

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

FORM 10-K

- ☒ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended October 25, 2003, or
- ☐TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period fromto

Commission File No. 333-38223

ARGO-TECH CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

31-1521125  
(I.R.S. Employer  
Identification No.)

23555 Euclid Avenue, Cleveland, Ohio  
(Address of Principal Executive Offices)

44117  
(Zip Code)

Registrant’s Telephone Number, Including Area Code: (216) 692-6000

Securities Registered Pursuant to Section 12(b) of The Act: None

Securities Registered Pursuant to Section 12(g) of The Act: None

Indicate by checkmark whether the registrant: (1) has filed all reports 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 requirement for the past 90 days. Yes ☒ No ☐

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Form 10-K. ☒

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of January 15, 2004, one share of the Registrant’s Common Stock, \$.01 par value per share, was outstanding. All of the outstanding capital stock of the registrant is held by AT Holdings Corporation, the parent company of the registrant.

Documents incorporated by reference: None

## **TABLE OF CONTENTS**

### **PART I**

[Item 1. Business.](#)

### **PART II**

[Item 5. Market for Our Common Equity and Related Stockholder Matters.](#)

[Item 6. Selected Financial Data.](#)

### **PART III**

### **SIGNATURES**

### **INDEX TO FINANCIAL STATEMENTS**

[INDEPENDENT AUDITORS' REPORT](#)

[CONSOLIDATED BALANCE SHEETS](#)

[CONSOLIDATED STATEMENTS OF NET INCOME](#)

[CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY/\(DEFICIENCY\)](#)

[CONSOLIDATED STATEMENTS OF CASH FLOWS](#)

[NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)

### **EXHIBIT INDEX**

[Exhibit 12 Computation of Ratios](#)

[CEO 302 CERTIFICATION EXHIBIT 31.1](#)

[CFO 302 CERTIFICATION EXHIBIT 31.2](#)

[906 CERTIFICATIONS EXHIBIT 32](#)

PART I

Item 1. Business.

We design, manufacture, sell and service high performance fuel flow devices and systems for both aerospace and general industrial applications. Argo-Tech operates in two business segments, Aerospace and Industrial. The Aerospace segment includes the design, manufacture, distribution, repair and overhaul of aviation products throughout the world consisting of aircraft engine fuel pumps, fuel flow related products and systems found on a plane’s airframe, and aerial refueling pumps and related equipment. The Industrial segment includes the design, manufacture and distribution of industrial pumps, ground fueling valves and related components, cryogenic pumps and nozzles for transferring liquefied natural gas and operation of a business park in Cleveland, Ohio. Argo-Tech is a Delaware corporation formed in 1986. Financial information by business segment can be found in Note 13 to the consolidated financial statements included elsewhere in this report.

In the Aerospace segment, we are the world’s leading supplier of main engine fuel pumps to the commercial aircraft industry and a leading supplier of military main engine fuel pumps and commercial and military airframe products and systems, including airframe pumps, valves and accessories. We are the world’s leading supplier of military aerial refueling pumps and related equipment. Our Aerospace customers include substantially all commercial and domestic military engine and airframe manufacturers, airlines worldwide and the U.S. and certain foreign militaries.

In the Industrial segment, we are the world’s leading supplier of ground fueling components and a fuel management system used at airports throughout the world, and a leading supplier of cryogenic pumps and nozzles and specialty industrial hose for aerospace, chemical transfer and marine applications. In addition, we supply industrial and marine gas turbine products. We also operate an aerospace certified materials laboratory and a business park in Cleveland, Ohio, where we maintain our headquarters and primary production facilities.

Products

Aerospace

*Main Engine Fuel Pumps.* Main engine fuel pumps are precision mechanical pumps, mounted to the aircraft’s engines, that maintain the flow of fuel to the engine at a precise rate and pressure. These pumps consist of an aluminum body which is cast by certified subcontractors. We then machine the casting, manufacture a variety of other components, assemble the final product, and perform rigorous testing at our Cleveland facility.

We are the sole source supplier of main engine fuel pumps for all CFM56 series engines, one of the most popular series of large commercial aircraft engines used today. The CFM56 series engines power the Airbus A-318, A-319, A-320, A-321 and A-340 and the Boeing 737 aircraft. We are also the sole source supplier of main engine fuel pumps for all engines used on the Boeing 777 aircraft, including the new longer range Boeing 777.

Our products also include large regional and business jet applications, including the main engine fuel pumps used on the BR700 series engine, which is used on the high-end Bombardier Global Express, the Gulfstream Aerospace Corp. V aircraft and the Boeing 717. We supply main engine fuel pumps for the GE CF34-8 engine, which is used on the Bombardier CRJ700 and CRJ900 regional and business aircraft and the Embraer ERJ-170 70 passenger regional jet. We also supply main engine fuel pumps for the GE CF34-10 engine which is used on the Embraer ERJ-190 and the new ARJ 21 regional jet to be manufactured by AVIC I Commercial Aircraft Co. Ltd. (ACAC) in China.

*Airframe Products.* Fuel pumps and other airframe fuel transfer control systems in the airframe are necessary to transfer fuel to the engine systems and to maintain aircraft balance by shifting fuel between tanks. We design and manufacture complete fuel systems and fuel subsystems such as refuel/defuel, engine feed and fuel level control. We also design and manufacture a wide variety of fuel components consisting of boost and transfer fuel pumps, fuel flow proportioners, and airframe valves, adapters, nozzles and caps. These systems and components are used for fueling, storing, transferring and engine feed functions during ground and flight operations. Argo-Tech is the fuel system supplier for the Eclipse 500, a new generation of business jet manufactured by Eclipse Aviation Corporation.

*Aerial Refueling Systems.* Aerial refueling systems permit military aerial tankers to refuel fighter, bomber and other military aircraft while in flight. We are a major supplier of components for aerial refueling systems, which are produced only for military applications. Aerial refueling components we manufacture, including pumps, hose and couplers, are installed in the refueling systems of 100% of U.S. designed military aircraft equipped with such capability.

*Industrial*

*Ground Fueling Products.* Ground fueling systems are used to transfer fuel from underground fuel tanks and ground fueling trucks to the fuel receptacle of the aircraft. We manufacture various ground fueling hydrants, couplers and nozzles for commercial and military airports around the world, as well as specialty industrial hose. We also manufacture digital pressure control valves. These valves incorporate a microprocessor to enhance fuel flow control and allow for accurate measurement of pressure at the delivery receptacle thereby optimizing the fuel flow and pressure.

We also sell fuel management systems. Argo-Tech developed the AVR2000 Aviation Refueling Management System which is used at over 200 sites worldwide. It is the leading hardware and software system for customized fuel utilization management, data collection and billing in the industry.

*Cryogenic Products.* We have been widely recognized as a leading designer and supplier of high performance submerged motor pumps for cryogenic gases and fluids. We recently introduced liquefied natural gas nozzles and receptacles for use on alternative fuel vehicles. We believe these products position us favorably in this emerging market.

*Industrial Gas Turbine Products.* As a result of our established record of performance with our Aerospace engine products, we have gained entry into the Industrial & Marine Gas Turbine (“IMGT”) market. Our current IMGT products include designed to specification lubrication and scavenge pumps, liquid fuel delivery pumps, and precision liquid fuel flow dividers. We offer complete aftermarket support for these products, including technical support, supply of spare parts, product repair and overhaul, and on-site service.

**Aftermarket Sales**

Aftermarket sales comprise the largest component of our business. Aftermarket sales consist primarily of spare parts sales and overhaul, retrofit, repair and technical support to commercial and military customers worldwide.

**Customers**

*Aerospace*

Original Equipment Manufacturer (“OEM”) customers for our aerospace products include the world’s major aircraft engine manufacturers: General Electric, Honeywell, Pratt and Whitney (including Pratt and Whitney Canada), Rolls-Royce (including Rolls-Royce Allison and Rolls-Royce Deutschland), SNECMA and Williams International Corp. Customers for our airframe pumps and valves include Airbus, Boeing, Cessna, Gulfstream, Lockheed Martin, Raytheon and various U.S. government agencies. Orders for military components also come through customers such as Lockheed Martin, Boeing, General Electric and Pratt and Whitney. Our aftermarket customers include all major aircraft and engine repair facilities and all major airlines worldwide. Currently, the total number of airline and third party customers for our spare parts, overhaul and repair exceeds 200. Upsilon International Corporation, in its capacity as distributor of certain of our products to foreign customers, accounted for approximately 12% of our net revenues for the fiscal year ended October 25, 2003. No other customer accounted for more than 10% of our revenues during this period.

*Industrial*

Most commercial ground fueling products are sold to customers through independent distributors, while military ground fueling products are usually sold directly to the government. Customers in the domestic markets

include a variety of airlines, airports and various fixed base operators. In international markets, our ground fueling products are purchased by several oil companies, including several state-run oil companies and airport authorities.

Our cryogenic pump customer base includes shipping vessels operated by domestic and foreign carriers, liquefied gas ship loading terminal owners, liquefied gas receiving terminals, petrochemical plants, large architectural and engineering companies worldwide, electric power generation companies and alternate fuel vehicle fleet operators.

Our industrial gas turbine products are utilized in three market sectors: power generation, mechanical drive and marine. Major customers for these products include Rolls Royce Power Engineering, Rolls Royce Energy Systems, Siemens Westinghouse Power Systems and Pratt and Whitney Power Systems.

**Sales and Marketing**

OEM customers in both the Aerospace and Industrial segments select suppliers primarily on the basis of custom design capabilities, product quality and performance, prompt delivery, price and aftermarket support. We believe that we meet these requirements in a timely, responsive manner which has resulted in an extensive installed base of components and substantial aftermarket revenues.

We market and sell our OEM and aftermarket products through a combination of direct marketing, internal sales personnel, independent manufacturing representatives and U.S. and international distributors. We supply main engine fuel pump spare parts directly to domestic airlines and third-party overhaul shops, while foreign customers that purchase main engine fuel pump products receive their spare parts through Upsilon International, which operates a distribution facility in Torrance, California.

**Suppliers and Raw Materials**

We use a certified supplier program that demands a commitment to 100% quality and on-time deliveries. Supplier performance is measured by our comprehensive supplier rating system. Currently, our supplier base includes approximately 600 companies.

Our largest supplier expenditure relates to outsourcing of component machining. We have derived significant savings by taking advantage of advances in machining technologies and by coordinating engineering with our suppliers. Agreements are in place with our key long term suppliers who provide most of the outside supplier component machining.

Aluminum castings used in the manufacture of main engine fuel pumps are the highest volume raw material supplied to us. Key long term certified suppliers provide the majority of these castings. We also buy quantities of steel bar stock to produce gears and shafts from multiple producers. However, CPM-10V, a powdered metal essential for the manufacture of certain of our main engine fuel pumps, is a proprietary product available only from Crucible Specialty Metals. We do not have a contractual arrangement with Crucible Specialty Metals; we purchase CPM-10V pursuant to standard purchase orders. Another material has been identified as an alternative to CPM-10V, but that material has not yet been certified by our customers.

**Manufacturing, Repair and Overhaul**

Argo-Tech has five manufacturing and repair and overhaul facilities:

- A 150 acre business park in Cleveland, Ohio
- A 9.2 acre facility in Costa Mesa, California
- An 85,000 square foot facility in Tucson, Arizona
- A 6,000 square foot facility in Inglewood, California
- A 3,500 square foot facility in Henley-on-Thames, England

In the Aerospace segment, main engine fuel pumps and some models of our airframe fuel pumps are manufactured, repaired and overhauled at our Cleveland, Ohio facility. The remaining Aerospace segment

products are manufactured, repaired and overhauled in our Costa Mesa facility. The Inglewood, California facility is exclusively an overhaul and repair shop for our main engine fuel pump products.

In the Industrial segment, all products are manufactured in the Costa Mesa facility with three exceptions: first, industrial hose products which are manufactured in our Tucson facility; second, the airport fuel management system which is produced at our Henley-on-Thames, England facility; and, third, industrial and marine gas turbine products which are manufactured at our Cleveland facility. Repair and overhaul of Industrial segment products is conducted in our Cleveland and Costa Mesa facilities.

Most of the products at our Cleveland facility are manufactured internally. This facility houses our senior management and the majority of our Aerospace engineering and design staff, sales team, and production and main distribution facilities. This facility is organized around manufacturing “cells” that produce bearings, gears, housings and shafts for assembly. By creating cells, the necessary people, machinery, materials and methods are focused on distinct products and processes. Each manufacturing cell includes members from each of the Manufacturing, Quality, Production Control, Statistical Process Control, and Manufacturing Engineering disciplines. Our design engineering staff is also organized into cells which correspond to and complement the manufacturing cells. The manufacturing and engineering cells work together to meet our integrated operating plan and to ensure timely design and production of our products.

In contrast to our substantial reliance on internal manufacturing of products in Cleveland, we outsource most of the machining and pre-assembly production of products in Costa Mesa to external providers. However, we do maintain internal equipment capacity at our Costa Mesa facility, which enables us to produce small quantity, quick turn components to reduce setup/breakdown times on smaller jobs and for the manufacturing control of key parts. We have lowered the cost of products manufactured in Costa Mesa by outsourcing capital intensive tasks such as casting and machining, while completing final assembly and testing on the premises.

All of the industrial hose products manufactured at our Tucson facility are processed internally. The software relating to the ground fueling airport fuel management system is written internally at our Henley-on-Thames facility, while the hardware relating to the system is sourced from a third party.

In addition to our manufacturing facilities, we maintain sophisticated testing facilities at our Ohio and California locations. These testing facilities allow for simulation of typical conditions and stresses that will be experienced by our products during use. Our products are also thoroughly tested for design compliance, performance and durability. To facilitate quality control and product development, we maintain a sophisticated chemistry and metallurgy laboratory at our Cleveland facility.

We have obtained and preserved our quality management system certifications. ISO-9001:2000 and AS 9100 Revision A certifications are recognized by most of our customers, as well as by the FAA and U.S. government supply organizations.

**Patents and Trademarks**

We have a number of patents and trademarks and pending patent applications related to our products. While in the aggregate our patents and trademarks are of material importance to our business, we believe no single patent or trademark or group of patents or trademarks is of material importance to our business as a whole.

**Government Regulations**

The commercial aerospace industry is highly regulated by the Federal Aviation Administration (“FAA”) in the United States, the Joint Aviation Authorities in Europe and the Civil Aviation Authority in England, while the military aerospace industry is governed by military quality (MIL or ISO-9000) specifications. We are required to be certified by one or more of these entities, and, in some cases, by individual OEMs, in order to engineer and service parts and components used in specific aircraft models. We must also satisfy the requirements of our customers, including OEMs and airlines, that are subject to FAA regulations, and provide these customers with products that comply with the government regulations applicable to commercial flight operations. In addition, the FAA requires that various maintenance routines be performed on aircraft components. We currently satisfy or

exceed these maintenance standards in our repair and overhaul activities. We maintain FAA-approved repair stations at our Cleveland, Ohio, Costa Mesa, California and Inglewood, California facilities.

Our aviation and metals operations are also subject to a variety of worker and community safety laws. The Occupational Safety and Health Act of 1970 (“OSHA”) mandates general requirements for safe workplaces for all employees. In addition, OSHA provides special procedures and measures for the handling of certain hazardous and toxic substances. We believe that our operations are in material compliance with OSHA’s health and safety requirements.

**Competition**

Competition among aerospace component manufacturers is based on engineered solutions, product quality, customer support, pricing and on-time delivery. Competitors in the Aerospace segment are primarily divisions of large corporations. Virtually all of Argo-Tech’s competitors have significantly greater financial resources than does Argo-Tech. To our knowledge, no other company manufactures and sells a broader line of fuel related aerospace components.

In the Industrial segment, competition varies by product, but is typically based on engineered solutions, price, product quality and on-time delivery.

**Backlog**

We believe that unfilled orders are not necessarily an indicator of future shipment levels of our products. As customers demand shorter lead times and flexibility in delivery schedules, they have also revised their purchasing practices. As a result, notification of firm orders may occur only within thirty to sixty days of delivery. In addition, due to the government funding process, backlog can vary on a period to period basis depending on the stage of completion of the contracts represented by such backlog. Therefore, we believe that the backlog of unfilled orders at fiscal year end cannot be relied upon as a valid indication of our sales or profitability in a subsequent year.

**Development Expense Trends**

In connection with new aerospace product development programs, we incur significant research and development expenditures to design, test and qualify main engine fuel pumps and accessories for engine and airframe OEMs. Research and development expenditures are expensed as incurred, and such expenses are expected to continue at historical levels. Research and development expense was \$9.5 million, \$11.7 million and \$10.3 million for the fiscal years ended October 25, 2003, October 26, 2002 and October 27, 2001, respectively.

**Employees**

As of October 25, 2003, we had 654 full-time employees of which 406 are salaried and 248 are hourly. The 159 hourly employees located at our Cleveland facility are represented by the UAW under a collective bargaining agreement expiring on March 31, 2004.

**Environmental Matters**

Our operations are subject to federal, state and local environmental laws and to regulation by government agencies, including the U.S. Environmental Protection Agency. Among other matters, these regulatory authorities impose requirements that regulate the emission, discharge, generation, management, transportation and disposal of pollutants and hazardous substances. These authorities govern response actions to hazardous substances which may be or have been released to the environment, and require us to obtain and maintain permits in connection with our operations. This extensive regulatory framework imposes significant compliance burdens and risks.

Although we believe that our operations and facilities are currently in compliance in all material respects with applicable environmental laws, there can be no assurance that future changes in such laws, regulations or interpretations of such laws or the nature of our operations will not require us to make significant additional

expenditures to ensure compliance in the future. Currently, we do not believe that we will have to make material capital expenditures for environmental remediation for the 2004 fiscal year.

Our Cleveland facility is currently the subject of environmental remediation activities. The cost of these activities is the responsibility of TRW, now a subsidiary of Northrop Grumman, under the terms of the purchase agreement by which we acquired TRW’s Power Accessories Division in 1986. Remediation has been underway since 1989 and is expected to continue for the foreseeable future. We have not paid for any material portion of the cost of the remediation and do not expect to do so in the future. TRW has funded all necessary remediation costs and we expect that TRW will continue to do so in the future. We estimate that TRW has spent in excess of \$15 million for environmental remediation at our Cleveland facility.

The TRW purchase agreement also requires TRW, for a period of 20 years from the date of the 1986 purchase agreement, to indemnify us for:

- costs associated with third party environmental claims relating to environmental conditions arising from activities conducted by TRW during its operation of its Power Accessories Division that have not been conducted by us after our purchase of the assets of the division in 1986, and
- a portion of the costs associated with third party environmental claims arising from activities conducted by TRW and us, the portion of the costs to be paid by each party being determined based on the length of time each party conducted the activity giving rise to the claim.

To date, there have been no third party environmental claims relating to us or to the Cleveland facility.

In March 1986, a two thousand gallon spent underground storage tank was removed from our Costa Mesa facility. Petroleum hydrocarbon soil contamination was discovered during the removal of the tank, prompting the Orange County Health Care Agency to require a site assessment. Subsequent site investigations revealed that groundwater underlying the site is impacted by trichloroethene and perchloroethylene. In 1990, the Regional Water Quality Control Board issued a Cleanup and Abatement Order to J.C. Carter Company, Inc. (which we acquired in 1997 and now operate as a wholly owned subsidiary named Argo-Tech Corporation Costa Mesa) relating to the investigation and remediation of groundwater contamination. To date, the full extent of the groundwater contamination has not been ascertained. By virtue of our acquisition of Carter, we have assumed responsibility for satisfying the cleanup order. However, we have obtained indemnification from Carter’s selling stockholders for, among other things, all costs and expenses related to satisfaction of the order. However, there can be no assurance that such indemnification obligations with respect to the cleanup order will be satisfied by the selling stockholders. See “Risk Factors — Potential Exposure to Environmental Liabilities.”

**Item 2. Properties.**

We own and operate a 150-acre business park in Cleveland, Ohio, which includes 1.8 million square feet of engineering, manufacturing and office space. We occupy approximately 475,000 square feet for our main engine fuel pump, airframe fuel pump and industrial gas turbine businesses and lease almost one million square feet of the facility to third parties. We believe that this facility’s machinery, plants and offices are in satisfactory operating condition. We also believe that it has sufficient capacity to meet our foreseeable future needs without significant additional capital expenditures.

