ESSEX CORPORATION
Form 10QSB
October 31, 2001

FORM 10-QSB
U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

COMMISSION FILE NUMBER 0-10772

ESSEX CORPORATION
(Exact name of small business issuer as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	54-0846569 (I.R.S. Employer Identification No.)
9150 Guilford Road, Columbia, Maryland (Address of principal executive offices)	21046 (Zip Code)

Issuer's telephone number, including area code: (301) 939-7000

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO ______

State the number of shares outstanding of each of the issuer's class of Common Stock as of the latest practicable date.

CLASS	OUTSTANDING AT SEPT. 30, 2001
Common Stock, no par value per share	5,080,961

Transitional Small Business Disclosure Format (Check One);

YES ______ NO X

ESSEX CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments for a fair presentation of results for such period. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual report on Form 10-KSB/A No. 2 for the fiscal year ended December 31, 2000.

ESSEX CORPORATION

BALANCE SHEETS

	September 30, 2001 (unaudited)	December 31, 2000 (audited)
ASSETS		
CURRENT ASSETS		
Cash	$ 839,601	$ 1,015,634
Accounts receivable, net	339,168	165,614
Inventory	59,983	49,857
Prepayments and other	66,974	33,433
	1,305,726	1,264,538
PROPERTY AND EQUIPMENT		
Computer and special equipment	1,018,931	737,980
Furniture, equipment and other	298,628	225,508
	1,317,559	963,488
Accumulated depreciation and amortization	(926,718)	(863,254)
	390,841	100,234
OTHER ASSETS		
Patents, net	177,478	158,100
Other	19,213	96,461
	196,691	254,561
TOTAL ASSETS	1,893,258	1,619,333

ESSEX CORPORATION

BALANCE SHEETS

	September 30, 2001 (unaudited)	December 31, 2000 (audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 234,455	$ 131,934
Accrued wages and vacation	187,597	184,489
Capital leases	136,634	22,622
Other accrued expenses	98,455	81,748
Accrued lease settlement	--	107,766
	657,141	528,559
LONG-TERM DEBT		
Capital leases, net of current portion	89,982	--
Total Liabilities	747,123	528,559
STOCKHOLDERS' EQUITY		
Common stock, no par value; 25 million shares authorized; 5,080,961 and 4,570,361 shares issued and outstanding, respectively	8,551,544	6,496,320
Convertible preferred stock, $0.01 par value; 1 million total shares authorized; 500,000 shares of Series B authorized, 500,000 and 312,500 shares outstanding, respectively	2,000,000	1,250,000
Additional paid-in capital	2,000,000	1,250,000
Accumulated deficit	(11,405,409)	(7,905,546)
	1,146,135	1,090,774
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,893,258	$ 1,619,333

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ESSEX CORPORATION

STATEMENTS OF OPERATIONS
FOR THE THIRTY-NINE WEEK PERIODS
ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 24, 2000

	2001	2000
	(unaudited)	(unaudited)
Revenue	$ 1,880,832	$ 2,533,085
Costs of goods sold and services provided	(948,860)	(1,184,146)
Research and development	(1,922,308)	(291,874)
Selling, general and administrative expenses	(1,767,553)	(1,572,687)
Operating Loss	(2,757,889)	(515,622)
Interest income (expense), net and debenture financing amortization	8,026	(21,028)
Loss Before Income Taxes	(2,749,863)	(536,650)
Provision for income taxes	--	--
Net Loss	(2,749,863)	(536,650)
Beneficial conversion feature of convertible preferred stock	(750,000)	(1,000,000)
Net Loss Attributable to Common Stockholders	(3,499,863)	$ (1,536,650)
Weighted Average Number of Shares Outstanding	6,289,513	4,443,682
Basic Loss Per Common Share	$ (0.56)	$ (0.35)
Diluted Loss Per Common Share	$ (0.56)	$ (0.35)

