FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO THE SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 1-12541

Atchison Casting Corporation
(Exact name of registrant as specified in its charter)

Kansas	48-1156578
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 South Fourth Street, Atchison, Kansas	66002
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (913) 367-2121

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes _ No X

There were 7,723,031 shares of common stock, $.01 par value per share, outstanding on May 15, 2003.

PART I

ITEM 1. Financial Statements.

ATCHISON CASTING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2003 (Unaudited)	June 30, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,671	$1,583
Customer accounts receivable, net of allowance for doubtful accounts of $664 and $1,248, respectively	54,057	64,943
Income tax refund receivable	-	1,604
Insurance settlement receivable	4,000	-
Inventories	47,232	48,885
Deferred income taxes	2,299	2,250
Other current assets	9,889	10,182
Current assets of discontinued operations	106	5,193
Total current assets	119,254	134,640
PROPERTY, PLANT AND EQUIPMENT, Net	82,531	91,670
GOODWILL, Net	1,680	19,107
DEFERRED FINANCING COSTS, Net	762	1,209
OTHER ASSETS	15,831	17,086
NON-CURRENT ASSETS OF DISCONTINUED OPERATIONS	740	5,735
TOTAL ASSETS	$220,798	$269,447

ATCHISON CASTING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)
(In thousands, except share data)

	March 31, 2003 (Unaudited)	June 30, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$42,511	$42,082
Accrued expenses	37,664	41,978
Current maturities of long-term debt	111,520	97,958
Current liabilities of discontinued operations	1,316	4,501
Total current liabilities	193,011	186,519
LONG-TERM DEBT	1,139	20,662
DEFERRED INCOME TAXES	3,053	3,443
OTHER LONG-TERM OBLIGATIONS	1,141	264
POSTRETIREMENT OBLIGATIONS OTHER THAN PENSIONS	12,041	11,183
MINORITY INTEREST IN SUBSIDIARIES	333	516
Total liabilities	210,718	222,587
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 2,000,000 authorized shares; no shares issued	-	-
Common stock, $.01 par value, 19,300,000 authorized shares; 8,312,049 shares issued	83	83
Class A common stock (non-voting), $.01 par value, 700,000 authorized shares; no shares issued	-	-
Additional paid-in capital	81,613	81,613
Accumulated deficit	(60,973)	(22,217)
Accumulated other comprehensive loss	(4,595)	(6,571)
Less shares held in treasury: Common stock, 589,018 shares, at cost	(6,048)	(6,048)
Total stockholders' equity	10,080	46,860
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$220,798	$269,447

See Notes to Consolidated Financial Statements.

ATCHISON CASTING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share data)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002	Nine Months Ended March 31, 2003	Nine Months Ended March 31, 2002
NET SALES	$80,740	$93,926	$234,073	$280,436
COST OF GOODS SOLD	75,892	87,907	217,303	259,349
GROSS PROFIT	4,848	6,019	16,770	21,087
OPERATING EXPENSES:				
Selling, general and administrative	7,495	8,982	24,311	27,943
Impairment and restructuring charges	-	-	5,938	-
Amortization of intangibles	-	(140)	-	(420)
Total operating expenses	7,495	8,842	30,249	27,523
OPERATING LOSS	(2,647)	(2,823)	(13,479)	(6,436)
INTEREST EXPENSE	2,481	2,786	7,432	8,335
OTHER INCOME	(4,000)	-	(4,000)	-
MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	(34)	-	(88)	(38)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(1,094)	(5,609)	(16,823)	(14,733)
INCOME TAX EXPENSE (BENEFIT)	101	(7,050)	133	(6,694)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	-	-	(17,441)	-
INCOME (LOSS) FROM CONTINUING OPERATIONS	($1,195)	$1,441	($34,397)	($8,039)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(893)	(733)	(4,359)	(1,428)
NET INCOME (LOSS)	($2,088)	$708	($38,756)	($9,467)
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED				
CONTINUING OPERATIONS BEFORE ACCOUNTING CHANGE	($0.15)	$0.18	($2.20)	($1.04)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	-	-	($2.26)	-
DISCONTINUED OPERATIONS	($0.12)	($0.09)	($0.56)	($0.19)
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED	($0.27)	$0.09	($5.02)	($1.23)
WEIGHTED AVERAGE NUMBER OF SHARES USED IN CALCULATION - BASIC AND DILUTED	7,723,031	7,723,031	7,723,031	7,714,273

ATCHISON CASTING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(In thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
NET INCOME (LOSS)	($2,088)	$708	($38,756)	($9,467)
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	88	(884)	1,976	(696)
COMPREHENSIVE LOSS	($2,000)	($176)	($36,780)	($10,163)

See Notes to Consolidated Financial Statements.

ATCHISON CASTING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended March 31, 2003	Nine Months Ended March 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($38,756)	($9,467)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,179	8,238
Cumulative effect of accounting change	17,441	-
Minority interest in net loss of subsidiaries	(88)	(38)
Impairment and restructuring charges	5,938	-
(Gain) loss on disposal of capital assets	15	(116)
Loss on sale of subsidiary operations	-	209
Deferred income tax benefit	(214)	(24)
Changes in assets and liabilities:		
Customer accounts receivable	13,888	10,413
Income tax refund receivable	1,604	(7,146)
Insurance settlement receivable	(4,000)	-
Inventories	1,531	(507)
Other current assets	340	1,694
Accounts payable	182	(7,280)
Accrued expenses	(3,626)	477
Postretirement obligations other than pension	858	917
Other	919	(966)
Operating activities of discontined operations	582	2,335
Cash provided by (used in) operating activities	4,793	(1,261)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,315)	(2,793)
Proceeds from sale of capital assets	265	400
Proceeds from sale of net assets of subsidiaries	3,455	3,777
Payments for purchase of stock in subsidiaries	(94)	(204)
Capital expenditures of discontinued operations	(18)	(183)
Cash provided by investing activities	1,293	997
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(1,139)	(9,281)
Capitalized financing costs paid	(47)	(1,429)
Net (repayments) borrowings under revolving credit facilities	(6,593)	13,405
Financing activities of discontinued operations	1,771	(2,152)
Cash (used in) provided by financing activities	(6,008)	543
EFFECT OF EXCHANGE RATE ON CASH	10	12
NET INCREASE IN CASH AND CASH EQUIVALENTS	88	291
CASH AND CASH EQUIVALENTS, Beginning of period	$1,583	$1,329
CASH AND CASH EQUIVALENTS, End of period	$1,671	$1,620

See Notes to Consolidated Financial Statements.

ATCHISON CASTING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies and Basis of Presentation

The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements of Atchison Casting Corporation and subsidiaries (the "Company") for the year ended June 30, 2002, as included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

The accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring accruals), which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and cash flows. Results of operations for interim periods are not necessarily indicative of results to be expected for a full year.

Certain March 31, 2002 amounts have been reclassified to conform with March 31, 2003 classifications. In addition, the financial statements have been reclassified to present the Company's Kramer International, Inc. ("Kramer") and LaGrange Foundry Inc. ("LaGrange Foundry") subsidiaries as discontinued operations for all periods presented, as described in footnote 6.

2. Inventories

	As of	
	March 31, 2003	June 30, 2002
	(Thousands)	
Raw materials	$ 5,371	$ 6,055
Work-in-process	33,035	31,264
Finished goods	7,403	9,969
Supplies	1,423	1,597
	$ 47,232	$ 48,885

3. Income Taxes

Income tax expense (benefit) consisted of:

	Nine Months Ended March 31, 2003	Nine Months Ended March 31, 2002
	(Thousands)	
Current:		
Domestic	$ -	$ (7,146)
Foreign	347	476
	347	(6,670)
Deferred:		
Domestic	-	-
Foreign	(214)	(24)
	(214)	(24)
Total	$ 133	$ (6,694)

The $7.1 million domestic benefit recorded in fiscal 2002 represents the Company's carry-back of net operating losses from prior periods as a result of a tax law change enacted in 2002 and additional losses generated through the nine months ended March 31, 2002.

4. Supplemental Cash Flow Information

	Nine Months Ended March 31, 2003	Nine Months Ended March 31, 2002
	(Thousands)	
Cash paid (received) during the period for:		
Interest	$ 6,811	$ 8,291
Income Taxes	$ (2,009)	$ (3,352)

5. New Accounting Standards

As previously disclosed, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142 and No. 144 effective July 1, 2002. SFAS No. 142 requires that, upon adoption, amortization of goodwill ceases and, instead be evaluated annually for impairment. SFAS No. 144 superceded SFAS No. 121 and established accounting standards for long-lived assets. In addition, SFAS No. 144 requires that reporting units and asset groups disposed of or, in certain instances, to be disposed of, be presented as discontinued operations. The adoption of these two accounting standards has materially impacted the Company's financial statements for the three and nine-month periods ended March 31, 2003 and 2002 as follows:

- The Company's closure of the La Grange Foundry facility and the sale of the Kramer facility (see footnote 6) has, pursuant to the provisions of SFAS No. 144, resulted in the presentation of their assets, liabilities and results of operations as discontinued operations in the accompanying consolidated financial statements.

- Based upon the Company's analysis of the carrying values of long-lived assets pursuant to the provisions of SFAS No. 144, property, plant and equipment of The G&C Foundry Company ("G & C") and Canada Alloy Casting, Ltd. ("Canada Alloy") have been reduced for impairment thereof. The significant factors considered in determining the appropriate carrying value of these assets included the Company's current intent, as described in footnote 7, to sell those businesses.

- As required by SFAS No. 142, the Company has completed the first phase of its goodwill impairment analysis. That analysis indicated that the goodwill associated with certain of its subsidiaries is impaired. Although the second phase of the analysis to determine the amount of the impairment as required by SFAS No. 142 is not yet complete, the Company has reduced the carrying value of such goodwill by approximately $19.0 million as follows:

Subsidiary	Before	After
G & C	$ 3.6 million	-
Inverness Castings Group, Inc.	3.9 million	-
Prospect Foundry, Inc.	4.6 million	-
London Precision Machine & Tool	6.7 million	$ 1.4 million
Subtotal	$18.8 million	$ 1.4 million
Kramer International, Inc.	3.2 million	1.6 million
Total	$22.0 million	$ 3.0 million

The reduction of the carrying value of Kramer's goodwill of $1.6 million is included in discontinued operations. The reduction of the carrying values of the other subsidiaries' goodwill aggregating $17.4 million has been recorded as a cumulative effect of a change in accounting principle. The Company will complete the second phase of its analysis prior to June 30, 2003. Further adjustment of the remaining balance of goodwill may be needed after the analysis is complete.