We also own a 9.2-acre facility in Costa Mesa, California, which encompasses 165,000 covered square feet. We manufacture certain of our Aerospace airframe and aerial refueling products and accessories, and Industrial ground fueling and cryogenic products equipment at this facility. We believe that our Costa Mesa facility has sufficient capacity to permit further growth in those product lines without significant additional capital expenditures.

Our leased facility in Tucson, Arizona encompasses 85,000 square feet and includes available space for expansion. We manufacture specialty industrial hose for aerospace, chemical transfer and marine applications at this facility. We believe this facility has sufficient capital and capacity to permit further growth in those product lines without significant additional capital expenditures.



Our Inglewood, California leased facility occupies approximately 6,000 square feet. Its primary purpose is to repair and overhaul main engine fuel pumps owned by airline customers. Inglewood’s assets include test stands for testing fuel pumps after overhaul and a small machine shop for simple rework of pump components.

A leased facility at Henley-on-Thames, England occupies approximately 3,500 square feet. Its primary activities are the design, development and support of aviation refueling management systems.

**Item 3. Legal Proceedings.**

While we are not presently involved in any material legal proceedings, during the ordinary course of business, we are, from time to time, threatened with, or may become a party to, legal actions and other proceedings.

**Item 4. Submission of Matters to a Vote of Security Holders.**

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of our security holders.

PART II

Item 5. Market for Our Common Equity and Related Stockholder Matters.

We are a wholly owned subsidiary of AT Holdings Corporation. Neither AT Holdings nor Argo-Tech have any equity securities that trade, and there is no trading market for any of these equity securities.

Item 6. Selected Financial Data.

Selected Historical Financial and Other Data of Argo-Tech Corporation

The following table sets forth selected historical financial and other data of Argo-Tech for the fiscal years 1999 through 2003, which have been derived from our audited consolidated financial statements for those years. Our fiscal year ends on the last Saturday in October and is identified according to the calendar year in which it ends. For example, the fiscal year ended October 25, 2003 is referred to as “fiscal 2003.” All of the fiscal years presented consisted of 52 weeks. The information presented below should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included elsewhere herein.

|   | Fiscal Year Ended   |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | October 25,<br>2003 | October 26,<br>2002 | October 27,<br>2001 | October 28,<br>2000 | October 30,<br>1999 |
| <b>Statement of Operations Data:</b>              |                     |                     |                     |                     |                     |
| Net revenues                                      | \$160,726           | \$155,303           | \$173,208           | \$159,353           | \$176,178           |
| Gross profit                                      | 66,191              | 66,634              | 79,033              | 66,870              | 79,396              |
| Operating Expenses                                | 39,356              | 38,802              | 40,874              | 41,518              | 45,550              |
| Income from operations                            | 26,835              | 27,832              | 38,159              | 25,352              | 33,846              |
| Interest expense                                  | 21,257              | 21,434              | 24,534              | 25,644              | 25,003              |
| Other, net  | (529)               | (97)                | (51)                | (402)               | (516)               |
| Income tax provision (benefit)                    | 1,579               | 569                 | 2,876               | (642)               | 4,021               |
| Net income  | \$ 4,528            | \$ 5,926            | \$ 10,800           | \$ 752              | \$ 5,338            |
| <b>Balance Sheet Data<br/>(at end of period):</b> |                     |                     |                     |                     |                     |
| Total assets                                      | \$255,797           | \$260,333           | \$273,574           | \$277,334           | \$294,745           |
| Working capital                                   | 34,934              | 33,352              | 35,904              | 33,277              | 35,378              |
| Long-term debt (including current maturities)     | 219,349             | 235,045             | 253,380             | 264,762             | 276,987             |
| Redeemable ESOP stock, net                        | 14,612              | 8,835               | 13,994              | 20,983              | 43,212              |
| Shareholder’s equity/(deficiency)(a)              | (29,928)            | (31,633)            | (42,119)            | (58,842)            | (78,955)            |
| <b>Other Data:</b>                                |                     |                     |                     |                     |                     |
| Gross margin                                      | 41.2%               | 42.9%               | 45.6%               | 42.0%               | 45.1%               |
| Adjusted EBITDA(b)                                | \$ 36,310           | \$ 37,505           | \$ 53,324           | \$ 41,973           | \$ 52,284           |
| Adjusted EBITDA margin(c)                         | 22.6%               | 24.1%               | 30.8%               | 26.3%               | 29.7%               |
| Net cash flows provided by operating activities   | \$ 15,673           | \$ 30,724           | \$ 18,063           | \$ 22,427           | \$ 15,298           |
| Net cash flows used in investing activities       | (1,939)             | (1,785)             | (1,885)             | (3,025)             | (8,637)             |
| Net cash flows used in financing activities       | (17,446)            | (19,227)            | (13,295)            | (18,101)            | (14,366)            |

|   | Fiscal Year Ended   |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | October 25,<br>2003 | October 26,<br>2002 | October 27,<br>2001 | October 28,<br>2000 | October 30,<br>1999 |
| Depreciation, goodwill, identified intangibles, and deferred financing fee amortization | 10,053              | 10,387              | 15,214              | 15,635              | 15,973              |
| Capital expenditures  | 1,939               | 1,785               | 1,885               | 3,025               | 6,050               |
| Cash interest expense(d)  | 18,805              | 19,376              | 22,394              | 23,503              | 23,069              |
| Ratio of Adjusted EBITDA to cash interest expense                                       | 1.9x                | 1.9x                | 2.4x                | 1.8x                | 2.3x                |
| Ratio of earnings to fixed charges(e)   | 1.3x                | 1.3x                | 1.6x                | 1.0x                | 1.4x                |

- (a) Includes a dividend of \$50.0 million to AT Holdings in fiscal 1999. These funds came from the issuance of \$55.0 million in principal amount of 8 5/8% senior subordinate notes, issued at a 5% discount, due 2007.
- (b) Adjusted EBITDA represents income from operations plus non-cash charges as follows:

|  | Fiscal Year Ended   |                     |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | October 25,<br>2003 | October 26,<br>2002 | October 27,<br>2001 | October 28,<br>2000 | October 30,<br>1999 |
| Income from operations                             | \$26,835            | \$27,832            | \$38,159            | \$25,352            | \$33,846            |
| Depreciation, goodwill and intangible amortization | 7,601               | 8,329               | 13,074              | 13,494              | 14,039              |
| Compensation expense — ESOP                        | 1,874               | 1,344               | 2,091               | 2,972               | 4,322               |
| Write-off of inventory acquisition step-up         | —                   | —                   | —                   | 155                 | 77                  |
| Adjusted EBITDA                                    | \$36,310            | \$37,505            | \$53,324            | \$41,973            | \$52,284            |

Our Adjusted EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as an alternative to net income as an indicator of operating performance or to cash flow as a measure of liquidity. We have included information concerning Adjusted EBITDA because we understand that it is used by certain investors as one measure of a borrower’s historical ability to service its debt. Adjusted EBITDA, as presented, may not be comparable to similarly titled measures reported by other companies, since not all companies necessarily calculate Adjusted EBITDA in an identical manner, and therefore is not necessarily an accurate means of comparison between companies.

- (c) Adjusted EBITDA margin is computed as Adjusted EBITDA as a percentage of net revenues.
- (d) Cash interest expense represents interest expense less amortization of deferred financing fees of \$2,452,000, \$2,058,000, \$2,140,000, \$2,141,000 and \$1,934,000, in the fiscal years ended October 25, 2003, October 26, 2002, October 27, 2001, October 28, 2000 and October 30, 1999, respectively.
- (e) For purposes of determining the ratio of earnings available to cover fixed charges, earnings consist of income before taxes plus fixed charges. Fixed charges consist of interest on indebtedness including amortization of deferred financing fees and fixed loan guarantee fees.

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

**Overview**

We design, manufacture, sell and service high performance fuel flow devices and systems for both aerospace and general industrial applications. Argo-Tech operates in two business segments, Aerospace and Industrial. The Aerospace segment includes the design, manufacture, distribution, repair and overhaul of aviation products throughout the world consisting of aircraft engine fuel pumps, fuel flow related products and systems found on a plane’s airframe, and aerial refueling pumps and related equipment. The Industrial segment includes the design, manufacture and distribution of industrial pumps, ground fueling valves and related components, cryogenic pumps and nozzles 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. Financial information by business segment can be found in Note 13 to the consolidated financial statements included elsewhere in this report.

In fiscal 2003, the Aerospace segment generated approximately 76% of our net revenues and the Industrial segment generated approximately 24% of our net revenues. Approximately 63% of the aerospace revenues were derived from sales to commercial OEMs and commercial aftermarket customers, while military revenues represented approximately 37% of our aerospace revenues. Approximately 64% of the industrial revenues were derived from sales to commercial customers, while military customers represented approximately 36% of our industrial revenues.

In fiscal 2003, sales to commercial OEMs represented approximately 26% of our commercial aerospace revenues. As is customary in the commercial aerospace industry, we incur substantial costs, for which we are generally not reimbursed, to design, test and qualify original equipment for OEMs. Once qualified, OEM products generally are sold at or below cost of production in anticipation of receiving orders for commercial spare parts and overhaul activities at significantly higher margins. Most of our OEM sales are on a sole source basis; therefore, in most cases, we are the only OEM certified provider of these parts in the aftermarket. Over the approximately 30 year life cycle of an aircraft program, commercial spare parts and overhaul activities for products we manufacture often generate six or more times the aggregate net revenues of the OEM program. We have over 50 years of experience in most of our product lines which allows us to benefit from a large and growing installed base.

In contrast to the practice in the commercial aerospace industry, we are generally reimbursed for the design, test and qualification costs of equipment used on military aircraft. Military original equipment shipments generally are sold at cost plus a reasonable profit. Due to lower aircraft utilization, military aftermarket sales are less significant than commercial aftermarket sales. Aftermarket margins for military products are at a level higher than original equipment shipments.

**General**

The following should be read together with “Selected Historical Financial and Other Data of Argo-Tech Corporation” and our Financial Statements and the related notes included elsewhere in this report. Our fiscal year ends on the last Saturday of October and is identified according to the calendar year in which it ends. For example, the fiscal year ended October 25, 2003 is referred to as “fiscal 2003.” The fiscal years ended October 25, 2003, October 26, 2002 and October 27, 2001 consisted of 52 weeks.

**ESOP**

We established our Employee Stock Ownership Plan (ESOP) in 1994 by purchasing 420,000 shares of common stock of our parent company, AT Holdings Corporation, with the proceeds of a \$16.8 million ten-year loan funded through a credit facility that was refinanced on July 18, 1997. The ESOP, which includes approximately 228 of our salaried employees, represents an ownership interest in AT Holdings of approximately 54%. GAAP requires that non-cash ESOP compensation expense and a corresponding increase in stockholders’ equity be recorded annually as shares held by the ESOP are allocated to participants and the loan made to the ESOP is repaid. GAAP also requires that this non-cash ESOP compensation expense be added back to net income in the determination of cash flow from operations. The aggregate amount of such non-cash ESOP compensation expense was \$1.9 million, \$1.3 million and \$2.1 million for the fiscal years ended October 25, 2003, October 26, 2002 and October 27, 2001, respectively.

**Export Sales**

Substantially all of our export sales are denominated in U.S. dollars. Export sales for fiscal years 2003, 2002 and 2001 were \$66.7 million, \$68.6 million and \$80.8 million, respectively. Sales to Europe were \$30.4 million, \$28.0 million and \$35.0 million. Export sales to all other regions, individually less than 10%, were \$36.3 million, \$40.6 million and \$45.8 million for fiscal years 2003, 2002 and 2001, respectively.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which enable the fair presentation of our financial position and results of operations. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

*Revenue Recognition* – Revenues are generally recognized when goods are shipped or services provided, at which time title and risk of loss passes to the customer. Substantially all sales are made pursuant to firm, fixed-price purchase orders received from customers. We have executed long-term supply agreements with certain of our original equipment manufacturers. These agreements require us to supply all the amounts ordered by the customers during the term (generally three to five years) of the agreements at specified prices. In certain of these agreements, we expect to incur losses. Provisions for estimating loss contracts are made in the period in which such losses are identified, based on cost and pricing information and estimated future shipment quantities provided by the customer. The cumulative effect of revisions to estimated losses on contracts is recorded in the accounting period in which the amounts become known and can be reasonably estimated. Such revisions could occur at any time there are changes to estimated future revenues or costs. Revenue from certain fixed price engineering contracts for which costs can be reliably estimated are recognized based on milestone billings. Variations in actual labor performance, changes to estimated profitability and final contract settlements may result in revisions to the cost estimates. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the period of revision. We record estimated reductions to revenue for volume-based incentives based on expected customer activity for the applicable period. Revisions for volume-based incentives are recorded in the accounting period in which such estimates can be reasonably determined.

*Valuation of Accounts Receivable and Allowance for Doubtful Accounts* – We evaluate the collectibility of our trade receivables based on a combination of factors. We regularly analyze our customer accounts, and when we become aware of a specific customer’s inability to meet its financial obligation to us, such as in the case of a bankruptcy filing, we immediately record a bad debt expense and reduce the related receivable to the amount we reasonably believe is collectible. We estimate the allowance for doubtful accounts based on the aging of the accounts receivable, customer creditworthiness and historical experience. Our estimate of the allowance amounts includes amounts for specifically identified losses and a general amount for estimated losses. If circumstances change or economic conditions deteriorate, our estimates of the recoverability of receivables could be further adjusted.

*Valuation of Inventories* – Our inventory purchases and commitments are made in order to build inventory to meet future shipment schedules based on forecasted demand for our products. Inventories are stated at the lower of cost or market, with cost being determined on the first-in, first-out, or FIFO, method. Periodically, we perform a detailed assessment of inventory, which includes a review of, among other factors, historical sales activity, future demand requirements, product life cycle and development plans and quality issues. Based on this analysis, we record provisions for potentially obsolete or slow-moving inventory to reflect inventory at net realizable value. These provisions could vary significantly, either favorably or unfavorably, from actual requirements based upon future economic conditions, customer inventory levels or competitive factors that were not foreseen, or did not exist, when the valuation allowances were established.

*Valuation of Goodwill and Intangible Assets* – Goodwill and identified intangible assets are recorded at fair value on the date of acquisition. Intangible assets other than goodwill are recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed or exchanged, regardless of the Company’s intent to do so. Intangible assets, such as goodwill, that have an indefinite useful life are not amortized. All other intangible assets are amortized over their estimated useful lives. We review goodwill and purchased intangible assets for impairment annually, or whenever

events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Our asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. This approach uses our estimates of future market growth, forecasted revenue and costs and appropriate discount rates. When impairment is identified, the carrying amount of the asset is reduced to its estimated fair value.

Recent Developments

Following the September 11, 2001 terrorist attacks, the aerospace industry experienced a significant downturn in both the OEM and aftermarket sectors. The major commercial airlines have reduced their flying capacity by retiring older aircraft in their fleet, parking underutilized aircraft and canceling or delaying the delivery of new aircraft. The OEM build rates of new commercial aircraft have been reduced due to the airlines’ cancellation or delay of delivery of new aircraft. The reduction of flying capacity, the retirement of older aircraft and the deferral of maintenance has reduced the need for aftermarket services. It is anticipated that OEM build rates will stabilize with modest increases estimated to occur in 2005. We anticipate aftermarket activities will begin to recover in the latter part of 2004. Military revenues have increased primarily as a result of the military activity in the Middle East. We anticipate aftermarket military revenues for repair and overhaul services to remain steady in 2004 and OEM military revenue to increase as a result of increased production on several programs. We anticipate increased Industrial revenues in 2004 primarily due to increased demand for our ground fueling, cryogenic and industrial gas turbine products.

Our fiscal year 2004 revenues and cash flows are forecasted to be higher than fiscal year 2003 and Management believes that we will be able to maintain our liquidity and remain in compliance with our debt covenants.

This section includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. There can be no assurances that our current outlook will prove to be correct.

Results of Operations

The following table presents, for the periods indicated, selected items in our consolidated statements of income as a percentage of net revenues.

|                            | Fiscal Year Ended |                  |                  |
|----------------------------|-------------------|------------------|------------------|
|                            | October 25, 2003  | October 26, 2002 | October 27, 2001 |
| Net revenues               | 100.0%            | 100.0%           | 100.0%           |
| Gross profit               | 41.2%             | 42.9%            | 45.6%            |
| Operating expenses         | 24.5%             | 25.0%            | 23.6%            |
| Income from operations     | 16.7%             | 17.9%            | 22.0%            |
| Interest expense           | 13.2%             | 13.7%            | 14.1%            |
| Other, net                 | (0.3)%            | 0.0%             | 0.0%             |
| Income before income taxes | 3.8%              | 4.2%             | 7.9%             |
| Income tax provision       | 1.0%              | 0.4%             | 1.7%             |
| Net income                 | 2.8%              | 3.8%             | 6.2%             |

Fiscal 2003 Compared with Fiscal 2002

Net revenues for fiscal 2003 increased \$5.4 million, or 3.5%, to \$160.7 million from \$155.3 million for fiscal 2002. This change was due to an increase in aerospace revenues of \$0.3 million and a \$5.1 million increase in industrial revenues. The increase in aerospace revenues was attributable to an increase of \$9.8 million in military revenues offset by a decrease of \$9.5 million in commercial revenues. Commercial OEM revenues decreased \$0.6 million, or 2.9%, to \$20.2 million and commercial aftermarket revenues decreased \$8.9 million, or 13.7%, to \$56.3 million. 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 activities. The lower demand for aftermarket sales and activities is a result of the reduced flying by commercial airlines, the availability of spare parts taken from parked aircraft and deferral of maintenance. Military revenues increased primarily due to revenue related to increased sales on a variety of OEM and aftermarket aerial refueling components, main engine pump and airframe components, as well as an increase in revenues related to airframe components on various OEM development programs. Industrial revenues increased \$5.1 million, primarily due to an increase in ground fueling and cryogenic pump revenues offset by a decrease in industrial gas turbine revenues. Approximately 41.5% of fiscal 2003 net revenues were attributable to export sales to foreign customers compared to 44.2% in fiscal 2002. Substantially all such sales were denominated in U.S. dollars.

Aerospace gross profit for fiscal 2003 decreased \$1.4 million, or 2.6%, to \$53.5 million from \$54.9 million for fiscal 2002. Gross margin decreased to 44.2% for fiscal 2003 from 45.4% for fiscal 2002. The decrease in gross profit and gross margin is primarily attributable to a decrease in higher margin commercial aerospace aftermarket revenues and an increase in non-cash ESOP compensation expense partially offset by an increase in military revenues and a change in classification and allocation of \$2.1 million of certain costs to selling, general and administrative expenses. Industrial gross profit for fiscal 2003 increased \$0.6 million, or 4.8%, to \$13.0 million from \$12.4 million in fiscal 2002. The increase in gross profit was attributable to an increase in ground fueling revenues partially offset by an increase in utility costs associated with the operation of our business park and a decrease in industrial gas turbine revenues. Gross margin, which decreased to 33.0% in fiscal 2003 from 36.1% in fiscal 2002, was lower primarily due to the increase in utility costs, an unfavorable sales mix of ground fueling products and an increase in cryogenic pump manufacturing costs.

Operating expenses for fiscal 2003 increased \$0.6 million, or 1.5% to \$39.4 million from \$38.8 million in fiscal 2002. Selling, general and administrative expenses increased \$3.0 million due to a \$2.1 million change in classification and allocation of certain costs from cost of sales, an increase in marketing costs, bid and proposal costs, legal costs, severance costs associated with a reduction in the salaried workforce and an increase in non-cash ESOP compensation expense offset by the non-recurrence of a non-cash expense of \$0.6 million related to a salaried employee early retirement program in fiscal 2002. Research and development expenses decreased \$2.2 million due to an increase in customer paid development expenses, which are included in cost of revenues, and a decrease in spending related to programs nearing completion. Operating expenses as a percent of revenues decreased to 24.5% for fiscal 2003 from 25.0% in fiscal 2002.

