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ESSEX CORPORATION
Form 10QSB
May 12, 2003

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 March 30, 2003

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 21046
(Address of principal executive offices) (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 MAY 2, 2003
-----	-----
Common Stock, no par value per share	8,920,547

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

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the Company's Annual Report on Form 10-KSB for the fiscal year ended December 29, 2002.

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ESSEX CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 30, 2003	December 29, 2002
	----- (unaudited)	----- (audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 831,373	\$ 1,030,247
Accounts receivable, net	2,405,867	565,626
Prepayments and other	172,123	106,987
Contract work in progress	101,598	--
	-----	-----
	3,510,961	1,702,860
	-----	-----
PROPERTY AND EQUIPMENT		
Computers and special equipment	1,073,860	948,455
Furniture, equipment and other	304,697	219,112
	-----	-----
	1,378,557	1,167,567
Accumulated depreciation and amortization	(1,037,076)	(845,360)
	-----	-----
	341,481	322,207
	-----	-----
OTHER ASSETS		
Goodwill	3,014,000	--
Other intangibles, net	385,023	--
Patents, net	307,645	296,407
Other	27,602	21,725
	-----	-----
	3,734,270	318,132
	-----	-----
TOTAL ASSETS	\$ 7,586,712	\$ 2,343,199
-----	=====	=====

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ESSEX CORPORATION

CONSOLIDATED BALANCE SHEETS

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	March 30, 2003	December 29, 2002
	-----	-----
(unaudited) (audited)		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Advance from accounts receivable financing	\$ 35,904	\$ 169,432
Accounts payable	1,294,115	659,977
Accrued wages and vacation	471,866	233,940
Accrued retirement	118,474	65,000
Billings in excess of costs	229,000	135,000
Other accrued expenses	443,030	146,041
Capital leases	35,885	71,261
	-----	-----
	2,628,274	1,480,651
LONG-TERM DEBT		
Convertible note payable	500,000	500,000
Note payable	100,000	--
Capital leases, net of current portion	--	4,390
	-----	-----
Total Liabilities	3,228,274	1,985,041
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, no par value; 25 million shares authorized; 8,911,971 and 7,790,398 shares issued and outstanding, respectively	16,776,881	12,706,520
Additional paid-in capital	2,000,000	2,000,000
Prepaid warrant	--	50,000
Accumulated deficit	(14,418,443)	(14,398,362)
	-----	-----
	4,358,438	358,158
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,586,712	\$ 2,343,199
	=====	=====

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ESSEX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THIRTEEN WEEK PERIODS
ENDED MARCH 30, 2003 AND MARCH 31, 2002

	2003	2002
	-----	-----
	(unaudited)	(unaudited)

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Revenues	\$ 3,001,334	\$ 763,276
Costs of goods sold and services provided	(2,042,211)	(388,739)
Research and development	(131,946)	(568,734)
Selling, general and administrative expenses	(785,874)	(629,692)
Amortization of other intangible assets	(45,726)	--
	-----	-----
Operating Loss	(4,423)	(823,889)
Interest expense, net	(15,658)	(6,142)
	-----	-----
Loss Before Income Taxes	(20,081)	(830,031)
Provision for income taxes	--	--
	-----	-----
Net Loss	\$ (20,081)	\$ (830,031)
	=====	=====
Weighted Average Number of Shares Outstanding	8,035,012	7,224,892
	=====	=====
Basic Loss Per Common Share	\$ (0.00)	\$ (0.11)
	=====	=====
Diluted Loss Per Common Share	\$ (0.00)	\$ (0.11)
	=====	=====

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ESSEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THIRTEEN WEEK PERIODS
ENDED MARCH 30, 2003 AND MARCH 31, 2002

	2003	2002
	-----	-----
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (20,081)	\$ (830,031)
Adjustments to reconcile Net Loss to		
Net Cash Provided By (Used In) Operating Activities:		
Depreciation and amortization	38,967	34,311
Amortization of other intangible assets	45,726	--
Stock compensation expense	--	87,975
Change in Assets and Liabilities:		
Accounts receivable	(572,694)	54,540
Prepayments and other assets	38,055	9,976
Contract work in progress	(36,598)	--
Accounts payable	378,566	87,548
Other liabilities	188,558	(104,435)