The Company also adopted SFAS No. 143 and No. 145 effective July 1, 2002 and SFAS No. 146 effective January 1, 2003. The adoption of these new standards is not expected to significantly affect the Company's financial statements.

6. Discontinued Operations

Kramer

On January 3, 2003, the Company completed the sale of substantially all of the net assets, excluding the land and buildings, of Kramer. Before post-closing adjustments of $210,000 that remain to be paid, the Company received approximately $3.8 million in cash in exchange for assets and the assumption of liabilities by the buyer. An additional $300,000 of the proceeds, included in receivables, remains subject to an escrow agreement through April 14, 2004. Substantially all of the cash was used to make required payments to lenders (see footnote 9). Contemporaneous with the sale transaction, the Company entered into an agreement to lease the land and buildings to the buyer for a period of up to two years from the date of sale, subject to cancellation by the buyer at any time. The Company recognized a loss on the sale of approximately $215,000 during the third quarter of fiscal 2003.

In the first quarter of fiscal 2003, the Company recognized an impairment charge of $1.6 million to write-down the carrying amount of goodwill at Kramer to the Company's estimate of fair value. The Company considered its decision to realign its operations, resulting in its intent to dispose of Kramer as the primary indicator of impairment. Prior to the impairment charge, the goodwill had a carrying value of $3.2 million. For the third quarter of fiscal year 2002 Kramer recorded net sales of $2.5 million and net income of $237,000. For the first nine months of fiscal years 2002 and 2003, Kramer recorded net sales of $7.9 million and $4.4 million, respectively, and net income (loss) of $754,000 and $(61,000), respectively, excluding the impairment charge and the loss on the sale as discussed above.

As of March 31, 2003, Kramer had total assets of approximately $740,000, consisting of land and buildings.

As a result of the sale, Kramer has been presented as discontinued operations in accordance with SFAS No. 144 for all periods presented.

LaGrange Foundry

During the second quarter of fiscal 2003, the Company closed its La Grange Foundry. In connection with the closure, the Company recorded a restructuring charge, of approximately $520,000 relating to the guarantee of LaGrange Foundry's obligations under certain equipment leases.

For the third quarter of fiscal years 2002 and 2003, La Grange Foundry recorded net sales of $3.3 million and $45,000, respectively, and net losses of $1.0 million and $678,000, respectively. For the first nine months of fiscal years 2002 and 2003, La Grange Foundry recorded net sales of $11.1 million and $3.3 million, respectively, and net losses of $2.4 million and $2.1 million, respectively, excluding the restructuring charge discussed above in the fiscal 2003 periods.

The Company recognized certain other exit costs associated with the closure of La Grange Foundry in fiscal 2003 related to employee termination costs. The Company terminated approximately 135 employees and recognized a charge for severance benefits of approximately $73,000 during fiscal 2003.

As a result of the closure, LaGrange Foundry has been presented as discontinued operations in accordance with SFAS No. 144 for all periods presented.

The results of Kramer and LaGrange Foundry have been reported in discontinued operations for the three-month and nine-month periods ended March 31, 2003 and 2002 in the Consolidated Statements of Operations. The Current Assets of Discontinued Operations at March 31, 2003 were made up of Customer Accounts Receivable of approximately $28,000, Inventories of approximately

$36,000 and Other Current Assets of approximately $42,000. The Non-Current Assets of Discontinued Operations at March 31, 2003 were made up of property, plant and equipment, net, of approximately $740,000. The Current Liabilities of Discontinued Operations at March 31, 2003 were made of Accounts Payable of approximately $249,000 and Accrued Expenses of approximately $1.1 million.

Unaudited operating results of LaGrange Foundry and Kramer for the three-month and nine-month periods ended March 31, 2003 and 2002, which are presented as discontinued operations in the accompanying consolidated statements of operations for all periods presented, were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Sales	$ 45	$ 5,739	$ 7,675	$ 18,914
Cost of sales	717	5,845	8,921	18,498
Gross profit (loss)	(672)	(106)	(1,246)	416
Selling, general and administrative	6	582	778	1,708
Impairment and restructuring charges	215	-	735	-
Amortization of intangibles	-	45	-	136
Total operating expenses	221	627	1,513	1,844
Loss from operations	(893)	(733)	(2,759)	(1,428)
Cumulative effect of accounting change	-	-	(1,600)	-
Loss from discontinued operations	$ (893)	$ (733)	$ (4,359)	$ (1,428)

7. Potential Sale of Canada Alloy Castings, The G & C Foundry Co. and Inverness Castings Group, Inc.

The Company is negotiating the sale of substantially all of the net assets of Canada Alloy and G & C to a single buyer. There can be no assurance that a definitive agreement will ultimately be executed. Pursuant to the provisions of SFAS No. 144, the assets, liabilities and operations of G & C and Canada Alloy are not presented as discontinued operations in the accompanying consolidated financial statements. If the transaction is completed during fiscal 2003, the results of these operations will be reclassified into discontinued operations.

In fiscal 2003, the Company recognized an impairment charge of $8.0 million, consisting of $4.4 million to write-down the property, plant and equipment of Canada Alloy and G & C and $3.6 million to write-down the carrying amount of the goodwill at G & C to the Company's estimate of fair value. The $3.6 million write-down of Goodwill is presented in the Company's consolidated financial statements as a portion of the cumulative effect of a change in accounting principle. The Company considered its decision to realign its operations, resulting in its intent to dispose of Canada Alloy and G & C in its estimate of future cash flows for purposes of assessing impairment of these long-lived assets. Prior to the impairment charge, the property, plant and equipment had a carrying value of $7.4 million and the goodwill had a carrying value of $3.6 million. For the third quarter of fiscal years 2002 and 2003, Canada Alloy recorded net sales of $3.4 million and $2.4 million, respectively, and a net income (loss) of $62,000 and $(14,000), respectively. For the first nine months of fiscal years 2002 and 2003, Canada Alloy recorded net sales of $10.0 million and $7.9 million, respectively, and net losses of $185,000 and $198,000, respectively. For the third quarter of fiscal years 2002 and 2003, G & C recorded net sales of $3.5 million and $3.0 million, respectively, and net losses of $89,000 and $211,000, respectively. For the first nine months of fiscal years 2002 and 2003, G & C recorded net sales of $10.2 million and $9.6 million, respectively, and net losses of $1.0 million and $529,000, respectively.

As of March 31, 2003, Canada Alloy and G & C had total assets of approximately $8.9 million, consisting of approximately $3.2 million of accounts receivable, approximately $2.6 million of inventory, approximately $274,000 of other current assets, approximately $2.6 million of property, plant and equipment, net, and approximately $265,000 of other assets; and total liabilities of approximately $5.1 million, consisting of approximately $2.6 million of accounts payable, approximately $1.0 million of accrued expenses, and approximately $1.5 million in long-term debt.

The Company is negotiating the sale of substantially all of the net assets of Inverness Castings Group, Inc. (“Inverness”). There can be no assurance that a definitive agreement will ultimately be executed. Pursuant to the provisions of SFAS No. 144, the assets, liabilities and operations of Inverness are not presented as discontinued operations in the accompanying consolidated financial statements.

For the third quarter of fiscal years 2002 and 2003, Inverness recorded net sales of $13.6 million and $11.1 million, respectively, and a net income (loss) of $30,000 and $(382,000), respectively. For the first nine months of fiscal years 2002 and 2003, Inverness recorded net sales of $37.3 million and $33.3 million, respectively, and a net income (loss) of $822,000 and $(1.3) million, respectively.

As of March 31, 2003, Inverness had total assets of approximately $22.7 million, consisting of approximately $70,000 of cash, $7.2 million of accounts receivable, approximately $3.0 million of inventory, approximately $1.6 million of other current assets, and approximately $10.8 million of property, plant and equipment, net; and total liabilities of approximately $12.0 million, consisting of approximately $6.6 million of accounts payable, approximately $1.9 million of accrued expenses, and approximately $3.3 million in post-retirement obligations and $215,000 in other long term liabilities.

The assets, liabilities, and operations of Canada Alloy, G & C and Inverness are included in continuing operations at March 31, 2003 pursuant to the conditions set forth in SFAS No. 144. If the disposition process for these net assets continue such that the conditions set forth in SFAS No. 144 for presentation as discontinued operations are met, the related assets, liabilities, and operating results for these foundries will be reclassified as discontinued operations for all periods.

8. Sales, Closure or Liquidation of other subsidiaries

Prior to fiscal 2003, the Company closed, sold or liquidated several other subsidiaries. Results of operations of those subsidiaries prior to such actions are included in continuing operations in the accompanying consolidated financial statements pursuant to SFAS No. 144.

LA Die Casting

On February 20, 2002, the Company completed the sale of substantially all of the net assets of LA Die Casting, Inc. ("LA Die Casting"). For the third quarter of fiscal year 2002, LA Die Casting recorded a net loss of $64,000 on net sales of $657,000. For the first nine months of fiscal 2002, LA Die Casting recorded a net loss of $133,000 on net sales of $4.3 million.

Jahn Foundry

On December 20, 2001, the Company completed the sale of substantially all of the net assets of Jahn Foundry Corp. ("Jahn Foundry"). After post-closing adjustments, the Company received approximately $300,000 in cash, a minority ownership position in the buyer, New England Iron LLC ("New England Iron"), valued at $325,000 and a note (bearing interest at 6.0% per year) for the principal amount of $475,000 amortizing over 10 years (the "New England Iron Note") in exchange for assets and the assumption of liabilities by the buyer. The Company recognized a loss on the sale of approximately $40,000.

For the first nine months of fiscal 2002, Jahn Foundry recorded a net loss of $1.4 million on net sales of $2.8 million.

In October 2002, the majority owner of New England Iron notified the Company that it planned to liquidate New England Iron. In the first quarter of fiscal 2003, the Company recorded additional impairment and restructuring charges of approximately $1.5 million in connection with the liquidation of New England Iron. These charges include: $325,000 to write off the Company's minority ownership position in New England Iron, $286,000 to write-down the value of the New England Iron Note to the Company's estimate of fair value and $900,000 relating to the guarantee of Jahn Foundry's obligations under certain equipment lease agreements that had been sublet to New England Iron. In February 2003, the Company sold the New England Iron Note for approximately $150,000, recognizing a loss on the sale of approximately $25,000.