Income from operations for fiscal 2003 decreased \$1.0 million, or 3.6%, to \$26.8 million from \$27.8 million in fiscal 2002. As a percent of revenues, income from operations for fiscal 2003 decreased to 16.7% from 17.9% in fiscal 2002. These decreases were primarily due to the decrease in higher margin commercial aerospace aftermarket revenues partially offset by an increase in military and industrial revenues, an increase in utility costs associated with the operation of our business park and an increase in selling, general and administrative expenses offset by a decrease in research and development expenses discussed above.

Interest expense for fiscal 2003 decreased \$0.2 million, or 0.9%, to \$21.2 million from \$21.4 million for fiscal 2002 due to lower outstanding borrowings which were partially offset by an increase in interest rates on the term loan and increased amortization of deferred financing fees resulting from the amendment of our credit agreement.

The income tax provision for fiscal 2003 increased \$1.0 million to \$1.6 million from \$0.6 million in fiscal 2002. A reconciliation of the income tax provision can be found in Note 11 to the consolidated financial statements included elsewhere in this report.

Net income for fiscal 2003 decreased \$1.4 million to \$4.5 million from \$5.9 million for fiscal 2002 primarily due to the revenue and expense factors discussed above.

**Fiscal 2002 Compared with Fiscal 2001**

Net revenues for fiscal 2002 decreased \$17.9 million, or 10.3%, to \$155.3 million from \$173.2 million for fiscal 2001. This change was due to a decrease in aerospace revenues of \$21.1 million and a \$3.2 million increase

in industrial and other revenues. The decrease in aerospace revenues was attributable to a decrease of \$29.9 million in commercial revenues and an increase of \$8.8 million in military revenues. Commercial OEM revenues decreased \$10.0 million, or 32.6%, to \$20.8 million and commercial aftermarket revenues decreased \$19.9 million, or 23.3%, to \$65.2 million. 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 activities. The lower demand for aftermarket sales and activities is a result of the reduced flying by commercial airlines, the availability of spare parts taken from parked aircraft and deferral of maintenance. Military revenues increased 33.8% primarily due to revenue related to increased sales of KC-135 aerial refueling pumps, F-16 and F-22 airframe components, F-18E/ F 480 gallon fuel tank components and higher sales of aftermarket parts and overhaul activities on a variety of aerial refueling and airframe programs. Industrial revenues increased \$3.2 million, primarily due to an increase in ground fueling and cryogenic pump and nozzle revenues offset by a decrease in industrial gas turbine revenues. Approximately 44.2% of fiscal 2002 net revenues were attributable to export sales to foreign customers compared to 46.6% in fiscal 2001. Substantially all such sales were denominated in U.S. dollars.

Aerospace gross profit for fiscal 2002 decreased \$14.4 million, or 20.8%, to \$54.9 million from \$69.3 million for fiscal 2001. Gross margin decreased to 45.4% for fiscal 2002 from 48.8% for fiscal 2001. The decrease in gross profit and gross margin is primarily attributable to the decreased sales of higher margin commercial aerospace aftermarket revenues, a \$0.6 million provision 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. Industrial gross profit for fiscal 2002 increased \$2.8 million, or 29.2%, to \$12.4 million from \$9.6 million for fiscal 2001. Gross margin increased to 36.1% from 30.9% for fiscal 2001. The increase in gross profit and gross margin is primarily attributable to the favorable mix of higher margin ground fueling revenues.

Operating expenses for fiscal 2002 decreased \$2.1 million, or 5.1% to \$38.8 million from \$40.9 million in fiscal 2001. This decrease is primarily attributable to the cessation of goodwill and workforce in place amortization of \$3.8 million as a result of adopting SFAS No. 142 on October 28, 2001, offset by an increase in research and development expenses of \$1.4 million and selling, general and administrative expenses of \$0.3, 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 25.0% for fiscal 2002 from 23.6% in fiscal 2001.

Income from operations for fiscal 2002 decreased \$10.3 million, or 27.0%, to \$27.8 million from \$38.1 million for fiscal 2001 and decreased as a percentage of net revenues to 17.9% in fiscal 2002 from 22.0% in fiscal 2001. These decreases were due to the decrease in higher margin commercial aerospace aftermarket revenues, a \$0.6 million provision 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 discussed above.

Interest expense for fiscal 2002 decreased \$3.1 million, or 12.7%, to \$21.4 million from \$24.5 million for fiscal 2001 due to lower outstanding borrowings and lower interest rates on the term loans.

The income tax provision for fiscal 2002 decreased \$2.3 million, or 79.3%, to \$0.6 million from \$2.9 million in fiscal 2001. This decrease is primarily due to a lower pre-tax income of \$6.5 million for fiscal 2002 as compared to \$13.7 million for fiscal 2001. A reconciliation of the income tax provision can be found in Note 11 to the consolidated financial statements included elsewhere in this report.

Net income for fiscal 2002 decreased \$4.9 million to \$5.9 million from \$10.8 million for fiscal 2001 primarily due to the revenue and expense factors discussed above.

**Liquidity and Capital Resources**

We are a holding company and receive all of our operating income from our subsidiaries. As a result, our primary source of liquidity for conducting business activities and servicing our indebtedness has been cash flows from our subsidiaries’ operating activities.



In September 1997, we amended our credit facility to allow for the acquisition of Argo-Tech Corporation Costa Mesa and the issuance of \$140.0 million of 8 5/8% senior subordinated notes. The amended credit facility consists of a seven-year \$115.0 million term loan and a seven-year \$20.0 million revolving credit facility. As of October 25, 2003, we have \$25.8 million principal amount of term loans outstanding under this amended credit facility. We also have available, after \$2.2 million of letters of credit, \$17.8 million of the seven-year \$20.0 million revolving credit facility. The unused balance of the revolving credit facility is subject to a .75% commitment fee. Our credit facility contains a number of covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends, prepay subordinate indebtedness, dispose of certain assets, create liens, make capital expenditures, make certain investments or acquisitions and otherwise restrict corporate activities. It also requires us to comply with certain financial ratios and tests, under which we will be required to achieve certain financial and operating results. The credit facility contains no restrictions on the ability of our subsidiaries to make distributions to us. Interest is calculated, at our choice, using an Alternate Base Rate (“ABR”) or LIBOR, plus a supplemental percentage determined by the ratio of total debt to EBITDA. The interest rate for fiscal year 2003 ranged from 1.75% to 2.50% plus ABR or 2.75% to 3.50% plus LIBOR. On January 24, 2003 we amended and restated our Credit Facility to allow for the re-amortization of the outstanding balance of the Term Loans, amending the Consolidated Interest Coverage Ratio for the remainder of the agreement, adjusting the supplemental percentage of interest applied to ABR or LIBOR, changing the commitment fee rate, increasing the Letter of Credit sublimit in the revolving credit facility to an amount not to exceed \$5,000,000 and establishing a borrowing base covenant on revolving credit borrowings in excess of \$10.0 million and a fixed charge coverage ratio. The maturity of the Term Loans was extended one year and is now as follows: \$16.0 million, \$12.0 million and \$13.8 million for fiscal years 2003, 2004 and 2005, respectively.

In September 1997, we issued \$140 million of senior subordinated notes, together with a portion of the borrowings under our credit facility, to finance the acquisition of Argo-Tech Corporation Costa Mesa, repay in full \$46.1 million in notes payable and subordinated notes, and to pay related fees and expenses. The senior subordinated notes bear interest at a rate of 8 5/8% per year, payable on each April 1 and October 1. Interest payments commenced on April 1, 1998. These notes have been jointly, severally, fully and unconditionally guaranteed by all of our wholly owned subsidiaries. The indenture under which these senior subordinated notes were issued contains certain optional and mandatory redemption features and other customary financial covenants and restrictions.

On December 17, 1998, we issued \$55.0 million in principal amount of 8 5/8% senior subordinated notes, issued at a 5% discount, due 2007, \$50.0 million of which was dividended to AT Holdings. The proceeds from the offering, along with the proceeds of the issuance by AT Holdings of 30,000 shares of its preferred stock to J.P. Morgan Partners, LLC and cash on hand, were used to repurchase 639,510 shares of stock from AT Holdings, LLC, the Company’s largest shareholder, for \$79.4 million plus transaction expenses. At October 25, 2003 the accreted value of this offering was \$53.5 million.

Argo-Tech does not enter into derivative contracts for trading or speculative purposes. We have no other derivative financial instruments.

*Cash Flows from Operating Activities.* Cash provided by operating activities for fiscal 2003 decreased \$15.0 million to \$15.7 million primarily as a result of an increase in receivables and inventory. Cash provided by operating activities for fiscal 2002 increased \$12.6 million to \$30.7 million primarily as a result of a decrease in receivables and inventory.

*Cash Flows from Investing Activities.* Net cash used in investing activities was \$1.9 million, \$1.8 million and \$1.9 million for fiscal years 2003, 2002 and 2001, respectively, for expenditures for the purchase of property, plant and equipment. These expenditures reflect a normal amount of capital investments necessary to maintain our efficiency and manufacturing capabilities.

*Cash Flows from Financing Activities.* Cash used in financing activities for fiscal 2003 was \$17.4 million, which was primarily used to make scheduled repayments of long-term debt and payment of financing related fees associated with amending our credit agreement. Cash used in financing activities for fiscal 2002 was \$19.2 million, which was primarily used to make scheduled repayments of long-term debt and for AT Holdings’ repurchase of common stock from various former employees. Cash used in financing activities for fiscal 2001

was \$13.3 million, which was primarily used to make scheduled repayments of long-term debt and for AT Holdings’ repurchase of common stock from various former employees.

*Capital Expenditures.* Our capital expenditures for fiscal 2003 totaled \$1.9 million, which were related to maintaining existing facilities and equipment and systems to support current operating activities. For fiscal 2004, we estimate that capital expenditures will total \$3.0 million. The majority of these projects will be for continued maintenance of facilities and equipment in support of our current operating activities. Capital expenditures are financed with cash generated from operations. We currently have no material commitments for capital expenditures.

Our expected future contractual cash obligations and other commercial commitments for the next five years are as follows:

|                                    | 2004   | 2005   | 2006  | 2007    | 2008  |
|------------------------------------|--------|--------|-------|---------|-------|
| Contractual Obligations:           |        |        |       |         |       |
| Long Term Debt                     | \$12.0 | \$13.8 | \$    | \$195.0 | \$    |
| Operating Leases                   | 0.9    | 0.7    | 0.4   | 0.1     | 0.1   |
| Total Contractual Cash Obligations | \$12.9 | \$14.5 | \$0.4 | \$195.1 | \$0.1 |

We believe that cash flow from operations will provide adequate funds for our working capital needs, planned capital expenditures and debt service obligations. Our ability to fund our operations, make planned capital expenditures, and to make scheduled payments on our indebtedness depends on our future operating performance and cash flow. We may need to refinance all or a portion of our indebtedness on or before maturity. There can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. These items are subject to prevailing conditions and to financial, business, and other factors, some of which are beyond our control.

**New Accounting Standards**

In June 2002, the FASB issued Statement of Financial Accounting Standard (“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 determined the adoption of this statement had no effect on Argo-Tech’s consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. (“FIN”) 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 requires that a liability be recorded in the guarantor’s balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the entity’s product warranty liabilities. See Note 9 for this disclosure. Argo-Tech will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. Argo-Tech has not guaranteed any other obligation before or after December 31, 2002 that would require disclosure under FIN 45.

In January 2003, the FASB issued FIN 46, “Consolidation of Variable Interest Entities.” FIN 46 provides guidance on how to identify a variable interest entity (“VIE”) and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company’s consolidated financial statements. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of this interpretation became effective upon issuance. Management believes the adoption of this interpretation is not likely to have a material impact on Argo-Tech’s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” This statement establishes how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments (as identified in the scope of the statement), as a liability (or an asset in some

circumstances), that were previously classified as equity. Management determined the adoption of this statement had no effect on Argo-Tech’s consolidated financial statements.

**Risk Factors**

From time to time, information we provide, statements by our employees or information included in our 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 our future performance, operating results, financial position and liquidity, are subject to a variety of factors that could materially affect results, including:

**Risks Associated with the Aerospace Industry Generally.**

- *The aerospace industry is cyclical.*

The majority of our fiscal 2003 gross profit and operating income was derived from sales of products to the aerospace industry. The commercial aerospace industry is cyclical and has historically been subject to fluctuations due to general economic conditions and incidents. On September 11, 2001, the United States was subjected to terrorist attacks which involved the hijacking of four U.S. commercial aircraft. In the aftermath of the terrorist attacks, passenger traffic on commercial flights has been significantly lower than prior to the attacks. Most commercial airlines reduced their operating schedules and lowered fares. Consequently, fewer people are flying and those who are flying are paying less to do so. The overall result has been large and continuing financial losses in the airline industry. Major carriers around the world have filed for bankruptcy.

The future impact of these events is impossible to fully evaluate. Continuing losses in the airline industry have resulted, and will continue to result, in reduced orders and delivery delays of new commercial aircraft, retirement of older aircraft (eliminating those aircraft from maintenance needs and making spare parts from those aircraft available), and delays in airlines’ purchases of aftermarket parts as maintenance is deferred. This could continue to result in decreases in our Aerospace segment sales of OEM and aftermarket components and negatively affect our income and cash flow.

- *The aerospace industry is subject to government regulation and oversight.*

The aerospace industry is highly regulated in the United States and in other countries. We must be certified or accepted by the Federal Aviation Administration, the U.S. Department of Defense and similar agencies in foreign countries and by individual OEMs in order to sell and service parts and components used in specific aircraft models. If material certifications, authorizations or approvals were revoked or suspended, our operations would be adversely affected. In the future, new and more demanding government regulations may be adopted or industry oversight may be increased, which may have an adverse effect on our profitability.

- *The aerospace industry is highly competitive.*

The aerospace industry is a highly competitive global industry which has experienced significant consolidation in recent years. Our competitors are typically divisions of large corporations that have significantly greater financial resources than we do.

- *There are a limited number of customers for certain products.*

Due to the relatively small number of customers in the aerospace industry, customers, particularly OEM customers, are often able to influence prices and other terms of sale for certain of our products. This influence can have a material adverse effect on our profitability, as would the loss of one or more of these significant customers.

- *Government Contracts are subject to reductions in defense spending.*

Approximately 37% of our sales in fiscal 2003 were related to U.S. designed military products. In addition, foreign military sales are affected by U.S. government regulations, regulations by the purchasing foreign government and political uncertainties in the U.S. and abroad. The U.S. defense budget has fluctuated in recent years. Although we have experienced increased sales as a result of military actions in Afghanistan and Iraq, there

can be no assurance that the U.S. defense budget will not decline or that sales of defense related items to foreign governments will continue at present levels. In addition, the terms of defense contracts with the U.S. government generally permit the government to terminate contracts, with or without cause, at any time. Any unexpected termination of a significant government contract could have an adverse effect on our business and profitability.

**Risks Associated with our Operations.**

- *Our substantial indebtedness could adversely affect our financial health.*

We have a significant amount of indebtedness. Our ability to generate cash in the future, is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. The balance between our ability to generate cash and our substantial indebtedness could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions,
- limit our ability to fund future working capital, capital expenditures, research and development costs and other general corporate requirements,
- require us to dedicate a substantial portion of our cash flow to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes,
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate,
- place us at a competitive disadvantage compared to our competitors that have less debt, and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds.

Based upon the current level of operations and absent any unanticipated disruptive events, we believe our cash flow from operations and available cash, together with available borrowings under our \$20.0 million revolving credit facility, will be fully adequate to meet our future liquidity needs. This cannot be assured, however.

- *We depend on the skill and experience of our senior executives.*

Our success depends upon the efforts, abilities, experience and expertise of the executive officers of our senior management team. The loss of services of those individuals and or other key employees could have a material adverse effect on our company.

- *Our operations depend on maintaining a skilled workforce.*

Our operations are highly dependent on an educated and trained workforce. All of our hourly employees at the Cleveland facility are represented by the United Auto Workers union under a collective bargaining agreement that expires March 31, 2004. Because we maintain a relatively small inventory of finished goods, and because the aerospace industry operates on relatively long production lead times, any interruption of the work force due to strikes, work stoppages, shortages of appropriately skilled production and professional workers or other interruption could have a material adverse effect on our business and results of operations.

- *We depend on suppliers for essential materials used in our products.*

Our profitability is affected by the price and continuity of supply of raw materials and component parts. Like all other aerospace fuel pump manufacturers, we rely on one supplier for CPM-10V, a powdered metal used in the manufacture of certain pump components. If that supply ceased to exist, our ability to operate would be adversely affected. We could also be adversely affected by factors affecting our suppliers, or by increased costs associated with supplied materials or components if we are unable to make corresponding increases in the prices of our products. We maintain a relatively small inventory of raw materials and component parts and could be adversely affected by a reduction of supply from vendors. Although we believe that alternative suppliers, or

alternate materials or components, could be identified, the lengthy and expensive FAA and OEM certification process associated with aerospace products could prevent efficient replacement of a material or supplier and could have a material adverse effect on our business and profitability.

- *We depend on our Cleveland, Ohio and Costa Mesa, California facilities.*

We believe that our success to date has been, and future results of operations will be, dependent in large part upon our ability to manufacture and deliver products promptly upon receipt of orders and to provide prompt and efficient service to our customers. As a result, any disruption of our day-to-day operations could have a material adverse effect on our business, customer relations and profitability. The Cleveland, Ohio and Costa Mesa, California facilities are the primary production, research and marketing facilities for our products and the Cleveland facility also serves as our corporate headquarters. A fire, flood, earthquake or other disaster or condition affecting either of these facilities could disable these functions which are critical to our business. Any such damage to, or other condition interfering with the operation of, these facilities would have a material adverse effect on our business, financial position and results of operations.

- *We have potential exposure to environmental liabilities.*

Our business operations and facilities are subject to a number of federal, state and local laws and regulations, which govern the discharge of pollutants and hazardous substances into the air and water as well as the handling, storage and disposal of such materials. Under certain environmental laws, as a current or previous owner or operator of real property, we could be held liable for the costs of removal or remediation of hazardous substances found on the property. Environmental laws typically impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous substances.

Our Cleveland and Costa Mesa facilities are currently the subject of environmental remediation regarding contamination resulting from the operations of our predecessors. Those predecessors have indemnified us for substantially all costs of remediation at each site. There can be no assurance, however, that those parties will continue to satisfy their indemnification obligations or that we would not be ultimately responsible as owner and/or operator of either or both of these sites for potentially significant remediation costs. Moreover, there can be no assurance that future changes in environmental laws or the nature of our operations will not require us to make significant additional expenditures to ensure future environmental compliance.

- *We have a potential risk of product liability claims.*

Our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that has been designed, manufactured or serviced by us, or the irregularity of metal products we have processed or distributed. We believe that our liability insurance is adequate to protect us from future product liability claims. However, there can be no assurance that our insurance coverage will be adequate if claims were to arise.

**Item 7A. Quantitative and Qualitative Disclosures 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 October 25, 2003, Argo-Tech had fixed rate debt totaling \$195 million, including \$2.9 million of accretion, at 8.625% and variable rate debt under its existing credit facility of \$25.8 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 2.50% or LIBOR plus 3.50%. Argo-Tech 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 8. Financial Statements and Supplementary Data.**

The response to this item is submitted in a separate section of this report following the signature page.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There were no changes in, or disagreements with, accountants on accounting and financial disclosure.

**Item 9a. Disclosure Controls and Procedures.**

- (a) Evaluation of disclosure controls and procedures. The term “disclosure controls and procedures” is defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934 (“Exchange Act”). These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the required time periods. Argo-Tech’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Argo-Tech’s disclosure controls and procedures as of a date within 90 days before the filing of this annual report (the “Evaluation Date”), and have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed in Argo-Tech’s reports filed under the Exchange Act.
- (b) Changes in internal controls. There were no significant changes in Argo-Tech’s internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date.

PART III

Item 10. Directors and Executive Officers of Argo-Tech.