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	-----	-----
Net Cash Provided By (Used In) Operating Activities	60,499	(660,116)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of SDL	(154,500)	--
Purchases of property and equipment	(32,286)	(6,130)
Proceeds from sale of fixed assets	707	--
	-----	-----
Net Cash Used In Investing Activities	(186,079)	(6,130)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sales of common stock	--	500,003
Proceeds of note payable	100,000	--
Exercise of stock options	--	84,528
Short-term borrowings/repayments, net	(133,528)	75,632
Payment of capital lease obligations	(39,766)	(34,147)
	-----	-----
Net Cash (Used In) Provided By Financing Activities	(73,294)	626,016
	-----	-----
CASH AND CASH EQUIVALENTS		
Net decrease	(198,874)	(40,230)
Balance - beginning of period	1,030,247	568,178
	-----	-----
Balance - end of period	\$ 831,373	\$ 527,948
	=====	=====

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ESSEX CORPORATION

NOTES TO INTERIM FINANCIAL INFORMATION

NOTE 1: General

FISCAL YEAR AND PRESENTATION

These statements cover Essex Corporation and its wholly-owned subsidiary, Sensys Development Laboratories, Inc. (the "Company"). The Company is on a 52/53-week fiscal year ending the last Sunday in December. Years 2003 and 2002 are 52-week fiscal years. Certain amounts for 2002 have been reclassified to conform to the 2003 presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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

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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. The Company's revenues have been and continue to come from such programs. The Company is focusing and expanding in this business area. See Note 9 - Acquisition of Sensys Development Laboratories, Inc.

In recent years, the Company has expended significant funds to transition into the commercial marketplace, particularly the productization of its proprietary technologies in telecommunications and 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 WDM (wavelength division multiplexing) devices and wireless optical processor enhanced receiver architecture. Since September 2000, the Company has received over \$6 million in financing from its Private Investors or affiliates to advance its programs to capitalize upon these inventions. 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 market acceptance.

Primarily due to the expenditures for development and marketing of its optoelectronics products and services, particularly the optical telecommunications device technologies, the Company incurred significant losses in 2002 and 2001. To the extent funds are available, the Company plans to continue research and development spending in 2003 in the optoelectronics operations.

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ESSEX CORPORATION

NOTES TO INTERIM FINANCIAL INFORMATION

The Company is seeking to establish joint ventures or strategic partnerships including licensing of its technologies with major industrial concerns to facilitate these goals. The Company will also seek additional funds under appropriate terms from private sources 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 could have a significant adverse effect on the Company's future operating results and future financial position.

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 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

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number of common shares outstanding during the period and, in 2002, 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. 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 the 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 \$36,000 of funds advanced as of March 30, 2003 and \$169,000 of funds advanced as of December 29, 2002.

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 the remaining 187,500 issued in 2001 for \$750,000. The 500,000 Series B shares were converted as required into 2,000,000 shares of common stock in September 2002. No Series A or Series B preferred shares are currently outstanding.

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ESSEX CORPORATION

NOTES TO INTERIM FINANCIAL INFORMATION

In connection with the issuance of Series B preferred stock, the Company also issued common stock warrants to the preferred stock holders. These warrants are for an additional 2 million shares of common stock. The warrants expire in September 2005 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 2 million shares of common stock in connection with the possible exercise of the related common stock warrants. As of March 30, 2003, these warrants were not exercisable.

In March 2002, the Company amended existing private placement agreements for its common stock with its Private Investors or their affiliates. The agreements were increased from \$500,000 to \$1.5 million, of which \$250,000 was received in December 2001, \$500,000 was received in the first quarter of 2002, \$500,000 was received in second quarter of 2002 and \$250,000 was received in the third quarter of 2002. Under the agreements, the Company issued 500,000 shares of common stock.