ESSEX CORPORATION

STATEMENTS OF OPERATIONS
FOR THE THIRTEEN WEEK PERIODS

ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 24, 2000

	2001 (unaudited)	2000 (unaudited)
Revenue	$ 745,468	$ 759,939
Costs of goods sold and services provided	(381,880)	(355,190)
Research and development	(652,663)	(104,644)
Selling, general and administrative expenses	(693,218)	(645,866)
Operating Loss	(982,293)	(345,761)
Interest expense, net and debenture financing amortization	(1,245)	(6,619)
Loss Before Income Taxes	(983,538)	(352,380)
Provision for income taxes	--	--
Net Loss	(983,538)	(352,380)
Beneficial conversion feature of convertible preferred stock	(250,000)	(1,000,000)
Net Loss Attributable to Common Stockholders	$ (1,233,538)	$ (1,352,380)
Weighted Average Number of Shares Outstanding	6,706,225	4,535,323
Basic Loss Per Common Share	$ (0.19)	$ (0.30)
Diluted Loss Per Common Share	$ (0.19)	$ (0.30)

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ESSEX CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE THIRTY-NINE WEEK PERIODS
ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 24, 2000

	2001 (unaudited)	2000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (2,749,863)	$ (536,650)
Adjustments To Reconcile Net Loss To Net Cash (Used In) Provided By Operating Activities:		
Depreciation and amortization	160,250	40,238
Inventory valuation reserve	60,000	115,000
Stock option compensation expense	34,000	--
Other	(492)	7,529
Change in Assets and Liabilities:		
Accounts receivable	(173,554)	328,209
Inventory	(70,126)	15,321
Prepayments and other assets	(33,541)	8,327
Accounts payable	102,521	542
Accrued lease settlement	(107,766)	(15,682)
Other liabilities	(3,692)	(50,103)
Net Cash Used In Operating Activities	(2,782,263)	(87,269)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(81,048)	(15,438)
Proceeds from sale of fixed assets	492	5,471
Net Cash Used In Investing Activities	(80,556)	(9,967)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of preferred stock	750,000	1,000,000
Sale of common stock	2,000,000	1,500
Exercise of stock options	21,224	--
Short-term repayments, net	--	(59,470)
Payment of capital lease obligations	(84,438)	(13,333)
Net Cash Provided By Financing Activities	2,686,786	928,697
CASH AND CASH EQUIVALENTS		
Net (decrease) increase	(176,033)	831,461
Balance - beginning of period	1,015,634	502,663
Balance - end of period	$ 839,601	$ 1,334,124

ESSEX CORPORATION
NOTES TO INTERIM FINANCIAL INFORMATION

NOTE 1: General

FISCAL YEAR AND PRESENTATION

Essex Corporation (the "Company") is on a 52/53-week fiscal year ending the last Sunday in December. Year 2001 is a 52-week fiscal year. Year 2000 was a 53-week fiscal year. Certain amounts for 2000 have been reclassified to conform to the 2001 presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for uncollectible accounts receivable, inventory obsolescence and valuation, depreciation and amortization, intangible assets, employee benefit plans and contingencies, among others. Actual results could differ from those estimates.

IMPORTANT BUSINESS RISK FACTORS

The Company has historically been principally a supplier of technical services under contracts or subcontracts with departments or agencies of the U.S. Government, primarily the military services and other departments and agencies of the Department of Defense. In recent years, the Company's revenues had been principally from a commercial customer in the satellite communications business area. This work substantially ended in December 1999 and limited other satellite communications work has continued.

The Company has expended significant funds to transition into the commercial marketplace, particularly the productization of its proprietary technologies in optoelectronic processors. In June 2000, the Company announced that it had filed applications to secure patent protection for innovative technologies in two communications device families: Fiberoptic HyperFine Wavelength Division Multiplex devices (HfWDM) and Optical Processor Enhanced Receiver Architecture (OPERA). Since September 2000, the Company has received $4.4 million in financing from an Investor Group to advance its programs to capitalize upon these inventions.