Empire Steel

The Company substantially completed the closure of Empire Steel, Inc. ("Empire") by December 31, 2001, and transferred as much work as possible to other locations. Empire was closed as to commercial work but continues to produce one product for the U.S. Government from time to time. For the third quarter of fiscal years 2002 and 2003, Empire recorded net sales of $910,000 and $619,000, respectively, and net losses of $89,000 and $139,000, respectively. For the first nine months of fiscal 2002 and 2003, Empire recorded net sales of $5.0 million and $1.2 million, respectively, and net losses of $793,000 and $817,000, respectively.

The Company terminated 106 employees at Empire and recognized a charge for severance benefits of approximately $50,000 in fiscal 2002.

Fonderie d'Autun

On April 9, 2002, the Company's French subsidiary, Fonderie d'Autun ("Autun"), filed a voluntary petition for reorganization with the local court in Chalons, France.

On September 19, 2002, the court appointed a liquidator to begin the liquidation of Autun. During the fourth quarter of fiscal 2002, the Company recorded a charge of $567,000 to write off its remaining net investment in Autun and a charge of $3.5 million relating to the Company's guarantee of Autun's obligations under certain lease agreements. Effective April 1, 2002, the Company is no longer consolidating Autun's results into its consolidated financial statements.

As a result of the court's decision to liquidate the assets of Autun, it is estimated that charges for site cleanup could total up to $8.5

million. Should Autun not be able to meet the cleanup obligations, the French government might be able to make a claim against the prior owner. The Company guaranteed payment of certain contingent liabilities of up to 100 million French francs (currently approximately US$16.5 million) when it purchased Autun, for the cost of environmental restoration, if any, in the event Autun were closed and a claim was successfully made against the prior owner. Such amount has not been recorded in the accompanying financial statements. These potential contingent liabilities may adversely impact the Company's ability to proceed with its plans to achieve its financial objectives if they become liabilities of the Company.

For the third quarter of fiscal 2002, Autun recorded net sales of $5.6 million and a net income of $8,000. For the first nine months of fiscal 2002, Autun recorded net sales of $13.9 million and a net loss of $1.6 million.

9. Debt and Financing Arrangements

(Dollars in thousands)	**June 30, 2002**	**March 31, 2003**
Senior notes with an insurance company	$ 10,245	$ 9,287
Revolving credit facility with Harris Trust & Savings Bank	60,791	51,935
Term loan between the Company and General Electric Capital Corporation	26,542	26,542
Receivables program and revolving credit facility with Burdale Financial Limited	14,178	18,280
Term loan between G&C and OES Capital, Inc.	1,643	1,462
Term loan between LaGrange Foundry and the Missouri Development Finance Board	5,100	5,100
Term loan between the Company and A.I. Credit Corp.	121	53
Subtotal	118,620	112,659
Less amounts classified as current	97,958	111,520
Total long-term debt	$ 20,662	$ 1,139

In September 2001, Atchison Casting UK Limited ("ACUK"), a subsidiary of the Company, ACUK's subsidiaries, and Burdale Financial Limited ("Burdale") entered into the Facility Agreement. This Facility Agreement provides for a facility of up to 25,000,000 British pound sterling ("GBP") (approximately $40.0 million US), subject to certain eligibility calculations, to be used to fund working capital requirements at Sheffield Forgemasters Group Limited ("Sheffield"), a subsidiary of ACUK. In addition, the Facility Agreement provides security for Sheffield's foreign currency exchange contracts and performance bond commitments. This facility matures on September 17, 2004 and is secured by substantially all of Sheffield's assets in the U.K.

Loans under this Facility Agreement bear interest at GBP LIBOR plus 6.23% (9.79% at March 31, 2003). The Facility Agreement contains several covenants, which, among other things, require ACUK to maintain balances under certain eligibility levels.

On October 29, 2002, ACUK entered into an amendment of its Facility Agreement to, among other things (a) impose a limit (the "Borrowing Limit") on the aggregate sum at any time of (i) outstanding revolving loans from Burdale to ACUK plus (ii) accounts receivable purchased from ACUK by Burdale that are not collected (there had previously been no collective limit, though outstanding loans and uncollected receivables each were, and continue to be, subject to independent maximum amounts) and (b) add minimum monthly cash flow and net income covenants and a minimum tangible net worth covenant. The Borrowing Limit, subject to adjustment from time to time by Burdale, is currently 12,750,000 GBP (approximately $20.2 million US). As of March 31, 2003, ACUK had drawn approximately $18.3 million under the Facility Agreement.

ACUK has not been in compliance with those covenants based on results of operations in the third quarter of fiscal 2003 and does not expect to regain compliance. As a result, Burdale has the right to demand payment for the entire balance outstanding under the Facility Agreement. Should Burdale exercise its right to demand immediate payment of the outstanding balance under the Facility Agreement, the Company believes that ACUK would not be able to make such payment under the Facility Agreement. The Company has classified the outstanding borrowings as current in the accompanying consolidated balance sheet as of March 31, 2003. The Company's net investment in ACUK was approximately $52.4 million as of March 31, 2003.

On October 17, 2002, the Company entered into the Fourteenth Amendment and Forbearance Agreement to the Company's revolving credit facility with Harris Trust and Savings Bank, as agent for several lenders (the "Credit Agreement"), and the Eleventh Amendment and Forbearance Agreement to a note purchase agreement under which the Company issued senior notes to an insurance company (the "Note Purchase Agreement"). These amendments, as modified, provide that these lenders (such lenders, collectively, the "Harris Lenders") will forbear from enforcing their rights with respect to certain existing defaults through May 31, 2003, subject to certain events that could cause an earlier termination of this forbearance period. In exchange, the Company agreed, among other things, (i) to engage an investment banker to solicit offers on Inverness Castings Group, Inc. ("Inverness"); (ii) to enter into an amendment to implement financial covenants by December 13, 2002; and (iii) to prepay the Harris Lenders' loans in amounts equal to $4.0 million by January 31, 2003 and an additional $7.0 million by April 10, 2003, which the Company satisfied out of the net proceeds from asset sales (other than inventory), insurance payments, tax refunds and available cash balances. Secured by substantially all of the Company's North American assets and a pledge of ACUK's stock, loans under this revolving credit facility bear interest at a fluctuating rate of the agent bank's corporate base rate plus 2.0% (6.25% at March 31, 2003).

The Company is currently negotiating amendments to the Credit Agreement and Note Purchase Agreement that are expected to establish, among other things, an extended forbearance period and revised financial covenants.

On October 17, 2002, the Company entered into a Forbearance Agreement and Second Amendment to the Master Security Agreement, as amended on January 24, 2003, and Note with General Electric Capital Corporation ("GECC") ("GE Financing"), as agent for certain participant lenders (such lenders, collectively, the "GE Lenders"). This amendment provides that the GE lenders will forbear from enforcing their rights with respect to certain existing defaults through June 29, 2003, subject to earlier termination upon the occurrence of certain defaults, but no longer allows for automatic extensions as originally provided. The GE Lenders also agreed to allow the Company to make only interest payments through the end of the forbearance period. In exchange, the Company agreed to increase the interest rate to 9.30%.

The termination of the forbearance period in any of the Credit Agreement, Note Purchase Agreement or the Master Security Agreement can result in the termination of the other agreements. In addition, default under the Facility Agreement could result in the termination of the Credit Agreement and the Note Purchase Agreement, and in turn, the GE Financing.

The Company is currently negotiating with its lenders to extend its current arrangements while it attempts to establish a new credit facility with covenants that the Company believes it will be able to satisfy with additional borrowing capacity. There are no assurances the Company will be able to establish a restructured or new facility.

10. Warranty Accrual

The Company warrants that every product will meet a set of specifications, which is mutually agreed upon with each customer. The Company's warranty policy provides for the repair or replacement of its products and excludes contingency costs. The Company maintains reserves for warranty charges based on specific claims made by customers, for which management estimates a final settlement of the claim, and for expected claims not yet received based on historical results, which management believes provides a reasonable indicator and basis for claims not yet received. Significant management judgments must be made and used in connection with establishing warranty reserves. Unforeseen circumstances could result in revisions to these estimates that are material to the Company's financial statements. The warranty accrual was \$6.3 million and \$8.0 million at March 31, 2003 and June 30, 2002, respectively. The reduction of the warranty accrual of approximately \$600,000 and \$1.7 million was included in cost of sales for the three and nine month periods ended March 31, 2003, respectively.

11. Contingencies

An accident involving an explosion and fire occurred on February 25, 1999 at Jahn Foundry, located in Springfield, Massachusetts. Nine employees were seriously injured and there were three fatalities.

A civil action has commenced in the Massachusetts Superior State Court on behalf of the estates of deceased workers, their families, injured workers, and their families against the supplier of a chemical compound used in Jahn Foundry's manufacturing process. The supplier of the chemical compound, Borden Chemical, Inc., filed a Third Party Complaint against Jahn Foundry in the Massachusetts Superior State Court on February 2, 2000 seeking indemnity for any liability it has to the plaintiffs in the civil action. The Company's comprehensive general liability insurance carrier has retained counsel on behalf of Jahn Foundry and the Company and is aggressively defending Jahn Foundry in the Third Party Complaint. It is too early to assess the potential liability to Jahn Foundry for the Third Party Complaint, which in any event the Jahn Foundry would aggressively defend. In addition, Jahn Foundry has brought a Third Party Counterclaim against Borden and the independent sales representative of the chemical compound, J.R. Oldhan Company, seeking compensation for losses sustained in the explosion, including amounts covered by insurance.

The Company dismissed Deloitte & Touche LLP ("Deloitte") as its auditor on April 16, 2002. On July 26, 2002, the Company filed a complaint against Deloitte in Philadelphia County, Pennsylvania for negligence, professional malpractice, negligent misrepresentation and breach of contract. The Company believes that Deloitte breached its duties to perform audit and consulting services by failing to act with reasonable and ordinary care, with the ordinary skill and diligence of the accounting profession, and in the conformity with the professional standards such as generally accepted auditing standards and generally accepted accounting principles. Deloitte filed a counterclaim against the Company on September 13, 2002 alleging that the Company was aware of information related to improper activities of certain employees at the Pennsylvania Foundry Group and failed to disclose such information to Deloitte. On September 24, 2002, Deloitte filed a third party claim against certain officers and employees of the Company and others alleging, among other things, that such officers and employees withheld material information in connection with such improper activities. The Company believes that Deloitte's claims against it and the Company's officers and employees have no merit and will vigorously defend itself.