NOTE 5: Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board ("FASB") issued

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Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 defines a "fair value based method" of accounting for an employee stock option or similar equity instrument. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. The Company has historically accounted for employee stock options or similar equity instruments under the "intrinsic value method" as defined by APB Opinion No. 25, "Accounting for Stock Issued to Employees". Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

SFAS No. 123 allows an entity to continue to use the intrinsic value method and management has elected to do so. However, entities electing to remain with the accounting in APB Opinion No. 25 must make pro forma disclosures of net income and earnings per share, as if the fair value based method of accounting had been applied. Accordingly, net loss and loss per share would be as follows:

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ESSEX CORPORATION

NOTES TO INTERIM FINANCIAL INFORMATION

	March 30, 2003	March 31, 2002
Net loss, as reported	\$ (20,081)	\$ (830,031)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards	191,744	410,725
Pro forma loss attributable to common stockholders	\$ (211,825)	\$ 1,240,756
Loss per share:		
Basic-as reported	\$ (0.00)	\$ (0.11)
Basic-pro forma	\$ (0.03)	\$ (0.17)
Diluted-as reported	\$ (0.00)	\$ (0.11)
Diluted-pro forma	\$ (0.03)	\$ (0.17)

NOTE 6: Amortization of Other Intangible Assets

In connection with the March 1, 2003 acquisition of Sensys Development Laboratories, Inc. (See Note 9), there was \$431,000 of value assigned primarily to contracts backlog. The overall amortization life is expected to be less than one year and \$46,000 of amortization was recognized in March 2003.

NOTE 7: Income Taxes

The Company is in a net operating loss (NOL) carryforward position for book and

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tax purposes. No tax benefit will be recognized until taxable income is realized.

NOTE 8: Statements of Cash Flows - Supplemental Disclosure

There were no new capital leases entered into in the first quarters of 2003 or 2002.

NOTE 9: Acquisition of Sensys Development Laboratories, Inc.

As of March 1, 2003, the Company acquired 100% of the common stock of Sensys Development Laboratories, Inc. ("SDL"). The assigned value of the consideration and related expenses is approximately \$4,405,000. Under the terms of the agreement, the Company will pay \$309,000 in cash and issued approximately 683,000 shares of common stock. The agreement further provides that an additional number of shares up to 422,000 may be released from escrow on the first anniversary of closing based upon certain factors. The Company also issued approximately 195,000 non-qualified fully vested options for its common stock at below market exercise prices in exchange for SDL fully vested outstanding options. The value of the maximum stock consideration was based upon the 20 day weighted average market price of the Company's common stock in December 2002, the approximate date the deal terms were established.

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NOTES TO INTERIM FINANCIAL INFORMATION

SDL provides both system and software engineering technical support to U.S. Government customers and prime contractors supporting government programs. SDL has an established workforce with specialized experience and credentials. For its most recent fiscal year ended September 30, 2002, SDL had revenues of over \$3 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 1,447,000
Equipment and other	33,000
Goodwill	3,014,000
Intangible assets	431,000

Total assets acquired	4,925,000
Current liabilities	(520,000)

Net assets acquired	\$ 4,405,000
	=====

The intangible assets of \$431,000 are primarily assigned to contract backlog which has an estimated overall amortization life of less than one year.

The following information is presented on a pro forma basis as though the business combination had been completed as of the beginning of fiscal 2003.

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For The Quarter Ended March 30, 2003
(in Thousands) (Unaudited)

	As Reported	Pro Forma
	-----	-----
Revenues	\$ 3,001	\$ 4,266
	=====	=====
Net Income (Loss)	\$ (20)	\$ 242
	=====	=====
Earnings (Loss) Per Share:		
Basic	\$ (0.00)	\$ 0.03
	=====	=====
Fully diluted	\$ (0.00)	\$ 0.03
	=====	=====

In the pro forma revenues and net income are \$420,000 and \$155,000, respectively, from a product sale by SDL which is not expected to occur in future periods.

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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 upon applications of its proprietary optoelectronics technology and products for commercial and U.S. Government customers and signal and image processing technology for U.S. Government customers.