Primarily due to the increased expenditures for research and development as well as marketing of its optoelectronics product prototypes and services, particularly the optical telecommunications device technologies, the Company incurred significant losses in fiscal 2000 and in the first nine months of 2001. The Company plans to continue research and development spending in 2001 in the optoelectronics operations. In order to maintain spending levels, the Company will need additional funds. The long-term success of the Company in these areas is dependent on its ability to successfully develop and market products related to its communications devices and optoelectronic processors. The success of these efforts is subject to changing technologies, availability of additional financing, competition and ultimately market acceptance.

The Company currently does not have sufficient resources to bring its telecommunications and optoelectronics processing devices to market.

Accordingly, the Company will likely have to partner with or enter into licensing arrangements with major industry participants in order to successfully introduce its technology and products. There can be no assurance that the Company will be successful in entering into such agreements.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. Such costs include direct labor and materials as well as a reasonable allocation of indirect costs. However, no selling, general and administrative costs are included. Equipment which has alternative future uses is capitalized and charged to expense over its estimated useful life.

NOTE 2: Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per common share are computed using the weighted average number of common shares outstanding during the period and common shares issuable upon the required conversion of preferred stock. Diluted earnings per common share would incorporate the incremental shares issuable upon the assumed exercise of stock options and warrants. Since there was a net loss attributable to common stockholders, such incremental shares were anti dilutive for the periods presented.

NOTE 3: Accounts Receivable Financing

The Company has a working capital financing agreement with an accounts receivable factoring organization. Under such an agreement, the factoring organization may purchase certain of the Company's accounts receivable subject to full recourse against the Company in the case of nonpayment by the customers. The Company generally receives 85%-90% of the invoice amount at the time of purchase and the balance when the invoice is paid. The Company is charged an interest fee and other processing charges, payable at the time each invoice is paid. There were no funds advanced as of September 30, 2001 or December 31, 2000.

NOTE 4: Common Stock; Warrants; Preferred Stock

The Company's Articles of Incorporation authorize 1 million shares of preferred stock, par value $0.01 per share, the series and rights of which may be designated by the Board of Directors in accordance with applicable state and federal law. In September 2000, the Board designated 500,000 shares of such preferred stock as Series B. There were 312,500 shares of Series B issued in 2000 for $1,250,000 and an additional 187,500 shares issued in 2001 for $750,000 to the Investor Group. Each Series B share must be converted into 4 shares of common stock before September 8, 2002. The Series B has 51% voting rights, subject to certain terms and conditions, on all stockholder matters. No Series A preferred shares are currently outstanding.

In connection with the issuance of the preferred stock, the Company also issued common stock warrants to the preferred stockholders. These warrants are for an additional 2 million shares of common stock. The warrants have a term of 5 years and can be exercised at a nominal price of $2,000. The warrants become exercisable under certain terms and conditions, such as the market

price of the common stock exceeding $10 through $20 per share for 5 consecutive days, or the occurrence of an additional private placement of $10 million where the valuation of the Company exceeds $50 million. The warrants would also become exercisable upon a sale of all or substantially all of the assets of the Company or a merger or acquisition of the Company. The Company has determined that the warrants had a nominal fair value at issuance due to the restrictive covenants. The Company has reserved 4 million shares of common stock in connection with the convertible preferred stock and the possible exercise of the related common stock warrants.

In accordance with Emerging Issues Task Force Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", the Company has imputed and cumulatively recorded a deemed dividend of $2,000,000 on its Series B Preferred Stock equal to the difference between the estimated current market price at original date of issuance and the conversion price (the "beneficial conversion feature"). Such imputed dividends have no impact on net income (loss) from operations or cash flows but have to be considered when calculating earnings (loss) per share attributable to common stockholders.

In December 2000 the Company received a separate investment of $400,000 from the Investor Group through the purchase of 160,000 shares of Common Stock. In March 2001, the Company closed on a $2 million private placement funding transaction with the same Investor Group. Under the terms of the funding, the Company received $500,000 in March, June, August and September 2001. The Company has issued 500,000 shares in total of its common stock in connection with this transaction.

NOTE 5: Income Taxes

The Company is in a net operating loss (NOL) carryforward position for book and tax purposes. No tax benefit will be recognized until taxable income is realized.

