those options that our executive officers and directors hold, will be canceled in exchange for a cash payment, without interest, to the option holder equal to the excess of $75.00 over the exercise price of the stock option for each share of our common stock subject to the option. BAE Systems has agreed to make the payments described in the foregoing sentence within 15 days of completion of the merger.

In addition, the merger agreement provides that at the completion of the merger all outstanding shares of restricted stock, including those held by our executive officers and directors, will vest immediately prior to the completion of the merger and will be treated in the same manner in the merger as other outstanding shares of our common stock.

Employment Agreements and Severance Agreements

Employment Agreements with Messrs. Rabaut, Raborn, Krekich, Kolovat, and Wagner

We maintain employment agreements with each of the following executive officers providing for annual base salaries in the listed amounts: Thomas W. Rabaut, $600,000; Francis Raborn, $340,000; Alexander J. Krekich, $288,750; David V. Kolovat, $238,117; and Dennis A. Wagner III, $215,313. Each of these employment agreements automatically renews annually for successive one-year periods unless either party delivers notice within specified periods. Each of these executive officers is also entitled to participate in an annual management incentive plan established by the compensation committee of our board of directors, to receive bonuses under our management incentive plan, and to participate in our employee benefit plans.

Under Messrs. Rabaut s, Raborn s, Krekich s, Kolovat s, and Wagner s employment agreements, if the applicable executive s employment is terminated by us without cause or by the executive for good reason, each as defined in the agreements, the executive is entitled to receive base salary for three years, in the case of Messrs. Rabaut and Raborn, and two years in the case of Messrs. Krekich, Kolovat, and Wagner, in each case, a severance period, along with their target bonuses for the severance period, a pro rata target bonus for the year of termination, continued employee benefits for the severance period, and an additional gross-up lump sum payment to cover the costs of excise taxes, if any, to which these officers may be subject.

Severance Agreements with Messrs. Doty and Howe

UDI maintains severance agreements with each of Messrs. Elmer I. Doty and Keith B. Howe. Pursuant to the terms of these agreements, Messrs. Doty and Howe are entitled to a stated termination payment if, during a two year period of time after we enter into an agreement to effect a corporate transaction, such as the merger, the executive s employment is terminated either by us without cause, or by the executive for good reason, each as defined in the agreements. This termination payment is the greater of either the amount of payment that the executive would otherwise be entitled to under our general severance policy or an amount equal to the sum of the executive s annual base salary plus the amount of his annual bonus and a prorated bonus to which he is entitled under our management incentive plan.

Indemnification of Officers and Directors

BAE Systems has agreed that it will, to the fullest extent permitted by law, honor or cause the surviving corporation in the merger to honor all our obligations to indemnify (including any obligations to advance funds for expenses) our current or former directors or officers for acts or omissions by such directors and officers

occurring prior to completion of the merger to the extent that such obligations exist on the date of the merger agreement, and these obligations will survive the merger and continue in full force and effect until the expiration of the applicable statute of limitations with respect to any claims against such directors and officers arising out of such acts or omissions. In the event that the surviving corporation in the merger or BAE Systems consolidates with or merges into another person and is not the surviving entity, or transfers all or substantially all of its assets to another person, the surviving corporation or BAE Systems has agreed to make proper provision so that the successors and assigns of the surviving corporation or BAE Systems will assume the obligations described above.

In the merger agreement, BAE Systems has further agreed that, for a period of six years after the merger, BAE Systems will cause the surviving corporation in the merger to maintain in effect directors and officers liability insurance with at least the same coverage and containing amounts and terms and conditions no less advantageo