In March 2003, all of the claims of Deloitte against the Company were dismissed or withdrawn with prejudice, other than Deloitte's breach of contract claim, which the Company believes has no merit and will vigorously defend itself. At the same time, all of Deloitte's claims against certain officers and employees of the Company were dismissed or withdrawn with prejudice, except for a contribution claim that Deloitte has leave to attempt to replead but has not yet done so.

The Occupational Safety and Health Administration ("OSHA") cited the Company on September 26, 2002 for 95 alleged violations of Federal Safety and Health regulations at its Atchison, Kansas foundry. OSHA sought penalties totaling $250,000 in connection with the alleged violations. At OSHA's invitation, the Company engaged in settlement negotiations with the agency over the alleged violations. During the course of settlement discussions, OSHA withdrew some citations it had classified as "serious," reclassified some "serious" citations to the category "other-than-serious," and declined to withdraw or modify other citations. The parties entered into two Informal Settlement Agreements with OSHA whereby OSHA reduced its proposed penalty to $50,000 and the Company agreed to undertake, within one year, abatement of certain conditions relating to the remaining citations. By entering into the Informal Settlement Agreements, the Company did not admit that it violated the cited standards for any litigation or purpose other than a subsequent proceeding under the Occupational Safety and Health Act. No subsequent proceeding is pending or anticipated by the Company at this time. The Company is not able to accurately predict the cost of abatement, but believes it may be as low as approximately $300,000 and as high as approximately $700,000.

12. Insurance Settlement

In March 2003, the Company and its insurance carrier settled the business interruption portion of the Company's insurance claim relating to the industrial accident at Jahn Foundry on February 25, 1999. This payment, which was received in April 2003, was primarily used to make required payments to lenders (see footnote 9). The Company previously settled the property portion of its claim in November 2000.

As a result of the above settlement, the Company recorded the payment it received as a gain in the third quarter of fiscal 2003, which is presented as Other Income in the Company's Consolidated Statement of Operations.

13. Financial Results and Management's Plans

In fiscal 2002 and the first nine months of fiscal 2003, the Company incurred pretax losses of $35.0 million and $16.8 million, respectively. The fiscal year 2002 pretax loss included impairment charges related to La Grange Foundry of $5.2 million. The fiscal year-to-date 2003 pretax loss includes impairment charges related to Jahn Foundry, G&C Foundry, and Canada Alloy of $5.9 million. As of March 31, 2003, the Company was not in compliance with certain financial covenants included in its primary debt agreements. These matters raise substantial doubt as to the Company's ability to continue as a going concern.

To address these conditions, management has taken or is in the process of taking the following actions:

OPERATIONS

The Company has closed six unprofitable foundries since the beginning of fiscal 2001. Operations from these six foundries have been a significant factor in the Company's pretax losses. Management has transferred a portion of the work previously performed by these foundries to other foundries, thereby increasing the utilization of these other foundries.

SOLICITATION OF OFFERS ON FOUR SUBSIDIARY OPERATIONS

The Company is currently soliciting offers to purchase or is engaged in preliminary negotiations to sell the following subsidiaries:

- The G&C Foundry Company
- Canada Alloy Castings, Ltd.
- Inverness Castings Group, Inc.
- Canadian Steel Foundries, Ltd.

Any net proceeds from the sale of the subsidiaries will be used primarily to retire outstanding indebtedness.

To effect the business model discussed below, the Company must improve its financial condition. Part of the effort includes assessing various opportunities to reduce indebtedness. While each of these four subsidiaries brings certain strengths or capabilities to the Company, they either do not fit well with the new business model or are not operations in which the Company has elected to direct its resources at this time. However, if a sale is not completed, the Company will continue to work on improving these and all of the Company's operations, and renegotiating outstanding indebtedness.

NEW BUSINESS MODEL

To continue as a going concern, attain profitability, and increase market share, management has refined the Company's business model, consisting of the following key components:

- Narrow the customer focus to industrial manufacturers, who desire to outsource more manufacturing every year, and the product focus to complex, highly engineered castings.
- Grow through more value-added business, such as machining and assembly.
- More effectively use casting design and simulation technology throughout the Company.
- Expand ACC Global Corporation ("ACC Global"), a recently formed subsidiary devoted to foreign sourcing of castings for customers seeking lower cost global suppliers. ACC Global can provide a customer service by managing this process.

The Company believes the success of this new business model depends on improving its financial condition. To accomplish this, the Company must (1) restructure its debt with current or new lenders, and (2) assess each location as to its contribution and develop a plan of disposition or closure if acceptable results in the near term are not feasible.

The Company expects that any future growth will result primarily through increasing value-added capability. The Company also hopes to grow through ACC Global as well. For instance, joint ventures with companies identified by ACC Global in low labor cost countries could give rise to a blended source of metal components to industrial manufacturers.

While the Company believes this new business model represents a viable plan to achieve its financial objectives, there are no assurances that such plans can be executed as designed or that execution thereof will result in achievement of the Company's financial objectives. In addition, the Company's potential contingent liabilities may adversely impact the Company's ability to proceed with its plans if they become liabilities of the Company.

The market conditions in the industry in which the Company operates have been depressed during the last couple of years. A number of the Company's competitors have closed or downsized their operations during this time period. The lower capacity in the industry should benefit the remaining foundries. The Company's Atchison, Kansas division has already benefited through additional contract awards, as a result of the closure of competitors of this division.

ITEM 2.

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

Results of Operations:

Net sales from continuing operations for the third quarter of fiscal 2003 were $80.7 million, representing a decrease of $13.2 million, or 14.1%, from net sales of $93.9 million in the third quarter of fiscal 2002. Since the beginning of fiscal 2002, Atchison Casting Corporation (the "Company") has completed the closure of two operations, the sale of two operations and placed one operation into liquidation. These operations, excluding LaGrange Foundry, Inc. ('LaGrange Foundry") and Kramer International, Inc. ("Kramer") which have been classified as a discontinued operations, generated net sales of $7.2 million and approximately $600,000 in the third quarter of fiscal 2002 and fiscal 2003, respectively, as follows:

Operation	FY02 3rd Qtr Net Sales	FY03 3rd Qtr Net Sales
Closure of Empire Steel Castings, Inc.	$0.9 million	$0.6 million
Sale of Los Angeles Die Casting, Inc.	0.7 million	--
Liquidation of Fonderie d'Autun	5.6 million	--
	$7.2 million	$0.6 million

Excluding net sales generated by the above operations, net sales for the third quarter of fiscal 2003 were $80.1 million, representing a decrease of $6.6 million from net sales of $86.7 million in the third quarter of fiscal 2002. This 7.6% decrease in net sales was due primarily to decreases in net sales to the mining, power generation and automotive markets, partially offset by increases in net sales to the military market. A portion of the work previously performed by the closed locations was transferred to other Company operations. Sheffield Forgemasters Group Limited's ("Sheffield") net sales for the third quarter of fiscal 2003 increased $1.7 million from net sales in the third quarter of fiscal 2002, reflecting higher net sales to the energy and process markets.

Net sales from continuing operations for the first nine months of fiscal 2003 were $234.1 million, representing a decrease of $46.3 million, or 16.5%, from net sales of $280.4 million in the first nine months of fiscal 2002. The operations closed, sold or placed into liquidation since the beginning of fiscal 2002, excluding LaGrange Foundry and Kramer, generated net sales of $26.0 million and $1.2 million in the first nine months of fiscal 2002 and fiscal 2003, respectively, as follows:

Operation	FY02 1st Nine Months Net Sales	FY03 1st Nine Months Net Sales
Sale of Jahn Foundry Corp.	$2.8 million	--
Closure of Empire Steel Castings, Inc.	5.0 million	$1.2 million
Sale of Los Angeles Die Casting, Inc.	4.3 million	--
Liquidation of Fonderie d'Autun	13.9 million	--
	$26.0 million	$1.2 million

Excluding net sales generated by the above operations, net sales for the first nine months of fiscal 2003 were $232.9 million, representing a decrease of $21.5 million from net sales of $254.4 million in the first nine months of fiscal 2002. This 8.5% decrease in net sales was due primarily to decreases in net sales to the mining, power generation and steel markets, partially offset by increases in net sales to the military and rail markets. A portion of the work previously performed by the closed locations was transferred to other Company operations. Sheffield's net sales for the first nine months of fiscal 2003 decreased $3.0 million from net sales in the first nine months of fiscal 2002, primarily reflecting lower net sales to the steel market.

Gross profit from continuing operations for the third quarter of fiscal 2003 decreased $1.2 million, or 19.5%, to $4.8 million, or 6.0% of net sales, compared to $6.0 million, or 6.4% of net sales, for the third quarter of fiscal 2002. The decrease in gross profit and gross profit as a percentage of net sales was primarily due to lower net sales and reduced absorption of overhead at the Company's subsidiaries serving the mining and power generation and automotive markets.

Gross profit from continuing operations for the first nine months of fiscal 2003 decreased $4.3 million, or 20.5%, to $16.8 million, or 7.2% of net sales, compared to $21.1 million, or 7.5% of net sales, for the first nine months of fiscal 2002. The decrease in gross profit and gross profit as a percentage of net sales was primarily due to lower net sales and reduced absorption of overhead at the Company's subsidiaries serving the mining, power generation and steel markets and to a change in product mix toward products which have a lower gross profit as a percentage of net sales at the Company's subsidiary serving the automotive market.

The gross profit at Sheffield in the first nine months of fiscal 2003 decreased $686,000, to a gross profit of $3.9 million, or 5.0% of net sales, compared to a gross profit of $4.6 million, or 5.6% of net sales, in the first nine months of fiscal 2002, primarily reflecting the impact of the strong British pound sterling, increases in raw material costs and the competitive environment of the markets served by Sheffield on quoted margins. Partially offsetting these factors was a decrease in the gross losses at the operations closed, sold or liquidated since the beginning of fiscal 2002 by an aggregate of approximately $114,000 from the gross losses at these locations in the first nine months of fiscal 2002.

Selling, general and administrative expense ("SG&A") for the third quarter of fiscal 2003 was $7.5 million, or 9.3% of net sales, compared to $9.0 million, or 9.6% of net sales, in the third quarter of fiscal 2002. The reduction in SG&A expense is primarily due to reductions in staffing and related benefits, and the reduction in SG&A expense at the facilities the Company has closed, sold or placed into liquidation since the beginning of fiscal 2002. SG&A expense in the third quarter of fiscal 2003 at the facilities the Company has closed, sold or placed into liquidation decreased by an aggregate of approximately $1.2 million from the third quarter of fiscal 2002. Also included in the third quarter of fiscal 2002 and fiscal 2003 were expenses of approximately $150,000 and $600,000, respectively, incurred by the Company in pursuing various options to restructure its bank credit facility.

