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**ARMOR HOLDINGS INC**

Form:10-Q Filing Date:10/26/2005

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**ITEM 1.LEGAL PROCEEDINGS**

In the normal course of business, we are subjected to various types of claims and currently have on-going litigations in the areas of products liability, general liability and intellectual property. Our products are used in a wide variety of law enforcement situations and environments. Some of our products can cause serious personal or property injury or death if not carefully and properly used by adequately trained personnel. We believe that we have adequate insurance coverage for most claims that are incurred in the normal course of business. In such cases, the effect on our financial statements is generally limited to the amount of our insurance deductible or self-insured retention. Our annual insurance premiums and self insurance retention amounts have risen significantly over the past several years and may continue to do so to the extent we are able to purchase insurance coverage. At this time, we do not believe any such claims or pending litigation will have a material impact on our financial position, operations or liquidity.

**Zylon**

In April, 2004, two class action lawsuits were filed against us in Florida state court by police organizations and individual police officers, alleging that ballistic-resistant soft body armor (vests) containing Zylon, manufactured and sold by American Body Armor, Safariland and PROTECH, failed to meet the warranties provided with the vests. On August 12, 2004, the Jacksonville, Florida (Duval County) Circuit Court gave preliminary approval to a settlement reached with the Southern States Police Benevolent Association (SSPBA). After a fairness hearing on November 5, 2004, the Court gave final approval to that agreement which provided, in essence, that (i) purchasers of certain Zylon-containing vest models could exchange their vests for other vests manufactured by us (the Exchange Program), (ii) we would continue our internal used-vest testing program (VestCheck), and (iii) if testing revealed that other Zylon-containing vests would not meet the warranties provided with the vests, class members who had purchased those other vests would be provided with relief on a reasonably comparable basis as those in the Exchange Program. The other class action suit filed by the National Association of Police Organizations, Inc. (NAPO), in Ft. Myers, Florida (Lee County), was voluntarily dismissed with prejudice on November 16, 2004.

On August 24, 2005, the United States Department of Justice through the National Institute of Justice (NIJ), released its Third Status Report to the Attorney General on Body Armor Safety Initiative Testing and Activities (the Third NIJ Report). The Third NIJ Report contained, among other items, information and testing data on Zylon and Zylon-containing vests, and substantially modified compliance standards for all ballistic-resistant vests with the implementation of the NIJ 2005 Interim Requirements for Ballistic-Resistant Body Armor. As a result of the actions of the NIJ, we halted all sales or shipment of any Zylon-containing vest models effective August 25, 2005, and immediately established a Supplemental Relief Program (the SRP) that provides either a cash or voucher option to those who purchased Zylon-containing vests through August 12, 2004. The Jacksonville, Florida Court gave preliminary approval to the SRP on August 31, 2005, and has scheduled a fairness hearing for October 27, 2005, to hear objections and to make a final determination whether to approve the SRP as fair, adequate and reasonable.

Following the NIJs announcement, the SSPBA filed another class action suit on behalf of purchasers of Zylon-containing vests from August 13, 2004 (the date of certification of the prior class) through August 29, 2005 (a date after which we had ceased all sales of Zylon-containing vests). The Jacksonville, Florida Circuit Court has given preliminary approval to a settlement reached with the plaintiffs in this second suit that provides purchasers with either a 100% cash refund or a voucher for 100% of the purchase price redeemable for any of our merchandise. A fairness hearing on the second settlement is also scheduled for October 27, 2005 in Jacksonville, Florida.

We are also voluntarily cooperating with a request for documents and data received from the Department of Justice, which is reviewing the entire body armor industrys use of Zylon, and a subpoena

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#### **ARMOR HOLDINGS, INC. AND SUBSIDIARIES**

recently served by the General Services Administration for information relating to Zylon. For more information regarding the Zylon matter, reference is made to Part II, Item 1, Legal Proceedings, in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

Reference is made to Part I, Item 3, Legal Proceedings, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for a description of other previously disclosed legal proceedings.

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