NOTE 6: Statements of Cash Flows - Supplemental Disclosure

In 2001, the Company entered into capital leases for new equipment for $288,000. There were no new capital leases entered into in the first nine months of 2000.

NOTE 7: Restatement of Certain 2000 Financial Data

The Company has restated components of stockholders' equity to reflect the effect of the beneficial conversion feature of the Series B Convertible Preferred Stock, by increasing Additional Paid-In Capital to $1,250,000 from $0 and changing Accumulated Deficit by a like amount, from $(6,655,546) to $(7,905,546). There was no change to total stockholders' equity of $1,090,774.

ESSEX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION AND OTHER SECTIONS CONTAIN FORWARD-LOOKING STATEMENTS THAT ARE BASED ON MANAGEMENT'S EXPECTATIONS, ESTIMATES, PROJECTIONS AND ASSUMPTIONS. WORDS SUCH AS "EXPECTS", "ANTICIPATES", "PLANS", "BELIEVES", "ESTIMATES" AND VARIATIONS OF SUCH WORDS AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS THAT INCLUDE, BUT ARE NOT LIMITED TO, PROJECTIONS OF REVENUES, EARNINGS, SEGMENT

PERFORMANCE, CASH FLOWS AND CONTRACT AWARDS. SUCH FORWARD-LOOKING STATEMENTS ARE MADE PURSUANT TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE CERTAIN RISKS AND UNCERTAINTIES THAT ARE DIFFICULT TO PREDICT. THEREFORE, ACTUAL FUTURE RESULTS AND TRENDS MAY DIFFER MATERIALLY FROM WHAT IS INDICATED IN FORWARD-LOOKING STATEMENTS DUE TO A VARIETY OF FACTORS.

STATUS

The Company's business is focused increasingly upon applications of its proprietary optoelectronics technology and development of products from these technologies.

In September 2000 the Company closed on a $2 million private placement funding transaction with GEF Optical Investment Company, LLC and Networking Ventures L.L.C. (together, the "Investor Group"). Under the terms of the funding, the Company has received the $2 million as the last installment was made in September 2001. The Investor Group received preferred stock that is convertible into 2 million shares of common stock. The Investor Group was also issued warrants for an additional 2 million shares of common stock. The warrants can be exercised for a nominal price under certain terms and conditions. In December 2000 the Company received a separate investment of $400,000 from the Investor Group through the purchase of 160,000 shares of Common Stock. In March 2001, the Company closed on another private placement for an additional $2 million in financing for 500,000 shares of Common Stock from the same Investor Group. The Company received $1 million in the first half of 2001 and received $1 million in the third quarter of 2001. See Note 4 of Notes to Financial Statements for further details.

The Company's primary use of the funds is to patent, develop and commercialize its key leading-edge optical technologies, principally the fiberoptic HyperFine Wavelength Division Multiplex (HfWDM) devices and wireless Optical Processor Enhanced Receiver Architecture (OPERA). The Company accelerated the internal work to support patent filings and the related development work on the technology devices during the third quarter of 2000. The purpose of HfWDM is to increase the number of usable communications channels within a single optical fiber. The purpose of OPERA is to increase capacity and improve voice and data quality of wireless systems. These inventions arose from the Company's work and expertise in the optical devices and communications fields.

The Company has working laboratory and prototype models of the HfWDM, which are being demonstrated to prospective strategic partners and investors. The Company began placing prototype units of its initial HyperFine devices in field trials by potential customers in late September 2001.

The Company is developing simulations of its OPERA wireless receiver device technology and is undertaking to determine the various market entry points for such device technology. The Company is also having discussions with various established commercial entities that are in the wireless communications market in order to determine the best commercial applications of such technology.

The development of these devices has required a diversion of labor resources from revenue generation since mid 2000 and is expected to continue to do so for the remainder of 2001. The Company has been hiring additional personnel to augment existing technical staff. Since the Company is investing the new capital in such research and development, the financial statements reflect higher than normal expenses which increase the Company's reported losses.