The Company has experienced growth in its government business and has been actively pursuing growth strategies from internal efforts and external merger

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sources. In 2002, under a 5-year \$25 million Indefinite Delivery Indefinite Quantity contract, the Company received an initial funding of \$2.4 million to develop a next generation optoelectronic radar processor. This initial phase was substantially completed in 2002, and in January 2003 the Company received a \$3.7 million follow-on award to complete the design and deliver a prototype processor before the end of 2003. The Company received a new subcontract in November 2002 to provide at least \$3 million annually in telecommunications systems support in the area of modernization, project management, integration and engineering analysis. This work began in January 2003 and is part of the multi-year \$30 million award to provide such services. The Company completed, effective March 1, 2003, the merger with Sensys Development Laboratories, Inc. (SDL), a Maryland-based provider of technical engineering and software support services. (See Note 9 in Notes to Interim Financial Information.) This merger adds over 25 highly skilled professionals to the Essex staff and an expected \$4 million of annual revenue in 2003.

Since September 2000, the Company has closed on several equity private placement funding transactions with the Private Investors. Under the terms of the equity funding, the Company has received over \$6.1 million and the Private Investors and their affiliates received approximately 3.2 million shares of common stock. The Private Investors were also issued warrants for an additional two million shares of common stock. The warrants can be exercised for a nominal price under certain terms and conditions. See Note 4 of Notes to Interim Financial Information for further details. The Company has also received proceeds of \$600,000 from the private placement of outstanding convertible and other debt.

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ESSEX CORPORATION

The Company's primary use of the private placement funds has been to patent, develop and commercialize its key leading-edge optical technologies, principally the fiberoptic HYPERFINE WDM devices and wireless OPERA(TM) technology. The purpose of the HYPERFINE WDM device is to increase the number of usable communications channels within a single optical fiber. The purpose of OPERA(TM) 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 device and communications fields.

The Company has prototypes of the HYPERFINE WDM technology which are being demonstrated to prospective strategic partners and investors. The Company sold several prototypes of its initial HYPERFINE WDM devices to a customer in March 2003. The Company is developing simulations of its OPERA(TM) wireless receiver device technology and is undertaking to determine the various market entry points for such device technology. The Company is also holding 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 the commercial HYPERFINE WDM devices required a diversion of labor resources from revenue generation in 2002 and 2001. Because of the emphasis on development, the Company was unable in 2002 and 2001 to maintain customer programs of sufficient volume and to expand such work to consistently achieve an overall breakeven or better level of operations on such revenues.

In light of the continued unfavorable conditions in the telecommunications markets, the commercial market for the Company's optical technologies and products has been slow in developing. As a consequence, the Company has opted to significantly expand the government business base creating a Company which provides total solutions to customer problems. The expansion should reduce the net losses and permit the Company to move to breakeven and eventual profitable

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operations while still continuing commercial product development and marketing, although at a reduced level to the extent funds are available. The Company is also pursuing sales of its commercial HYPERFINE WDM and other optical technologies in the government marketplace.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company re-evaluates its estimates, including those related to revenue recognition, research and development, inventories, intangible assets, income taxes and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements.

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ESSEX CORPORATION

REVENUE RECOGNITION

For U.S. Government customers, the Company provides services and products under a variety of contract types, namely cost plus fixed fee (CPFF), fixed price (FP) and time & material (T&M). The Company recognizes revenue on CPFF contracts to the extent costs are incurred plus a proportionate amount of fee earned. The Company must determine that the costs incurred are proper and that the ultimate costs incurred will not overrun the expected funding on the contract and still deliver the scope of work proposed. Even though CPFF contracts generally do not require that the Company expend costs in excess of the contract value, such expenditures may be required in order to achieve customer satisfaction and receive additional work. In addition, since the reimbursable costs include both direct and indirect costs, the Company must determine that the indirect costs are properly accounted and allocated in accordance with government cost accounting requirements. On FP level-of-effort service contracts, the Company must determine that the costs incurred provide a proportionate amount of progress on the work and that the ultimate costs incurred will not overrun the funding on the contract and the required hours will be delivered. On FP product orders, revenue is not recorded until the Company determines that the goods have been delivered and accepted by the customer. On T&M contracts, revenue is recognized to the extent of billable rates multiplied by hours delivered, plus other direct costs. This is generally the most straightforward revenue computation. The Company uses historical technical performance experience where applicable to evaluate progress on FP and CPFF jobs. The Company uses historical government audit experience in the indirect cost area to evaluate the propriety and expected recovery of its indirect costs on CPFF contracts.

