**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 8-K/A**
**(Amendment No. 1)**

**CURRENT REPORT**
**PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): December 27, 2004

**ACTUANT CORPORATION**
(Exact name of Registrant as specified in its charter)

| | | |
|---|---|---|
| Wisconsin | 1-11288 | 39-0168610 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

6100 North Baker Road
Milwaukee, WI 53209

Mailing address: P.O. Box 3241, Milwaukee, Wisconsin 53201
(Address of principal executive offices) (Zip code)

Registrant’s telephone number, including area code: (414) 352-4160

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Explanatory Note:**

Actuant Corporation, a Wisconsin corporation (the "Company" or "Actuant"), filed a Current Report on Form 8-K with the Securities and Exchange Commission ("SEC") on January 3, 2005, relating to its acquisition of all of the outstanding capital stock of Key Components, Inc. ("KCI"), that occurred on December 27, 2004. The purpose of this Current Report on Form 8-K/A (Amendment No. 1) is to amend the Current Report on Form 8-K filed on January 3, 2005 to include (i) the financial statements and pro forma financial information required by Item 9.01 and (ii) the consent of PricewaterhouseCoopers LLP.

**Item 9.01 Financial Statements and Exhibits.**

(a) Financial Statements Of Businesses Acquired.

99.1 Consolidated financial statements of KCI.

(b) Pro Forma Financial Information.

99.2 The following unaudited pro forma condensed consolidated financial information of Actuant and KCI:

- Pro forma condensed consolidated balance sheet as of August 31, 2004;
- Pro forma condensed consolidated statement of earnings for the fiscal year ended August 31, 2004; and
- Notes to such pro forma financial statements.

(c) Exhibits

2.1 Stock Purchase Agreement, dated as of November 18, 2004, by and among Actuant Corporation, Key Components, Inc., and the Shareholders of Key Components, Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Amendment No. 1 to Current Report on Form 8-K filed on December 16, 2004).

2.2 Amendment No. 1 to Stock Purchase Agreement, dated as of December 3, 2004, by and among Actuant Corporation, Key Components, Inc., and the Shareholders of Key Components, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's Amendment No. 1 to Current Report on Form 8-K filed on December 16, 2004).

2.3 Amendment No. 2 to Stock Purchase Agreement, dated as of December 16, 2004, by and among Actuant Corporation, Key Components, Inc., and the Shareholders of Key Components, Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 22, 2004).

4.8 Amended and Restated Credit Agreement dated as of December 27, 2004 among the Company and JPMorgan Chase Bank, N.A. (successor by merger to Bank One, NA (Illinois)), as Administrative Agent for the revolving loan facility and the term loan facility, Wachovia Bank, National Association, and U.S. Bank, National Association, as Syndication Agents for the revolving loan facility and the term loan facility, LaSalle Bank N.A. and M&I Marshall & Ilsley Bank, as Document Agents for the revolving loan facility, and Bank of America, N.A. and Harris Trust & Savings Bank, as Document Agents for the revolving loan facility.*

23.1 Consent of PricewaterhouseCoopers LLP.

* previously filed

SIGNATURE

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

ACTUANT CORPORATION
(Registrant)

Date: January 4, 2005

By: /s/ Andrew G. Lampereur
Andrew G. Lampereur
Executive Vice President and
Chief Financial Officer

**Consent of Independent Accountants**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 Nos. 333-47493 and 333-111836 and Form S-8 Nos. 33-39719, 33-38720, 33-62658, 333-42353, 333-46469, 333-61279, 333-61281, 333-53702, 333-53704, 333-60564, 333-61389, 333-89068, 333-102523, 333-102524, 333-112008, and 333-118811 of Actuant Corporation of our report dated December 16, 2004 relating to the financial statements of Key Components Inc., which appear in the Current Report on Form 8-K of Actuant Corporation dated December 17, 2004.

/s/ PricewaterhouseCoopers LLP

Stamford, Connecticut
January 3, 2005

**Index to Financial Statements of Key Components, Inc. and Subsidiaries**

**KEY COMPONENTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**(In thousands)**

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | (Unaudited) | |
| **Assets:** | | |
| Current assets: | | |
| Cash | $ 1,091 | $ 3,872 |
| Accounts receivable, net of allowance for doubtful accounts of $2,079 and $1,702 in 2004 and 2003, respectively | 29,961 | 23,989 |
| Inventories | 35,760 | 24,063 |
| Prepaid expenses and other current assets | 2,373 | 1,862 |
| Deferred income taxes | 4,933 | 5,189 |
| Assets held for sale | 15,633 | 20,464 |
| Total current assets | 89,751 | 79,439 |
| Property, plant and equipment, net | 18,944 | 18,149 |
| Goodwill | 89,085 | 80,165 |
| Deferred financing costs, net | 2,652 | 3,370 |
| Prepaid pension cost | 2,436 | 2,686 |
| Other assets | 2,386 | 777 |
| | $ 205,254 | $ 184,586 |
| Liabilities and Stockholders' Equity (Deficit): | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 17,724 | $ 12,196 |
| Accounts payable | 15,186 | 11,010 |
| Accrued compensation | 5,210 | 4,170 |
| Accrued expenses | 10,647 | 6,541 |
| Accrued income taxes | 9,017 | 1,458 |
| Accrued interest | 3,301 | 1,102 |
| Liabilities associated with assets held for sale | 1,049 | 1,922 |
| Total current liabilities | 62,134 | 38,399 |
| Long-term debt | 109,271 | 120,561 |
| Deferred income taxes | 2,469 | 2,507 |
| Other long-term liabilities | 2,484 | 1,739 |
| Total liabilities | 176,358 | 163,206 |
| Commitments and contingencies | | |
| Redeemable Convertible Preferred Stock | 112,780 | 111,940 |
| Stockholders' equity (deficit): | | |
| Common stock | — | — |
| Additional paid-in capital | — | — |
| Retained deficit | (83,884) | (90,560) |
| | $ 205,254 | $ 184,586 |

See accompanying notes to consolidated financial statements.

**KEY COMPONENTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited, in thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Net sales | $ 163,200 | $ 134,190 |
| Cost of goods sold | 101,511 | 83,008 |
| Gross profit | 61,689 | 51,182 |
| Selling, general and administrative expenses | 31,461 | 28,667 |
| Income from operations | 30,228 | 22,515 |
| Interest expense | 9,041 | 9,349 |
| Income before provision for income taxes and discontinued operations | 21,187 | 13,166 |
| Provision for income taxes | 8,419 | 5,511 |
| Income from continuing operations | 12,768 | 7,655 |
| Loss from discontinued operations, net of tax benefit of $3,281, and $202 respectively | (5,448) | (315) |
| Net income | $ 7,320 | $ 7,340 |

See accompanying notes to consolidated financial statements.