For the first nine months of fiscal 2003, SG&A was $24.3 million, or 10.4% of net sales, compared to $27.9 million, or 10.0% of net sales, in the first nine months of fiscal 2002. The reduction in SG&A expense is primarily due to reductions in staffing and related benefits, and the reduction in SG&A expense at the facilities the Company has closed, sold or placed into liquidation since the beginning of fiscal 2002. SG&A expense in the first nine months of fiscal 2003 at the facilities the Company has closed, sold or placed into liquidation decreased by an aggregate of approximately $3.9 million from the first nine months of fiscal 2002. Also included in the first nine months of fiscal 2002 and fiscal 2003 were expenses of approximately $1.1 million and $2.5 million, respectively, incurred by the Company in pursuing various options to restructure its bank credit facility.

The Company has recorded intangible assets, consisting of goodwill, in connection with certain of the Company's acquisitions. The Company adopted SFAS No. 142 *"Goodwill and Other Intangible Assets"* as of July 1, 2002. SFAS No. 142 requires that, upon adoption, amortization of goodwill cease and instead, the carrying value of goodwill be evaluated for impairment on an annual basis. Accordingly, there was no amortization of goodwill in the third quarter or first nine months of fiscal 2003. Amortization of goodwill for the third quarter of fiscal 2002 was $254,000, or 0.3% of net sales. Amortization of goodwill for the first nine months of fiscal 2002 was $779,000, or 0.3% of net sales. The Company had also recorded a liability, consisting of the excess of acquired net assets over cost ("negative goodwill"), in connection with the acquisition of Fonderie d'Autun ("Autun"). The amortization of negative goodwill was a credit to income in the third quarter of fiscal 2002 of $394,000, or 0.4% of net sales. The amortization of negative goodwill was a credit to income in the first nine months of fiscal 2002 of $1.2 million, or 0.4% of net sales. Net income (loss) for the third quarter and first nine months of fiscal 2002 excluding the amortization of goodwill was not significantly different.

The Company is negotiating the sale of substantially all of the assets of Canada Alloy Castings, Ltd. ("Canada Alloy") and The G & C Foundry Co. ("G & C") to a single buyer. There can be no assurance that a definitive agreement will ultimately be executed.

In the second quarter of fiscal 2003, the Company recognized an impairment charge of $8.0 million, consisting of $4.4 million to write-down the property, plant and equipment of Canada Alloy and G & C and $3.6 million to write-down the carrying amount of the goodwill at G & C to the Company's estimate of fair value, which is presented in the Company's consolidated financial statements as the cumulative effect of a change in accounting principle. The Company considered its decision to realign its operations, resulting in its intent to dispose of Canada Alloy and G & C as the primary indicator of impairment. Prior to the impairment charge, the property, plant and equipment had a carrying value of $7.4 million and the goodwill had a carrying value of $3.6 million. For the third quarter of fiscal years 2002 and 2003, Canada Alloy recorded net sales of $3.4 million and $2.4 million, respectively, and net income (loss) of $62,000 and $(14,000), respectively. For the first nine months of fiscal years 2002 and 2003, Canada Alloy recorded net sales of $10.0 million and $7.9 million, respectively, and net losses of $185,000 and $198,000, respectively. For the third quarter of fiscal years 2002 and 2003, G & C recorded net sales of $3.5 million and $3.0 million, respectively, and net losses of $89,000 and $211,000, respectively. For the first nine months of fiscal years

2002 and 2003, G & C recorded net sales of $10.2 million and $9.6 million, respectively, and a net loss of $1.0 million and $529,000, respectively.

The Company is negotiating the sale of substantially all of the assets of Inverness Castings Group, Inc. ("Inverness"). There can be no assurance that a definitive agreement will ultimately be executed.

For the third quarter of fiscal years 2002 and 2003, Inverness recorded net sales of $13.6 million and $11.1 million, respectively, and a net income (loss) of $30,000 and $(382,000), respectively. For the first nine months of fiscal years 2002 and 2003, Inverness recorded net sales of $37.3 million and $33.3 million, respectively, and a net income (loss) of $822,000 and $(1.3) million, respectively.

The Company substantially completed the closure of Empire Steel Castings, Inc. ("Empire") by December 31, 2001, and transferred as much work as possible to other locations. Empire was closed as to commercial work, but continues to produce one product for the U.S. Government from time to time. For the third quarter of fiscal years 2002 and 2003, Empire recorded net sales of $910,000 and $619,000, respectively, and net losses of $89,000 and $139,000, respectively. For the first nine months of fiscal 2002 and 2003, Empire recorded net sales of $5.0 million and $1.2 million, respectively, and net losses of $793,000 and $817,000, respectively.

On February 20, 2002, the Company completed the sale of substantially all of the net assets of LA Die Casting, Inc. ("LA Die Casting"). After post-closing adjustments, the Company received approximately $3.5 million in cash and a note for the principal amount of $259,000 due in two years in exchange for assets and the assumption of liabilities by the buyer. The note bears interest at the rate of 6.0% per year and requires quarterly payments of interest only during the two-year period. The Company recognized a loss on the sale of approximately $169,000. For the third quarter of fiscal year 2002, LA Die Casting recorded a net loss of $64,000 on net sales of $657,000. For the first nine months of fiscal 2002, LA Die Casting recorded a net loss of $133,000 on net sales of $4.3 million.

On December 20, 2001, the Company completed the sale of substantially all of the net assets of Jahn Foundry Corp. ("Jahn Foundry"). After post-closing adjustments, the Company received approximately $300,000 in cash, a minority ownership position in the buyer, New England Iron LLC ("New England Iron"), valued at $325,000 and a note (bearing interest at 6.0% per year) for the principal amount of $475,000 amortizing over ten years in exchange for assets and the assumption of liabilities by the buyer. The Company recognized a loss on the sale of approximately $40,000. For the first nine months of fiscal 2002, Jahn Foundry recorded a net loss of $1.4 million on net sales of $2.9 million.

In October 2002, the majority owner of New England Iron notified the Company that it planned to liquidate New England Iron. In the first quarter of fiscal 2003, the Company recorded charges of approximately $1.5 million in connection with the liquidation of New England Iron. These charges include: $325,000 to write off the Company's minority ownership position in New England Iron, $286,000 to write-down the value of the New England Iron promissory note to the Company's estimate of fair value and $900,000 relating to the guarantee of Jahn Foundry's obligations under certain equipment lease agreements that had been sublet to New England Iron. In February 2003, the Company sold the New England Iron Note for approximately $150,000, recognizing a loss of the sale of approximately $25,000.

Following losses in fiscal 2002, the Company's Board of Directors committed to a plan to downsize La Grange Foundry to a pattern repair, maintenance and storage operation. During the second quarter of fiscal 2003, the Company's Board of Directors committed to a plan for the complete closure of La Grange Foundry that was completed during the second quarter of fiscal 2003. In connection with the closure of LaGrange Foundry, the Company recorded a restructuring charge, in the second quarter of fiscal 2003, of approximately $520,000 relating to the guarantee of LaGrange Foundry's obligations under certain equipment leases. This charge is included in the Loss From Discontinued Operations in the Company's Consolidated Financial Statements.

For the third quarter of fiscal years 2002 and 2003, La Grange Foundry recorded net sales of $3.3 million and $45,000, respectively, and net losses of $1.0 million and $678,000, respectively. For the first nine months of fiscal years 2002 and 2003, La Grange Foundry recorded net sales of $11.1 million and $3.3 million, respectively, and net losses of $2.4 million and $2.1 million, respectively, excluding the restructuring charge discussed above in the fiscal 2003 periods.

On January 3, 2003, the Company completed the sale of substantially all of the net assets, excluding the land and buildings, of Kramer. Before post-closing adjustments of $210,000 that remain to be paid, the Company received approximately $3.8 million in cash in exchange for assets and the assumption of liabilities by the buyer. An additional $300,000 of the proceeds remains subject to an escrow agreement through April 14, 2004. Substantially all of the cash was used to make required payments to lenders. Contemporaneous with the sale transaction, the Company entered into an agreement to lease the land and buildings to the buyer for a period of up to two years from the date of sale, subject to cancellation by the buyer at any time. The Company recognized a loss on the sale of approximately $215,000 during the third quarter of fiscal 2003.

In the first quarter of fiscal 2003, the Company recognized an impairment charge of $1.6 million to write-down the carrying amount of goodwill at Kramer to the Company's estimate of fair value, which is presented in the Company's consolidated financial statements as a portion of the cumulative effect of the change in accounting principle. The Company considered its decision to realign its operations, resulting in its intent to dispose of Kramer as the primary indicator of impairment. Prior to the impairment charge, the goodwill had a carrying value of $3.2 million. For the third quarter of fiscal year 2002, Kramer recorded net sales of $2.5 million, and net income of $237,000. For the first nine months of fiscal years 2002 and 2003, Kramer recorded net sales of $7.9 million and $4.4 million, respectively, and net income (loss) of $754,000 and $(61,000), respectively, excluding the impairment charge and the loss on the sale as discussed above.

In the third quarter of fiscal 2003, the Company and its insurance carrier settled the business interruption portion of the Company's insurance claim relating to the industrial accident at Jahn Foundry on February 25, 1999. As a result, the Company recorded the payment it received as a gain in the third quarter of fiscal 2003, which is presented as Other Income in the Company's Consolidated Statement of Operations.

Interest expense for the third quarter of fiscal 2003 was $2.5 million, or 3.1% of net sales, compared to $2.8 million, or 3.0% of net sales, in the third quarter of fiscal 2002. Interest expense for the first nine months of fiscal 2003 was $7.4 million, or 3.2% of net sales, compared to $8.3 million, or 3.0% of net sales, in the first nine months of fiscal 2002. The decrease in interest expense during both periods primarily reflects lower average levels of outstanding indebtedness.

The Company recorded income tax expense of $101,000 in the third quarter of fiscal 2003 and a income tax benefit of $7.1 million in the third quarter of fiscal 2002. The Company recorded income tax expense of $133,000 in the first nine months of fiscal 2003 and a income tax benefit of $6.7 million in the first nine months of fiscal 2002. Due to the Company's current income tax position, no income tax benefit was recorded in connection with the losses incurred by the Company in the United States and Europe. As a result of a tax law change enacted in March 2002, the Company was able to carry back its prior period net operating losses an additional three years. This resulted in an income tax refund of approximately $7.1 million relating to such prior period losses, which was recorded in the third quarter of fiscal 2002.