*Directors and Executive Officers.* The following table sets forth certain information concerning our directors and executive officers. Directors serve until their successors are elected at each annual meeting. Officers hold office until their successors are elected and qualified.

| Name                 | Age | Position  |
|----------------------|-----|---|
| Michael S. Lipscomb  | 57  | Chairman, President & CEO, Director                             |
| Paul R. Keen         | 54  | Executive Vice President, General Counsel & Secretary, Director |
| Frances S. St. Clair | 48  | Executive Vice President and CFO, Director                      |

**Michael S. Lipscomb** has been Chairman, President & Chief Executive Officer since 1994. Mr. Lipscomb joined TRW’s corporate staff in February 1981 and was made Director of Operations for the Power Accessories Division in 1985. Mr. Lipscomb was named Vice President of Operations when Argo-Tech was formed in 1986, becoming President in 1990 and Chairman in 1994. Mr. Lipscomb has also served as a director of Argo-Tech and AT Holdings Corporation since 1990.

**Paul R. Keen** is Executive Vice President, General Counsel and Secretary. Mr. Keen was named Vice President and General Counsel in 1987, became Secretary in December 1990 and was promoted to Executive Vice President in December 2003. Prior to 1987, he spent the majority of his career with TRW as Senior Counsel, Securities and Finance and as primary legal counsel to two operating groups. Mr. Keen joined the Board of Directors of Argo-Tech in April 1999 and the Board of Directors of AT Holdings in September 2003.

**Frances S. St. Clair** is Executive Vice President and Chief Financial Officer. Ms. St. Clair joined the Company in 1991 as Controller and was promoted to Vice President and Controller in November 1991. Ms. St. Clair was promoted to Chief Financial Officer in November 1992 and to Executive Vice President in December 2003. Ms. St. Clair received her C.P.A. certification in 1984. Ms. St. Clair joined the Board of Directors of Argo-Tech in April 1999 and served as a director of AT Holdings from September 2001 to September 2003.

Item 11. Executive Compensation.

The following table sets forth, for the fiscal years 2003, 2002 and 2001, certain information about the compensation paid to or accrued by us for the Chief Executive Officer and each of our other executive officers (the “Named Executives”).

| Name and Principal Position  | Annual Compensation |           |           | All Other Compensation(1)(2) |
|--|---------------------|-----------|-----------|------------------------------|
|  | Fiscal Year         | Salary    | Bonus     |                              |
| Michael S. Lipscomb<br><i>Chairman, President and CEO</i>                      | 2003                | \$461,112 | \$225,023 | \$50,475                     |
|  | 2002                | \$419,193 | \$222,172 | \$46,458                     |
|  | 2001                | \$419,193 | \$272,475 | \$46,414                     |
| Paul R. Keen<br><i>Executive Vice President, General Counsel and Secretary</i> | 2003                | \$246,480 | \$ 83,310 | \$12,806                     |
|  | 2002                | \$232,530 | \$ 85,339 | \$ 5,759                     |
|  | 2001                | \$232,530 | \$104,639 | \$ 6,013                     |
| Frances S. St. Clair<br><i>Executive Vice President and CFO</i>                | 2003                | \$225,000 | \$ 76,050 | \$23,582                     |
|  | 2002                | \$200,016 | \$ 73,504 | \$25,630                     |
|  | 2001                | \$200,016 | \$ 90,007 | \$ 9,277                     |

- (1) Other annual compensation did not exceed the lesser of \$50,000 or 10% of salary plus bonus of any of the Named Executives in 2001, 2002 or 2003.
- (2) The amounts listed consist of the value of life insurance provided by us for the benefit of the Named Executives in excess of the value of life insurance provided by us for the benefit of all other salaried employees. For Mr. Lipscomb, the amounts listed also include \$27,000 for fiscal year 2003 and \$22,000 for each of the fiscal years 2002 and 2001, respectively, paid as AT Holdings Corporation directors’ fees. For Mr. Keen, the amounts listed also include \$7,000 for fiscal year 2003 paid as AT Holdings Corporation

directors’ fees. For Ms. St. Clair, the amounts listed also include \$20,000, \$22,000 and \$5,500 for fiscal years 2003, 2002 and 2001, respectively, paid as AT Holdings Corporation directors’ fees.

**Management Retention Agreements**

*Stay Pay and Severance Agreements.* We have entered into Stay Pay and Severance Agreements with each of the Named Executives. Our Board of Directors believes that these severance agreements benefit us by securing the continued services of key management personnel and by enabling management to perform their duties and responsibilities without the distracting uncertainty generally associated with a change in control.

The severance agreements provide that, if a change in control (as defined in the agreements) occurs and the executive remains employed by us on a full-time basis through the effective date of the change in control, the executive will receive a single lump sum “stay payment” equal to 25% of the sum of the highest annual base salary and the highest bonus amount received by the executive in the preceding five years.

The severance agreements also provide that if an executive’s full-time employment is terminated without cause (as defined in the agreements), either before or after a change in control has occurred, or upon a voluntary termination of employment by an executive upon the reduction of his or her base salary by 5% or more, if the reduction is not a result of a company policy to reduce the salaries of a substantial number of officers or employees, or if the executive ceases to be employed in a position involving substantially the same level of responsibility or duties as performed by the executive on the date the severance agreement was executed (a “Qualifying Voluntary Termination”), the executive will receive a basic severance payment. The payment will consist of a single lump sum equal to the sum of the highest annual base salary and the highest bonus amount received by the executive in the preceding five years.

Additional payments will be made to the executive in the event that a change in control has occurred and the executive’s employment is terminated without cause within the six-month period following the effective date of such change in control, or upon a Qualifying Voluntary Termination within that period. The executive will receive additional severance payments equal to the amount he or she would have received had employment continued, at the same intervals and at the same rate of base salary the executive was receiving during the month preceding termination, until the six-month anniversary of the effective date of the change in control. These additional severance payments, if paid, would be in addition to the basic severance payment and the stay payment described above.

Each executive is entitled to several other benefits contained in the severance agreements, including

- life, health, medical/hospital, dental, and vision insurance benefits for a period of 12 months in the event that an executive’s full-time employment is terminated without cause or upon a Qualifying Voluntary Termination, either before or after a change in control has occurred and
- gross-up payments to cover any excise tax imposed by Section 4999 of the Internal Revenue Code upon any payment made to the executive under the severance agreements, subject to certain limitations.

We have agreed to be solely responsible for any and all attorneys’ fees and related expenses incurred by the executive in the event that we fail to comply with our obligations under the severance agreements.

*Trust Agreement.* In connection with an additional stay pay agreement with Mr. Lipscomb, we entered into a trust agreement, which established an irrevocable grantor trust for the benefit of Mr. Lipscomb as the beneficiary. This agreement provides for payment of \$315,600 on January 1, 2007, or earlier, upon Mr. Lipscomb’s voluntary or involuntary termination of full-time employment with us, with or without cause (as defined in the agreement).

The assets to be held by the trust include the original deposit of principal and any other contributions made by us, at our option. These trust assets are to be disposed of by the trustee when certain conditions in Mr. Lipscomb’s stay pay agreement occur or when the trustee is directed by two officers of Argo-Tech, other than Mr. Lipscomb, to dispose of the assets.



If the amount disbursed by the trustee exceeds the amount to which Mr. Lipscomb or his qualifying successor is entitled under the stay pay agreement, Mr. Lipscomb or his qualifying successor is entitled to retain such excess. The trust assets and any income earned on those assets remain at all times subject to the claims of our general creditors under state and federal law.

This agreement also provides for the payment of attorneys’ expenses if enforcement of the contract becomes necessary, and contains certain restrictions on certain types of competitive activity by Mr. Lipscomb. The benefits provided by the trust and this stay pay agreement and the Trust Agreement are in addition to the benefits provided under the severance agreements described above and Mr. Lipscomb’s employment contract which is described below.

*Employment Agreements.* We have entered into employment contracts with Mr. Lipscomb and Mr. Keen. These contracts provide for the payment of severance benefits upon termination of employment without cause (as defined in the contracts). In the event of such a termination, Mr. Lipscomb will receive all salary and bonuses for a period of twelve months from the date of termination, in an amount equal to all salary and bonuses received during the twelve month period immediately preceding termination. Mr. Keen will receive, in the event of such a termination, a single lump sum payment equal to 24 months of his base salary, in an amount calculated from the base salary in effect for the full month immediately preceding the date of termination. Both Mr. Lipscomb and Mr. Keen will receive life, health, medical/hospital, dental and vision insurance benefits for a period of twelve months following termination. Mr. Keen’s contract also provides for the payment of attorneys’ expenses if enforcement of the contract becomes necessary, and contains restrictions on certain competitive activities by Mr. Keen. The benefits provided by these additional contracts are provided in addition to the benefits provided under the severance agreements, and Mr. Lipscomb’s trust agreement.

**Compensation Committee Interlocks and Insider Participation**

Argo-Tech Corporation does not have a compensation committee or similar board committee. Decisions regarding executive officer compensation are made by the compensation committee of the Board of Directors of AT Holdings Corporation, the parent company of the registrant. This compensation committee is comprised solely of non-employee directors.

**Compensation Pursuant to Employee Benefit Plans of the Company**

***Retirement Plan***

*Salaried Pension Plan.* Our Salaried Pension Plan was established effective November 1, 1986. Prior to July 1, 1994, our regular, permanent, salaried employees were eligible to participate in this plan. Participation in the plan was closed to any person who was not a participant on June 30, 1994, and all benefit accruals ceased as of the close of business on June 30, 1994. The benefits of participants in the Salaried Pension Plan who were employees on June 30, 1994 became vested (to the extent otherwise non-vested) as of the close of business on June 30, 1994. Employee contributions were neither required nor permitted.

The monthly normal retirement benefit under the Salaried Pension Plan is 1.25% of a participant’s final average monthly compensation multiplied by the participant’s years of benefit service. Compensation earned after June 30, 1994, and service performed after June 30, 1994, are not taken into account in determining a participant’s benefit under the Salaried Pension Plan. Final average monthly compensation means the average monthly compensation (computed before withholdings, deductions for taxes or other purposes, and salary reduction amounts under the Argo-Tech Employee Savings Plan) paid or payable to the participant for the five calendar years which produce the highest such average, determined as if the participant’s employment terminated on June 30, 1994 (or, if earlier, the date the participant’s employment actually terminated or the participant ceased to be within the class of employees eligible to participate in the Salaried Pension Plan). If a participant ceased to be within the class of employees eligible to participate or a participant’s employment terminated (or is deemed to have terminated) prior to July 1 of a calendar year, that calendar year is not taken into account for purposes of determining final average monthly compensation. A participant’s vested benefit cannot be less than the participant’s vested benefit under the Salaried Pension Plan, if any, as of October 31, 1989.

The Internal Revenue Code of 1986, limits the maximum annual retirement benefit payable under the Salaried Pension Plan and the maximum amount of annual compensation that can be taken into account in calculating benefits under the Salaried Pension Plan.

At retirement, based on benefits accrued as of June 30, 1994, the monthly retirement benefits payable to each of the individuals named in the Summary Compensation Table are:

| Name                 | Monthly Benefit |
|----------------------|-----------------|
| Michael S. Lipscomb  | \$1,799.32      |
| Paul R. Keen         | \$1,188.83      |
| Frances S. St. Clair | \$ 411.56       |

The benefits shown above are in the form of a single life annuity commencing as of the first day of the month after the participant attains age 65. Benefits may commence at any time after age 55 if the participant had at least five years of service when the participant’s employment terminated. Actuarial reductions would apply for early commencement and for payment in the form of a joint and survivor annuity.

The normal form of payment under the Salaried Pension Plan is a single life annuity. However, participants may elect payment of retirement benefits under several joint and survivor forms of payment, subject to the requirement that a married participant receive benefits in the form of a joint and survivor annuity with the spouse as contingent annuitant unless the spouse consents to the participant’s election of another form of payment, another contingent annuitant, or both, as applicable.

*Salaried Savings Plan*

Our Salaried Savings Plan has been in place since 1987. Regular, permanent, salaried employees who have completed at least 3 months of service are eligible to participate in the plan. All assets of the plan are held in trust.

Participants may elect to have “tax-deferred” (401(k) compensation reduction) contributions made to the plan of up to 40% of their eligible compensation. Participants may also elect to have after-tax contributions made to the Plan of up to 20% of their eligible compensation. In addition, participants over the age of 50 were allowed to make catch-up contributions of up to \$2,000. Employer matching contributions to the plan ceased on July 1, 1994. For periods before July 1, 1994, the Salaried Savings Plan provided for employer matching contributions as follows: Basic matching contributions of 25% of each participant’s tax-deferred contributions not in excess of 3% of compensation and discretionary additional matching contributions of a percentage (within the range of 0% and 125% established for each fiscal year (the “plan year”)) of each participant’s tax-deferred contributions not in excess of 3% of compensation. A participant’s benefit under the plan is the balance of the participant’s accounts attributable to after-tax contributions and the vested balance of the participant’s accounts attributable to employer matching contributions. Tax-deferred contributions and after-tax contributions are always 100% vested. Participants (including former employees) whose accounts attributable to employer matching contributions had not been forfeited prior to November 1, 1994, became, to the extent otherwise non-vested, 100% vested. Benefits are payable in the form of a single lump sum payment.

The Internal Revenue Code limits the maximum annual contributions that can be made to the Salaried Savings Plan and the maximum amount of annual compensation that can be taken into account in calculating contributions to the Salaried Savings Plan. Contributions for a plan year on behalf of certain highly compensated individuals may also be limited to comply with Internal Revenue Code’s nondiscrimination requirements.

Benefits are generally payable after a participant’s employment terminates. A participant who is an employee may, however, apply for an in-service distribution of all or a portion of the participant’s vested account balance after attainment of age 59 1/2 or in the event of a hardship (as defined in the Salaried Savings Plan). A participant may apply for an in-service distribution of after-tax contributions at any age and for any reason. A participant who is a “party in interest” may apply for a loan of up to 50% of the participant’s vested account balance (subject to a \$50,000 maximum) under the Salaried Savings Plan.

*Employee Stock Ownership Plan*

The Employee Stock Ownership Plan was established in 1994 with the participation of Argo-Tech’s salaried employees. GreatBanc Trust Company serves as the plan’s trustee, and holds all of its assets in trust.

On May 17, 1994, the trustee purchased 420,000 shares of common stock of AT Holdings Corporation with the proceeds of a \$16.8 million loan from us to the Employee Stock Ownership Plan. The term of the loan, unless it is prepaid or accelerated, ends on April 28, 2004. The interest rate for the loan is fixed for the ten year term at 7.16% per year. The purchase price for the AT Holdings common stock was \$40 per share.

The shares of AT Holdings’ common stock purchased by the Employee Stock Ownership Plan with the proceeds of the loan are held in a suspense account and released to eligible participants on a pro rata basis as loan principal payments are made. Shares released from the plan for each plan year are allocated to each eligible participant’s account based on the ratio of each such participant’s eligible compensation to the total eligible compensation of all eligible participants. Forfeitures of the accounts of non-vested participants are reallocated among eligible participants in the same manner as shares of AT Holding’s common stock released from the suspense account.

For each of the Plan Years ended October 31, 2001, October 31, 2002 and October 31, 2003, 42,000 shares of AT Holdings’ common stock were released from the suspense account. Based on the loan payment schedule, the number of shares of AT Holdings’ common stock released from the suspense account each future plan year during the loan period would be:

| Plan Year Ending | Number of<br>Shares<br>Released |
|------------------|---------------------------------|
| October 31, 2004 | 21,000                          |

If we make additional contributions to the Employee Stock Ownership Plan, the plan would use the contribution to “prepay” the loan, and shares would be released from the suspense account more rapidly than shown above. If, however, for any reason we do not make contributions to the plan to pay the principal on the loan as described above, the shares would not be released from the suspense account as rapidly as shown above.

We may, for any plan year, make additional discretionary contributions for the benefit of plan participants. These contributions may be made in cash, shares of qualifying employer securities, or other property.

Whether the Employee Stock Ownership Plan will acquire additional shares of AT Holdings’ common stock or other qualifying employer securities in the future depends upon future business conditions. Such purchases, if made, would be funded through additional borrowings by the plan or additional contributions from us. The timing, amount and manner of future contributions to the plan will be affected by various factors, including prevailing regulatory policies, the requirements of applicable laws and regulations, and market conditions.

Participants may elect to receive the shares of qualifying employer securities credited to their accounts after their termination of employment, and in specified instances, after attaining age 55 with 10 or more years of participation in the Employee Stock Ownership Plan. Participants vest in their plan accounts 20% per year of service, and service prior to the effective date of the plan counts for this purpose. A participant can require us to purchase qualifying employer securities received from the plan at the value the stock then has, as determined for plan purposes (a “put option”). Shares of qualifying employer securities distributed from the plan are subject to a “right of first refusal” in favor of us or the Employee Stock Ownership Plan at the value the stock then has, as determined for purposes of the plan. The put option and right of first refusal will no longer apply if the qualifying employer securities become tradeable on an established securities market.

Voting rights on and decisions whether to tender or exchange shares of qualifying employer securities held in the Employee Stock Ownership Plan are “passed through” to participants. Each participant is entitled to direct the plan’s trustee as to the voting of (1) shares of qualifying employer securities credited to the participant’s account; and (2) a proportionate part of the unallocated shares of qualifying employer securities held in the suspense account and shares of qualifying employer securities allocated to participants’ accounts as to which no direction is received by the plan’s trustee. In the event of a tender or exchange offer for qualifying employer

securities held in the plan, each participant is entitled to direct the plan’s Trustee whether to tender or exchange shares of qualifying employer securities held in the plan in a manner similar to the voting directions described above.

Because the employer’s contributions to the Employee Stock Ownership Plan are not fixed, benefits payable under the plan cannot be estimated.

For the plan year ended October 31, 2003, the number of shares of AT Holdings’ common stock allocated under the Employee Stock Ownership Plan to the accounts of the individuals named in the Summary Compensation Table were:

| Name                 | Shares Allocated            |                                |
|----------------------|-----------------------------|--------------------------------|
|                      | Year Ended<br>Oct. 31, 2003 | Cumulative to<br>Oct. 31, 2003 |
| Michael S. Lipscomb  | 517.4476                    | 4,041.3309                     |
| Paul R. Keen         | 517.4476                    | 4,041.3309                     |
| Frances S. St. Clair | 517.4476                    | 3,992.3665                     |

Generally accepted accounting principles require that any third party borrowing by the Employee Stock Ownership Plan be reflected as a liability on our statement of financial condition. Since the plan is borrowing from us, the obligation is not treated as an asset of ours, but will be deducted from shares of stock held by the Employee Stock Ownership Plan. If the plan purchases newly issued shares of AT Holdings’ common stock, total stockholders’ equity would neither increase nor decrease.

The Internal Revenue Service has issued a determination letter that the plan is qualified under Section 401(a) of the Internal Revenue Code and is an employee stock ownership plan under Section 4975(e)(7) thereof. Contributions to the plan and allocations to the accounts of eligible participants thereunder are subject to applicable limitations imposed under the Internal Revenue Code. The plan is subject to the requirements of the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

*Employee Stock Ownership Plan Excess Benefit Plan*

We maintain the Employee Stock Ownership Plan Excess Benefit Plan, an unfunded plan that at all times will be deemed invested in AT Holdings common stock. This plan is for employees participating in the Employee Stock Ownership Plan in respect of reduction to allocations to their accounts because of limitations under the Internal Revenue Code applicable to tax-qualified plans. Benefits under this plan vest in the same manner as benefits under the Employee Stock Ownership Plan and distributions from the plan will, subject to certain restrictions, be made in whole or fractional shares of AT Holdings common stock at the same time or times as benefits under the Employee Stock Ownership Plan are distributable, or in the case of benefits with respect to qualifying employer securities subject to the put option under the Employee Stock Ownership Plan at the time the plan participant exercises (or is deemed to have exercised) a hypothetical “put option” under the plan.

We maintain a bookkeeping account for amounts credited to the accounts of plan participants. For the plan year ended October 31, 2003, the amounts credited to the accounts of the individuals named in the Summary Compensation Table were:

| Name                 | Equivalent Shares Allocated |                                |
|----------------------|-----------------------------|--------------------------------|
|                      | Year Ended<br>Oct. 31, 2003 | Cumulative to<br>Oct. 31, 2003 |
| Michael S. Lipscomb  | 1,161.0895                  | 8,256.0075                     |
| Paul R. Keen         | 299.7795                    | 2,153.7718                     |
| Frances S. St. Clair | 217.7290                    | 1,404.0268                     |

*Incentive Stock Option Plans*

*1991 Performance Stock Option Plan.* The 1991 Performance Stock Option Plan provides for option grants for the purchase of AT Holdings’ common stock. The exercise price of each option is \$10.00 per share. All of the

options available under this plan were granted and have been amended by the Compensation Committee of AT Holdings, upon the recommendation of our compensation committee, and with the consent of the optionees in June 2001. These options expire on November 9, 2011. All of the options under this plan became fully vested in January 1999.