## KEY COMPONENTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

**(In thousands, except shares data)**

| | Redeemable Convertible Preferred Stock | | Stockholders' Equity (Deficit) | | | | |
|---|---|---|---|---|---|---|---|
| | | | Common Stock | | Additional Paid In Capital | Retained Earnings (Deficit) | Total |
| | Shares | $ | Shares | $ | | | |
| Balance, January 1, 2003 | 944,089 | $ 110,831 | 383,406 | $— | $ — | $ (85,787) | $ (85,787) |
| Repurchase and retirement of common stock | — | — | (1,490) | — | — | (100) | (100) |
| Minimum pension liability, net of tax | — | — | — | — | — | (134) | (134) |
| Preferred stock dividends | 9,452 | 1,109 | — | — | — | (1,109) | (1,109) |
| Net loss for year ended December 31, 2003 | — | — | — | — | — | (3,430) | (3,430) |
| Balance, December 31, 2003 | 953,541 | 111,940 | 381,916 | — | — | (90,560) | (90,560) |
| Nine months ended September 30, 2004 (unaudited): | | | | | | | |
| Exercise of stock options | — | — | 7,586 | — | 196 | | 196 |
| Preferred stock dividends | 7,160 | 840 | — | — | (196) | (644) | (840) |
| Net income for nine months ended September 30, 2004 | — | — | — | — | — | 7,320 | 7,320 |
| Balance, September 30, 2004 (unaudited) | 960,701 | $ 112,780 | 389,502 | $— | $ — | $ (83,884) | $ (83,884) |

See accompanying notes to consolidated financial statements.

## KEY COMPONENTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**(Unaudited, in thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2004** | **2003** |
| **Cash flows from operating activities:** | | |
| Net income | $ 7,320 | 7,340 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss of discontinued operations | 5,448 | 315 |
| Depreciation and amortization | 2,838 | 2,708 |
| Amortization of deferred finance costs | 718 | 719 |
| Deferred taxes | 275 | (2) |
| Provision for bad debts | 585 | 255 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (4,669) | (4,292) |
| Inventories | (9,579) | 809 |
| Prepaid expenses and other assets | (263) | 3,614 |
| Accounts payable | 3,140 | 281 |
| Accrued expenses | 12,641 | 4,020 |
| Net cash provided by continuing operations | 18,454 | 15,767 |
| Net cash (used in) provided by discontinued operations | (1,377) | 851 |
| Net cash provided by operating activities | 17,077 | 16,618 |
| **Cash flows from investing activities:** | | |
| Business acquisitions, net of cash acquired | (11,950) | (4,548) |
| Capital expenditures | (2,229) | (2,061) |
| Net cash used in continuing operations | (14,179) | (6,609) |
| Net cash used in discontinued operations | (113) | (534) |
| Net cash used in investing activities | (14,292) | (7,143) |
| **Cash flows from financing activities:** | | |
| Payments of long-term debt and capital lease obligations | (28,462) | (9,208) |
| Proceeds from long-term debt borrowings | 22,700 | 2,000 |
| Proceeds from the exercise of stock options | 196 | — |
| Repurchase of common stock | — | (100) |
| Net cash used in financing activities | (5,566) | (7,308) |
| Net (decrease) increase in cash and cash equivalents | (2,781) | 2,167 |
| Cash and cash equivalents, beginning of period | 3,872 | 2,879 |
| Cash and cash equivalents, end of period | $ 1,091 | $ 5,046 |

See accompanying notes to consolidated financial statements.

**KEY COMPONENTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(In thousands)**

| | For the Nine Months Ended September 30, 2004 | For the Year Ended December 31, 2003 |
|---|---|---|
| | (Unaudited) | |
| Net income (loss) | $ 7,320 | $ (3,430) |
| Minimum pension liability, net of tax | — | (134) |
| Comprehensive income (loss) | $ 7,320 | $ (3,564) |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## (UNAUDITED)

### 1. Basis of Presentation

The consolidated financial statements include the financial statements of Key Components, Inc. ("KCI"), a Delaware corporation and its wholly-owned subsidiaries (collectively the "Company") from their respective dates of acquisition. All significant intercompany transactions have been eliminated. KCI's assets are limited to its investment in Key Components, LLC ("KCLLC"). KCLLC's assets are limited to the assets of the Company's corporate office and its investments in its wholly-owned subsidiaries. KCLLC is the parent company to the operating business units of the Company. All significant intercompany transactions have been eliminated.

The Company is in the business of the manufacture and sale of custom engineered componentry in a diverse array of end use markets. Through its two business segments, mechanical engineered components and electrical components, the Company targets its products to original equipment manufacturers. The Company's electrical components business product offerings include power conversion products, specialty electrical components and high-voltage utility switches. The Company's mechanical engineered components business product offerings consist primarily of flexible shaft and remote valve control components and air handling/turbocharger components.

The accompanying unaudited financial statements of the Company contain all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. While certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, the Company believes that the disclosures herein are adequate to make the information not misleading. The results of operations for the interim periods are not necessarily indicative of the results for full years. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2003.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used by the Company that are subject to change include, but are not limited to, provision for doubtful accounts, inventory obsolescence, fair value estimates in conjunction with the Company's fair value testing of its recorded goodwill, warranty costs accrued, the acquisition related accruals, and the estimated liabilities related to the pension plans of the Company (Note 9). Actual results could differ from the estimates used by the Company.

### New Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the consolidated operations or financial condition of the Company.

In January 2003, the FASB issued Interpretation (“FIN”) No. 46, “Consolidation of Variable Interest Entities.” FIN 46 requires variable interest entities to be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity’s expected losses or residual benefits. FIN 46 applies immediately to variable interest entities created after January 31, 2003; for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities, which an enterprise holds a variable interest that is acquired before February 1, 2003. The adoption of FIN 46 had no material impact on the consolidated operations or financial condition of the Company.

**2. Acquisitions and Dispositions**

***Amveco Magnetics, Inc.***

On August 23, 2004, the Company acquired the common stock of Amveco Magnetics, Inc. (“Amveco”), a Texas Corporation, for a purchase price of approximately $6.0 million, subject to adjustment, less assumed liabilities of approximately $2.1 million. In October 2004, the Company paid approximately $462,000 of additional consideration related to the closing balance sheet. The Company recorded the estimated excess purchase price over net assets acquired of approximately $2.5 million as goodwill. The value ascribed to the estimated excess purchase price over net assets acquired is preliminary and is subject to change. Other intangibles acquired were not material. The agreement calls for three contingent payments, two of which up to $1.0 million in aggregate and the other based upon a percentage of revenues exceeding a baseline specified in the purchase agreement, based on the performance of the business for the six months ended September 30, 2004 and for the year ending December 31, 2005. In addition, the Company currently has approximately $1.6 million in escrow, which is included in other assets, related to the Amveco transaction. The escrow was established to cover potential liabilities related to the Mexico operation of Amveco. The agreement calls for the escrow to be paid upon certain open issues related to the legal and tax establishment of the Mexico operation are rectified. The contingent payments and any payments out of escrow, if made, will be recorded as goodwill at the time of payment. Amveco, which manufactures torroidal transformers primarily for medical applications, will be integrated into the Company’s Monterrey, Mexico and Lumberton, North Carolina facilities. The Company paid approximately $6.0 million in cash at closing and borrowed approximately $5.0 million on its revolving credit facility to partially finance this acquisition.

***Advanced Devices, Inc.***

On May 7, 2004, the Company acquired the net assets of Advanced Devices, Inc. (“ADI”) for a purchase price of approximately $8.0 million and assumed liabilities of approximately $62,000. The Company recorded the estimated excess purchase price over net assets acquired of approximately $6.2 million as goodwill. The value ascribed to the estimated excess purchase price over net assets acquired is preliminary and is subject to change. Other intangibles acquired were not material. The ADI product line, which manufactures electrical wiring devices, has been integrated into the Company’s Napa Valley, California manufacturing facility. The Company paid approximately $6.1 million in cash at closing and borrowed approximately $4.5 million on its revolving credit facility to partially finance this acquisition. The purchase agreement required approximately 75% of the total purchase price to be paid at closing, 10% to be paid at the earlier of the date when the product line is fully integrated into the Company’s Napa, California manufacturing facility or March 7, 2005, and the remainder over the next four years annually commencing on May 7, 2005.

