**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-Q/A

(Amendment No. 1)

**(Mark One)**

**☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended July 27, 2002, or**

**☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from ________ to ________.**

**Commission file number 333-38223**

# ARGO-TECH CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **31-1521125**<br>**(I.R.S. employer identification no.)** |
| **23555 Euclid Avenue**<br>**Cleveland, Ohio**<br>**(Address of principal executive offices)** | **44117**<br>**(Zip code)** |

**(216) 692-6000**
**(Registrant's telephone number, including area code)**

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

**All of the outstanding capital stock of the registrant is held by AT Holdings Corporation.**

**As of September 1, 2002, 1 share of the registrant's common stock, $.01 par value, was outstanding.**

**Explanatory Note:** This form 10-Q/A amends and restates in its entirety the quarterly report on Form 10-Q filed by the Company on September 10, 2002, which was an incomplete version erroneously filed by the Company's filing agent.

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**PART I — FINANCIAL INFORMATION**

**ARGO-TECH CORPORATION AND SUBSIDIARIES**
**(A Wholly-Owned Subsidiary of AT Holdings Corporation)**

**CONSOLIDATED BALANCE SHEETS**
**JULY 27, 2002 AND OCTOBER 27, 2001**
**(In thousands, except share data)**

| | 2002 | 2001 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 18,061 | $ 8,057 |
| Receivables, net | 21,012 | 32,051 |
| Income tax receivable | 3,576 | 3,885 |
| Inventories | 27,649 | 28,861 |
| Deferred income taxes and prepaid expenses | 5,829 | 5,648 |
| Total current assets | 76,127 | 78,502 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation | 26,404 | 29,027 |
| GOODWILL, net of accumulated amortization | 110,368 | 108,933 |
| INTANGIBLE ASSETS, net of accumulated amortization | 39,185 | 44,145 |
| OTHER ASSETS | 11,081 | 12,967 |
| Total Assets | $263,165 | $273,574 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 18,612 | $ 18,612 |
| Accounts payable | 3,453 | 4,840 |
| Accrued liabilities | 22,238 | 19,146 |
| Total current liabilities | 44,303 | 42,598 |
| LONG-TERM DEBT, net of current maturities | 221,015 | 234,768 |
| OTHER NONCURRENT LIABILITIES | 21,883 | 24,333 |
| Total Liabilities | 287,201 | 301,699 |
| REDEEMABLE ESOP STOCK | 17,668 | 18,194 |
| Unearned ESOP stock | (2,940) | (4,200) |
| | 14,728 | 13,994 |
| SHAREHOLDERS’ EQUITY/(DEFICIENCY): | | |
| Common Stock, $.01 par value, authorized 3,000 shares; 1 share issued and outstanding | — | — |
| Paid-in capital | — | — |
| Accumulated other comprehensive loss | (1,955) | (1,948) |
| Accumulated deficit | (36,809) | (40,171) |
| Total shareholders’ equity/(deficiency) | (38,764) | (42,119) |
| Total Liabilities and Shareholders’ Equity/(Deficiency) | $263,165 | $273,574 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

**ARGO-TECH CORPORATION AND SUBSIDIARIES**
**(A Wholly-Owned Subsidiary of AT Holdings Corporation)**

**CONSOLIDATED STATEMENTS OF NET INCOME**

**(In thousands)**
**UNAUDITED**

| | 39 Week Period Ended | | 13 Week Period Ended | |
|---|---|---|---|---|
| | July 27, 2002 | July 28, 2001 | July 27, 2002 | July 28, 2001 |
| Net revenues | $112,261 | $124,086 | $37,724 | $44,074 |
| Cost of revenues | 64,478 | 67,852 | 22,625 | 23,276 |
| Gross profit | 47,783 | 56,234 | 15,099 | 20,798 |
| Selling, general and administrative | 17,597 | 17,423 | 5,825 | 6,220 |
| Research and development | 8,766 | 7,633 | 2,703 | 2,530 |
| Amortization of intangible assets | 2,561 | 5,636 | 853 | 1,879 |
| Operating expenses | 28,924 | 30,692 | 9,381 | 10,629 |
| Income from operations | 18,859 | 25,542 | 5,718 | 10,169 |
| Interest expense | 16,179 | 18,643 | 5,322 | 6,002 |
| Other, net | (14) | (104) | 52 | 120 |
| Income before income taxes | 2,694 | 7,003 | 344 | 4,047 |
| Income tax (benefit) / provision | (70) | 2,565 | (164) | 1,260 |
| Net income | $ 2,764 | $ 4,438 | $ 508 | $ 2,787 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