Aggregate Option/ SAR Exercises in Last Fiscal Year  
and Fiscal Year End Option/ SAR Values

| Name                 | Exercise Price(\$) | Shares Acquired on Exercise | Value Realized(\$) | Number of Securities Underlying Unexercisable Options/SAR's at FY-End | Value of Unexercised In-the-Money Options at FY-End(\$) |
|----------------------|--------------------|-----------------------------|--------------------|---|---|
|                      |                    |                             |                    | Exercisable/ Unexercisable  | Exercisable/ Unexercisable                              |
| Michael S. Lipscomb  | \$ 10.00           | 0                           | \$ 0               | 8,670/—   | \$300,150/ \$—  |
|                      | 40.00              | 0                           | 0                  | 6,125/—   | 28,298/ —   |
|                      | 100.00             | 0                           | 0                  | 4,000/—   | —/ —  |
|                      | 49.79              | 0                           | 0                  | 12,617/6,309  | —/ —  |
| Paul R. Keen         | 10.00              | 0                           | 0                  | 1,990/—   | 68,894/ —   |
|                      | 40.00              | 0                           | 0                  | 2,760/—   | 12,751/ —   |
|                      | 100.00             | 0                           | 0                  | 1,400/—   | —/ —  |
|                      | 49.79              | 0                           | 0                  | 4,462/2,231   | —/ —  |
| Frances S. St. Clair | 10.00              | 0                           | 0                  | 2,990/—   | 103,514/ —  |
|                      | 40.00              | 0                           | 0                  | 2,760/—   | 12,751/ —   |
|                      | 100.00             | 0                           | 0                  | 1,400/—   | —/ —  |
|                      | 49.79              | 0                           | 0                  | 4,462/2,231   | —/ —  |

*1991 Management Incentive Stock Option Plan.* The 1991 Management Incentive Stock Option Plan provides for option grants for the purchase of AT Holdings’ common stock. The exercise price of each option is \$10.00 per share. All of the options available under this plan were granted and have been amended by the Compensation Committee of AT Holdings, upon the recommendation of our Compensation Committee, and with the consent of the optionees in June 2001. These options expire on November 9, 2011. All of the options under this plan became fully vested in January 1999.

*1998 Equity Replacement Stock Option Plan.* The 1998 Equity Replacement Stock Option Plan (as amended June 12, 2001) was established to provide for option grants for the purchase of AT Holdings’ common stock. The exercise price of each option is \$40.00 per share. The options were granted to each person who was a participant in the 1997 Stock Appreciation Rights Plan in exchange for, and in cancellation of, all of the rights of each such participant under the Stock Appreciation Rights Plan (See Benefits Restructuring). These options, which were granted by the Compensation Committee of AT Holdings upon the recommendation of our compensation committee, expire on January 2, 2005. All of the options under this plan were fully vested upon issuance.

*1998 Incentive Plan.* The 1998 Incentive Plan was established to provide option grants for the purchase of AT Holdings’ common stock, at prices that may be more than, less than, or equal to the fair market value of the shares, as the Board or Compensation Committee of AT Holdings may determine at the time of grant. Options are granted by the Compensation Committee of AT Holdings upon the recommendation of our compensation committee. There have been three option grants under the 1998 Incentive Plan, the first in 1999 with an exercise price of \$100.11, the second in 2001 with an exercise price of \$69.18 and the third in 2002 with an exercise price of \$49.79. The option agreement governing the options granted in 1999 provides that such options vest in 20% increments over five successive years. For any year in which the EBITDA of the company exceeds 105% of the

target EBITDA, an additional 13 1/3% of the optioned shares will vest. Effective November 2, 2000 all holders of options granted in 1999 agreed to the cancellation of the portion of the 1999 options which were not vested at such date. Pursuant to the plan, such cancelled options are available for new grants. The option agreement governing the options granted under the plan in September 2001 and March 2002 provides for vesting as follows: 33.3% at the time of issuance and 33.3% on the anniversary date of the grant over the next two years. All options granted under the plan expire ten years from the date of grant. In the event that AT Holdings’ common stock becomes registered or traded on a national exchange or in the event of a change in control, all options will become exercisable in full.

***Executive Life Insurance Plan***

Our executive life insurance plan permits certain officers and key employees to obtain life insurance benefits in addition to those generally provided to salaried employees. The level of coverage provided to such officers and key employees consists of basic term and whole life insurance coverage equal to 3 times the individual’s salary.

***Bonus Plan***

We have in effect a plan pursuant to which officers and other key management employees may receive cash bonuses paid upon (1) the achievement of specified cash flow goals in the preceding fiscal year and (2) individual performance. The amounts of such bonus awards are approved by the AT Holdings Compensation Committee.

***Compensation of Directors***

Since 1999, Argo-Tech has not compensated its directors. AT Holdings Corporation pays its directors a quarterly fee of \$3,000 plus \$4,000 and reasonable out-of-pocket expenses for each board meeting attended. Fees paid to Mr. Lipscomb, Mr. Keen and Ms. St. Clair for service on the board of AT Holdings are included in the Summary Compensation table. See “Executive Compensation.”

***Benefits Restructuring***

On January 4, 1999, AT Holdings repurchased 639,510 shares of its common stock that were held by its majority stockholder, AT Holdings, LLC. AT Holdings also issued 30,000 shares of its preferred stock on December 17, 1998. In connection with these transactions, we amended our Employee Stock Ownership Plan Excess Benefit Plan and the Stock Appreciation Rights (SAR) Plan. The amendment to the Employee Stock Ownership Plan Excess Benefit Plan allowed for the transfer of approximately 4,500 shares of AT Holdings common stock in place of cash payments to members of management who have been credited with Employee Stock Ownerships Plan excess benefits as of October 31, 1998. The SAR plan provided for grants of up to 34,450 SARs, 17,225 of which were granted in fiscal years 1997 and 1998. The remaining SARs were granted in the first quarter of fiscal 1999. Pursuant to the amendment of the SAR plan, all SARs became fully vested and were then converted into fully vested stock options under the 1998 Equity Replacement Stock Option Plan. In addition, all granted options under the 1991 Performance Stock Option Plan and 1991 Management Incentive Stock Option Plan, to the extent not vested, became fully vested upon completion of AT Holdings’ repurchase of AT Holdings, LLC’s common shares.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

**Principal Stockholders**

Argo-Tech is a wholly owned subsidiary of AT Holdings, which owns the only outstanding share of Argo-Tech’s common stock, par value \$.01 per share. The following table sets forth the ownership of AT Holdings’ common stock, par value \$.01 per share, as of October 25, 2003 by:

- each person known to Argo-Tech to be the beneficial owner of more than 5% of AT Holdings’ common stock,
- each director of Argo-Tech and AT Holdings, and

- all of Argo-Tech and AT Holdings’ directors and executive officers as a group.

On October 25, 2003, there were 638,602 shares of AT Holdings’ common stock outstanding, exclusive of treasury shares. AT Holdings also has 30,000 shares of its preferred stock outstanding. All of these shares are held by J.P. Morgan Partners, LLC. These preferred shares have no voting rights.

| Ownership of AT Holdings’ common stock   |                           |   |  |           |                  |
|--|---------------------------|---|--|-----------|------------------|
| Name of Beneficial Owner   | Number Beneficially Owned | Number of Immediately Exercisable Options | Shares Attributable to Employee Stock Ownership Plan Account | Total     | Percent of Class |
| State Street Bank and Trust Company (1)<br>200 Newport Avenue<br>Quincy, MA 02171          | 346,308                   | 0   | 0  | 346,308   | 54.2             |
| YC International, Inc.<br>725 South Figueroa Street<br>Suite 3870<br>Los Angeles, CA 90117 | 39,000                    | 0   | 0  | 39,000(2) | 6.1              |
| AT Holdings, LLC<br>1390 Highway 50 East<br>Suite 4<br>Carson City, NV 89701               | 187,452                   | 39,000(2)                                 | 0  | 226,452   | 35.5             |
| J.P. Morgan Partners, LLC<br>1221 Avenue of the Americas<br>New York, NY 10020             | 0                         | 46,025                                    | 0  | 46,025    | 6.7              |
| Confar, Thomas*  | 0                         | 0   | 0  | 0         | **               |
| de Chastenet, Remi*  | 0                         | 500                                       | 0  | 500       | **               |
| Dougherty, Thomas*   | 2,094                     | 0   | 0  | 2,094     | **               |
| Keen, Paul*†   | 14,181                    | 10,612                                    | 4,041  | 28,834    | 4.4              |
| Lipscomb, Michael*†  | 30,279                    | 31,412                                    | 4,041  | 65,732    | 9.8              |
| Nagata, Robert*  | 0                         | 500                                       | 0  | 500       | **               |
| St. Clair, Frances†  | 7,216                     | 11,612                                    | 3,992  | 22,820    | 3.5              |
| Storrie, Karl*   | 1,204                     | 450                                       | 0  | 1,654     | **               |
| Directors and Executive Officers as a Group (8 persons)                                    | 54,974                    | 55,086                                    | 12,074   | 122,134   | 17.3             |

\* Director of AT Holdings Corporation

\*\* Less than 1%

† Director of Argo-Tech

- (1) GreatBanc Trust Company replaced State Street Bank and Trust Company as the trustee of the Employee Stock Ownership Plan in December 2003. The Plan trustee holds shares of AT Holdings’ common stock in trust for the benefit of the plan. Under normal circumstances, the trustee votes all of the shares held by the plan in proportion to the actual voting directions of the plan participants. Under certain limited circumstances, the plan trustee may, in the exercise of its fiduciary duty, vote the shares held by the plan as a block. The share ownership numbers for officers do not include shares held through the plan, other than those shares directly attributed to the officer’s account.
- (2) AT Holdings, LLC has the option to purchase all of YC International’s shares of AT Holdings’ common stock. AT Holdings, LLC disclaims all beneficial ownership of those shares.

Item 13. Certain Relationships and Related Transactions.

*Upsilon International Corporation Distribution Agreement*

Upsilon International Corporation (“UIC”) was appointed the exclusive distributor of Argo-Tech engine fuel pump and certain air frame products manufactured at our Cleveland, Ohio facility, first in 1990 with respect to the Japanese market, and in 1994 for the entire international market under a long-term distribution agreement. Effective December 15, 2000, UIC was also appointed an Argo-Tech non-exclusive sales agent for engine overhaul and repair and certain other product support agreements. UIC is owned by YC International, Inc., which is under the control of Mr. Masashi Yamada, a stockholder of AT Holdings Corporation, the parent company of

Argo-Tech, through his control of YC International and AT Holdings, LLC. We believe that this distribution agreement was entered into on terms and conditions customary for the industry in all respects with the exception of the contract term of 50 years with respect to UIC’s distribution activities, and termination provisions relating to such distribution activities which are more favorable to UIC than industry norm. The agreement provides for a 15% discount from Argo-Tech catalog prices on all purchases of Argo-Tech products by UIC and a sales commission of 5% on international overhaul and repair business obtained by Argo-Tech after December 15, 2000. For fiscal 2003, sales by Upsilon International accounted for approximately 12% of our net revenues.

***Officer Loans***

Certain of the Named Executives have entered into presently outstanding recourse loan agreements with AT Holdings. The largest amount of indebtedness outstanding since the beginning of fiscal 2003 for each such Named Executive was: \$553,542 (Mr. Lipscomb) and \$295,002 (Mr. Keen). Each loan is due October 30, 2005 and accrues interest at 6.75% annually. These loans, secured by a pledge of AT Holdings’ common stock, were extended for the purchase of AT Holdings’ common stock, or for the personal use of the Named Executive. Each of the Named Executives having an outstanding loan has entered into a pledge agreement and promissory note with AT Holdings in connection with such loans. We believe that the terms of these loans are no less favorable to AT Holdings than would have been available pursuant to arms’ length negotiations with unaffiliated parties.

***Purchase of Senior Subordinated Notes***

On November 22, 2002, Mr. Lipscomb, Ms. St. Clair and eight other key management employees purchased a total of \$1,000,000 in principal amount of our 8 5/8% senior subordinated notes. These notes were purchased in an open market transaction arranged by Deutsche Bank Securities for a total purchase price of \$700,000 plus accrued interest from October 1, 2002 through November 22, 2002. Mr. Lipscomb purchased \$652,000 in principal amount of notes through the Argo-Tech Corporation Trust Agreement, dated October 28, 1994, which was amended effective November 22, 2002, to permit this purchase of notes. Ms. St. Clair purchased \$130,000 in principal amount of notes.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.**

**(a)(1) Financial Statements**

The following consolidated financial statements of the Company are included in a separate section of this report following the signature page:

Consolidated Balance Sheets — October 26, 2002 and October 25, 2003

Consolidated Statements of Net Income — Years ended October 27, 2001, October 26, 2002 and October 25, 2003

Consolidated Statements of Cash Flows — Years ended October 27, 2001, October 26, 2002 and October 25, 2003

Consolidated Statements of Shareholder’s Equity/(Deficiency) — Years ended October 27, 2001, October 26, 2002 and October 25, 2003

Notes to Consolidated Financial Statements — October 25, 2003

Report of Independent Auditors

**(a)(2) Financial Statement Schedules**

No schedule or schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are required, or such schedules are not applicable, and therefore, have been omitted.



(a)(3) Exhibits

| Exhibit<br>Number | Description of Document  |
|-------------------|--|
| 3.1               | Restated Certificate of Incorporation of the Company, dated April 16, 1999 (incorporated herein by reference to Exhibit 3.1 of the Company’s registration statement on form S-4/A filed April 22, 1999, SEC File No. 333-73179).   |
| 3.2               | Restated By-Laws of the Company dated April 16, 1999 (incorporated herein by reference to Exhibit 3.2 of the Company’s registration statement on form S-4/A filed April 22, 1999, SEC File No. 333-73179).   |
| 4.1               | Indenture dated September 26, 1997, between the Company, the Subsidiary Guarantors signatory thereto and Harris Trust and Savings Bank, as Trustee, relating to the 8 5/8% Senior Subordinated Notes due 2007 (the form of which is included in such Indenture) (incorporated herein by reference to Exhibit 4.1 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |
| 4.2               | First Supplemental Indenture, dated December 17, 1998 between the Company, the Subsidiary Guarantors signatory thereto and Harris Trust and Savings Bank, related to the Indenture dated September 26, 1997 (incorporated by reference to Exhibit 4.4 of the Company’s Current Report on Form 8-K, filed January 14, 1999).  |
| 4.3               | Indenture dated December 17, 1998 between the Company, the Subsidiary Guarantors signatory thereto and Harris Trust and Savings Bank, as Trustee, related to the 8 5/8% Senior Subordinated Notes due 2007 (a form of which is included in such Indenture) (incorporated by reference to Exhibit 4.5 of the Company’s Current Report on Form 8-K, filed January 14, 1999).   |
| 10.1*             | Form of Stay Pay and Severance Agreement dated June 6, 1996, between the Company and certain Executive Officers of the Company (Michael S. Lipscomb, Frances S. St. Clair, and Paul R. Keen) (incorporated herein by reference to Exhibit 10.1 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.2*             | Employment Agreement dated February 13, 1989 between the Company and Paul R. Keen (incorporated herein by reference to Exhibit 10.2 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.3*             | Employment Agreement dated October 15, 1986 between the Company and Michael S. Lipscomb (incorporated herein by reference to Exhibit 10.3 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.4*             | Argo-Tech Corporation Trust Agreement dated October 28, 1994 between the Company and Society National Bank, as Trustee, relating to the Employment Agreement dated October 15, 1986 between the Company and Michael S. Lipscomb (incorporated herein by reference to Exhibit 10.4 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).                                |
| 10.5*             | Argo-Tech Corporation Salaried Pension Plan, dated November 1, 1995 (incorporated herein by reference to Exhibit 10.5 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333- 38223).   |
| 10.6*             | First Amendment to Argo-Tech Corporation Salaried Pension Plan (incorporated herein by reference to Exhibit 10.6 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333- 38223).  |
| 10.7*             | Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated May 17, 1994 (incorporated herein by reference to Exhibit 10.7 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.8*             | First Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated October 26, 1994 (incorporated herein by reference to Exhibit 10.8 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.9*             | Second Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated May 9, 1996 (incorporated herein by reference to Exhibit 10.9 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |

| Exhibit Number | Description of Document  |
|----------------|--|
| 10.10*         | Third Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated July 18, 1997 (incorporated herein by reference to Exhibit 10.10 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.11*         | Argo-Tech Corporation Employee Stock Ownership Plan Excess Benefit Plan, dated May 17, 1994 (incorporated herein by reference to Exhibit 10.11 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.12          | AT Holdings Corporation Stockholders' Agreement, dated December 17, 1998 (incorporated herein by reference to Exhibit 10.12 of the Company's Annual Report on form 10-K for the year ended October 30, 1999, SEC File No. 333-38223).  |
| 10.13          | AT Holdings Corporation 1998 Supplemental Stockholders' Agreement, dated December 17, 1998 (incorporated herein by reference to Exhibit 10.13 of the Company's Annual Report on form 10-K for the year ended October 30, 1999, SEC File No. 333-38223).  |
| 10.14*         | Form of Management Incentive Compensation Plan for key employees of Argo-Tech (incorporated herein by reference to Exhibit 10.19 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.15*         | 1991 Management Incentive Stock Option Plan, as amended, dated May 16, 1994 (incorporated herein by reference to Exhibit 10.20 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.16*         | Amendment to the 1991 Management Incentive Stock Option Plan, as amended, dated June 12, 2001 (incorporated herein by reference to Exhibit 10.3 of the Company's Quarterly Report on form 10-Q for the quarter ended July 28, 2001).   |
| 10.17*         | Form of Stock Option Agreement in connection with the Management Incentive Stock Option Plan, as amended, between Argo-Tech and each member of Argo-Tech's Executive Staff (incorporated herein by reference to Exhibit 10.21 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).                            |
| 10.18*         | 1991 Performance Stock Option Plan, as amended, dated May 16, 1997 (incorporated herein by reference to Exhibit 10.22 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.19*         | Amendment to the 1991 Performance Stock Option Plan, as amended, June 12, 2001 (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on form 10-Q for the quarter ended July 28, 2001).  |
| 10.20*         | Form of Stock Option Agreement in connection with the 1991 Performance Stock Option Plan, as amended, between Argo-Tech and certain key employees (incorporated herein by reference to Exhibit 10.23 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.21          | Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings, the lenders party thereto and the Chase Manhattan Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.24 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.22          | Distributorship Agreement, dated December 24, 1990, between Argo-Tech, Yamada Corporation and Vestar Capital Partners, Inc. (incorporated herein by reference to Exhibit 10.25 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.23          | Japan Distributorship Agreement, dated December 24, 1990, between Argo-Tech, Aerotech World Trade Corporation, Yamada Corporation, Yamada International Corporation and Vestar Capital Partners, Inc. (incorporated herein by reference to Exhibit 10.26 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |

| Exhibit Number | Description of Document  |
|----------------|--|
| 10.24          | Stock Purchase Agreement, dated August 1, 1997, between Argo-Tech, J.C. Carter Company, Inc., Robert L. Veloz, Individually and as Trustee, Marlene J. Veloz, Individually and as Trustee, Edith T. Derbyshire, Individually and as Trustee, Harry S. Derbyshire, Individually and as Trustee, Michael Veloz, Katherine Canfield and Maureen Partch, as Trustee (incorporated herein by reference to Exhibit 10.27 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |
| 10.25          | Prism Prototype Retirement Plan & Trust & 401(k) Profit Sharing Plan Adoption Agreement, dated November 1, 1994 (incorporated herein by reference to Exhibit 10.28 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.26          | Prism Prototype Retirement Plan and Trust (incorporated herein by reference to Exhibit 10.29 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.27          | Agreement of Purchase and Sale between Agnem Holdings, Inc. and TRW Inc. dated as of August 5, 1986 (incorporated herein by reference to Exhibit 10.30 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.28*         | 1997 Stock Appreciation Rights Plan (incorporated herein by reference to Exhibit 10.31 of the Company's Annual Report on form 10-K, for the year ended October 31, 1998).  |
| 10.29*         | AT Holdings Corporation/Argo-Tech Corporation 1998 Equity Replacement Stock Option Plan (incorporated herein by reference to Exhibit 10.32 of the Company's registration statement on form S-4 filed March 1, 1999, SEC File No. 333-73179).   |
| 10.30*         | Amendment to the AT Holdings Corporation/Argo-Tech Corporation 1998 Equity Replacement Stock Option Plan dated June 12, 2001 (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on form 10-Q for the quarter ended July 28, 2001).  |
| 10.31*         | Form of Stock Option Agreement in connection with the AT Holdings Corporation/Argo-Tech Corporation 1998 Equity Replacement Stock Option Plan (incorporated herein by reference to Exhibit 10.33 of the Company's registration statement on form S-4 filed March 1, 1999, SEC File No. 333-73179).   |
| 10.32*         | First Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan Excess Benefit Plan (incorporated herein by reference to Exhibit 10.34 of the Company's registration statement on form S-4 filed March 1, 1999, SEC File No. 333-73179).  |
| 10.33          | Amendment, dated December 4, 1998 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and Chase Manhattan Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.32 of the Company's registration statement on form S-4/A filed April 22, 1999, SEC File No. 333-73179).   |
| 10.34          | Amendment, dated June 9, 2000 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and Chase Manhattan Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K, for the year ended October 28, 2000).   |
| 10.35          | Amendment, dated October 26, 2002 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and JPMorgan Chase Bank, as Administrative Agent.   |
| 10.36          | Amendment, dated January 24, 2003 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on January 24, 2003, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and JPMorgan Chase Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on form 10-Q for the quarter ended January 25, 2003).  |
| 10.37*         | Amendment, dated November 22, 2002, to Argo-Tech Corporation Trust Agreement, dated October 28, 1994.  |
| 12**           | Statement regarding computation of ratios.   |

| Exhibit<br>Number | Description of Document  |
|-------------------|--|
| 21                | List of Subsidiaries (incorporated herein by reference to Exhibit 21 of the Company's Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |
| 31**              | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32**              | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

\* Reflects management contract or other compensatory arrangement required to be filed as an exhibit pursuant to Item 14(c) of this Report.