***Arens Controls, LLC***

On March 3, 2003, the Company acquired the mechanical components business of Arens Controls, LLC for a purchase price of approximately $4.5 million and assumed liabilities of approximately $642,000. The Company recorded the estimated excess purchase price over net assets acquired of approximately $2.0 million as goodwill. Other intangibles acquired in the transaction were not material. The product line, which manufactures mechanical push-pull control solutions, was fully integrated into the Company's Binghamton, New York manufacturing facility in November 2003. The Company borrowed $2.0 million on its revolving credit facility to partially finance this acquisition.

***Hudson Lock, LLC***

The Company's lock product line's net sales declined significantly during the three years ended December 31, 2003. Net sales of the lock product line were approximately $17.2 million, $21.8 million and $32.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. Management attributes such decline to the downturn in the economy plus the impact of foreign competition, both of which have led to the product line becoming a commodity over that period. As the net sales volume eroded, the shift in manufacturing to Mexico negatively impacted customer service and quality. Further, the decline in sales volume made it prohibitive to support the dual overhead infrastructures of its domestic and Mexico manufacturing facilities. As a result, the Company closed the lock manufacturing facility in Mexico in February 2004. In closing the facility, the Company recorded a charge of approximately $664,000 for severance, closing costs and to adjust inventory and leaseholds to the lower of cost or fair value. In addition, the Company recorded a charge of approximately $605,000 to record the balance of the lease of the facility on a present value basis, less any estimate for sublease income.

In March 2004, the Board of Directors of KCI and KCLLC concluded to sell Hudson Lock, LLC ("Hudson"). In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company recorded the assets and liabilities of Hudson as held for sale and reported the results as discontinued operations. Based on initial indications of value from prospective buyers, at June 30, 2004, the Company recorded a charge of approximately $4.3 million (net of tax benefit of approximately $2.6 million) to reduce the carrying value of the assets held for sale to its fair value.

On October 22, 2004, the Company consummated the sale of the net assets of Hudson to Waveland Investments ("the Buyer"), an independent third party. As a result of the sale, the domestic assets, which primarily consisted of accounts receivable, inventory and fixed assets, and the domestic liabilities of Hudson were sold to the Buyer for consideration of approximately $4.5 million, consisting of a note receivable of approximately $1.2 million with the balance of the proceeds being paid in cash. The note receivable matures on April 22, 2008 and requires payment of interest at 8.0% per annum through April 22, 2005, 10% per annum through October 2005 and 14% per annum subsequent to October 2005 until the maturity date. The Buyer has the ability to convert the outstanding interest due to the Company to additional notes receivable, which would then be due and payable on the same date as the original note. If Hudson meets certain operating thresholds the Buyer is required to prepay portions of the outstanding note receivable and the Buyer has the right to prepay the balance of the notes receivable. The note receivable is subordinate to the Buyer's acquisition and operating debt. The remaining assets and liabilities of Hudson's Mexico operations, which are not material, were not sold in the transaction. The Company used the cash proceeds received in the transaction to pay down outstanding bank debt. As a result of the expected proceeds from the sale, at September 30, 2004, the Company recorded an additional charge of approximately $680,000 (net of tax benefit of approximately $351,000) to reduce the carrying value of the assets held for sale to the lower of cost or fair value.

The following table summarizes the net assets of the lock product line:

| *(In thousands)* | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | (unaudited) | |
| Accounts receivable | $ 2,193 | $ 2,011 |
| Inventory | 5,509 | 4,628 |
| Other current assets and prepaid expenses | 91 | 524 |
| Plant and equipment, net | — | 6,018 |
| Deferred tax assets | 7,840 | 7,283 |
| Assets held for sale | 15,633 | 20,464 |
| Accounts payable | 565 | 845 |
| Accrued wages and related expenses | 192 | 562 |
| Accrued expenses | 292 | 515 |
| Liabilities associated with assets held for sale | 1,049 | 1,922 |
| Net assets of lock product line | $ 14,584 | $ 18,542 |

The summary of the operations of the lock business for the nine ended September 30, 2004 and 2003 are as follows:

| *(In thousands)* | Nine Months Ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| | (unaudited) | |
| Net sales | $11,834 | $13,206 |
| Loss from operations of the lock business, net of tax benefit of $3,281 and $202, respectively | $ (5,448) | $ (315) |

### 3. Inventories

Inventories consist of the following:

| *(In thousands)* | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | (unaudited) | |
| Raw materials | $ 19,526 | $ 12,805 |
| Work-in-process | 5,451 | 4,856 |
| Finished goods | 10,783 | 6,402 |
| Total inventory | $ 35,760 | $ 24,063 |

**4. Provision for Income Taxes**

Deferred income taxes have been recorded to reflect the tax consequences on future years of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts at year-end. Valuation allowances are recorded when necessary to reduce deferred tax assets to expected realizable amounts. Accrued income taxes increased during the nine months ended September 30, 2004, as the Company did not make any estimated payments for income taxes. The Company anticipates the sale of its lock product line to generate a tax loss, which will offset a majority of the Company's current tax liability. The sale of the lock product line was consummated in October 2004.

**5. Common Stock transactions**

During the nine months ended September 30, 2004, two employees exercised options to purchase 7,586 shares of KCI common stock. During the nine months ended September 30, 2003, the Company repurchased common stock held by a stockholder who was no longer part of the Company operating management. The Company paid approximately $100,000, representing the fair value as of the date of the transaction.

**6. Warranty Costs**

The Company records a liability for its expected claims under existing product warranty policies. The accrual is based on the Company's historical warranty experience. For the nine months ended September 30, 2004 and 2003, the Company's warranty accrual changed as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| *(In thousands)* | 2004 | 2003 |
| | (unaudited) | |
| Balance, beginning of period | $ 1,372 | 985 |
| Additions | 618 | 123 |
| Charges | (26) | — |
| Balance, end of period | $ 1,964 | $ 1,108 |

**7. Operating Segments**

The Company conducts its continuing operations through its two businesses, the manufacture and sale of electrical components and mechanical engineered components. The electrical components business ("EC") product offerings include power conversion products, specialty electrical components and high-voltage utility switches. The mechanical engineered components business ("MEC") manufactures flexible shaft products and air handling/turbocharger components.