Because of the emphasis on development, the Company has been unable to maintain revenue generating programs in sufficient volume to consistently achieve an overall breakeven or better level of operations. Work based on the patented ImSyn(TM) Processor continues on application contracts for U.S. Government customers for the development of advanced synthetic aperture radar (SAR) techniques. The Company received $1.4 million in new contract awards in April 2001 from the Department of Defense. The largest contract, of which $350,000 remains for work to be performed in 2001, will utilize improvements made to ImSyn(TM) optoelectronic processors for high speed image processing. The current inventory has been written down to its estimated net realizable value as components or subassemblies in the redesigned and upgraded units.

As of September 30, 2001, the Company had a backlog on programs related to services and applications of optoelectronics of approximately $830,000, down from $1,494,000 at July 1, 2001. The Company has several proposals outstanding for $3-4 million for new or additional work with U.S. Government customers which are expected to be awarded in the fourth quarter of 2001. The Company is working to reduce the deficit from operations and to improve its operating cash flows. Backlog and order issues will continue to be major concerns until customer funded development programs result in new business orders.

The Company currently does not have sufficient resources to bring its telecommunications and optoelectronics processing devices to market. Accordingly, the Company will likely have to partner with or enter into licensing arrangements with major industry participants in order to successfully introduce its technology and products. There can be no assurance that the Company will be successful in entering into such agreements.

REVENUES

Revenues were $745,000 and $760,000 for the third quarters of 2001 and 2000, respectively. Revenues for the first thirty-nine week period of 2001 were $1,881,000, a decrease of 26% from the $2,533,000 in revenues for the first thirty-nine week period of 2000. The first thirty-nine week period of 2000 revenues include approximately $217,000 for recovery of excess indirect costs on a government contract completed in 1994. There was no such cost recovery in the first thirty-nine week period of 2001. The decline in revenues was primarily due to the diversion of labor resources to continuing development work and the delay in receipt of new contract awards.

INCOME (LOSS)

There was an operating loss of $982,000 and $346,000 in the third quarters of 2001 and 2000, respectively. There were operating losses of $2,758,000 and $516,000 in the first thirty-nine week periods of 2001 and 2000, respectively. Costs of goods sold and services provided ("COGS") as a percentage of revenues (excluding revenue from recovery of prior year excess costs) for the first thirty-nine week period of 2001 were 50.5% as compared to 51.1% in 2000. In the third quarter of 2001, COGS as a percentage of revenues (excluding revenue from recovery of prior year excess costs) was 51.2% compared to 51.4% in the same period of 2000.

Research and development ("R&D") increased in 2001 to approximately $1,922,000 from approximately $292,000 in 2000. In 2001, the majority of the R&D costs were incurred on efforts related to optical telecommunications technology. In 2000, the majority of the expenditures were on ImSyn development. The Company has greatly increased its R&D spending since the September 2000 capital infusions and expects to continue the current level of R&D spending in the optical and telecommunications areas during the remainder of 2001.

The Company has increased selling, general and administrative expenses ("SG&A"), particularly in advance marketing as related to optoelectronics and telecommunications new device business areas. Overall, SG&A expenses remain high relative to the revenue volume as the Company seeks to commercialize its optoelectronic telecommunications devices and services. The high SG&A expenses contributed to the operating losses in the first thirty-nine week periods of 2001 and 2000.

CORPORATE MATTERS

In 2001, the Company netted $8,000 of interest income, primarily from the temporary investment of funds from the private placements. Total interest expense and debenture financing amortization costs were $21,000 in the first nine months of 2000.

The Company is in a net operating loss (NOL) carryforward position. No provision or benefit from income taxes was recognized in the first nine months of 2001 or 2000.