\*\* Filed herewith

- (b) We did not file any reports on Form 8-K during the fourth quarter of 2003.
- (c) The exhibits which are listed under Item 15(a)(3) are filed or incorporated by reference herein.
- (d) No financial statement schedules are required to be filed herein, therefore, none are listed under Item 15(a)(2).

**Supplemental Information to be furnished with reports filed pursuant to Section 15(d) of the Act by Registrants which have not registered securities pursuant to Section 12 of the Act**

No annual report or proxy statement covering our last fiscal year has been or will be circulated to security holders.

SIGNATURES

Pursuant to the requirements of Section 13 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.

ARGO-TECH CORPORATION

By: /s/ FRANCES S. ST. CLAIR

Frances S. St. Clair  
Executive Vice President and Chief Financial Officer

Date: January 22, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE  | TITLE   | DATE             |
|--|---|------------------|
| /s/ MICHAEL S. LIPSCOMB<br>Michael S. Lipscomb   | Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)      | January 22, 2004 |
| /s/ FRANCES S. ST. CLAIR<br>Frances S. St. Clair | Executive Vice President and Chief Financial Officer and Director (Principal Financial Officer) | January 22, 2004 |
| /s/ PAUL R. KEEN<br>Paul R. Keen                 | Executive Vice President, General Counsel, Secretary and Director                               | January 22, 2004 |
| /s/ PAUL A. SKLAD<br>Paul A. Sklad               | Controller (Principal Accounting Officer)   | January 22, 2004 |

**ARGO-TECH CORPORATION AND SUBSIDIARIES**

**ANNUAL REPORT ON FORM 10-K:  
FISCAL YEAR ENDED OCTOBER 25, 2003**

**ITEM 8 AND ITEM 15(a)(1)**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

**INDEX TO FINANCIAL STATEMENTS**

|   | <b>Page</b> |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT  | F-1         |
| CONSOLIDATED BALANCE SHEETS AS OF OCTOBER 25, 2003 AND OCTOBER 26, 2002   | F-2         |
| CONSOLIDATED STATEMENTS OF NET INCOME FOR THE FISCAL YEARS ENDED OCTOBER 25, 2003, OCTOBER 26, 2002 AND OCTOBER 27, 2001                        | F-3         |
| CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY/(DEFICIENCY) FOR THE FISCAL YEARS ENDED OCTOBER 25, 2003, OCTOBER 26, 2002 AND OCTOBER 27, 2001 | F-4         |
| CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED OCTOBER 25, 2003, OCTOBER 26, 2002 AND OCTOBER 27, 2001                        | F-5         |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED OCTOBER 25, 2003, OCTOBER 26, 2002 AND OCTOBER 27, 2001                   | F-6–F-21    |

## INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors  
of Argo-Tech Corporation and subsidiaries  
(a wholly-owned subsidiary of AT Holdings Corporation)

We have audited the accompanying consolidated balance sheets of Argo-Tech Corporation and subsidiaries (a wholly-owned subsidiary of AT Holdings Corporation) (the "Company") as of October 25, 2003 and October 26, 2002, and the related consolidated statements of net income, shareholder's equity/(deficiency) and cash flows for each of the three years in the period ended October 25, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 25, 2003 and October 26, 2002, and the results of its operations and its cash flows for each of the three years in the period ended October 25, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the consolidated financial statements, effective October 28, 2001, the Company changed its method of accounting for goodwill as a result of the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

/s/ Deloitte & Touche LLP

Cleveland, Ohio  
January 16, 2004



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

**CONSOLIDATED BALANCE SHEETS**  
**October 25, 2003 and October 26, 2002**

|  | 2003                              | 2002      |
|--|-----------------------------------|-----------|
|  | (In thousands, except share data) |           |
| <b>ASSETS</b>  |                                   |           |
| <b>CURRENT ASSETS:</b>   |                                   |           |
| Cash and cash equivalents  | \$ 14,057                         | \$ 17,769 |
| Receivables, net   | 28,335                            | 24,550    |
| Income tax receivable  | 3,500                             | 3,274     |
| Inventories  | 25,701                            | 25,123    |
| Deferred income taxes and prepaid expenses   | 5,352                             | 5,002     |
|  |                                   |           |
| Total current assets   | 76,945                            | 75,718    |
|  |                                   |           |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation                                | 23,956                            | 26,204    |
| GOODWILL, net of accumulated amortization  | 110,059                           | 110,059   |
| INTANGIBLE ASSETS, net of accumulated amortization                                     | 34,916                            | 38,331    |
| OTHER ASSETS   | 9,921                             | 10,021    |
|  |                                   |           |
| Total Assets   | \$255,797                         | \$260,333 |
|  |                                   |           |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY/(DEFICIENCY)</b>                               |                                   |           |
| <b>CURRENT LIABILITIES:</b>  |                                   |           |
| Current portion of long-term debt  | \$ 12,000                         | \$ 16,000 |
| Accounts payable   | 7,254                             | 5,252     |
| Accrued liabilities  | 22,757                            | 21,114    |
|  |                                   |           |
| Total current liabilities  | 42,011                            | 42,366    |
|  |                                   |           |
| LONG-TERM DEBT, net of current maturities  | 207,349                           | 219,045   |
| OTHER NONCURRENT LIABILITIES   | 21,753                            | 21,720    |
|  |                                   |           |
| Total Liabilities  | 271,113                           | 283,131   |
|  |                                   |           |
| REDEEMABLE ESOP STOCK  | 15,452                            | 11,355    |
| Unearned ESOP stock  | (840)                             | (2,520)   |
|  |                                   |           |
|  | 14,612                            | 8,835     |
| <b>SHAREHOLDER'S EQUITY/(DEFICIENCY):</b>  |                                   |           |
| Common Stock, \$.01 par value, authorized 3,000 shares; 1 share issued and outstanding | —                                 | —         |
| Paid-in capital  | —                                 | —         |
| Accumulated other comprehensive loss   | (2,143)                           | (3,235)   |
| Accumulated deficit  | (27,785)                          | (28,398)  |
|  |                                   |           |
| Total shareholder's equity/(deficiency)  | (29,928)                          | (31,633)  |
|  |                                   |           |
| Total Liabilities and Shareholder's Equity/(Deficiency)                                | \$255,797                         | \$260,333 |

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**  
**For the Fiscal Years Ended October 25, 2003, October 26, 2002 and October 27, 2001**

|                                     | 2003      | 2002           | 2001      |
|-------------------------------------|-----------|----------------|-----------|
|                                     |           | (In thousands) |           |
| Net revenues                        | \$160,726 | \$155,303      | \$173,208 |
| Cost of revenues                    | 94,535    | 88,669         | 94,175    |
| Gross profit                        | 66,191    | 66,634         | 79,033    |
| Selling, general and administrative | 26,417    | 23,359         | 23,094    |
| Research and development            | 9,525     | 11,722         | 10,265    |
| Amortization of intangible assets   | 3,414     | 3,721          | 7,515     |
| Operating expenses                  | 39,356    | 38,802         | 40,874    |
| Income from operations              | 26,835    | 27,832         | 38,159    |
| Interest expense                    | 21,257    | 21,434         | 24,534    |
| Other, net                          | (529)     | (97)           | (51)      |
| Income before income taxes          | 6,107     | 6,495          | 13,676    |
| Income tax provision                | 1,579     | 569            | 2,876     |
| Net income                          | \$ 4,528  | \$ 5,926       | \$ 10,800 |

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

**CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY/(DEFICIENCY)**  
**For the Fiscal Years Ended October 25, 2003, October 26, 2002 and October 27, 2001**

|   | Common<br>Stock | Paid-In<br>Capital | Accumulated<br>Comprehensive<br>Income / (Loss) | Accumulated<br>Deficit | Total      |
|---|-----------------|--------------------|---|------------------------|------------|
|   |                 |                    | (In thousands)                                  |                        |            |
| BALANCE, OCTOBER 28, 2000               | \$ —            | \$ —               | \$ 31   | \$(58,873)             | \$(58,842) |
| Net income                              |                 |                    |   | 10,800                 | 10,800     |
| Additional minimum pension liability    |                 |                    | (1,828)   |                        | (1,828)    |
| Reduction of redeemable ESOP stock      |                 |                    |   | 9,081                  | 9,081      |
| Dividend                                |                 |                    |   | (1,661)                | (1,661)    |
| Foreign currency translation adjustment |                 |                    | (151)   |                        | (151)      |
| Activity related to stock options       |                 |                    |   | 526                    | 526        |
| Other, net                              |                 |                    |   | (44)                   | (44)       |
|   | —               | —                  | (1,948)   | (40,171)               | (42,119)   |
| BALANCE, OCTOBER 27, 2001               | —               | —                  | (1,948)   | (40,171)               | (42,119)   |
| Net income                              |                 |                    |   | 5,926                  | 5,926      |
| Additional minimum pension liability    |                 |                    | (1,273)   |                        | (1,273)    |
| Reduction of redeemable ESOP stock      |                 |                    |   | 6,504                  | 6,504      |
| Dividend                                |                 |                    |   | (578)                  | (578)      |
| Foreign currency translation adjustment |                 |                    | (14)  |                        | (14)       |
| Other, net                              |                 |                    |   | (79)                   | (79)       |
|   | —               | —                  | (3,235)   | (28,398)               | (31,633)   |
| BALANCE, OCTOBER 26, 2002               | —               | —                  | (3,235)   | (28,398)               | (31,633)   |
| Net income                              |                 |                    |   | 4,528                  | 4,528      |
| Reduction of minimum pension liability  |                 |                    | 973   |                        | 973        |
| Accretion of redeemable ESOP stock      |                 |                    |   | (3,903)                | (3,903)    |
| Dividend                                |                 |                    |   | (222)                  | (222)      |
| Foreign currency translation adjustment |                 |                    | 119   |                        | 119        |
| Other, net                              |                 |                    |   | 210                    | 210        |
|   | —               | —                  | \$(2,143)                                       | \$(27,785)             | \$(29,928) |
| BALANCE, OCTOBER 25, 2003               | —               | —                  | \$(2,143)                                       | \$(27,785)             | \$(29,928) |

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 Fiscal Years Ended October 25, 2003, October 26, 2002 and October 27, 2001**

|   | 2003           | 2002      | 2001      |
|---|----------------|-----------|-----------|
|   | (In thousands) |           |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                |           |           |
| Net income  | \$ 4,528       | \$ 5,926  | \$ 10,800 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |           |           |
| Depreciation  | 4,187          | 4,608     | 5,559     |
| Amortization of intangible assets and deferred financing costs                    | 5,866          | 5,779     | 9,655     |
| Accretion of bond discount  | 304            | 277       | 252       |
| Compensation expense recognized in connection with employee stock ownership plan  | 1,874          | 1,344     | 2,091     |
| Compensation expense recognized in connection with stock options                  |                |           | 526       |
| Deferred pension cost   | 731            | (1,375)   | (2,299)   |
| Deferred income taxes   | (578)          | (1,658)   | (1,962)   |
| Changes in operating assets and liabilities:                                      |                |           |           |
| Receivables   | (4,010)        | 8,112     | (8,928)   |
| Inventories   | (578)          | 3,738     | 1,254     |
| Prepaid expenses  | (348)          | 307       | 301       |
| Accounts payable  | 2,002          | 412       | (150)     |
| Accrued and other liabilities   | 1,571          | 3,284     | 1,161     |
| Other, net  | 124            | (30)      | (197)     |
| Net cash provided by operating activities   | 15,673         | 30,724    | 18,063    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                |           |           |
| Capital expenditures  | (1,939)        | (1,785)   | (1,885)   |
| Net cash used in investing activities   | (1,939)        | (1,785)   | (1,885)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                |           |           |
| Repayment of long-term debt   | (16,000)       | (18,612)  | (11,634)  |
| Payment of financing related fees   | (1,224)        | (37)      |           |
| Purchase of AT Holdings stock from former ESOP participants                       | (273)          | (526)     | (1,584)   |
| Other, net  | 51             | (52)      | (77)      |
| Net cash used in financing activities   | (17,446)       | (19,227)  | (13,295)  |
| <b>CASH AND CASH EQUIVALENTS:</b>   |                |           |           |
| Net increase (decrease) for the period  | (3,712)        | 9,712     | 2,883     |
| Balance, Beginning of period  | 17,769         | 8,057     | 5,174     |
| Balance, End of period  | \$ 14,057      | \$ 17,769 | \$ 8,057  |

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 Fiscal Years Ended October 25, 2003, October 26, 2002 and October 27, 2001**

**1. Basis of Presentation**

The principal operations of Argo-Tech Corporation (a wholly-owned subsidiary of AT Holdings Corporation) and its subsidiaries (the “Company”) include the design, manufacture and distribution of aviation products, primarily aircraft fuel pumps, throughout the world. In addition, the Company leases a portion of its Cleveland, Ohio manufacturing facility to other parties. Argo-Tech’s fiscal year ends on the last Saturday in October. The fiscal years ended October 25, 2003, October 26, 2002 and October 27, 2001 consisted of 52 weeks. Argo-Tech is obligated to fulfill certain obligations of AT Holdings Corporation. As a result, those obligations have been reflected in the Company’s 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 (Note 12) 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. Summary of Significant Accounting Policies**

**Principles of Consolidation** — The consolidated financial statements include the accounts of the Company. All material intercompany accounts and transactions between the wholly-owned subsidiaries have been eliminated.

**Cash Equivalents** — Cash equivalents represent short-term investments with an original maturity of three months or less.

**Receivables** — The Company does not generally require collateral or other security to guarantee trade receivables.

**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.

**Property and Equipment** — Property and equipment are stated at cost and are depreciated using the straight-line or an accelerated method over their estimated useful lives as follows:

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 7 to 30 years |
| Equipment                  | 3 to 10 years |

**Goodwill** — Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at the dates of acquisition.

**Intangible Assets** — In conjunction with the acquisition of Argo-Tech Corporation Costa Mesa in 1997, the Company recognized identified intangible assets, which are amortized on a straight-line basis over their estimated economic lives as follows:

|                     |             |
|---------------------|-------------|
| Contracts           | 10 Years    |
| Spare Parts Annuity | 10-28 Years |
| Patents             | 14-17 Years |

**Deferred Financing Costs** — The costs of obtaining financing are included in Other Assets in the Consolidated Balance Sheet and are amortized over the terms of the financing. The amortized cost is included in

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

interest expense in the consolidated statements of net income. Accumulated amortization at October 25, 2003 and October 26, 2002 was \$11,856,000, and \$9,404,000 respectively.

***Redeemable Stock*** — Redeemable ESOP Stock has been excluded from Shareholder’s Equity/(Deficiency) due to the ability of the holders of AT Holdings common stock to “put”, subject to certain restrictions, the shares to the Company. The increase / (decrease) in the Redeemable ESOP Stock has been recorded in Accumulated Deficit.

***Foreign Currency Translation*** — Assets and liabilities of the Company’s foreign subsidiaries are translated into U.S. dollars at the current rate of exchange, while revenues and expenses are translated at the average exchange rate during the year. Adjustments from translating foreign subsidiaries’ financial statements are excluded from the consolidated statements of net income and are reported as a component of shareholder’s equity / (deficiency).

***Derivative Financial Instruments*** — All derivative financial instruments, such as interest rate swap contracts and foreign exchange contracts, are recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are either recognized periodically in income or shareholders’ equity (as a component of comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows. At October 25, 2003 the Company did not have any open derivative contracts.

***Revenue Recognition*** — Revenues are generally recognized when goods are shipped or services provided, at which time title and risk of loss passes to the customer. Substantially all sales are made pursuant to firm, fixed-price purchase orders received from customers. We have executed long-term supply agreements with certain of our original equipment manufacturers. These agreements require us to supply all the amounts ordered by the customers during the term (generally three to five years) of the agreements at specified prices. In certain of these agreements, we expect to incur losses. Provisions for estimating loss contracts are made in the period in which such losses are identified, based on cost and pricing information and estimated future shipment quantities provided by the customer. The cumulative effect of revisions to estimated losses on contracts is recorded in the accounting period in which the amounts become known and can be reasonably estimated. Such revisions could occur at any time there are changes to estimated future revenues or costs. Revenue from certain fixed price engineering contracts for which costs can be reliably estimated are recognized based on milestone billings. Variations in actual labor performance, changes to estimated profitability and final contract settlements may result in revisions to the cost estimates. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the period of revision. We record estimated reductions to revenue for volume-based incentives based on expected customer activity for the applicable period. Revisions for volume-based incentives are recorded in the accounting period in which such estimates can be reasonably determined.

***Income Taxes*** — Income taxes are accounted for under the asset and liability approach, which can result in recording tax provisions or benefits in periods different than the periods in which such taxes are paid or benefits realized. Expected tax benefits from temporary differences that will result in deductible amounts in future years and from carryforwards, if it is more likely than not that such tax benefits will be realized, are recognized currently.