The Company evaluates its operating segments' performance and allocates resources among them based on profit or loss from continuing operations before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is not based on accounting principles generally accepted in the United States of America, but is the performance measure used by Company management to analyze and monitor the Company and is commonly used by investors and financial analysts to compare and analyze companies. Corporate overhead expenses are not allocated to the segments. In computation of all the financial maintenance covenants under the Company's credit facility, the Company is allowed to adjust EBITDA for certain charges as defined in the agreement. The Company's non-GAAP financial measures may not necessarily be comparable to other companies.

| *(In thousands)* | Electrical Components | Mechanical Engineered Components | Total |
|---|---|---|---|
| | | (Unaudited) | |
| **Nine months ended September 30, 2004:** | | | |
| Net sales to external customers | $ 98,448 | $ 64,752 | $ 163,200 |
| Intersegment net sales | — | 65 | 65 |
| Segment profit—EBITDA | 18,914 | 17,127 | 36,041 |
| Segment assets | 127,069 | 60,956 | 188,025 |
| Goodwill | 67,863 | 21,222 | 89,085 |
| Depreciation and amortization | 1,906 | 898 | 2,804 |
| **Nine months ended September 30, 2003:** | | | |
| Net sales to external customers | 88,507 | 45,683 | $ 134,190 |
| Intersegment net sales | — | 53 | 53 |
| Segment profit—EBITDA | 16,695 | 11,225 | 27,920 |
| Segment assets | 108,110 | 52,511 | 160,621 |
| Goodwill | 59,192 | 20,973 | 80,165 |
| Depreciation and amortization | 1,872 | 806 | 2,678 |
| **December 31, 2003:** | | | |
| Segment assets | $ 107,724 | $ 52,380 | $ 160,104 |

**Reconciliation of Selected Segment Information to the Company's Consolidated Totals:**

| *(In thousands)* | Nine Months Ended September 30, 2004 | Nine Months Ended September 30, 2003 |
|---|---|---|
| | (Unaudited) | |
| **Profit or loss:** | | |
| Total profit from reportable segments—EBITDA | $ 36,041 | $ 27,920 |
| Reconciling items: | | |
| Corporate expenses | (2,975) | (2,697) |
| Depreciation and amortization | (2,838) | (2,708) |
| Interest expense | (9,041) | (9,349) |
| Income before provision for income taxes and discontinued operations | $ 21,187 | $ 13,166 |

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | (Unaudited) | |
| **Assets:** | | |
| Total assets for reportable segments | $ 188,025 | $ 160,104 |
| Corporate assets | 1,596 | 4,018 |
| Discontinued assets | 15,633 | 20,464 |
| Total consolidated assets | $ 205,254 | $ 184,586 |

| (In thousands) | Nine Months Ended September 30, 2004 | Nine Months Ended September 30, 2003 |
|---|---|---|
| | (unaudited) | |
| **Geographical Sales Information:** | | |
| United States | $ 146,114 | $ 116,873 |
| England | 4,430 | 4,479 |
| Canada | 3,327 | 2,930 |
| China | 3,854 | 3,340 |
| Netherlands | 1,502 | 1,387 |
| Japan | 886 | 1,064 |
| Taiwan | 630 | 1,270 |
| Other | 2,457 | 2,847 |
| Total | $ 163,200 | $ 134,190 |

## 8. Stock Options

The Company applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") in accounting for stock-based compensation. In accordance with APB No. 25, compensation costs for stock options is recognized in income based on the excess, if any, of the quoted market price over the exercise price of the stock on the date of grant. The exercise price for all stock option grants equals the fair market value on the date of grant, therefore no compensation expense is recorded.

In accordance with the disclosure provisions of SFAS 148, "Accounting for Stock-Based Compensation—transition and disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation", the following table illustrates the effect on net income as if the Company had applied the fair value recognition provisions for the nine months ended September 30, 2004 and 2003:

| (in thousands) | Nine Months ended September 30, 2004 | Nine Months ended September 30, 2003 |
|---|---|---|
| | (unaudited) | |
| Net income: | | |
| As reported | $ 7,320 | $ 7,340 |
| Pro forma | $ 7,318 | $ 7,031 |

## 9. Pension Plans

The components of the net periodic benefit (cost) for the nine months ended September 30, 2004 and 2003 related to the Company's pension plans were as follows:

| (in thousands) | Nine Months ended September 30, 2004 | Nine Months ended September 30, 2003 |
|---|---|---|
| | (unaudited) | |
| Service Cost | $ 330 | $ 298 |
| Interest Cost | 765 | 797 |
| Expected return on plan assets | (908) | (931) |
| Amortization of net loss | 60 | 57 |
| Net periodic benefit cost | $ 247 | $ 221 |

***Employer Contributions***

The Company is not required to make any contributions in 2004 and did not make any contributions in 2003 to its defined benefit plans.

**10. Sale of KCI**

In November 2004, the board of KCI authorized the sale of the Company to Actuant Corporation, a public company. The sales price, which is to be paid in cash, is approximately $315 million, less expenses and net debt (outstanding debt of the Company, as defined in the agreement, less cash) of the Company as of the date the transaction closes. The Company has options outstanding to purchase approximately 177,000 shares of KCI common stock. Options to purchase approximately 93,000 shares will exercise with the sale and be settled for cash. The remaining options to purchase approximately 88,000 shares will be terminated. The agreement calls for a $20 million escrow, which will remain in place for three years to cover the indemnities under the agreement. The sale is expected to close during December 2004. The agreement calls for a purchase price adjustment if the Company's working capital (current assets less current liabilities) is under a certain threshold as of the closing date of the agreement. In connection with the sale process, the Company entered into agreements with its corporate executives whereby they receive a bonus contingent on the sales price of the Company.

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Key Components, Inc.;

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, redeemable convertible preferred stock, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Key Components Inc. and subsidiaries at December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002.

/S/ PRICEWATERHOUSECOOPERS LLP

December 16, 2004
Stamford, Connecticut

**KEY COMPONENTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**(in thousands)**

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 3,872 | $ 2,879 |
| Accounts receivable, net of allowance for doubtful accounts of $1,702 and $1,355 at December 30, 2003 and 2002, respectively | 23,989 | 18,128 |
| Inventories | 24,063 | 25,180 |
| Prepaid expenses and other current assets | 1,862 | 2,553 |
| Prepaid income taxes | — | 3,452 |
| Deferred income taxes | 5,189 | 4,955 |
| Assets of discontinued operations | 20,464 | 34,450 |
| Total current assets | 79,439 | 91,597 |
| Property, plant and equipment, net | 18,149 | 17,396 |
| Goodwill, net | 80,165 | 78,180 |
| Deferred financing costs, net | 3,370 | 4,364 |
| Prepaid pension cost | 2,686 | 3,027 |
| Other assets | 777 | 412 |
| | $ 184,586 | $ 194,976 |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 12,196 | $ 7,225 |
| Accounts payable | 11,010 | 8,863 |
| Accrued compensation | 4,170 | 3,675 |
| Accrued expenses | 6,541 | 6,514 |
| Accrued income taxes | 1,458 | — |
| Accrued interest | 1,102 | 713 |
| Liabilities associated with discontinued operations | 1,922 | 2,125 |
| Total current liabilities | 38,399 | 29,115 |
| Long-term debt | 120,561 | 136,619 |
| Deferred income taxes | 2,507 | 2,789 |
| Other long-term liabilities | 1,739 | 1,409 |
| Total liabilities | 163,206 | 169,932 |
| Commitments and contingencies (Notes 2, 8 and 9) | | |
| Redeemable Convertible Preferred Stock (Note 9) | 111,940 | 110,831 |
| Stockholders' equity (deficit) (Note 10): | | |
| Common stock | — | — |
| Additional paid-in capital | — | — |
| Retained deficit | (90,560) | (85,787) |
| | $ 184,586 | $ 194,976 |