Effective July 1, 2002, the Company adopted SFAS 142, *"Goodwill and Other Intangible Assets."* The Company completed phase one of its goodwill impairment analysis by December 31, 2002. The Company has recorded a SFAS 142 goodwill impairment loss of $17.4 million, which is presented in the Company's consolidated financial statements for the nine months ended March 31, 2003 as the cumulative effect of a change in accounting principle. Such loss is reflected in the Company's results for the first fiscal quarter ended September 30, 2002.

The Company completed the sale of substantially all the net assets, excluding the land and buildings, of Kramer on January 3, 2003 and completed the closure of LaGrange Foundry during the second quarter of fiscal 2003. The results of Kramer and LaGrange Foundry have been reported in discontinued operations for the three-month and nine-month periods ended March 31, 2003 and 2002 in the Consolidated Statement of Operations.

Unaudited operating results of Kramer and LaGrange Foundry for the three-month and nine-month periods ended March 31, 2003 and 2002 were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Sales	$ 45	$ 5,739	$ 7,675	$ 18,914
Cost of sales	717	5,845	8,921	18,498
Gross profit (loss)	(672)	(106)	(1,246)	416
Selling, general and administrative	6	582	778	1,708
Impairment and restructuring charges	215	-	735	-
Amortization of intangibles	-	45	-	136
Total operating expenses	221	627	1,513	1,844
Loss from operations	(893)	(733)	(2,759)	(1,428)
Cumulative effect of accounting change	-	-	(1,600)	-
Loss from discontinued operations	$ (893)	$ (733)	$ (4,359)	$ (1,428)

For the third quarter of fiscal 2003, the loss from discontinued operations increased $160,000 to $893,000 compared to a loss of $733,000 in the third quarter of fiscal 2002. For the first nine months of fiscal 2003, the loss from discontinued operations increased approximately $2.9 million to approximately $4.4 million, compared to a loss of $1.4 million from the first nine months of fiscal 2002. The increase primarily reflects (i) the $520,000 restructuring charge recorded at LaGrange Foundry, (ii) a $1.6 million goodwill impairment charge recorded at Kramer and presented as a cumulative effect of accounting change, and (iii) reduced gross profits at Kramer.

As a result of the foregoing, the net loss for the third quarter of fiscal 2003 was $2.1 million compared to net income of $708,000 for the third quarter of fiscal 2002. The net loss for the first nine months of fiscal 2003 was $38.8 million compared to a net loss of $9.5 million for the first nine months of fiscal 2002.

Liquidity and Capital Resources:

Cash provided by operating activities for the first nine months of fiscal 2003 was $4.8 million ($4.2 million provided by continuing operations and $582,000 provided by discontinued operations), compared to cash used in operations of $1.3 million ($3.6 million used in continuing operations and $2.3 provided by discontinued operations) for the first nine months of fiscal 2002. This increase primarily reflects reduced working capital requirements and the collection of an income tax refund.

Working capital was a negative $73.8 million at March 31, 2003, as compared to a negative $51.9 million at June 30, 2002. The change in working capital levels primarily reflects a decrease in trade receivable balances and the reclassification of $18.3 million and $5.1 million in debt under the Facility Agreement and the Term Loan between LaGrange Foundry and the Missouri Development Finance Board ("LaGrange IRB"), respectively, as current at March 31, 2003. The working capital levels also reflect the classification of $87.8 million and $97.6 million of the Company's bank credit facility, term loan and senior notes as current at March 31, 2003 and June 30, 2002, respectively. The Company is not in compliance with certain financial covenants under the Credit Agreement, Note Purchase Agreement, Facility Agreement and the GE

Financing, as defined below, and, accordingly, amounts outstanding under such arrangements have been classified as current liabilities.

As discussed above, the Company has closed LaGrange Foundry. As a result of the closure, the $5.1 million of debt under the LaGrange IRB has been classified as current at March 31, 2003. The LaGrange IRB was secured by a letter of credit issued under the Company's revolving credit facility. In April 2003, the Missouri Development Finance Board called the letter of credit, using the proceeds to retire the LaGrange Industrial Development Revenue Bonds. As a result, borrowings under the Credit Agreement will increase $5.1 million.

During the first nine months of fiscal 2003, the Company made capital expenditures of $2.3 million, as compared to $2.8 million for the first nine months of fiscal 2002. The capital expenditures in both periods were used for routine projects at the Company's facilities.

As discussed above, the Company has sold substantially all of the net assets of Jahn Foundry, LA Die Casting and Kramer International. The Company is currently soliciting offers to purchase or engaged in preliminary negotiations to sell the following subsidiaries:

- The G&C Foundry Company
- Canada Alloy Castings, Ltd.
- Inverness Castings Group, Inc.
- Canadian Steel Foundries, Ltd.

Any net proceeds from the sale of the subsidiaries will be used primarily to retire outstanding indebtedness.

The G&C Foundry Company, located in Sandusky, Ohio, manufactures gray and ductile iron castings for hydraulic applications. G&C currently employs approximately 130 people, and generated net sales of approximately $13.6 million and $9.6 million in fiscal 2002 and the first nine months of fiscal 2003, respectively.

Canada Alloy, located in Kitchener, Ontario, Canada, manufactures stainless, carbon and alloy castings for a variety of markets. Canada Alloy currently employs approximately 110 people, and generated net sales of approximately $13.6 million and $7.9 million in fiscal 2002 and the first nine months of fiscal 2003, respectively.

Inverness Castings Group, located in Dowagiac, Michigan, manufactures aluminum die castings for the automotive, furniture and appliance markets. Inverness currently employs approximately 240 people, and generated net sales of approximately $51.3 million and $33.3 million in fiscal 2002 and the first nine months of fiscal 2003, respectively.

Canadian Steel, located in Montreal, Quebec, manufactures carbon, low alloy and stainless steel castings for the hydroelectric and steel markets. Canadian Steel currently employs approximately 80 people, and generated net sales of approximately

$12.6 million and $11.3 million in fiscal 2002 and the first nine months of fiscal 2003, respectively.

The Company has four primary credit facilities: a revolving credit facility with Harris Trust and Savings Bank, as agent for several lenders (the “Credit Agreement”); senior notes (the “Notes”) with an insurance company issued under a note purchase agreement (the “Note Purchase Agreement”); a term loan with General Electric Capital Corporation (the “GE Financing”); and a receivables program combined with a revolving credit facility with Burdale Financial Limited pursuant to a facility agreement (the “Facility Agreement”). Each of these facilities requires compliance with various covenants, including, but not limited to, financial covenants related to equity levels, cash flow requirements, fixed charge coverage ratios and ratios of debt to equity.

The Credit Agreement, as amended, currently consists of a $59.4 million revolving credit facility. Asset sales, insurance proceeds and tax refunds have been used to reduce indebtedness. In addition to financial covenants, the Credit Agreement contains restrictions on, among other things, acquisitions, additional indebtedness and the use of net proceeds from the sale of assets (other than inventory), insurance settlements and other non-recurring items. Secured by substantially all of the Company’s North American assets and a pledge of ACUK’s stock, loans under this revolving credit facility bear interest at a fluctuating rate of the agent bank’s corporate base rate plus 2.0% (6.25% at March 31, 2003).

The Notes currently have an aggregate principal amount of $8.8 million outstanding with interest accruing at 10.44% per year. The Note Purchase Agreement provides for annual principal payments of $2.9 million. The Company did not make principal payments due on July 31, 2001 and July 31, 2002. The Notes are secured by the same assets that secure the Credit Agreement and contain similar restrictions to those described above under the Credit Agreement.

On October 17, 2002, the Company entered into the Fourteenth Amendment and Forbearance Agreement (“Fourteenth Amendment”) to the Company’s revolving credit facility with Harris Trust and Savings Bank, as agent for several lenders (the “Credit Agreement”), and the Eleventh Amendment and Forbearance Agreement (“Eleventh Amendment”) to a note purchase agreement under which the Company issued senior notes to an insurance company (the “Note Purchase Agreement”). These amendments, as modified, provide that these lenders (such lenders, collectively, the “Harris Lenders”) will forbear from enforcing their rights with respect to certain existing defaults through May 31, 2003, subject to certain events that could cause an earlier termination of this forbearance period. In exchange, the Company agreed, among other things, (i) to engage an investment banker to solicit offers on Inverness; (ii) to enter into an amendment to implement financial covenants by December 13, 2002; and (iii) to prepay the Harris Lenders’ loans in amounts equal to $4.0 million by January 31, 2003 and an additional $7.0 million by April 10, 2003, which the Company satisfied out of the net proceeds from asset sales (other than inventory), insurance payments, tax refunds and available cash balances.

The Company is currently negotiating amendments to the Credit Agreement and Note Purchase Agreement that are expected to establish, among other things, an extended forbearance period and revised financial covenants. There are no assurances that the Company will be able to negotiate such amendments.

At March 31, 2003, the balance of the term loan under the GE Financing was $26.5 million. The GE Financing is secured by certain of the Company's fixed assets, real estate, equipment, furniture and fixtures located in Atchison, Kansas and St. Joseph, Missouri, matures in December 2004 and currently bears interest at a fixed rate of 9.30% per year.

On October 17, 2002, the Company entered into the Forbearance Agreement and Second Amendment to the Master Security Agreement and Note (the “Forbearance Agreement”) with General Electric Capital Corporation (“GECC”), as agent for certain participant lenders (such lenders, collectively, the “GE Lenders”). The Forbearance Agreement, as amended on January 24, 2003, provides that the GE Lenders will forbear from enforcing their rights with respect to certain existing defaults through June 29, 2003, subject to earlier termination upon the occurrence of certain defaults, but no longer allows for automatic extensions as originally provided. The GE Lenders also agreed to allow the Company to make only interest payments through the end of the forbearance period. In exchange, the Company agreed to increase the interest rate to 9.30%.

The termination of the forbearance period in any of the Credit Agreement, Note Purchase Agreement or the Master Security Agreement can result in the termination of the other agreements. In addition, default under the Facility Agreement could result in the termination of the Credit Agreement and the Note Purchase Agreement, and in turn, the GE Financing.