**ARGO-TECH CORPORATION AND SUBSIDIARIES**
**(A Wholly-Owned Subsidiary of AT Holdings Corporation)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE 39 WEEK PERIOD ENDED JULY 27, 2002 AND JULY 28, 2001**

**(In thousands)**
**UNAUDITED**

| | 2002 | 2001 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 2,764 | $ 4,438 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,678 | 4,175 |
| Amortization of intangible assets and deferred financing costs | 4,099 | 7,240 |
| Accretion of bond discount | 206 | 188 |
| Compensation expense recognized in connection with employee stock ownership plan | 1,892 | 2,520 |
| Compensation expense recognized in connection with stock options | — | 526 |
| Deferred income taxes | (1,279) | (1,392) |
| Changes in operating assets and liabilities: | | |
| Receivables | 11,348 | (132) |
| Inventories | 1,212 | (2,200) |
| Prepaid expenses | (9) | (184) |
| Accounts payable | (1,387) | (710) |
| Accrued and other liabilities | 2,816 | 2,624 |
| Other, net | 240 | (716) |
| Net cash provided by operating activities | 25,580 | 16,377 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (1,055) | (1,245) |
| Net cash used in investing activities | (1,055) | (1,245) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of long-term debt | (13,959) | (6,981) |
| Purchase of AT Holdings stock from former ESOP participants | (527) | (1,602) |
| Dividend | (35) | (40) |
| Net cash used in financing activities | (14,521) | (8,623) |
| CASH AND CASH EQUIVALENTS: | | |
| Net increase for the period | 10,004 | 6,509 |
| Balance, Beginning of period | 8,057 | 5,174 |
| Balance, End of period | $ 18,061 | $11,683 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

**ARGO-TECH CORPORATION AND SUBSIDIARIES**
**(A Wholly-Owned Subsidiary of AT Holdings Corporation)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE 39 WEEK PERIOD ENDED JULY 27, 2002 AND JULY 28, 2001**
**UNAUDITED**

## 1. BASIS OF PRESENTATION

The principal operations of Argo-Tech Corporation (a wholly-owned subsidiary of AT Holdings Corporation) and its subsidiaries include the design, manufacture and distribution of aviation products, primarily aircraft fuel pumps, throughout the world. In addition, Argo-Tech leases a portion of its Cleveland, Ohio manufacturing facility to other parties. Argo-Tech's fiscal year ends on the last Saturday in October. Argo-Tech is obligated to fulfill certain obligations of AT Holdings Corporation. As a result, those obligations have been reflected in its financial statements. Certain reclassifications have been made in the prior years' financial statements to conform to the current year presentation.

Argo-Tech Corporation is a parent, holding company with four wholly-owned operating subsidiaries that guarantee Argo-Tech's senior subordinated notes. Argo-Tech has no outside assets, liabilities or operations apart from its wholly-owned subsidiaries. The senior subordinated notes are fully, unconditionally, jointly and severally guaranteed by the guarantor subsidiaries, and therefore, separate financial statements of the guarantor subsidiaries will not be presented. Management has determined that the information presented by such separate financial statements is not material to investors.