RESEARCH AND DEVELOPMENT

The Company has expended significant amounts for research and development for new products. In accordance with generally accepted accounting principles, the Company expenses and does not capitalize and add to inventory such expenditures until product marketability and viability have been established. There is a judgmental aspect to this decision which could result in the over expensing in some cases or the early capitalization in other cases of such expenditures.

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REVENUES

Revenues were \$3,001,000 and \$763,000 for the first quarters of 2003 and 2002, respectively. Revenues in the first quarter of 2003 include \$435,000 for one month of operations from recently acquired SDL. Excluding SDL, revenues in the first quarter of 2003 were \$1,803,000 higher than the first quarter of 2002 due to several factors. The major factor was due to the increased activity on the U.S. Government Missile Defense Agency program for design of a next generation advanced optoelectronics radar processor (AOP) demonstration unit. This program had revenues of \$1,320,000 in the first quarter of 2003 but had no revenues in the first quarter of 2002 as the Company did not begin this program until May 2002. The Company also had \$589,000 of revenues on contracts in its Communications Services Division that was formed in late 2002. Additionally, the Company also sold \$244,000 of commercial equipment, including the sale of three prototype HYPERFINE WDM demonstration units for \$120,000 to a government customer. There were no such sales in the first quarter of 2002.

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As of March 30, 2003, the Company had funded backlog of approximately \$6.1 million, unfunded backlog of \$48 million and total backlog of \$54.1 million compared to total backlog of \$55.8 million at December 29, 2002.

INCOME (LOSS)

There was a net loss of \$20,000 and \$830,000 in the first quarters of 2003 and 2002, respectively. There was a profit of \$26,000 in the first quarter of 2003 before one month's amortization of other intangibles of \$46,000 related to the SDL acquisition. These other intangibles will be substantially amortized within approximately one year. There was no comparable amortization cost in the same period in 2002. Cost of goods sold and services (COGS) provided as a percentage of revenues for the first quarter of 2003 was 68%, which was significantly higher than the 50.9% in 2002. In 2002, the major component of COGS was direct labor and associated costs. In 2003, due to the AOP program referenced above, there was a significant increase in the direct materials and equipment component of COGS. The Company receives a higher markup on direct labor than direct material and equipment costs. Overall, the higher volume in 2003 contributed a larger amount of gross profit, though at a lower gross profit percentage. The net loss also declined as a larger amount of fixed expenses were covered by the higher revenue volume.

Research and development (R&D) was lower between the quarterly periods, amounting to approximately \$132,000 in 2003 and \$569,000 in 2002. The majority of the R&D costs were incurred on efforts related to optical telecommunications technology. The Company expects, subject to the availability of funds, to continue its R&D spending in the optical and telecommunications areas in 2003.

The Company had higher selling, general and administrative expenses ("SG&A"), partially due to business development in the government contracts area as well as continuing costs in the optoelectronics and telecommunications new device business areas as the Company seeks to commercialize its optoelectronic telecommunications products and services. Overall, SG&A expenses have become proportionally lower relative to the higher 2003 revenue volume. High SG&A expenses contributed to the operating loss in the first quarter of 2002.

CORPORATE MATTERS

Total interest expense was \$16,000 and \$6,000 in the first quarters of 2003 and 2002, respectively.

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The Company is in a net operating loss (NOL) carryforward position. No provision or benefit from income taxes was recognized in the first quarters of 2003 or 2002.