*See accompanying notes to consolidated financial statements.*

**KEY COMPONENTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(in thousands)**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net sales | $ 180,096 | $ 166,110 | $ 161,139 |
| Cost of goods sold | 112,689 | 102,489 | 101,943 |
| Gross profit | 67,407 | 63,621 | 59,196 |
| Selling, general and administrative expenses | 38,760 | 35,885 | 37,700 |
| Amortization of goodwill | — | — | 2,405 |
| Cumulative adjustment for Aerospace | — | — | (721) |
| Income from operations | 28,647 | 27,736 | 19,812 |
| Interest expense | 12,338 | 13,301 | 16,572 |
| Income before provision for income taxes, discontinued operations and cumulative effect of change in accounting principle | 16,309 | 14,435 | 3,240 |
| Provision for income taxes | 6,516 | 5,056 | 2,503 |
| Income from continuing operations | 9,793 | 9,379 | 737 |
| (Loss) income from discontinued operations, net of taxes (benefit) of $(6,358), $(2,428) and $3,055, respectively | (13,223) | (7,853) | 3,994 |
| Cumulative effect of change in accounting principle, net of income taxes of $3,013 | — | (8,157) | — |
| Net (loss) income | $ (3,430) | $ (6,631) | $ 4,731 |

*See accompanying notes to consolidated financial statements.*

## KEY COMPONENTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

**(in thousands, except for shares data)**

| | Redeemable Convertible Preferred Stock | | Stockholders' Equity (Deficit) | | | | |
|---|---|---|---|---|---|---|---|
| | | | Common Stock | | Additional Paid In Capital | Retained Earnings (Deficit) | Total |
| | Shares | $ | Shares | $ | | | |
| Balance, January 1, 2001 | 925,466 | $ 108,646 | 391,119 | $— | $ — | $ (80,796) | $ (80,796) |
| Repurchase and retirement of common stock | — | — | (7,713) | — | — | (906) | (906) |
| Preferred stock dividends | 9,265 | 1,087 | — | — | — | (1,087) | (1,087) |
| Net income for the year ended December 31, 2001 | — | — | — | — | — | 4,731 | 4,731 |
| Balance, December 31, 2001 | 934,731 | 109,733 | 383,406 | — | — | (78,058) | (78,058) |
| Preferred stock dividends | 9,358 | 1,098 | — | — | — | (1,098) | (1,098) |
| Net loss for the year ended December 31, 2002 | — | — | — | — | — | (6,631) | (6,631) |
| Balance, December 31, 2002 | 944,089 | 110,831 | 383,406 | — | — | (85,787) | (85,787) |
| Repurchase and retirement of common stock | — | — | (1,490) | — | — | (100) | (100) |
| Minimum pension liability, net of tax | — | — | — | — | — | (134) | (134) |
| Preferred stock dividends | 9,452 | 1,109 | — | — | — | (1,109) | (1,109) |
| Net loss for year ended December 31, 2003 | — | — | — | — | — | (3,430) | (3,430) |
| Balance, December 31, 2003 | 953,541 | $ 111,940 | 381,916 | $— | $ — | $ (90,560) | $ (90,560) |

*See accompanying notes to consolidated financial statements.*

**KEY COMPONENTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |
| **Cash flows from operating activities:** | | | |
| Net (loss) income | $ (3,430) | $ (6,631) | $ 4,731 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Loss (income) of discontinued operations | 13,223 | 7,853 | (3,994) |
| Cumulative effect of change in accounting principle | — | 8,157 | — |
| Provision for doubtful accounts | 591 | 483 | 479 |
| Depreciation and amortization | 3,607 | 3,609 | 6,584 |
| Amortization of deferred finance costs | 994 | 977 | 933 |
| Writedown of deferred finance costs | — | 145 | — |
| Deferred income taxes | (324) | (243) | 590 |
| (Increase) decrease in (net of effects of acquisitions): | | | |
| Accounts receivable | (5,538) | 2,879 | 1,826 |
| Inventories | 1,874 | 1,504 | 5,877 |
| Prepaid expenses and other assets | 4,553 | 529 | 2,693 |
| Increase (decrease) in (net of effects of acquisitions): | | | |
| Accounts payable | 1,882 | 412 | (2,799) |
| Accrued expenses and other liabilities | 1,775 | (1,227) | (4,487) |
| Net cash provided by continuing operations | 19,207 | 18,447 | 12,433 |
| Net cash provided by discontinued operations | 1,150 | 3,922 | 9,499 |
| Net cash provided by operating activities | 20,357 | 22,369 | 21,932 |
| **Cash flows from investing activities:** | | | |
| Business acquisition, net of cash acquired | (4,548) | — | — |
| Capital expenditures | (3,039) | (2,255) | (3,335) |
| Cash provided by assets held for sale | — | 364 | 666 |
| Net cash used in continuing operations | (7,587) | (1,891) | (2,669) |
| Net cash used in discontinued operations | (590) | (457) | (796) |
| Net cash used in investing activities | (8,177) | (2,348) | (3,465) |
| **Cash flows from financing activities:** | | | |
| Payments of term debt, notes payable and other obligations | (13,087) | (21,993) | (19,056) |
| Proceeds from issuance of debt | 2,000 | — | 2,800 |
| Deferred financing costs | — | (229) | — |
| Repurchase of common stock | (100) | — | (906) |
| Net cash used in financing activities | (11,187) | (22,222) | (17,162) |
| Net increase (decrease) in cash and cash equivalents | 993 | (2,201) | 1,305 |
| Cash and cash equivalents, beginning of year | 2,879 | 5,080 | 3,775 |
| Cash and cash equivalents, end of year | $ 3,872 | $ 2,879 | $ 5,080 |

*See accompanying notes to consolidated financial statements.*

**KEY COMPONENTS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(in thousands)**

| | Year ended December 31, | | |
| --- | --- | --- | --- |
| | **2003** | **2002** | **2001** |
| Net (loss) income | $ (3,430) | $ (6,631) | $ 4,731 |
| Minimum pension liability, net of tax | (134) | — | — |
| Comprehensive (loss) income | $ (3,564) | $ (6,631) | $ 4,731 |

*See accompanying notes to consolidated financial statements.*

## 1. Organization and Significant Accounting Policies

*Basis of Presentation and Nature of Operations*

The consolidated financial statements as of and for the three years ended December 31, 2003 include the financial statements of Key Components, Inc. ("KCI"), a Delaware corporation and its wholly-owned subsidiaries (collectively the "Company") from their respective dates of acquisition. All significant intercompany transactions have been eliminated. KCI's assets are limited to its investment in Key Components, LLC ("KCLLC"). KCLLC's assets are limited to the assets of the Company's corporate office and its investments in its wholly-owned subsidiaries. KCLLC is the parent company to the operating business units of the Company.

The Company is in the business of the manufacture and sale of custom engineered componentry in a diverse array of end use markets. Through its two business segments, mechanical engineered components and electrical components, the Company targets its products to original equipment manufacturers. The Company's electrical components business, whose product offerings include power conversion products, specialty electrical components and high-voltage utility switches, which are manufactured by its subsidiaries Acme Electric Corporation ("Acme"), Marine Industries, LLC ("Marinco"), Atlantic Guest, Inc. ("Guest") and Turner Electric, LLC ("Turner"). The Company's mechanical engineered components business, whose product offerings consist primarily of flexible shaft and remote valve control components and air handling/turbocharger components, are manufactured by B.W. Elliott Manufacturing, LLC ("BWE") and Gits Manufacturing, LLC ("Gits").

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used by the Company that are subject to change include, but are not limited to, provision for doubtful accounts, inventory obsolescence, estimated recovery of assets held for sale (Note 14) fair value estimates in conjunction with the Company's fair value testing of its recorded goodwill, warranty costs accrued, the acquisition related accruals, and the estimated liabilities related to the pension plans of the Company (Note 11). Actual results could differ from the estimates used by the Company.