## 2. UNAUDITED FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of Argo-Tech's financial position and results of operations and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

## 3. INVENTORIES

Inventories are stated at standard cost which approximates the costs which would be determined using the first-in, first-out (FIFO) method. The recorded value of inventories is not in excess of market value. Inventories consist of the following (in thousands):

| | July 27, 2002 | October 27, 2001 |
|---|---|---|
| Finished goods | $ 1,710 | $ 2,100 |
| Work-in-process and purchased parts | 17,850 | 17,696 |
| Raw materials and supplies | 12,269 | 12,975 |
| Total | 31,829 | 32,771 |
| Reserve for excess and obsolete inventory | (4,180) | (3,910) |
| Inventories — net | $27,649 | $28,861 |

## 4. INTANGIBLE ASSETS

The following is a summary of intangible assets, other than goodwill (in thousands):

| | July 27, 2002 | | October 27, 2001 | |
|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Intangible assets: | | | | |
| Contracts | $17,100 | $ 8,265 | $17,100 | $ 6,983 |
| Spare parts annuity | 38,200 | 8,117 | 38,200 | 6,857 |
| Patents | 387 | 120 | 387 | 102 |
| Workforce-in-place | — | — | 4,900 | 2,500 |
| Total | $55,687 | $16,502 | $60,587 | $16,442 |

Amortization expense recorded on the intangible assets for the 13 week and 39 week periods ended July 27, 2002 was $0.9 million and $2.5 million, respectively, and for the 13 week and 39 week periods ended July 28, 2001 was $1.0 million and $3.0 million, respectively. The reduction in the gross carrying amount and accumulated amortization in the table above reflect the removal of the intangible asset, workforce in place, which was reclassified from intangible assets to goodwill upon the adoption of SFAS No. 142. The estimated amortization expense for each of the five succeeding fiscal years 2002 through 2006 is $3.4 million per year.

## 5. CONTINGENCIES

Environmental Matters — The soil and groundwater at Argo-Tech’s Cleveland, Ohio facility and the Costa Mesa, California facility contain elevated levels of certain contaminants which are currently in the process of being removed and/or remediated. Because Argo-Tech has certain indemnification rights from former owners of the facilities for liabilities arising from these or other environmental matters, in the opinion of Argo-Tech’s management, the ultimate outcome is not expected to materially affect its financial condition, results of operations or liquidity.

Other Matters — Argo-Tech is subject to various legal actions and other contingencies arising in the ordinary course of business. In the opinion of Argo-Tech’s management, after reviewing the information which is currently available with respect to such matters and consulting with Argo-Tech’s legal counsel, any liability which may ultimately be incurred with respect to these additional matters is not expected to materially affect Argo-Tech’s financial condition, results of operations or liquidity.

## 6. SEGMENT INFORMATION

Argo-Tech operates in two business segments: Aerospace and Industrial. The Aerospace segment includes the design, manufacture and distribution of aviation products throughout the world consisting of aircraft fuel pumps, fuel flow related products found on a plane’s airframe and aerial refueling systems. The Industrial segment includes the design, manufacture and distribution of industrial pumps, ground fueling system valves and related components, industrial marine cryogenic pumps for transferring liquefied natural gas and operation of a business park in Cleveland, Ohio where we maintain our headquarters and one of our production facilities.

Argo-Tech evaluates the performance of its segments based primarily on operating profit before amortization of goodwill, deferred financing fees and other identified intangibles, interest expense, interest income, other miscellaneous fees and income taxes.

The following table presents revenues and other financial information by business segment (in thousands):

**13 Week Period Ending July 27, 2002**

| | Aerospace | Industrial | Corporate | Consolidated |
|---|---|---|---|---|
| Net revenues | $28,808 | $8,916 | $ — | $37,724 |
| Operating profit (loss) | 6,040 | 711 | (180) | 6,571 |
| Amortization of intangible assets | | | | 853 |
| Income from operations | | | | 5,718 |
| Interest expense | | | | 5,322 |
| Other, net | | | | 52 |
| Income before income taxes | | | | $ 344 |
| Capital expenditures | 187 | 212 | | 399 |
| Depreciation | 704 | 340 | 150 | 1,194 |
| Compensation expense recognized in connection with employee stock ownership plan | 571 | 61 | | 632 |