In September 2001, ACUK, a subsidiary of the Company, ACUK’s subsidiaries, and Burdale Financial Limited (“Burdale”) entered into the Facility Agreement. This Facility Agreement provides for a facility of up to 25,000,000 British pound sterling (“GBP”) (approximately $40.0 million US), subject to certain eligibility calculations, to be used to fund working capital requirements at Sheffield, a subsidiary of ACUK. In addition, the Facility Agreement provides security for Sheffield’s foreign currency exchange contracts and performance bond commitments. This facility matures on September 17, 2004 and is secured by substantially all of Sheffield’s assets in the U.K. Loans under this Facility Agreement bear interest at GBP LIBOR plus 6.23% (9.79% at March 31, 2003). As of March 31, 2003, ACUK had drawn approximately $18.3 million under the Facility Agreement. The Facility Agreement contains several covenants, which, among other things, require ACUK to maintain balances under certain eligibility levels.

On October 29, 2002, ACUK entered into an amendment of its Facility Agreement to, among other things, (a) impose a limit (the “Borrowing Limit”) on the aggregate sum at any time of (i) outstanding revolving loans from Burdale to ACUK plus (ii) accounts receivable purchased from ACUK by Burdale that are not collected (there had previously been no collective limit, though outstanding loans and uncollected receivables each were, and continue to be, subject to independent maximum amounts) and (b) add minimum monthly cash flow and net income covenants and a minimum tangible net worth covenant. The Borrowing Limit, subject to adjustment from time to time by Burdale, is currently 12,750,000 GBP (approximately $20.2 million US).

ACUK has not been in compliance with those covenants based on results of operations in the third quarter of fiscal 2003 and does not expect to regain compliance. Accordingly, the Company has classified the outstanding borrowings as current in the accompanying consolidated balance sheet as of March 31, 2003.

The Company is in default under the Credit Agreement, Note Purchase Agreement, the GE Financing and Facility Agreement. To date, the lenders have not enforced their rights with respect to certain events of default, but there can be no assurance that they will not do so in the future. During much of fiscal 2001, fiscal 2002 and to date in fiscal 2003, the Company borrowed the full amount of the revolving credit facility under the Credit Agreement and managed its cash position accordingly. To date, the Company has been able to meet its cash needs by traditional cash management procedures in addition to: (1) the collection of tax refunds resulting from operating losses at U.S. operations, (2) accelerated collections of receivables from certain longstanding customers from time to time, (3) the reduction of expenses after closing and selling certain locations operating with a negative cash flow, (4) the reduction of discretionary capital expenditures, and (5) funds available through the Facility Agreement, particularly for its operations in the U.K. The Company is also seeking the recovery under various insurance policies for losses due to the accounting irregularities at the Pennsylvania Foundry Group. In addition, the Company is pursuing other responsible parties for this matter and the industrial accident at Jahn Foundry. There can be no assurance that such actions will be successful in recovering funds or that they will allow the Company to operate without additional borrowing capacity.

Compliance with certain financial covenants under the Credit Agreement, Note Purchase Agreement and the GE Financing is determined on a “trailing-twelve-month” basis. The results through March were below results needed to achieve compliance with these covenants under the Credit Agreement, Note Purchase Agreement and the GE Financing. Accordingly, the Company is currently negotiating with its existing lenders to extend its current arrangements while it attempts to establish a new credit facility with covenants that the Company believes it will be able to satisfy with sufficient borrowing capacity. During the past several years, the Company has been able to negotiate operating flexibility with its lenders, although future success in achieving any such renegotiations or refinancings, or the specific terms thereof, including interest rates, capital expenditure limits or borrowing capacity, cannot be assured. The Company believes that its operating cash flow and amounts available for borrowing under its existing credit facility will be adequate to fund its capital expenditure and working capital requirements in North America through May 31, 2003, the maturity date of the current forbearance agreements under the Credit Agreement and Note Purchase Agreement. The Company will need to refinance or extend these agreements to satisfy its liquidity needs. However, the level of capital expenditure and working capital requirements may be greater than currently anticipated as a result of unforeseen expenditures such as compliance with environmental laws and the accident at Jahn Foundry. If the Company fails to amend its financial covenants on terms favorable to the Company, the Company will continue to be in default under such covenants. Accordingly, the lenders could accelerate the debt under the Credit Agreement, which, in turn, would permit acceleration of the Notes under the Note Purchase Agreement and the indebtedness under the GE Financing. If the lenders accelerate their indebtedness and the Company is unable to locate alternative sources of financing, the Company may be forced to seek protection under the federal bankruptcy laws.

The liquidity position of ACUK's Sheffield subsidiaries is also very tight. Management of ACUK does not believe that results of operations will satisfy the monthly financial covenants under the Facility Agreement. If ACUK is unable to amend the financial covenants or if Burdale is unwilling to forbear from enforcing its rights with respect to this default, Burdale could accelerate the debt under the Facility Agreement, in which case, ACUK would be forced to consider all available strategic alternatives, including selling all or portions of ACUK, protection under the bankruptcy laws of the U.K, or an orderly wind-down or liquidation, in which case the Company's investment in ACUK would likely be lost. At March 31, 2003, the Company's net investment in ACUK was approximately $52.4 million. Based on the Company's valuation analysis, management of ACUK does not believe that it would be able to sell all or portions of the business on terms that would satisfy all of its creditors. A default under the Facility Agreement could result in acceleration of indebtedness under the Credit Agreement and Note Purchase Agreement and, in turn, the GE Financing.

Total indebtedness of the Company at March 31, 2003 was $112.7 million, as compared to $118.6 million at June 30, 2002. This decrease primarily reflects the application of the proceeds from asset sales, tax refunds and insurance payments to the Company's revolving credit facility. At March 31, 2003, the Company had approximately $1.7 million available for borrowing under its revolving credit facility under the Credit Agreement and approximately $750,000 available for borrowing under the Facility Agreement.

At March 31, 2003, the Company had the following contractual cash obligations and other commitments:

(in millions)	Total	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Thereafter
Long-term debt	$112.7	$111.3	$.3	$.4	$.4	$.3	$0.0
Operating leases	16.9	4.7	4.4	3.7	2.3	1.1	.7
Lease guarantees	4.9	3.5	.3	.3	.3	.3	.2
Total	$134.5	$119.5	$5.0	$4.4	$3.0	$1.7	$0.9

In addition, the Company had $4.1 million of outstanding letters of credit as of March 31, 2003.

As described above the Company is in violation of various financial covenants of its primary debt agreements. The Company has entered into amendments and forbearance agreements, which expire in the near term, and, accordingly, such borrowings have been classified as current liabilities in the consolidated financial statements and the table above. In addition, the Company guaranteed certain operating lease obligations of Autun, Jahn Foundry and LaGrange Foundry. The guarantees related to Autun may be called by the lessors and, accordingly, are included in the 2003 column above.

For a description of material legal proceedings, see Note 11 to the Consolidated Financial Statements above, and Part II, Item 1 "Legal Proceedings" below.

Deloitte & Touche LLP ("Deloitte") has withdrawn its report dated September 28, 2001 covering the Company's consolidated financial statements as of June 30, 2001 and 2000 and for the years in the three year period ended June 30, 2001. Management believes that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of June 30, 2001 and 2000, and the results of operations and cash flows for each of the years in the three year period ended June 30, 2001. The Company has asked its current auditor, KPMG, LLP, to re-audit its financial statements for the fiscal year ended June 30, 2001.

Critical Accounting Policies

The preparation of the Company's 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company believes its critical accounting policies are as follows:

- Valuation of long-lived assets and goodwill
- Estimation of potential warranty claims
- Workers' compensation and health insurance reserves
- Pension cost and prepaid pension cost
- Accounting for income taxes

Valuation of Long-lived Assets and Goodwill

The Company assesses the impairment of identifiable long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include the following:

- significant changes in the strategy of the Company's overall business;

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the sales levels with the key customers served by any subsidiary; and

- significant negative industry or economic trends.

Also on July 1, 2002, Statement of Financial Accounting Standard ("SFAS") No. 144, became effective for the Company. Among other things, SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that an impairment loss be recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flow and that any impairment loss be measured as the difference between the carrying amount and the fair value of the asset. It requires a probability-weighted cash flow estimation approach to deal with situations in which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration. The Company's intent to sell G&C and Canada Alloy significantly affect the expected recovery of the carrying values of the long-lived assets in those subsidiaries. As a result, the Company recorded an impairment charge of $4.4 million to reduce these subsidiaries' property, plant and equipment to the estimated fair values.

On July 1, 2002, SFAS No. 142, "Goodwill and Other Intangible Assets" became effective for the Company. As a result, the Company ceased amortizing its goodwill. Amortization of this goodwill for the third quarter of fiscal 2002 was $254,000, or 0.3% of net sales. Amortization of this goodwill for the first nine months of fiscal 2002 was $779,000, or 0.3% of net sales. In lieu of amortization, the Company is required to perform an initial impairment review of goodwill in fiscal 2003 and an annual impairment review thereafter. During the second quarter and first nine months of fiscal 2003 the Company recognized a SFAS No. 142 goodwill impairment loss of $17.4 million and $19.0 million, respectively, which is presented in the Company's consolidated financial statements as the cumulative effect of a change in accounting principle.

Estimation of Potential Warranty Claims

The Company warrants that every product will meet a set of specifications, which is mutually agreed upon with each customer. The Company's warranty policy provides for the repair or replacement of its products and excludes contingency costs. The Company maintains reserves for warranty charges based on specific claims made by customers, for which management estimates a final settlement of the claim, and for expected claims not yet received based on historical results, which management believes provides a reasonable indicator and basis for claims not yet received. Significant management judgments must be made and used in connection with establishing warranty reserves. Unforeseen circumstances could result in revisions to these estimates that are material to the Company's financial statements. The warranty accrual was $6.3 million and $8.0 million at March 31, 2003 and June 30, 2002, respectively.

Workers' Compensation and Employee Health Care Reserves

The Company's U.S. operations primarily self-insure for workers' compensation and employee health care expense. The Company bases its reserves for workers' compensation expense primarily on estimates provided by third-party administrators and its reserves for health care expense on historical claims experience. Significant management judgments and estimates are made in establishing these reserves. The Company's reserve for workers' compensation and employee health care was $6.1 million and $5.9 million at March 31, 2003 and June 30, 2002, respectively. At March 31, 2003, the Company had letters of credit aggregating $4.0 million and deposits of $635,000, which support claims for workers' compensation benefits.

Pension Cost and Prepaid Pension Cost

The Company's pension cost and prepaid pension cost are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, benefits earned, interest cost, expected return on plan assets, mortality rates and other factors. In accordance with accounting principles generally accepted in the United States, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded asset or obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may have a material impact on the Company's results of operations, financial position, and cash flows.