*Cash and Cash Equivalents*

For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

*Accounts Receivable and Allowance for Doubtful Accounts*

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines its allowance based on historical write-off experience, current economic data and specific information related to its customers. Account balances are charged off against the allowance when it is determined it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers.

*Inventories*

Inventories are stated at the lower of cost or market, on a first-in, first-out basis.

*Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Major renewals and betterments are capitalized, while maintenance and repairs that do not improve or extend the life of the asset are expensed in the period they occur. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and improvements | 20 – 40 years |
| Equipment | 3 – 10 years |
| Furniture and fixtures | 3 – 10 years |
| Leasehold improvements | Shorter of term of lease or useful life of the asset |

*Intangibles*

Intangibles, which are included in other assets, primarily consist of costs associated with a licensing agreement and covenants not to compete arising from business acquisitions. These assets are being amortized on a straight-line basis over the lives of the related agreements, which range from five to seven years. Amortization of intangibles charged to continuing operations for the three years ended December 31, 2003 amounted to approximately $4,000, $11,000 and $99,000, respectively. Accumulated amortization at December 31, 2003 and 2002 was approximately $2.2 million for both periods.

*Long-lived Assets*

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, the Company evaluates the basis of its long-lived assets based on expectations of undiscounted cash flows related to those assets. Based on its most recent analysis, the Company believes that no impairment of its long-lived assets exists at December 31, 2003.

*Goodwill*

Goodwill represents the excess of the cost of acquired businesses over the fair market value of their net assets. Through December 31, 2001 goodwill was being amortized on the straight-line method over thirty-five to forty years. Goodwill amortization for the year ended December 31, 2001 was approximately $2.4 million. Accumulated amortization at December 31, 2001 was approximately $5.2 million.

In July 2001, the Financial Accounting Standards Board (“FASB”) issued statement of financial accounting standard (“SFAS”) No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Other Intangible Assets” effective for fiscal years beginning after December 15, 2001.

The provisions of SFAS 141 provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amount of certain intangible assets.

The provisions of SFAS 142 (i) prohibit the amortization of goodwill and indefinite-lived intangible assets, (ii) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur which would impact the carrying value of such assets), and (iii) require that the Company’s operations be formally identified into reporting units for the purpose of assessing potential future impairments of goodwill.

Upon the adoption of SFAS 142, the Company stopped recording goodwill amortization effective January 1, 2002. In June 2002, the Company completed the assessment of its reporting units and its initial assessment of impairment upon adoption. As a result, the Company identified that the Lock reporting business unit (Note 14) had book value of goodwill that exceeded its fair market value, which was estimated using a valuation methodology that triangulates the discounted cash flows, market multiples and transactional multiples of the reporting units. In accordance with SFAS 142, the Company, during the second quarter 2002, estimated the amount of the impairment and recorded a cumulative effect of change in accounting principle, as of January 1, 2002, of approximately $7.8 million, net of taxes of approximately $3.4 million, to write down the goodwill associated with the Company's lock product line resulting from the market conditions of that product line. The Company, as prescribed by SFAS 142, finalized its impairment testing by comparing the implied fair value of the reporting unit's goodwill to its carrying value during the third quarter to determine the amount of the final impairment upon adoption of SFAS 142. As a result, the Company reduced the tax impact of the charge by approximately $353,000 to reflect the proper deferred tax basis of the adjusted goodwill.

In December 2003 and 2002, in accordance with SFAS 142, the Company performed its required annual fair value testing of its recorded goodwill for its reporting units using a valuation approach consistent with the one used upon adoption of SFAS 142. As a result of the analyses, the Company recorded charges of approximately $17.4 and $12.4 million for the years ended December 31, 2003 and 2002, respectively, which is included in the Company's operating expenses, related to its lock reporting unit. Throughout 2003 and 2002 the lock product line experienced a continued decline of its fair value during those periods, primarily due to a deterioration of its results of operations and projected future financial results. In addition, market multiples assigned to this product line also declined during 2002. Through December 31, 2003, the Company's cumulative impairment of goodwill, all of which related to its lock product line, was approximately $40.9 million. At December 31, 2003, the Company had written off all the goodwill related to its lock product line.

Changes to the Company's goodwill are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| Goodwill, beginning of period | $ 78,180 | $ 78,180 |
| Acquisitions | 1,985 | — |
| Goodwill, end of period | $ 80,165 | $ 78,180 |

*Deferred Financing Costs*

Debt issuance costs are accounted for under an effective interest rate method. Amortization charged to continuing operations amounted to approximately $994,000, $977,000 and $933,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Accumulated amortization at December 31, 2003 and 2002 was approximately $4.1 million and $3.1 million, respectively. In addition, during 2002 the Company amended certain aspects of its borrowing agreement and expensed $145,000 of deferred financing costs.

*Income Taxes*

The Company accounts for income taxes under the asset and liability method. The provision for income taxes includes deferred income taxes resulting from items reported in different periods for income tax and financial statement purposes. Deferred income tax assets and liabilities represent the expected future tax consequences of the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effects of changes in tax rates on deferred income tax assets and liabilities are recognized in the period that includes the enactment date.

*Revenue Recognition*

The Company recognizes revenue principally upon shipment of products to customers, however no sooner than when title passes and all risk and rewards of ownership have been transferred. Reserves for estimated returns are established on the date of sale. Charges to customers for shipping are included in revenues while the Company includes the costs of shipping to its customers as part of its selling expenses.

*Warranty*

The Company records a liability for its expected claims under existing product warranty policies. The estimated accrual included in accrued expenses is based on the Company's historical warranty experience. For the years ended December 31, 2003 and 2002 the Company's warranty accrual changed as follows:

| | Year ended December 31, (in thousands) | |
|---|---|---|
| | 2003 | 2002 |
| Balance, beginning of period | $ 985 | $821 |
| Additions | 331 | 200 |
| Addition of Arens | 65 | — |
| Charges | (9) | (36) |
| Balance, end of period | $1,372 | $985 |

*Concentration of Credit Risk*

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company's customer base includes customers in many industries. Some of its larger customers are focused in the marine, heavy truck, aerospace, lawn and garden and telecom industries. Due to the distribution of its customer base amongst a large array of end user markets, management does not believe that a significant concentration of credit risk exists at December 31, 2003.

*Fair Value of Financial Instruments*

For certain of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued expenses, management believes that the carrying amounts approximate fair value due to their short maturities. The estimated fair value of the Company's long-term debt is based on the current rates offered to the Company for debt of similar maturities and approximates carrying value at December 31, 2003. KCLLC Senior Notes (Note 6) are currently market listed at approximately 104% of the their face value, however the market for the notes is highly inactive.

*New Accounting Pronouncements*

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of a nonpublic entity. SFAS 150 is not applicable as of December 31, 2003; however, it did not have a material impact on the consolidated operations or financial condition of the Company, upon adoption.

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities." FIN 46 requires variable interest entities to be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual benefits. FIN 46 applies immediately to variable interest entities created after January 31, 2003; for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities, which an enterprise holds a variable interest that is acquired before February 1, 2003. The adoption of FIN 46 had no material impact on the consolidated operations or financial condition of the Company.