**13 Week Period Ending July 28, 2001**

| | Aerospace | Industrial | Corporate | Consolidated |
|---|---|---|---|---|
| Net revenues | $35,012 | $9,062 | $ — | $44,074 |
| Operating profit (loss) | 11,797 | 891 | (640) | 12,048 |
| Amortization of intangible assets | | | | 1,879 |
| Income from operations | | | | 10,169 |
| Interest expense | | | | 6,002 |
| Other, net | | | | 120 |
| Income before income taxes | | | | $ 4,047 |
| Capital expenditures | 276 | 142 | | 418 |
| Depreciation | 770 | 374 | 237 | 1,381 |
| Compensation expense recognized in connection with employee stock ownership plan | 759 | 81 | | 840 |
| Compensation expense recognized in connection with stock options | | | 526 | 526 |

**39 Week Period Ending July 27, 2002**

| | Aerospace | Industrial | Corporate | Consolidated |
|---|---|---|---|---|
| Net revenues | $87,254 | $25,007 | $ — | $112,261 |
| Operating profit (loss) | 21,419 | 1,134 | (1,133) | 21,420 |
| Amortization of intangible assets | | | | 2,561 |
| Income from operations | | | | 18,859 |
| Interest expense | | | | 16,179 |
| Other, net | | | | (14) |
| Income before income taxes | | | | $ 2,694 |
| Capital expenditures | 571 | 484 | | 1,055 |
| Depreciation | 2,122 | 1,021 | 535 | 3,678 |
| Compensation expense recognized in connection with employee stock ownership plan | 1,691 | 201 | | 1,892 |

**39 Week Period Ending July 28, 2001**

| | Aerospace | Industrial | Corporate | Consolidated |
|---|---|---|---|---|
| Net revenues | $101,483 | $22,603 | $ — | $124,086 |
| Operating profit (loss) | 32,508 | (181) | (1,149) | 31,178 |
| Amortization of intangible assets | | | | 5,636 |
| Income from operations | | | | 25,542 |
| Interest expense | | | | 18,643 |
| Other, net | | | | (104) |
| Income before income taxes | | | | $ 7,003 |
| Capital expenditures | 911 | 334 | | 1,245 |
| Depreciation | 2,345 | 1,118 | 712 | 4,175 |
| Compensation expense recognized in connection with employee stock ownership plan | 2,241 | 279 | | 2,520 |
| Compensation expense recognized in connection with stock options | | | 526 | 526 |

## 7. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes foreign currency translation adjustments and changes in the fair value of the interest rate swaps (in thousands).

| | 39 week period ended | | 13 week period ended | |
|---|---|---|---|---|
| | July 27, 2002 | July 28, 2001 | July 27, 2002 | July 28, 2001 |
| Net income | $2,764 | $4,438 | $508 | $2,787 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (7) | 141 | 86 | 3 |
| Cumulative effect of accounting change | | 284 | | |
| Change in fair market value of interest rate swaps | | (441) | | (22) |
| Other comprehensive income (loss) before tax | (7) | (16) | 86 | (19) |
| Income tax benefit related to other comprehensive income (loss) | | 63 | | 9 |
| Other comprehensive income (loss), net of tax | (7) | 47 | 86 | (10) |
| Comprehensive income | $2,757 | $4,485 | $594 | $2,777 |

## 8. NEW ACCOUNTING PRONOUNCEMENTS

Argo-Tech adopted Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets” as of October 28, 2001. Under this statement, goodwill and other intangibles determined to have an infinite life are no longer amortized; however, these assets are to be reviewed for impairment on a periodic basis. The initial step of the transitional impairment test is to be completed within six months of adoption of SFAS No. 142 and the final step of the transitional impairment test, if required, is to be completed by the end of the fiscal year. Argo-Tech tested goodwill for impairment during the second fiscal quarter of 2002 using a present value of future cash flows valuation method. This process did not result in any impairment to be recorded upon the adoption of SFAS No. 142.