Accounting for Income Taxes

As part of the process of preparing the Company's consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheet. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance. To the extent the valuation allowance is established or increased, an expense must be included within the tax provision in the statement of operations.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. The Company has recorded a valuation allowance against its net deferred tax assets of approximately $39.1 million and $35.2 million as of March 31, 2003 and June 30, 2002, respectively, due to uncertainties related to the Company's ability to utilize some of its deferred tax assets, primarily consisting of certain net operating losses carried forward and foreign tax credits, before they expire. The valuation allowance is based on the Company's estimates of taxable income by jurisdiction in which it operates and the period over which the deferred tax assets will be recoverable. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact the Company's financial position and results of operations.

The net deferred tax liability as of March 31, 2003 and June 30, 2002 was approximately $754,000 and $1.2 million, net of a valuation allowance of $39.1 million and $35.2 million, respectively.

Forward-Looking Statements

The sections entitled “Liquidity and Capital Resources,” “Critical Accounting Policies” and “Market Risk” contains forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements such as “expects,” “intends,” “contemplating” and statements regarding quarterly fluctuations, statements regarding the adequacy of funding for capital expenditure and working capital requirements and similar expressions that are not historical are forward-looking statements that involve risks and uncertainties. Such statements include the Company’s expectations as to future performance. Among the factors that could cause actual results to differ materially from such forward-looking statements are the following: the results of the litigation with Deloitte & Touche LLP, the re-audit of any financial statements, the sale of subsidiaries for which offers are being solicited, costs of closing or selling foundries, the results of the liquidation of Fonderie d'Autun, the amount of any claims made against Fonderie d'Autun's prior owner which are the subject of certain guarantees, business conditions and the state of the general economy in Europe and the U.S., particularly the capital goods industry, the strength of the U.S. dollar, British pound sterling and the Euro, interest rates, the Company's ability to renegotiate or refinance its lending arrangements, continued compliance with the terms of various forbearance agreements with the Company's lenders, utility rates, the availability of labor, the successful conclusion of union contract negotiations, the results of any litigation arising out of the accident at Jahn Foundry, results of any regulatory proceedings arising from the accounting irregularities at the Pennsylvania Foundry Group, the competitive environment in the casting industry and changes in laws and regulations that govern the Company's business, particularly environmental regulations.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative information about market risk as of June 30, 2002 was addressed in Item 7A of the Company's Form 10-K for the fiscal year ended June 30, 2002.

The Company's primary interest rate exposures relate to its cash and short-term investments, fixed and variable rate debt and interest rate swaps, which are mainly exposed to changes in short-term interest rates (e.g. USD LIBOR). The potential loss in fair values is based on an immediate change in the net present values of the Company's interest rate-sensitive exposures resulting from a 10% change in interest rates. The potential loss in cash flows and earnings is based on the change in the net interest income/expense over a one-year period due to an immediate 10% change in rates. A hypothetical 10% change in interest rates would have an impact on the Company's earnings before income tax of approximately $564,000 and $453,000 in the first nine months of fiscal 2002 and fiscal 2003, respectively.

The Company's exposure to fluctuations in currency rates against the British pound sterling and Canadian dollar result from the Company's holdings in cash and short-term investments and its historical utilization of foreign currency forward exchange contracts to hedge customer receivables and firm commitments. The potential loss in fair values is based on an immediate change in the U.S. dollar equivalent balances of the Company's currency exposures due to a 10% shift in exchange rates versus the British pound sterling and Canadian dollar. The potential loss in cash flows and earnings is based on the change in cash flow and earnings over a one-year period resulting from an immediate 10% change in currency exchange rates versus the British pound sterling and Canadian dollar. Based on the Company's holdings of financial instruments at March 31, 2002 and March 31, 2003, a hypothetical 10% depreciation in the British pound sterling and the Canadian dollar versus all other currencies would have an impact on the Company's earnings before income tax of approximately $8,000 and $32,000 in the first nine months of fiscal 2002 and fiscal 2003, respectively.

ITEM 4.

CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

Within 90 days prior to the filing date of this report, the Company's Chief Executive Officer and Chief Financial Officer completed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

The Company operates in a decentralized management and operating structure, including financial reporting. To further enhance internal controls, the Company has centralized its payroll processing for certain North American locations. In addition, the Company is assessing various software systems to further improve its financial management and reporting functions in the Company's ongoing efforts to refine its internal control procedures.

PART II

ITEM 1.

LEGAL PROCEEDINGS

The Company is involved in legal proceedings as described in “Part I, Item 3. Legal Proceedings” of the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2002. Since the end of fiscal 2002, there have been no material developments in previously reported legal proceedings, except as set forth below.

The Occupational Safety and Health Administration (“OSHA”) cited the Company on September 26, 2002 for 95 alleged violations of Federal Safety and Health regulations at its Atchison, Kansas foundry. OSHA sought penalties totaling $250,000 in connection with the alleged violations. At OSHA’s invitation, the Company engaged in settlement negotiations with the agency over the alleged violations. During the course of settlement discussions, OSHA withdrew some citations it had classified as “serious,” reclassified some “serious” citations to the category “other-than-serious,” and declined to withdraw or modify other citations. The parties entered into two Informal Settlement Agreements with OSHA whereby OSHA reduced its proposed penalty to $50,000 and the Company agreed to undertake, within one year, abatement of certain conditions relating to the remaining citations. By entering into the Informal Settlement Agreements, the Company did not admit that it violated the cited standards for any litigation or purpose other than a subsequent proceeding under the Occupational Safety and Health Act. No subsequent proceeding is pending or anticipated by the Company at this time. The Company is not able to accurately predict the cost of abatement, but believes it may be as low as approximately $300,000 and as high as approximately $700,000.

In March 2003, the Company and its insurance carrier settled the business interruption portion of the Company’s insurance claim relating to the industrial accident at Jahn Foundry on February 25, 1999. As a result, the Company recorded the payment it received as a gain in the third quarter of fiscal 2003, which is presented as Other Income in the Company’s Consolidated Statement of Operations.

In March 2003, all of the claims of Deloitte & Touche LLP (“Deloitte”) against the Company were dismissed or withdrawn with prejudice, other than Deloitte’s breach of contract claim, which the Company believes has no merit and will vigorously defend itself. At the same time, all of Deloitte’s claims against certain officers and employees of the Company were dismissed or withdrawn with prejudice, except for a contribution claim that Deloitte has leave to attempt to replead but has not yet done so.

In addition to these matters, from time to time, the Company is the subject of legal proceedings, including employee matters, commercial matters, environmental matters and similar claims. There are no other material claims pending other than those described here and in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2002. The Company maintains comprehensive general liability insurance, which it believes to be adequate for the continued operation of its business.

ITEM 2 - Changes in Securities and Use of Proceeds

NOT APPLICABLE

ITEM 3 - Defaults Upon Senior Securities

See Liquidity and Capital Resources above.

ITEM 4 - Submission of Matters to a Vote of Security Holders

NOT APPLICABLE

ITEM 5 - Other Information

NOT APPLICABLE

ITEM 6 - Exhibits and Reports of Form 8-K

(A) Exhibits

4.1 Restatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement dated as of March 11, 2003 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed March 31, 2003)

4.2 Amendment to Cash Collateral Use Agreement (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed March 31, 2003)

4.3 Second Reinstatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement dated as of April 3, 2003 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed April 14, 2003)

4.4 Third Reinstatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement dated as of April 14, 2003 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed May 8, 2003)

4.5 Fourth Reinstatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement dated as of April 22, 2003 (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed May 8, 2003)

4.6 Fifth Reinstatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement dated as of April 29, 2003 (incorporated by reference to Exhibit 4.3 of the Company's Form 8-K filed May 8, 2003)

4.7 Sixth Reinstatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement dated as of May 3, 2003 (incorporated by reference to Exhibit 4.4 of the Company's Form 8-K filed May 8, 2003)

99.1(a) Certification of Chief Executive Officer

99.1(b) Certification of Chief Financial Officer

(B) Reports on Form 8-K

The Company filed a Form 8-K dated February 14, 2003.

Items Reported

Item 5. Other Events

Atchison Casting Corporation announced its results for the second quarter and the first six months ended December 31, 2002.

Item 7. Financial Statements and Exhibits

Press Release dated February 14, 2003.

The Company filed a Form 8-K dated March 31, 2003.

Items Reported

Item 5. Other Events

The Company entered into a Reinstatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement and the Reinstatement and Modification of the Eleventh Amendment to the Note Purchase Agreement. These amendments, among other things, (i) established new financial covenants relating to capital expenditures, minimum cumulative earnings before interest, taxes, depreciation and amortization and certain legal and restructuring expenses; (ii) imposed an obligation on the Company to retain an investment banker or other acceptable third party and develop a timeline for the marketing and sale of the assets of Empire Steel Castings, Inc.; and (iii) extended the deadline for the Company to make a $7.0 million prepayment of these loans from February 28, 2003, to March 17, 2003.

Item 7. Financial Statements and Exhibits

Reinstatement and Modification of the Fourteenth Amendment and Forbearance Agreement to the Credit Agreement dated as of March 11, 2003.

Amendment to Cash Collateral Use Agreement

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SIGNATURES

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

Atchison Casting Corporation
(Registrant)

DATE: May 15, 2003

/s/ Thomas K. Armstrong, Jr.
Thomas K. Armstrong, Jr.,
Chairman of the Board, President
and Chief Executive Officer

DATE: May 15, 2003

/s/ Kevin T. McDermed
Kevin T. McDermed,
Vice President, Chief Financial
Officer, Treasurer and Secretary

CERTIFICATIONS

I, Thomas K. Armstrong, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Atchison Casting Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Thomas K. Armstrong, Jr.
Thomas K. Armstrong, Jr.
Chief Executive Officer
(Principal Executive Officer)

I, Kevin T. McDermed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Atchison Casting Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Kevin T. McDermed
Kevin T. McDermed
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.1(a)

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. §1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned chief executive officer of Atchison Casting Corporation (the “Company”) hereby certify that, to my knowledge:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:May 15, 2003

/s/ Thomas K. Armstrong, Jr.
Thomas K. Armstrong, Jr.
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Atchison Casting Corporation and will be retained be Atchison Casting Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.1(b)

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. §1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned chief financial officer of Atchison Casting Corporation (the “Company”) hereby certify that, to my knowledge:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:May 15, 2003

/s/ Kevin T. McDermed
Kevin T. McDermed
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Atchison Casting Corporation and will be retained be Atchison Casting Corporation and furnished to the Securities and Exchange Commission or its staff upon request.