**2. Acquisitions and Dispositions**

*(a) Arens Controls, LLC*

On March 3, 2003, the Company acquired the mechanical components business of Arens Controls, LLC for a purchase price of approximately $4.5 million and assumed liabilities of approximately $642,000. The Company recorded the estimated excess purchase price over net assets acquired of approximately $2.0 million as goodwill. Other intangibles acquired in the transaction were not material. The product line, which manufactures mechanical push-pull control solutions, was fully integrated into the Company's Binghamton, New York manufacturing facility in November 2003. The Company borrowed $2.0 million on its revolving credit facility to partially finance this acquisition.

*(b) Acme Electric Corporation*

On November 21, 2000, the Company acquired all of the outstanding shares of Acme Electric Corporation ("Acme") for a purchase price of approximately $47.3 million and assumed liabilities of approximately $28.8 million. At the time of the acquisition, the Company decided to sell the Acme Aerospace ("Aerospace") division and the Acme Electronics ("Electronics") division. In accordance with Emerging Issues Task Force ("EITF") Bulletin 87-11, "Allocation of Purchase Price to Assets to be Sold," the Company recorded the anticipated net proceeds from the sale of these subsidiaries adjusted for the anticipated net cash inflows during the holding period (date of acquisition to date of sale) as assets held for sale. In addition, the net earnings from these subsidiaries during the holding period are excluded from the operations of the Company, in accordance with EITF 87-11. Such results and estimated sale proceeds plus the net cash inflows during the holding periods have been included in goodwill. Aerospace manufactures lightweight high power battery chargers and related power systems for aerospace applications. Electronics was a contract electronics manufacturer for data storage, telecommunications and medical electronic applications.

On June 1, 2001, based on the strength of the operating performance of Aerospace, the Company decided to retain Aerospace. On that date and in accordance with EITF 90-6, "Accounting for Certain Events Not Addressed in Issue No. 87-11 Relating to an Acquired Operating Unit to be Sold," the Company reallocated the purchase price of Acme as if Aerospace had never been held for sale and recorded a cumulative adjustment for the results of operations of Aerospace from the date of acquisition through May 31, 2001 of $721,000 comprised of the following:

| | (In thousands) |
|---|---|
| Net sales | $ 4,988 |
| Cost of goods sold (including depreciation of $75) | 3,367 |
| Gross profit | 1,621 |
| Selling, general and administrative expenses (including depreciation of $33) | 900 |
| Income from operations | $ 721 |

On February 15, 2002 the Company sold the Electronics division for $100,000 in cash and a 7% per annum, $300,000 note that was due on February 15, 2006. The agreement also provided for additional consideration to be paid to the Company if certain future operating targets were achieved. In March 2003, Electronics was sold to a new buyer and the Company collected the entire $300,000 note. The Company does not anticipate receiving any additional consideration.

## 3. Inventories

Inventories consist of:

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| Raw materials | $ 12,805 | $ 13,781 |
| Work-in-process | 4,856 | 5,142 |
| Finished goods | 6,402 | 6,257 |
| Total inventory | $ 24,063 | $ 25,180 |

## 4. Property, Plant and Equipment

Property, plant and equipment consists of the following:

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| Land, building and improvements | $ 6,958 | $ 6,726 |
| Equipment | 26,563 | 23,217 |
| Office and computer equipment | 2,068 | 1,897 |
| Furniture and fixtures and leasehold improvements | 1,485 | 1,463 |
| Construction-in-progress | 672 | 229 |
| | 37,746 | 33,532 |
| Less: Accumulated depreciation | (19,597) | (16,136) |
| Total property, plant and equipment | $ 18,149 | $ 17,396 |

Depreciation expense amounted to approximately $3.6 million, $3.6 million and $4.1 million for the years ended December 31, 2003, 2002, and 2001, respectively.

## 5. Operating Segments

The Company conducts its operations through its two businesses, the manufacture and sale of electrical components and mechanical engineered components. The electrical components business (“EC”) product offerings include power conversion products, specialty electrical components and high-voltage utility switches. The mechanical engineered components business (“MEC”) manufactures flexible shaft products and air handling/turbocharger components.

The Company evaluates its operating segments’ performance and allocates resources among them based on profit or loss from operations before interest, taxes, depreciation and amortization (“EBITDA”). EBITDA is not based on accounting principles generally accepted in the United States of America, but is the performance measure used by Company management to analyze and monitor the Company and is commonly used by investors and financial analysts to compare and analyze companies. Corporate overhead expenses are not allocated to the segments. In computation of all the financial maintenance covenants under the Company’s credit facility, the Company is allowed to adjust EBITDA for certain charges as defined in the agreement.

Segment information is as follows:

| | EC | MEC | Total |
|---|---|---|---|
| | | (In thousands) | |
| **Year ended December 31, 2003:** | | | |
| Net sales from external customers | $ 117,777 | $ 62,319 | $ 180,096 |
| Intersegment net sales | — | 73 | 73 |
| Segment profit—EBITDA | 21,769 | 13,886 | 35,655 |
| Segment assets | 107,724 | 52,380 | 160,104 |
| Goodwill, net | 59,192 | 20,973 | 80,165 |
| Depreciation and amortization | 2,484 | 1,086 | 3,570 |
| **Year ended December 31, 2002:** | | | |
| Net sales from external customers | $ 121,051 | $ 45,059 | $ 166,110 |
| Intersegment net sales | — | 113 | 113 |
| Segment profit—EBITDA | 21,298 | 13,282 | 34,580 |
| Segment assets | 110,791 | 42,109 | 152,900 |
| Goodwill, net | 59,192 | 18,988 | 78,180 |
| Depreciation and amortization | 2,575 | 1,005 | 3,580 |
| **Year ended December 31, 2001:** | | | |
| Net sales from external customers | $ 120,401 | $ 40,738 | $ 161,139 |
| Intersegment net sales | — | 135 | 135 |
| Segment profit—EBITDA | 20,087 | 11,728 | 31,815 |
| Segment assets | 117,572 | 43,161 | 160,733 |
| Goodwill, net | 59,192 | 18,988 | 78,180 |
| Depreciation and amortization | 4,330 | 1,688 | 6,018 |

Reconciliation of Selected Segment Information to the Company's Consolidated Totals:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| **Profit or loss:** | | (in thousands) | |
| Total profit from reportable segments—EBITDA | $ 35,655 | $ 34,580 | $ 31,815 |
| Reconciling items: | | | |
| Corporate administrative expenses | (3,397) | (3,232) | (5,526) |
| Depreciation and amortization | (3,611) | (3,612) | (6,477) |
| Interest expense | (12,338) | (13,301) | (16,572) |
| Income from continuing operations | $ 16,309 | $ 14,435 | $ 3,240 |

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| **Assets:** | | |
| Total assets for reportable segments | $ 160,104 | $ 152,900 |
| Corporate assets | 4,018 | 7,626 |
| Assets of discontinued operations | 20,464 | 34,450 |
| Total consolidated assets | $ 184,586 | $ 194,976 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (in thousands) | |
| **Geographical Sales Information:** | | | |
| United States | $ 156,878 | $ 144,157 | $ 143,298 |
| England | 5,469 | 4,705 | 3,188 |
| Canada | 4,606 | 3,064 | 2,918 |
| China | 4,339 | 4,983 | 3,746 |
| Netherlands | 2,122 | 2,091 | 1,019 |
| Japan | 1,351 | 959 | 1,034 |
| Mexico | 512 | 1,319 | 2,287 |
| Other | 4,819 | 4,832 | 3,649 |
| Total | $ 180,096 | $ 166,110 | $ 161,139 |

## 6. Long-Term Debt

Long-term debt consists of the following:

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| Senior notes | $ 80,000 | $ 80,000 |
| Term loan and revolving credit facility | 51,986 | 63,046 |
| Mortgage | 762 | 782 |
| Other | 9 | 16 |
| | 132,757 | 143,844 |
| Less: Current portion | (12,196) | (7,225) |
| Total long-term debt | $ 120,561 | $ 136,619 |

*(a) Senior Notes*

On May 28, 1998, KCLLC issued $80,000,000 of 10.50% Senior Notes due June 1, 2008, with interest payable semi-annually. The net proceeds from the Senior Notes were used to repay debt, repurchase outstanding warrants and for general corporate purposes. At December 31, 2003 and 2002, the Company has accrued interest on these notes in the amount of $700,000.