Upon adoption of SFAS No. 142, $2.4 million related to the unamortized portion of the intangible asset, workforce in place, was reclassified from intangible assets to goodwill along with the related long-term deferred tax liability of $1.0 million. The following pro forma information shows what income would have been had SFAS No. 142 been in effect as of October 29, 2000:

| | 39 week period ended | | 13 week period ended | |
|---|---|---|---|---|
| | July 27, 2002 | July 28, 2001 | July 27, 2002 | July 28, 2001 |
| Net income as reported | $2,764 | $4,438 | $508 | $2,787 |
| Add amortization expense: | | | | |
| Goodwill | | 2,616 | | 872 |
| Workforce in place, net of tax of $183 and $61 | | 276 | | 92 |
| Adjusted net income | $2,764 | $7,330 | $508 | $3,751 |

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The amount recorded as a liability will be capitalized by increasing the carrying amount of the related long-lived asset. Subsequent to initial measurement, the liability is accreted to the ultimate amount anticipated to be paid and is also adjusted for revisions to the timing of the amount of estimated cash flows. The capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The provisions of this statement become effective for Argo-Tech’s fiscal year beginning October 27, 2002. Management has not determined the impact, if any, that this statement will have on Argo-Tech’s consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long Lived Assets.” This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. The provisions of this statement become effective for Argo-Tech’s fiscal year beginning October 27, 2002. Management has not determined the impact, if any, that this statement will have on Argo-Tech’s consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. Management has not determined the impact, if any, that this statement will have on Argo-Tech’s consolidated financial statements.

**ITEM 2.**

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

Argo-Tech Corporation is a leading designer, manufacturer and servicer of high performance fuel flow devices for the aerospace industry providing a broad range of products and services to substantially all commercial and domestic military engine and airframe manufacturers, to airlines worldwide and to the U.S. and certain foreign militaries. Argo-Tech is the world's leading supplier of main engine fuel pumps to the commercial aircraft industry and a leading supplier of airframe products and aerial refueling systems. Argo-Tech is also a leading manufacturer of components for ground fueling systems and is a manufacturer of industrial marine cryogenic pumps.

The following is management's discussion and analysis of certain significant factors which have affected Argo-Tech's financial position and operating results during the periods presented in the accompanying condensed consolidated financial statements. Argo-Tech's fiscal year ends on the last Saturday of October and is identified according to the calendar year in which it ends.

**Results of Operations for the 13 Week Period Ended July 27, 2002 Compared With the 13 Week Period Ended July 28, 2001**

Net revenues for the 13 week period ended July 27, 2002 decreased $6.4 million, or 14.5%, to $37.7 million from $44.1 million for the 13 week period ended July 28, 2001. This decrease was primarily due to a decrease in aerospace revenues of $6.3 million and a decrease of $0.1 million in industrial revenues. The decrease in aerospace revenues was attributable to a decrease of $9.3 million of commercial aerospace revenues offset by an increase of $3.0 million in military revenues. Commercial OEM revenues decreased $2.5 million, or 34.2%, to $4.8 million and commercial aftermarket revenues decreased $6.8 million, or 31.6%, to $14.7 million in the 13 week period ended July 27, 2002. Commercial OEM revenues declined as a result of lower overall engine requirements from our customers in response to decreasing aircraft build rates. Commercial aftermarket revenues were lower primarily due to a decrease in the demand for spare part sales and repair and overhaul services as a result of the reduced flying capacity of commercial airlines. Military revenues increased primarily due to revenue related to increased sales of KC-135 aerial refueling pumps, F-22 airframe components and higher sales of aftermarket parts on a variety of aerial refueling and airframe programs. The $0.1 million decrease in industrial revenues was primarily attributable to decreased ground fueling and industrial gas turbine revenues offset by an increase in cryogenic pump revenues.

Gross profit for the 13 week period ended July 27, 2002 decreased $5.7 million, or 27.4%, to $15.1 million from $20.8 million in the 13 week period ended July 28, 2001. Gross margin decreased to 40.0% for the 13 week period ended July 27, 2002 from 47.2% for the 13 week period ended July 28, 2001. The decrease in gross profit and gross margin is primarily due to the decrease of higher margin commercial aerospace aftermarket revenues, a $0.6 million reserve for potential losses for inventory on hand and termination claims relating to the bankruptcy of a former airframe customer, and the lower absorption of fixed manufacturing overhead.