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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			
	March 30, 2003	December 29, 2002	March 31, 2002
	----- (unaudited)	----- (audited)	----- (unaudited)
Total Assets	\$ 7,587	\$ 2,343	\$ 1,486
	=====	=====	=====
Working Capital (Deficit)	\$ 883	\$ 222	\$ (108)
	=====	=====	=====
Current Ratio	1.34:1	1.15:1	0.89:1
	=====	=====	=====
Advance from Accounts Receivable Financing	\$ 36	\$ 169	\$ 76
Capital Leases	36	76	157
Convertible Debt	500	500	--
Other Debt	100	--	--
	-----	-----	-----
Total Debt/Financing	\$ 672	\$ 745	\$ 233
	=====	=====	=====
Stockholders' Equity	\$ 4,358	\$ 358	\$ 488
	=====	=====	=====

As a result of the acquisition of SDL for predominately common stock, the Company's working capital increased by approximately \$618,000 after deducting the \$309,000 of cash consideration (paid and payable). The consideration amount paid is shown as a cash outflow from investing activities in the consolidated statements of cash flows.

In 2003, net cash used in financing activities of \$73,000 resulted from the periodic reduction in borrowings on accounts receivable and capital lease payments, partially offset by the private placement of \$100,000 in debt to a member of its Private Investors. In 2002, the net cash provided by financing

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activities is primarily from the Company completing several private placements of equity or debt securities to its Private Investors or their affiliates. The Company received \$2,000,000 and \$3,000,000 in fiscal 2002 and fiscal 2001, respectively, including the \$500,000 in the first quarter of 2002 from these private placements. The funds have been and are to be used primarily for the development of the optical telecommunications device technologies.

In 2003, net cash provided by operating activities of \$60,000 was primarily due to non cash depreciation and amortization charges. The increase in accounts receivable was offset by the increase in accounts payable and other liabilities. In 2002, the net cash used in operating activities resulted from the losses incurred by the Company primarily due to the expenditures for development of its optoelectronics products and services. The Company plans to continue R&D

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spending on optoelectronics in 2003 at a reduced level. The reduced R&D spending is intended to allow the Company to operate at an overall breakeven or better level. Such R&D would be financed with internally generated funds. In order to increase spending levels, the Company would need additional funds.

The Company is seeking to establish joint ventures or strategic partnerships, including the licensing of its technologies to major industrial concerns to facilitate these goals. The Company might also seek additional funds under appropriate terms from private sources to further finance development and to achieve initial market penetration. If the Company does not successfully commercialize its optoelectronic products or raise substantial additional working capital, then these events could have a significant adverse effect on the Company's future operating results and financial position.

The Company has a working capital financing arrangement with an accounts receivable factoring organization. Under the 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 was \$36,000 of funds advanced as of March 30, 2003 and \$169,000 as of December 29, 2002.

The Company's management believes that it will be able to meet its remaining 2003 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 we expect that the Company will need significant financing in the future if we pursue acquisitions or if increased product development is to occur.

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.

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ITEM 3. CONTROLS AND PROCEDURES

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Based on their most recent evaluation, which was completed within 90 days of the filing of this Form 10-QSB, the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no significant changes in the Company's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies and material weaknesses.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Report on Form 8-K

(a) Exhibits

Exhibit 99.1 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

- (1) The Company filed a Report on Form 8-K (Items 5 and Item 7 reported) on March 7, 2003 announcing the acquisition of Sensys Development Laboratories, Inc. (SDL)
- (2) The Company filed a Report on Form 8-K (Items 5 and 7 reported) on April 17, 2003, which report includes the historical financial statements of SDL and unaudited pro forma information presenting the effect of the acquisition as if it had been completed on December 31, 2001.

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 undersigned, thereunto duly authorized.

ESSEX CORPORATION
(Registrant)

Date: May 12, 2003

/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.)

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SECTION 302 CERTIFICATION

I, Leonard E. Moodispaw, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Essex Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d -14) for the registrant and have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in the quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated May 12, 2003

/S/ LEONARD E. MOODISPAW

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Leonard E. Moodispaw
President and Chief Executive Officer

SECTION 302 CERTIFICATION

I, Joseph R. Kurry, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Essex Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d -14) for the registrant and have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in the quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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Dated May 12, 2003

/S/ JOSEPH R. KURRY, JR.

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