***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. Actual results could differ from those estimates.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**3. Other Balance Sheet Information**

The major components of the following balance sheet captions were (in thousands):

|                                   | October 25,<br>2003 | October 26,<br>2002 |
|-----------------------------------|---------------------|---------------------|
| Accrued liabilities:              |                     |                     |
| Salaries and accrued compensation | \$ 6,889            | \$ 8,086            |
| Accrued interest                  | 1,319               | 1,315               |
| Accrued warranty                  | 2,130               | 2,064               |
| Accrued income taxes              | 5,787               | 4,833               |
| Other                             | 6,632               | 4,816               |
|                                   | <u>          </u>   | <u>          </u>   |
| Total                             | \$22,757            | \$21,114            |
|                                   | <u>          </u>   | <u>          </u>   |
| Other noncurrent liabilities:     |                     |                     |
| Deferred income taxes             | \$ 9,821            | \$10,154            |
| Accrued post retirement benefits  | 10,611              | 9,987               |
| Other                             | 1,321               | 1,579               |
|                                   | <u>          </u>   | <u>          </u>   |
| Total                             | \$21,753            | \$21,720            |
|                                   | <u>          </u>   | <u>          </u>   |

**4. Receivables**

Receivables consist of the following (in thousands):

|  | October 25,<br>2003 | October 26,<br>2002 |
|--|---------------------|---------------------|
| Amounts billed — net of allowance for uncollectible amounts of \$266 and \$310 | \$28,572            | \$25,000            |
| Amounts unbilled (principally commercial customers):                           |                     |                     |
| Net reimbursable costs incurred on uncompleted contracts                       | 1,556               | 847                 |
| Billings to date   | (1,793)             | (1,297)             |
|  | <u>          </u>   | <u>          </u>   |
| Total unbilled — net   | (237)               | (450)               |
|  | <u>          </u>   | <u>          </u>   |
| Net receivables  | \$28,335            | \$24,550            |
|  | <u>          </u>   | <u>          </u>   |

**5. Inventories**

Inventories consist of the following (in thousands):

|   | October 25,<br>2003 | October 26,<br>2002 |
|---|---------------------|---------------------|
| Finished goods                            | \$ 1,481            | \$ 1,861            |
| Work-in-process and purchased parts       | 16,938              | 16,593              |
| Raw materials and supplies                | 12,385              | 11,723              |
|   | <u>          </u>   | <u>          </u>   |
| Total                                     | 30,804              | 30,177              |
| Reserve for excess and obsolete inventory | (5,103)             | (5,054)             |
|   | <u>          </u>   | <u>          </u>   |
| Inventories — net                         | \$25,701            | \$25,123            |
|   | <u>          </u>   | <u>          </u>   |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**6. Intangible Assets**

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

|                     | October 25, 2003 |                          | October 26, 2002 |                          |
|---------------------|------------------|--------------------------|------------------|--------------------------|
|                     | Gross Amount     | Accumulated Amortization | Gross Amount     | Accumulated Amortization |
| Intangible Assets:  |                  |                          |                  |                          |
| Contracts           | \$17,100         | \$10,404                 | \$17,100         | \$ 8,693                 |
| Spare parts annuity | 38,200           | 10,217                   | 38,200           | 8,537                    |
| Patents             | 387              | 150                      | 387              | 126                      |
|                     |                  |                          |                  |                          |
| Total               | \$55,687         | \$20,771                 | \$55,687         | \$17,356                 |
|                     |                  |                          |                  |                          |

Amortization expense recorded on the intangible assets for each of the fiscal years ended October 25, 2003 and October 26, 2002 was \$3.4 million. The estimated amortization expense for each of the three succeeding fiscal years 2004 through 2006 is \$3.4 million, fiscal year 2007 is \$3.2 million and fiscal year 2008 is \$1.7 million.

**7. Goodwill**

Argo-Tech adopted Statement of Financial Accounting Standard (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” as of October 28, 2001. Under this statement, goodwill and other intangibles determined to have an indefinite life are no longer amortized; however, these assets are to be reviewed for impairment on a periodic basis. Argo-Tech completed its transitional impairment test for goodwill 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 being recorded upon the adoption of SFAS No. 142. Goodwill is subject to an impairment test at least annually thereafter. All of the Company’s goodwill is allocated to its Aerospace segment.

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 for the fiscal years ended 2003, 2002 and 2001 (in thousands):

|   | 2003    | 2002    | 2001     |
|---|---------|---------|----------|
| Net income as reported                  | \$4,528 | \$5,926 | \$10,800 |
| Add amortization expense:               |         |         |          |
| Goodwill                                |         |         | 3,489    |
| Workforce in place, net of tax of \$245 |         |         | 367      |
|   |         |         |          |
| Adjusted net income                     | \$4,528 | \$5,926 | \$14,656 |
|   |         |         |          |



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**8. Property and Equipment**

*Owned Property* — Property and equipment owned by the Company consists of the following (in thousands):

|                                  | October 25,<br>2003 | October 26,<br>2002 |
|----------------------------------|---------------------|---------------------|
| Land and land improvements       | \$ 7,663            | \$ 7,663            |
| Buildings and building equipment | 34,448              | 34,199              |
| Machinery and equipment          | 40,360              | 39,045              |
| Office and automotive equipment  | 8,128               | 7,409               |
| Construction-in-progress         | 333                 | 979                 |
|                                  | <hr/>               | <hr/>               |
| Total                            | 90,932              | 89,295              |
| Accumulated depreciation         | (66,976)            | (63,091)            |
|                                  | <hr/>               | <hr/>               |
| Total — net                      | \$ 23,956           | \$ 26,204           |
|                                  | <hr/>               | <hr/>               |

*Property Leased to Others* — The Company leases certain portions of its facility in Euclid, Ohio. The leases have been accounted for as operating leases whereby revenue is recognized as earned over the lease terms. The cost of property leased to others is included in property and equipment and is being depreciated over its estimated useful life. It is not practical to determine the cost of the property that is being leased to others or the related amount of accumulated depreciation. In addition, the Company has separate service contracts with its tenants under which the Company provides maintenance, telecommunications and various other services.

Total rental revenue under the property leases and service contracts is included in “Net revenues” and was as follows for the fiscal years ended 2003, 2002 and 2001 (in thousands):

|   | 2003    | 2002    | 2001    |
|---|---------|---------|---------|
| Minimum contractual amounts under property leases | \$4,498 | \$4,526 | \$4,368 |
| Service contracts revenue based on usage          | 774     | 792     | 862     |
|   | <hr/>   | <hr/>   | <hr/>   |
| Total   | \$5,272 | \$5,318 | \$5,230 |
|   | <hr/>   | <hr/>   | <hr/>   |

Future minimum rentals under the noncancelable property leases and service contracts at October 25, 2003 are (in thousands): \$3,285 in 2004, \$956 in 2005, \$280 in 2006, \$6 in 2007, and \$0 in 2008.

**9. Product Warranty**

Argo-Tech Corporation adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” effective as of its first quarter of fiscal 2003. FIN 45 requires disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued.

Argo-Tech accrues for warranty obligations for products sold based on management estimates of the amount that may be required to settle such potential obligations. These estimates are prepared with support from our sales, engineering, quality and legal functions. This accrual, which is reviewed in detail on a regular basis, is

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

based on several factors: past experience, current claims, production changes and various other considerations. The following table presents a reconciliation of changes in the product warranty liability (in thousands):

|  | October 25,<br>2003 | October 26,<br>2002 |
|--|---------------------|---------------------|
| Beginning balance  | \$2,064             | \$2,100             |
| Accruals for warranties issued                                       | 325                 | 80                  |
| Accruals for pre-existing warranties (including changes in estimate) | 448                 | 620                 |
| Warranty claims settled  | (707)               | (736)               |
| Ending balance   | \$2,130             | \$2,064             |

**10. Employee Benefit Plans**

**Employee Stock Ownership Plan** — The Company has an Employee Stock Ownership Plan (ESOP) to provide retirement benefits to qualifying, salaried employees. The ESOP grants to participants in the plan certain ownership rights in, but not possession of, the common stock of AT Holdings Corporation held by the Trustee of the Plan. Shares of common stock are allocated annually to participants in the ESOP pursuant to a prescribed formula. The value of the shares committed to be released by the Trustee under the Plan’s provisions for allocation to participants was recognized as an expense of \$1,874,000, \$1,344,000 and \$2,091,000 for the fiscal years ended 2003, 2002 and 2001, respectively. The cost of the shares acquired for the ESOP that are not committed to be released to participants is shown as a contra-account, “Unearned ESOP shares”.

Summary information regarding ESOP activity consists of the following:

|  | October 25,<br>2003 | October 26,<br>2002 |
|--|---------------------|---------------------|
| Allocated shares                             | 357,000             | 315,000             |
| Shares released for allocation               | 42,000              | 42,000              |
| Unearned ESOP shares                         | 21,000              | 63,000              |
| Total ESOP shares                            | 420,000             | 420,000             |
| Repurchased shares received as distributions | (73,692)            | (65,151)            |
| Total available ESOP shares                  | 346,308             | 354,849             |
| Fair market value of unearned ESOP shares    | \$937,020           | \$2,016,000         |

All of the shares acquired for the ESOP (both allocated and unearned shares) are owned and held in trust by the ESOP.

The stock of AT Holdings Corporation is not listed or traded on an active stock market and market prices are, therefore, not available. Annually, an independent financial consulting firm determines the fair market value based upon the Company’s performance and financial condition.

The Company provides an “internal market” for shareholders through its purchase of their common shares. Participants in the Company’s ESOP have the right to require the Company, within a specified period, to repurchase shares received as distributions under the ESOP at their fair market value.

**Pension and Savings Plans** — The Company has two noncontributory defined benefit pension plans for qualifying hourly and salary employees. A plan covering salaried employees provides pension benefits that are based on the employees’ compensation and years of service. The future accrual of benefits was terminated in connection with the formation of the ESOP. A plan covering hourly employees provides benefits of stated

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

amounts for each year of service. The Company's funding policy is to contribute actuarially determined amounts allowable under Internal Revenue Service regulations. The Company also sponsors three employee savings plans, which cover substantially all of the Company's employees. The plan covering Argo-Tech Corporation Costa Mesa employees provides for a match of participating employees' contributions. The Company's contribution, recognized as expense was approximately \$488,000, \$408,000 and \$373,000 in fiscal years 2003, 2002 and 2001 respectively.

A summary of the components of net periodic pension cost for the pension plans for the fiscal years ended 2003, 2002 and 2001 is as follows (in thousands):

|   | 2003              | 2002              | 2001              |
|---|-------------------|-------------------|-------------------|
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Service cost — benefits earned during the period      | \$ 277            | \$ 255            | \$ 196            |
| Interest cost on projected benefit obligation         | 1,299             | 1,279             | 1,191             |
| Expected return on plan assets                        | (1,491)           | (1,628)           | (1,666)           |
| Net amortization and deferral                         | 384               | 218               | (99)              |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Net periodic pension cost/(benefit)                   | 469               | 124               | (378)             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Settlement (gain)/loss                                |                   | (184)             |                   |
| Special termination benefits                          |                   | 770               |                   |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Net periodic pension cost/(benefit) after settlements | \$ 469            | \$ 710            | \$ (378)          |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

The following table sets forth the change in projected benefit obligation (in thousands):

|   | October 25,<br>2003       | October 26,<br>2002       |
|---|---------------------------|---------------------------|
|   | <u>                  </u> | <u>                  </u> |
| Benefit obligation at beginning of year | \$19,180                  | \$17,875                  |
| Service cost                            | 277                       | 255                       |
| Interest cost                           | 1,299                     | 1,279                     |
| Benefits paid                           | (914)                     | (918)                     |
| Actuarial (gain) loss                   | (127)                     | (547)                     |
| Change due to amendments                | —                         | 401                       |
| Change due to assumptions               | (201)                     | —                         |
| Curtailments                            | —                         | 118                       |
| Settlements                             | —                         | (1,222)                   |
| Special termination benefits            | —                         | 770                       |
| Change in discount rate                 | 1,295                     | 1,169                     |
|   | <u>                  </u> | <u>                  </u> |
| Benefit obligation at end of year       | \$20,809                  | \$19,180                  |
|   | <u>                  </u> | <u>                  </u> |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table sets forth the change in plan assets (in thousands):

|  | October 25,<br>2003 | October 26,<br>2002 |
|--|---------------------|---------------------|
| Fair value of plan assets at beginning of year | \$16,684            | \$18,789            |
| Actual return on plan assets                   | 2,914               | (965)               |
| Employer contributions                         | 1,290               | 1,000               |
| Benefits paid                                  | (914)               | (918)               |
| Settlements                                    | —                   | (1,222)             |
|  | <u>          </u>   | <u>          </u>   |
| Fair value of plan assets at end of year       | \$19,974            | \$16,684            |
|  | <u>          </u>   | <u>          </u>   |

The following table sets forth the funded status of the plans (in thousands):

|                                 | October 25,<br>2003 | October 26,<br>2002 |
|---------------------------------|---------------------|---------------------|
| Funded status                   | \$ (835)            | \$(2,496)           |
| Unrecognized net loss           | 4,410               | 5,169               |
| Unrecognized prior service cost | 463                 | 543                 |
|                                 | <u>          </u>   | <u>          </u>   |
| Prepaid benefit cost            | \$4,038             | \$ 3,216            |
|                                 | <u>          </u>   | <u>          </u>   |

Amounts recognized in the statements of financial position consist of (in thousands):

|                                      | October 25,<br>2003 | October 26,<br>2002 |
|--------------------------------------|---------------------|---------------------|
| Prepaid benefit cost                 | \$ 972              | \$ —                |
| Accrued benefit liability            | (943)               | (2,496)             |
| Intangible asset                     | 462                 | 543                 |
| Accumulated other comprehensive loss | 3,547               | 5,169               |
|                                      | <u>          </u>   | <u>          </u>   |
| Net amount recognized                | \$4,038             | \$ 3,216            |
|                                      | <u>          </u>   | <u>          </u>   |

The foregoing net amounts regarding the pension benefit obligation and the value of plan assets for the year ended October 25, 2003 are based on a combination of both overfunded and underfunded plans. The aggregate amounts relating to the underfunded plan are as follows (in thousands):

|                              | October 25,<br>2003 |
|------------------------------|---------------------|
| Projected benefit obligation | \$9,792             |
| Fair value of plan assets    | 8,849               |

The assumptions used to determine net periodic pension cost as well as the funded status are:

|  | 2003  | 2002  | 2001  |
|--|-------|-------|-------|
| Discount rate                                    | 6.50% | 7.00% | 7.50% |
| Expected long-term rate of return on plan assets | 9.00% | 9.00% | 9.00% |

A decrease in the discount rate of 0.25%, to 6.25%, would result in a \$0.6 million increase in the benefit obligation at October 25, 2003. This increase in the benefit obligation would cause both of the plans for the fiscal year ended October 25, 2003 to be underfunded, with the recognition of an additional accrued benefit liability and charge to accumulated other comprehensive income, net of tax, of \$0.9 million.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Other Postretirement Benefits*** — The Company provides certain postretirement health care benefits to qualifying hourly retirees and their dependents.

The net postretirement benefit cost for the fiscal years ended 2003, 2002 and 2001 includes the following components (in thousands):

|                                 | 2003              | 2002              | 2001              |
|---------------------------------|-------------------|-------------------|-------------------|
|                                 | <u>          </u> | <u>          </u> | <u>          </u> |
| Service cost                    | \$ 187            | \$136             | \$124             |
| Interest cost                   | 804               | 650               | 634               |
| Net amortization and deferral   | 23                | (7)               | (32)              |
|                                 | <u>          </u> | <u>          </u> | <u>          </u> |
| Net postretirement benefit cost | \$1,014           | \$779             | \$726             |
|                                 | <u>          </u> | <u>          </u> | <u>          </u> |

The following table sets forth the change in projected benefit obligation (in thousands):

|   | October 25,<br>2003 | October 26,<br>2002 |
|---|---------------------|---------------------|
|   | <u>          </u>   | <u>          </u>   |
| Benefit obligation at beginning of year   | \$ 9,954            | \$9,167             |
| Service cost                              | 187                 | 136                 |
| Interest cost                             | 804                 | 650                 |
| Benefits paid                             | (340)               | (335)               |
| Actuarial (gain) loss                     | 1,662               | (330)               |
| Change in discount rate/other assumptions | 2,252               | 666                 |
|   | <u>          </u>   | <u>          </u>   |
| Benefit obligation at end of year         | \$14,519            | \$9,954             |
|   | <u>          </u>   | <u>          </u>   |

The following table sets forth the funded status of the plans (in thousands):

|                              | October 25,<br>2003 | October 26,<br>2002 |
|------------------------------|---------------------|---------------------|
|                              | <u>          </u>   | <u>          </u>   |
| Benefit obligation           | \$(14,519)          | \$ (9,954)          |
| Unrecognized net (gain) loss | 3,558               | (333)               |
|                              | <u>          </u>   | <u>          </u>   |
| Accrued benefit cost         | \$(10,961)          | \$(10,287)          |
|                              | <u>          </u>   | <u>          </u>   |

Benefit costs were generally estimated assuming retiree health care costs would initially increase at an 11% annual rate, decreasing gradually to a 5% annual growth rate after 12 years and remain at a 5% annual growth rate thereafter. For the plan year beginning November 1, 2003, the annual increase in retiree health care costs was adjusted from 7.00% to a 9.00% annual rate, decreasing gradually to a 5% annual growth rate after seven years and remain at a 5% annual growth rate thereafter. A 1% increase in this annual trend rate would have increased the accumulated postretirement benefit obligation at October 25, 2003 by \$2.5 million with a corresponding effect on the 2003 postretirement benefit expense of \$0.2 million. The discount rate used to estimate the accumulated postretirement benefit obligation was 6.50% and 7.00% for fiscal years 2003 and 2002, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**11. Income Taxes**

The income tax provision consists of the following for the fiscal years ended 2003, 2002 and 2001 (in thousands):

|                        | 2003    | 2002     | 2001     |
|------------------------|---------|----------|----------|
|                        |         |          |          |
| Current tax provision: |         |          |          |
| Federal                | \$1,485 | \$ 1,647 | \$ 4,143 |
| State and local        | 672     | 580      | 695      |
|                        |         |          |          |
| Total                  | 2,157   | 2,227    | 4,838    |
| Deferred tax benefit   | (578)   | (1,658)  | (1,962)  |
|                        |         |          |          |
| Income tax provision   | \$1,579 | \$ 569   | \$ 2,876 |

The difference between the recorded income tax provision and the amounts computed using the statutory U.S. Federal income tax rates are as follows (in thousands):

|   | 2003    | 2002    | 2001     |
|---|---------|---------|----------|
|   |         |         |          |
| Income tax provision at statutory rate        | \$2,137 | \$2,273 | \$ 4,787 |
| State tax provision — net of federal benefits | 391     | 366     | 451      |
| Extraterritorial income                       | (829)   | (996)   | (1,458)  |
| R & D credit                                  | (252)   | (584)   | (2,714)  |
| Goodwill                                      |         |         | 1,195    |
| ESOP  | 66      | (114)   | 291      |
| Other — net                                   | 66      | (376)   | 324      |
|   |         |         |          |
| Income tax provision                          | \$1,579 | \$ 569  | \$ 2,876 |

During the fiscal years ended 2003 and 2001, the Company paid (net of refunds received) approximately \$1.7 million and \$6.6 million in income taxes, respectively. In fiscal year 2002 the Company received a net refund of income taxes of approximately \$0.8 million.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The components of the Company's net deferred tax asset (liability) are as follows (in thousands):

|                            | October 25,<br>2003 | October 26,<br>2002 |
|----------------------------|---------------------|---------------------|
| Current:                   |                     |                     |
| Inventory                  | \$ 1,273            | \$ 1,312            |
| Employee benefits          | 1,288               | 1,273               |
| Warranty                   | 844                 | 851                 |
| Engineering reserves       | 599                 | 516                 |
| Other reserves             | 707                 | 514                 |
| Total current              | 4,711               | 4,466               |
| Long-term:                 |                     |                     |
| Hourly retiree medical     | 4,259               | 4,254               |
| Prepaid pension benefit    | (323)               | 531                 |
| Property and equipment     | 835                 | 1,137               |
| Intangible assets          | (14,324)            | (15,719)            |
| Other — net                | (268)               | (357)               |
| Total long-term            | (9,821)             | (10,154)            |
| Net deferred tax liability | \$ (5,110)          | \$ (5,688)          |

The temporary difference described above principally represent differences between the tax bases of assets (principally inventory, property and equipment, and intangible assets) or liabilities (principally related to employee benefits and loss reserves) and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled, respectively.