Operating expenses for the 13 week period ended July 27, 2002 decreased $1.2 million, or 11.3%, to $9.4 million from $10.6 million in the 13 week period ended July 28, 2001. This decrease is primarily attributable to the cessation of goodwill and workforce in place amortization of $1.0 million as a result of adopting SFAS No. 142 on October 28, 2001 and a reduction of general and administrative expenses, offset by a slight increase in research and development expenses. Operating expenses as a percent of revenues increased to 24.9% for the 13 week period ended July 27, 2002 as compared to 24.0% for the 13 week period ended July 28, 2001.

Income from operations for the 13 week period ended July 27, 2002 decreased $4.5 million, or 44.1%, to $5.7 million from $10.2 million in the 13 week period ended July 28, 2001. As a percent of revenues, income from operations for the 13 week period ended July 27, 2002 decreased to 15.1% from 23.1% for the 13 week period ended July 28, 2001. These decreases were primarily due to the decreased sales of higher margin commercial aerospace aftermarket revenues, a $0.6 million reserve for potential losses for inventory on hand and termination claims relating to the bankruptcy of a former airframe customer, and the lower absorption of fixed manufacturing overhead.

Interest expense for the 13 week period ended July 27, 2002 decreased $0.7 million, or 11.7%, to $5.3 million from $6.0 million for the 13 week period ended July 28, 2001 due to lower outstanding borrowings and lower interest rates on the term loans.

The income tax provision for the 13 week period ended July 27, 2002 decreased $1.5 million to a benefit of $0.2 million from an expense of $1.3 million in the 13 week period ended July 28, 2001. This decrease is primarily due to a lower pre-tax income of $0.5 million (adjusted for non-deductible ESOP expense) in the 13 week period ended July 27, 2002 as compared to $6.0 million (adjusted for SFAS No. 142, non-recurring stock option expense and non-deductible ESOP expense) for the 13 week period ended July 28, 2001 offset by the favorable effect of tax benefits related to the extraterritorial income exclusion on foreign sales, research and development tax credits and a decrease in the favorable adjustments of prior years' tax accruals related to permanent differences.

Net income for the 13 week period ended July 27, 2002 decreased $2.3 million to $0.5 million from $2.8 million for the 13 week period ended July 28, 2001 primarily due to the revenue and expense factors discussed above.

**Results of Operations for the 39 Week Period Ended July 27, 2002 Compared With the 39 Week Period Ended July 28, 2001**

Net revenues for the 39 week period ended July 27, 2002 decreased $11.8 million, or 9.5%, to $112.3 million from $124.1 million for the 39 week period ended July 28, 2001. This decrease was primarily due to a decrease in aerospace revenues of $14.2 million offset by a $2.4 million increase in industrial revenues. The decrease in aerospace revenues was attributable to a decrease of $21.2 million of commercial aerospace revenues offset by an increase of $7.0 million in military revenues. Commercial OEM revenues decreased $6.9 million, or 31.2%, to $15.2 million and commercial aftermarket revenues decreased $14.3 million, or 22.6%, to $48.8 million in the 39 week period ended July 27, 2002. Commercial OEM revenues decreased as a result of lower overall engine requirements from our customers in response to reduced aircraft build rates. Commercial aftermarket revenues were lower primarily due to a decrease in demand for spare part sales as a result of the reduced flying capacity of commercial airlines and a slight decrease in repair and overhaul services. Military revenues increased primarily due to revenue related to increased sales of KC-135 aerial refueling pumps, F-15, F-16 and F-22 airframe components, F-18E/F 480 gallon fuel tank components and higher sales of aftermarket parts and overhaul services on a variety of aerial refueling and airframe programs. Industrial revenues increased $2.4 million, primarily due to an increase in ground fueling and cryogenic pump revenues offset by a slight decrease in industrial gas turbine revenues.

Gross profit for the 39 week period ended July 27, 2002 decreased $8.4 million, or 14.9%, to $47.8 million from $56.2 million in the 39 week period ended July 28, 2001. Gross margin decreased to 42.6% for the 39 week period ended July 27, 2002 from 45.3% in the 39 week period ended July 28, 2001. The decrease in gross profit and gross margin is primarily due to the decrease in higher margin commercial aerospace aftermarket revenues, a $0.6 million reserve for potential losses for inventory on hand and termination claims relating to the bankruptcy of a former airframe customer, and lower absorption of fixed manufacturing overhead offset by an increase in industrial revenues.