ESSEX CORPORATION

FINANCIAL CONDITION - LIQUIDITY AND CAPITAL RESOURCES

The Company evaluates its liquidity position using various factors. The following represents some of the more important factors:

	SELECTED FINANCIAL DATA ($ Thousands) AS OF		
	September 30, 2001 (unaudited)	December 31, 2000 (audited)	September 24, 2000 (unaudited)
Total Assets	$ 1,893	$ 1,619	$ 2,052
Working Capital	$ 649	$ 736	$ 767
Current Ratio	1.99:1	2.39:1	1.79:1
Convertible Debentures	$ --	$ --	$ 376
Capital Leases	227	23	10
Total Debt/Financing	$ 227	$ 23	$ 386

Stockholders' Equity	$ 1,146	$ 1,091	$ 1,075

The Company had net cash used in operating activities of approximately $2.8 million, of which approximately $2.5 million was attributable to the net loss less non-cash items. The Company primarily financed these losses from the proceeds of the equity sales discussed below. The Company incurred the net loss in the first nine months of 2001 primarily due to the increased expenditures for development and marketing of its optoelectronics products and services, particularly the optical telecommunications device technologies. The Company plans to continue research and development spending during 2001 in the optoelectronics operations.

In late 2000, the Company received $1,250,000 of a $2 million commitment from the private placement sale of 312,500 shares of Series B Preferred Stock to the Investor Group. In the first nine months of 2001, the Company received the remaining $750,000 from this commitment. The funds are being used primarily for the development of the optical telecommunications device technologies.

The Company paid off the $376,000 of Convertible Debentures in November 2000. In December 2000, the Company received proceeds of $400,000 from the sale of 160,000 shares of common stock to the Investor Group.

In March 2001, the Company negotiated an additional investment of $2 million with the Investor Group. The additional investment is structured as a private placement of 500,000 shares of Essex common stock. The funds were received in four equal installments during 2001. The proceeds are primarily being used to expand development in the Company's optoelectronic telecommunications device technologies.

The Company currently does not have sufficient resources to bring its telecommunications and optoelectronics processing devices to market. Accordingly, the Company will likely have to partner with or enter into licensing arrangements with major industry participants in order to successfully introduce its technology and products. There can be no assurance that the Company will be successful in entering into such agreements.

The Company is seeking to establish joint ventures or strategic partnerships including licensing of its technologies to major industrial concerns to facilitate these goals. The Company may also seek additional funds under appropriate terms from private sources, including the Investor Group, to continue to finance development and to achieve initial market penetration. Significant delays in the commercialization of the Company's optoelectronic products, failure to market such products or failure to raise substantial additional working capital would have a significant adverse effect on the Company's future operating results and future financial position.

The Company has a working capital financing arrangement with an accounts receivable factoring organization. Under such an agreement, the factoring organization may purchase certain of the Company's accounts receivable subject to full recourse against the Company in the case of nonpayment by the customers. The Company generally receives 85%-90% of the invoice amount at the time of purchase and the balance when the invoice is paid. The Company is charged an interest fee and other processing charges, payable at the time each invoice is paid. There were no funds advanced as of September 30, 2001.

The Company believes that it will be able to meet its 2001 funding requirements and obligations from the aforementioned sources of revenue and capital, and if necessary, by cost reductions. However, there can be no assurances in this regard and the Company expects that it will need significant additional financing in the future.

THE PRECEDING PARAGRAPHS DISCUSSING THE COMPANY'S FINANCIAL CONDITION CONTAIN FORWARD-LOOKING STATEMENTS. THE FACTORS AFFECTING THE ABILITY OF THE COMPANY TO MEET ITS FUNDING REQUIREMENTS AND MANAGE ITS CASH RESOURCES INCLUDE, AMONG OTHER THINGS, THE AMOUNT AND TIMING OF PRODUCT SALES, INVENTORY TURNOVER, THE MAGNITUDE OF FIXED COSTS AND THE ABILITY TO OBTAIN WORKING CAPITAL, ALL OF WHICH INVOLVE RISKS AND UNCERTAINTIES THAT ARE DIFFICULT TO PREDICT.

ESSEX CORPORATION

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersign, thereunto duly authorized.

ESSEX CORPORATION
(Registrant)

Date: October 31, 2001 /s/ Joseph R. Kurry, Jr.

Joseph R. Kurry, Jr.
Senior Vice President
Treasurer and Chief Financial Officer

(Mr. Kurry is the Principal Financial and Accounting Officer and has been duly authorized to sign on behalf of the Registrant.)