## 12. Debt

**Summary** — The Company's long-term debt consists of the following (in thousands):

|                           | October 25,<br>2003 | October 26,<br>2002 |
|---------------------------|---------------------|---------------------|
| Term Loans                | \$ 25,850           | \$ 41,850           |
| Revolving Credit Facility |                     |                     |
| Senior Subordinated Notes | 193,499             | 193,195             |
| Total borrowings          | 219,349             | 235,045             |
| Current maturities        | (12,000)            | (16,000)            |
| Long-term portion         | \$207,349           | \$219,045           |

**Credit Facility and Term Loans** — The Company has available \$115.0 million principal amount of Term Loans, and a seven-year \$20.0 million Revolving Credit Facility. The unused balance of the Revolving Credit Facility (\$17.8 million at October 25, 2003 after reduction of \$2.2 million for letters of credit) is subject to a .75% commitment fee. The Credit Facility is collateralized by substantially all of the tangible assets of the Company (including the capital stock of AT Holdings) as well as the unearned shares of the AT Holding's common stock held by the ESOP. The Credit Facility contains a number of covenants that, among other things, limit the Company's ability to incur additional indebtedness, pay dividends, prepay subordinated indebtedness,

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

dispose of certain assets, create liens, make capital expenditures, make certain investments or acquisitions and otherwise restrict corporate activities. The Credit Facility also requires the Company to comply with certain financial ratios and tests, under which the Company is required to achieve certain financial and operating results. On January 24, 2003 the Company amended and restated its Credit Facility to allow for the re-amortization of the outstanding balance of the Term Loans, amending the Consolidated Interest Coverage Ratio for the remainder of the agreement, adjusting the supplemental percentage of interest applied to an Alternate Base Rate (ABR) or LIBOR, changing the commitment fee rate, increasing the Letter of Credit sublimit in the revolving credit facility to an amount not to exceed \$5,000,000 and establishing a borrowing base covenant on revolving credit borrowings in excess of \$10.0 million and a fixed charge coverage ratio. The maturities of the Company’s Term Loans are now as follows: \$16.0 million, \$12.0 million and \$13.8 million for fiscal years 2003, 2004 and 2005, respectively. The Company was in compliance with the covenants at October 25, 2003. Interest was calculated, at the Company’s choice, using an alternate base rate (ABR) or LIBOR, plus a supplemental percentage determined by the ratio of debt to EBITDA. The interest rate for fiscal year 2003 ranged from 1.75% to 2.50% plus ABR or 2.75% to 3.50% plus LIBOR.

**Senior Subordinated Notes** — The Company has outstanding \$195.0 million 8 5/8% Senior Subordinated Notes due 2007 (the “Notes”). At October 25, 2003, the accreted value of the Notes was \$193.5 million. Interest on the Notes is payable semiannually on April 1 and October 1 of each year. The Notes will mature on October 1, 2007. After October 1, 2002, the Company may redeem the Notes, in whole or in part, at the redemption prices at the time, together with accrued and unpaid interest, if any, to the date of redemption.

The Notes are unsecured and are subordinated in right of payment to all existing and future Senior Indebtedness of the Company and are subject to certain limitations and restrictions which the Company has not exceeded at October 25, 2003.

**Annual Maturities and Interest Payments** — The maturities of the Company’s long-term debt during each of the next five fiscal years are as follows (in thousands):

| Fiscal Year | Amount    |
|-------------|-----------|
| 2004        | \$ 12,000 |
| 2005        | 13,850    |
| 2006        |           |
| 2007        | 193,499   |
| 2008        |           |
| Total       | \$219,349 |

Total interest paid during the fiscal years ended 2003, 2002 and 2001 was \$18.5 million, \$19.0 million and \$22.1 million, respectively.

13. Segment Information

The Company operates in two business segments, Aerospace and Industrial. The Aerospace segment includes the design, manufacture, distribution, repair and overhaul of aviation products throughout the world consisting of aircraft engine fuel pumps, fuel flow related products and systems found on a plane’s airframe, and aerial refueling pumps and related equipment. The Industrial segment includes the design, manufacture and distribution of industrial pumps, ground fueling valves and related components, cryogenic pumps and nozzles for transferring liquefied natural gas and operation of a business park in Cleveland, Ohio where the Company maintains its headquarters and one of its production facilities.



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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company evaluates the performance of its segments based primarily on operating profit before amortization of 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):

|  | 2003      |            |           |              |
|--|-----------|------------|-----------|--------------|
|  | Aerospace | Industrial | Corporate | Consolidated |
| Customer revenues  | \$121,278 | \$39,448   | \$ —      | \$160,726    |
| Intersegment revenues  | —         | —          | —         | —            |
| Eliminations   |           |            |           | —            |
| Operating profit (loss)  | 28,484    | 2,157      | (392)     | 30,249       |
| Amortization of intangible assets  |           |            |           | 3,414        |
|  |           |            |           |              |
| Income from operations   |           |            |           | 26,835       |
| Interest expense   |           |            |           | 21,257       |
| Other, net   |           |            |           | (529)        |
|  |           |            |           |              |
| Income before tax  |           |            |           | \$ 6,107     |
|  |           |            |           |              |
| Capital expenditures   | 933       | 1,006      |           | 1,939        |
| Depreciation   | 2,503     | 1,280      | 404       | 4,187        |
| Compensation expense recognized in connection with employee stock ownership plan | 1,652     | 222        |           | 1,874        |
|  |           |            |           |              |
|  | 2002      |            |           |              |
|  | Aerospace | Industrial | Corporate | Consolidated |
| Customer revenues  | \$120,891 | \$34,412   | \$ —      | \$155,303    |
| Intersegment revenues  | —         | —          | —         | —            |
| Eliminations   |           |            |           | —            |
| Operating profit (loss)  | 30,978    | 1,843      | (1,268)   | 31,553       |
| Amortization of intangible assets  |           |            |           | 3,721        |
|  |           |            |           |              |
| Income from operations   |           |            |           | 27,832       |
| Interest expense   |           |            |           | 21,434       |
| Other, net   |           |            |           | (97)         |
|  |           |            |           |              |
| Income before tax  |           |            |           | \$ 6,495     |
|  |           |            |           |              |
| Capital expenditures   | 1,240     | 545        |           | 1,785        |
| Depreciation   | 2,796     | 1,362      | 450       | 4,608        |
| Compensation expense recognized in connection with employee stock ownership plan | 1,205     | 139        |           | 1,344        |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

|  | <b>2001</b>      |                   |                  |                     |
|--|------------------|-------------------|------------------|---------------------|
|  | <b>Aerospace</b> | <b>Industrial</b> | <b>Corporate</b> | <b>Consolidated</b> |
| Customer revenues  | \$142,000        | \$31,208          | \$ —             | \$173,208           |
| Intersegment revenues  |                  | 10                | —                | 10                  |
| Eliminations   |                  |                   |                  | (10)                |
| Operating profit (loss)  | 47,548           | (252)             | (1,622)          | 45,674              |
| Amortization of goodwill and intangible assets                                   |                  |                   |                  | 7,515               |
| Income from operations   |                  |                   |                  | 38,159              |
| Interest expense   |                  |                   |                  | 24,534              |
| Other, net   |                  |                   |                  | (51)                |
| Income before tax  |                  |                   |                  | \$ 13,676           |
| Capital expenditures   | 1,453            | 432               |                  | 1,885               |
| Depreciation   | 3,124            | 1,165             | 1,270            | 5,559               |
| Compensation expense recognized in connection with employee stock ownership plan | 1,791            | 300               |                  | 2,091               |
| Compensation expense recognized in connection with stock options                 |                  |                   | 526              | 526                 |

**14. Major Customers and Export Sales**

During the fiscal years ended 2003, 2002 and 2001, the Company had revenues in excess of 10% from only one customer (in thousands):

|                            | <b>2003</b> | <b>2002</b> | <b>2001</b> |
|----------------------------|-------------|-------------|-------------|
| Customer A (Related Party) | \$19,321    | \$21,231    | \$26,792    |

During the fiscal years ended 2003, 2002 and 2001, export sales to foreign customers were comprised of the following (in thousands):

|   | <b>2003</b> | <b>2002</b> | <b>2001</b> |
|---|-------------|-------------|-------------|
| Europe                                  | \$30,371    | \$28,002    | \$34,954    |
| All others (individually less than 10%) | 36,320      | 40,576      | 45,841      |
| Total                                   | \$66,691    | \$68,578    | \$80,795    |

**15. Fair Value of Financial Instruments**

The Company has various financial instruments, including cash and short-term investments and long-term debt. The Company has determined the estimated fair value of these financial instruments by soliciting available market information and utilizing appropriate valuation methodologies, which require judgment. The Company believes that the carrying values of the short-term investments and term loans approximates their fair value. The fair value of the Company’s Senior Subordinated Notes approximated \$189.2 million at October 25, 2003 based upon quoted market prices. The Company 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, result of operations or cash flow.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**16. Contingencies**

***Environmental Matters*** — The soil and groundwater at the Company’s Euclid, 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 the Company has certain indemnification rights from former owners of the facilities for liabilities arising from these or other environmental matters, in the opinion of the Company’s management, the ultimate outcome is not expected to materially affect the Company’s financial condition, results of operations or liquidity.

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

**17. New Accounting Standards**

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 determined the adoption of this statement had no effect on Argo-Tech’s consolidated financial statements.

In November 2002, the FASB issued FIN 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 requires that a liability be recorded in the guarantor’s balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the entity’s product warranty liabilities. See Note 9 for this disclosure. Argo-Tech will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. Argo-Tech has not guaranteed any other obligation before or after December 31, 2002 that would require disclosure under FIN 45.

In January 2003, the FASB issued FIN 46, “Consolidation of Variable Interest Entities.” FIN 46 provides guidance on how to identify a variable interest entity (“VIE”) and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company’s consolidated financial statements. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of this interpretation became effective upon issuance. Management believes the adoption of this interpretation is not likely to have a material impact on Argo-Tech’s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” This statement establishes how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments (as identified in the scope of the statement), as a liability (or an asset in some circumstances), that were previously classified as equity. Management determined the adoption of this statement had no effect on Argo-Tech’s consolidated financial statements.

**18. Other Comprehensive Income (Loss)**

Other comprehensive income (loss) includes foreign currency translation adjustments and deferred pension income (expense) for the fiscal years ended 2003, 2002 and 2001 (in thousands).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

|   | 2003    | 2002     | 2001     |
|---|---------|----------|----------|
| Net income  | \$4,528 | \$ 5,926 | \$10,800 |
| Other comprehensive income (loss):  |         |          |          |
| Foreign currency translation adjustment                                     | 119     | (14)     | (151)    |
| Deferred pension income (expense)   | 1,622   | (2,123)  | (3,046)  |
| Other comprehensive income (loss) before tax                                | 1,741   | (2,137)  | (3,197)  |
| Income tax (provision) benefit related to other comprehensive income (loss) | (649)   | 850      | 1,218    |
| Other comprehensive income (loss) net of tax                                | 1,092   | (1,287)  | (1,979)  |
| Comprehensive income  | \$5,620 | \$ 4,639 | \$ 8,821 |

\* \* \* \* \*

EXHIBIT INDEX

| Exhibit Number | Description of Document  |
|----------------|--|
| 3.1            | Restated Certificate of Incorporation of the Company, dated April 16, 1999 (incorporated herein by reference to Exhibit 3.1 of the Company’s registration statement on form S-4/A filed April 22, 1999, SEC File No. 333-73179).   |
| 3.2            | Restated By-Laws of the Company dated April 16, 1999 (incorporated herein by reference to Exhibit 3.2 of the Company’s registration statement on form S-4/A filed April 22, 1999, SEC File No. 333-73179).   |
| 4.1            | Indenture dated September 26, 1997, between the Company, the Subsidiary Guarantors signatory thereto and Harris Trust and Savings Bank, as Trustee, relating to the 8 5/8% Senior Subordinated Notes due 2007 (the form of which is included in such Indenture) (incorporated herein by reference to Exhibit 4.1 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |
| 4.2            | First Supplemental Indenture, dated December 17, 1998 between the Company, the Subsidiary Guarantors signatory thereto and Harris Trust and Savings Bank, related to the Indenture dated September 26, 1997 (incorporated by reference to Exhibit 4.4 of the Company’s Current Report on Form 8-K, filed January 14, 1999).  |
| 4.3            | Indenture dated December 17, 1998 between the Company, the Subsidiary Guarantors signatory thereto and Harris Trust and Savings Bank, as Trustee, related to the 8 5/8% Senior Subordinated Notes due 2007 (a form of which is included in such Indenture) (incorporated by reference to Exhibit 4.5 of the Company’s Current Report on Form 8-K, filed January 14, 1999).   |
| 10.1*          | Form of Stay Pay and Severance Agreement dated June 6, 1996, between the Company and certain Executive Officers of the Company (Michael S. Lipscomb, Frances S. St. Clair, and Paul R. Keen) (incorporated herein by reference to Exhibit 10.1 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.2*          | Employment Agreement dated February 13, 1989 between the Company and Paul R. Keen (incorporated herein by reference to Exhibit 10.2 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.3*          | Employment Agreement dated October 15, 1986 between the Company and Michael S. Lipscomb (incorporated herein by reference to Exhibit 10.3 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.4*          | Argo-Tech Corporation Trust Agreement dated October 28, 1994 between the Company and Society National Bank, as Trustee, relating to the Employment Agreement dated October 15, 1986 between the Company and Michael S. Lipscomb (incorporated herein by reference to Exhibit 10.4 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).                                |
| 10.5*          | Argo-Tech Corporation Salaried Pension Plan, dated November 1, 1995 (incorporated herein by reference to Exhibit 10.5 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.6*          | First Amendment to Argo-Tech Corporation Salaried Pension Plan (incorporated herein by reference to Exhibit 10.6 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.7*          | Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated May 17, 1994 (incorporated herein by reference to Exhibit 10.7 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.8*          | First Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated October 26, 1994 (incorporated herein by reference to Exhibit 10.8 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.9*          | Second Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated May 9, 1996 (incorporated herein by reference to Exhibit 10.9 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |

EXHIBIT INDEX — Continued

| Exhibit Number | Description of Document  |
|----------------|--|
| 10.10*         | Third Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan and Trust Agreement, dated July 18, 1997 (incorporated herein by reference to Exhibit 10.10 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.11*         | Argo-Tech Corporation Employee Stock Ownership Plan Excess Benefit Plan, dated May 17, 1994 (incorporated herein by reference to Exhibit 10.11 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.12          | AT Holdings Corporation Stockholders’ Agreement, dated December 17, 1998 (incorporated herein by reference to Exhibit 10.12 of the Company’s Annual Report on form 10-K for the year ended October 30, 1999, SEC File No. 333-38223).  |
| 10.13          | AT Holdings Corporation 1998 Supplemental Stockholders’ Agreement, dated December 17, 1998 (incorporated herein by reference to Exhibit 10.13 of the Company’s Annual Report on form 10-K for the year ended October 30, 1999, SEC File No. 333-38223).  |
| 10.14*         | Form of Management Incentive Compensation Plan for key employees of Argo-Tech (incorporated herein by reference to Exhibit 10.19 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.15*         | 1991 Management Incentive Stock Option Plan, as amended, dated May 16, 1994 (incorporated herein by reference to Exhibit 10.20 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.16*         | Amendment to the 1991 Management Incentive Stock Option Plan, as amended, dated June 12, 2001 (incorporated herein by reference to Exhibit 10.3 of the Company’s Quarterly Report on form 10-Q for the quarter ended July 28, 2001).   |
| 10.17*         | Form of Stock Option Agreement in connection with the Management Incentive Stock Option Plan, as amended, between Argo-Tech and each member of Argo-Tech’s Executive Staff (incorporated herein by reference to Exhibit 10.21 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).                            |
| 10.18*         | 1991 Performance Stock Option Plan, as amended, dated May 16, 1997 (incorporated herein by reference to Exhibit 10.22 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.19*         | Amendment to the 1991 Performance Stock Option Plan, as amended, June 12, 2001 (incorporated herein by reference to Exhibit 10.1 of the Company’s Quarterly Report on form 10-Q for the quarter ended July 28, 2001).  |
| 10.20*         | Form of Stock Option Agreement in connection with the 1991 Performance Stock Option Plan, as amended, between Argo-Tech and certain key employees (incorporated herein by reference to Exhibit 10.23 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.21          | Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings, the lenders party thereto and the Chase Manhattan Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.24 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).  |
| 10.22          | Distributorship Agreement, dated December 24, 1990, between Argo-Tech, Yamada Corporation and Vestar Capital Partners, Inc. (incorporated herein by reference to Exhibit 10.25 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.23          | Japan Distributorship Agreement, dated December 24, 1990, between Argo-Tech, Aerotech World Trade Corporation, Yamada Corporation, Yamada International Corporation and Vestar Capital Partners, Inc. (incorporated herein by reference to Exhibit 10.26 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |

EXHIBIT INDEX — Continued

| Exhibit Number | Description of Document  |
|----------------|--|
| 10.24          | Stock Purchase Agreement, dated August 1, 1997, between Argo-Tech, J.C. Carter Company, Inc., Robert L. Veloz, Individually and as Trustee, Marlene J. Veloz, Individually and as Trustee, Edith T. Derbyshire, Individually and as Trustee, Harry S. Derbyshire, Individually and as Trustee, Michael Veloz, Katherine Canfield and Maureen Partch, as Trustee (incorporated herein by reference to Exhibit 10.27 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |
| 10.25          | Prism Prototype Retirement Plan & Trust & 401(k) Profit Sharing Plan Adoption Agreement, dated November 1, 1994 (incorporated herein by reference to Exhibit 10.28 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.26          | Prism Prototype Retirement Plan and Trust (incorporated herein by reference to Exhibit 10.29 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.27          | Agreement of Purchase and Sale between Agnem Holdings, Inc. and TRW Inc. dated as of August 5, 1986 (incorporated herein by reference to Exhibit 10.30 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223).   |
| 10.28*         | 1997 Stock Appreciation Rights Plan (incorporated herein by reference to Exhibit 10.31 of the Company’s Annual Report on form 10-K, for the year ended October 31, 1998).  |
| 10.29*         | AT Holdings Corporation/Argo-Tech Corporation 1998 Equity Replacement Stock Option Plan (incorporated herein by reference to Exhibit 10.32 of the Company’s registration statement on form S-4 filed March 1, 1999, SEC File No. 333-73179).   |
| 10.30*         | Amendment to the AT Holdings Corporation/Argo-Tech Corporation 1998 Equity Replacement Stock Option Plan dated June 12, 2001 (incorporated herein by reference to Exhibit 10.2 of the Company’s Quarterly Report on form 10-Q for the quarter ended July 28, 2001).  |
| 10.31*         | Form of Stock Option Agreement in connection with the AT Holdings Corporation/Argo-Tech Corporation 1998 Equity Replacement Stock Option Plan (incorporated herein by reference to Exhibit 10.33 of the Company’s registration statement on form S-4 filed March 1, 1999, SEC File No. 333- 73179).  |
| 10.32*         | First Amendment to the Argo-Tech Corporation Employee Stock Ownership Plan Excess Benefit Plan (incorporated herein by reference to Exhibit 10.34 of the Company’s registration statement on form S-4 filed March 1, 1999, SEC File No. 333-73179).  |
| 10.33          | Amendment, dated December 4, 1998 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and Chase Manhattan Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.32 of the Company’s registration statement on form S-4/A filed April 22, 1999, SEC File No. 333-73179).   |
| 10.34          | Amendment, dated June 9, 2000 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and Chase Manhattan Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.31 of the Company’s Annual Report on Form 10-K, for the year ended October 28, 2000).   |
| 10.35          | Amendment, dated October 26, 2002 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on September 26, 1997, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and JPMorgan Chase Bank, as Administrative Agent.   |
| 10.36          | Amendment, dated January 24, 2003 to the Amended and Restated Credit Facility, dated July 18, 1997, as amended and restated on January 24, 2003, between Argo-Tech, AT Holdings Corporation, the Lenders party thereto and JPMorgan Chase Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.1 of the Company’s Quarterly Report on form 10-Q for the quarter ended January 25, 2003).  |

EXHIBIT INDEX — Continued

| Exhibit<br>Number | Description of Document  |
|-------------------|--|
| 10.37*            | Amendment, dated November 22, 2002, to Argo-Tech Corporation Trust Agreement, dated October 28, 1994.  |
| 12**              | Statement regarding computation of ratios.   |
| 21                | List of Subsidiaries (incorporated herein by reference to Exhibit 21 of the Company’s Registration Statement on form S-1, filed October 17, 1997, SEC File No. 333-38223). |
| 31**              | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32**              | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

\* Reflects management contract or other compensatory arrangement required to be filed as an exhibit pursuant to Item 14(c) of this Report.

\*\* Filed herewith