Operating expenses for the 39 week period ended July 27, 2002 decreased $1.8 million, or 5.9%, to $28.9 million from $30.7 million in the 39 week period ended July 28, 2001. This decrease is primarily attributable to the cessation of goodwill and workforce in place amortization of $3.1 million as a result of adopting SFAS No. 142 on October 28, 2001, offset by an increase in research and development expenses and selling, general and administrative expenses, which includes a non-cash expense of $0.6 million related to a salaried employee early retirement program. Operating expenses as a percent of revenues increased to 25.7% for the 39 week period ended July 27, 2002 as compared to 24.7% for the 39 week period ended July 28, 2001.

Income from operations for the 39 week period ended July 27, 2002 decreased $6.6 million, or 25.9%, to $18.9 million from $25.5 million in the 39 week period ended July 28, 2001. As a percent of revenues, income from operations for the 39 week period ended July 27, 2002 decreased to 16.8% from 20.5% for the 39 week period ended July 28, 2001. These decreases were due to the decrease in higher margin commercial aerospace aftermarket revenues, a $0.6 million reserve for potential losses for inventory on hand and termination claims relating to the bankruptcy of a former airframe customer, and lower absorption of fixed manufacturing overhead offset by an increase in industrial revenues and lower operating expenses.

Interest expense for the 39 week period ended July 27, 2002 decreased $2.4 million, or 12.9%, to $16.2 million from $18.6 million for the 39 week period ended July 28, 2001 due to lower outstanding borrowings and lower interest rates on the term loans.

The income tax provision for the 39 week period ended July 27, 2002 decreased $2.7 million to a benefit of $0.1 million from $2.6 million in the 39 week period ended July 28, 2001. This decrease is primarily due to a lower pre-tax income of $3.3 million (adjusted for non-deductible ESOP expense) in the 39 week period ended July 27, 2002 as compared to $11.3 million (adjusted for SFAS No. 142, non-recurring stock option expense and non-deductible ESOP expense) for the 39 week period ended July 28, 2001 offset by the favorable effect of tax benefits related to the extraterritorial income exclusion on foreign sales, research and development tax credits and a decrease in the favorable adjustments of prior years' tax accruals related to permanent differences.

Net income for the 39 week period ended July 27, 2002 decreased $1.6 million, or 36.4%, to $2.8 million from $4.4 million for the 39 week period ended July 28, 2001 primarily due to the revenue and expense factors discussed above.

**Fluctuations of Operating Results; Limitation of Quarterly Comparisons**

Argo-Tech's results of operations are subject to fluctuations from quarter to quarter due to changes in demand for its products, changes in product mix and other factors. Demand for its products can vary from quarter to quarter due to changes in demand for, and timing of deliveries of, OEM, aftermarket and military products and services. In particular, the timing of Argo-Tech's aftermarket sales tends not to occur on a predictable schedule and, furthermore, the sales tend to occur in large quantities that can significantly impact quarterly comparisons. Accordingly, year-to-year and quarter-to-quarter comparisons of quarterly results may not be meaningful, and quarterly results during the year are not necessarily indicative of the results that may be expected for any future period or for the entire year.

**Liquidity and Capital Resources**

Argo-Tech is a holding company that receives all of its operating income from its subsidiaries. As a result, Argo-Tech's primary source of liquidity for conducting business activities and servicing its indebtedness has been cash flows from operating activities.

Cash and cash equivalents for the 39 week period ended July 27, 2002 increased $10.0 million to $18.1 million. This was primarily due to operating income, a decrease in accounts receivable, inventories and prepaid expenses, and an increase in accrued and other liabilities, offset by the scheduled repayment of the term loans, the purchase of stock from former ESOP participants and a decrease in accounts payable.

Capital expenditures for the 39 weeks ended July 27, 2002 totaled $1.1 million compared to $1.2 million for the 39 weeks ended July 28, 2001. Argo-Tech expects to incur capital expenditures of approximately $0.7 million for the remainder of fiscal year 2002, related to the continued maintenance of facilities, equipment and systems to support current operating activities.

Long-term debt at July 27, 2002 consisted of $46.5 million principal amount of term loans and $193.1 million principal amount of senior subordinated notes. Scheduled payments of $14.0 million were made on the term loans in the 39 week period ended July 27, 2002. Argo-Tech has available, after $0.5 million in letters of credit, a $19.5 million revolving credit facility. As of July 27, 2002, there were no outstanding borrowings on the revolving credit facility. The credit facility contains no restrictions on the ability of Argo-Tech's subsidiaries to make distributions to Argo-Tech.

The credit facility expires in 2004. Argo-Tech anticipates that it will explore an extension of the payment terms of its credit facility sometime before the end of this fiscal year. Although Argo-Tech is in compliance with the financial covenants contained in its credit facility at July 27, 2002, modification of certain covenants will be necessary for future compliance beginning with the end of this fiscal year. Accordingly, Argo-Tech anticipates modifying these covenants as part of the extension, but believes that the modification can be achieved whether or not an extension is obtained. The extension and/or modification will result in refinancing costs and a likely increase in applicable interest rate charges, which could have a material adverse effect on quarter-to-quarter comparisons of quarterly results, but is not expected to materially impact Argo-Tech's ability to meet the financial ratios included in certain of the covenants contained in the indenture governing its senior subordinated notes.

**Certain Factors That May Affect Future Results**

From time to time, information provided by Argo-Tech, statements by its employees or information included in its filings with the Securities and Exchange Commission (including those portions of the Management's Discussion and Analysis that refer to the future) may contain forward-looking statements that are not historical facts. Those statements are "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, and Argo-Tech's future performance, operating results, financial position and liquidity, are subject to a variety of factors that could materially affect results. Some, but not necessarily all, of these factors include: Argo-Tech's dependence on the aerospace industry; government regulation and oversight; defense spending; competition; product and environmental liabilities; and risks associated with its workforce, suppliers, and future acquisitions.

## ITEM 3.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In the ordinary course of operations, Argo-Tech's major market risk exposure is to changing interest rates. Argo-Tech's exposure to changes in interest rates relates primarily to its long-term debt obligations. At July 27, 2002, Argo-Tech had fixed rate debt totaling $195 million, including $1.9 million of accretion, at 8.625% and variable rate debt under its existing credit facility of $46.5 million calculated at Argo-Tech's choice using an alternate base rate (ABR) or LIBOR, plus a supplemental percentage determined by the ratio of debt to EBITDA. The variable rate is not to exceed ABR plus 1.50% or LIBOR plus 2.50%. Argo-Tech currently has no derivative contracts and does not enter into derivative contracts for trading or speculative purposes. A 10% fluctuation in interest rates would not materially affect Argo-Tech's financial condition, results of operations or cash flows.

## ITEM 4.

## CONTROLS AND PROCEDURES

(a) Not applicable.

(b) There were no significant changes in Argo-Tech's internal controls or in other factors that could significantly affect these controls subsequent to management's evaluation.

## PART II — OTHER INFORMATION

Item 6 — Exhibits and Reports on Form 8-K

(a) Exhibit 99 — Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on Form 8-K — None

**SIGNATURE**

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

Date: September 13, 2002

ARGO-TECH CORPORATION

By: /s/ Frances S. St. Clair

Frances S. St. Clair
Vice President and Chief Financial Officer
(Duly Authorized Officer)

By: /s/ Paul A. Sklad

Paul A. Sklad
Controller
(Principal Accounting Officer)

CERTIFICATION

I, Michael S. Lipscomb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Argo-Tech 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; and

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.

Date: September 13, 2002

By: /s/ Michael S. Lipscomb
Chairman, President and CEO

CERTIFICATION

I, Frances S. St. Clair, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Argo-Tech 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; and

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.

Date: September 13, 2002

By: /s/ Frances S. St. Clair
Vice President and CFO