The notes are fully and unconditionally guaranteed, jointly and severally, on a non-collateralized basis, by the subsidiaries of KCLLC (the “Subsidiary Guarantors”). At December 31, 2003, KCLLC has de minimis assets other than its investments in the Subsidiary Guarantors and cash and no operations other than those of the Company’s corporate office. Accordingly, the consolidated financial statements present the combined assets and operations of the Subsidiary Guarantors.

The Senior Notes became redeemable, at KCLLC’s option, in whole or in part, at any time and from time to time, on June 1, 2003, and prior to maturity, upon not less than 30 nor more than 60 days prior notice to the holder, plus accrued and unpaid interest to the redemption date. The redemption price is set forth in the indenture and ranges from 105.25% at June 1, 2003 scaling down to 100.0% of the face value beginning in 2006. The holders of the Senior Notes can require the KCLLC to repurchase the notes upon a change in control, as defined in the Indenture.

The Indenture requires certain limitations of indebtedness and certain payments related to dividends and common stock, as defined.

*(b) Term Loan and Revolving Credit Facility*

On September 29, 2000, and in connection with the acquisition of Acme, KCLLC entered into its current credit facility. The credit facility provides for a six-year $40,000,000 revolving credit facility and a six-year $100,000,000 term loan facility. The credit agreement is guaranteed by the Company, and is collateralized by all of the capital stock of the subsidiaries, receivables, inventories, equipment and certain intangible property. The Company closed on the credit agreement in November 2000. The term loan is payable in quarterly installments through September 2006 and the Company may pay the quarterly installments in advance. Both the term loan and revolving credit facility bear interest at fluctuating interest rates determined by reference to a base rate or the London interbank offered rate ("LIBOR") plus an applicable margin which will vary from 1.00% to 2.75%. KCLLC has the option to lock in a rate based on the base or LIBOR rate. Rates determined by reference to the LIBOR rate can be set for 30, 90 or 180 days. Base rate and LIBOR were 4.0% and 1.1%, respectively, at December 31, 2003. The revolving credit facility also requires a commitment fee of 0.375% on the unused portion of the facility as well as quarterly facility commitment fees. The facility also allows for up to $5.0 million of outstanding letters of credit. At December 31, 2003 KCLLC had two outstanding letters of credit for approximately $1,468,000, both relating to workers compensation insurance programs. In addition, the credit agreement contains certain covenants and restrictions, which require the maintenance of financial ratios, and restrict or limit dividends and other shareholder distributions, transactions with affiliates, capital expenditures, rental obligations and the incurrence of indebtedness.

In June 2002, KCLLC amended its credit agreement (the "Amendment") to provide for revised financial covenant ratios from September 30, 2002 through December 2003 from the original covenant ratios stipulated in the credit agreement. KCLLC anticipated that certain of the original covenants, which became more stringent over the term of the agreement, would not be met due to the general decline in the economy. In addition, the Amendment revised KCLLC's applicable margin on borrowings, the maximum allowable capital expenditures through 2003 and reduced the amount allowed for permitted acquisitions (as defined in the credit agreement) from $15 million to $7.5 million through the end of 2003. Concurrent with the Amendment, KCLLC voluntarily reduced the availability under its revolving credit facility by $15 million from $40 million to $25 million through the end of 2003. At December 31, 2002, the Company was in compliance with the covenants of the credit agreement set forth in the Amendment. As a result of KCLLC voluntarily reducing its borrowing capacity through the end of 2003, the Company wrote off $145,000 of the deferred finance costs related to amending the Company's credit facility.

As a result of the impact of the domestic economy on the Company's business coupled with the performance of the lock product line and cash spent on an unsuccessful acquisition attempt during 2003, KCLLC would not have been able to achieve the required step down in the financial covenants that was to occur as of September 2003 in accordance with the Amendment. Accordingly, KCLLC entered into a second amendment to its credit agreement (the "Second Amendment"). The financial covenants as modified by the Second Amendment apply from September 30, 2003 through March 30, 2005, at which time the financial covenants return to the financial covenants in effect before the Amendment. At December 31, 2003, the Company was in compliance with the credit agreement, as amended.

As of December 31, 2003 and 2002, KCLLC had no borrowings outstanding under the revolving credit facility and had approximately $52.0 million and $63.0 million, respectively, outstanding under the term loan. Accrued interest payable at December 31, 2003 and 2002 was approximately $397,000 and $8,000, respectively.

*(c) Mortgage*

The Company has a mortgage collateralized by one of the Company's manufacturing facilities. The mortgage requires monthly payments of approximately $5,000 of principal and interest at approximately 7.7% per annum with the balance of the principal of approximately $657,000 due May 1, 2008.

At December 31, 2003, aggregate principal payments required on all amounts due are as follows:

| | Year ending December 31, |
|---|---|
| | (in thousands) |
| 2004 | $ 12,196 |
| 2005 | 19,931 |
| 2006 | 19,937 |
| 2007 | 27 |
| 2008 | 80,666 |
| | $ 132,757 |

## 7. Federal and State Income Taxes

Income tax expense (benefit) from continuing operations consists of the following:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (in thousands) | |
| Current: | | | |
| Federal | $4,543 | $3,949 | $ 2,174 |
| State | 1,261 | 777 | 290 |
| Foreign | 757 | 573 | 365 |
| Current | 6,561 | 5,299 | 2,829 |
| Deferred: | | | |
| Federal | (2) | (433) | (496) |
| State | (43) | 165 | 70 |
| Foreign | — | 25 | 100 |
| Deferred | (45) | (243) | (326) |
| Total provision for income taxes | $6,516 | $5,056 | $ 2,503 |

A reconciliation between income taxes computed at the statutory federal rate and income tax expense (benefit) from continuing operations is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Federal income tax rate | 34.0% | 34.0% | 34.0% |
| State income taxes, net of federal benefit | 4.8 | 4.9 | 8.3 |
| Nondeductible goodwill amortization | — | — | 24.5 |
| Foreign income taxes, net of federal benefit | 0.5 | — | 10.5 |
| Reconciliation to prior years tax filings | 1.0 | (3.8) | — |
| Other permanent differences | — | — | (1.5) |
| Other, net | (0.3) | 0.3 | 1.5 |
| | 40.0% | 35.4% | 77.3% |

Taxable income earned outside the United States of America was approximately $1.9 million, $1.7 million and $1.0 million for the three years ended December 31, 2003, 2002 and 2001, respectively and was primarily generated from operations in Thailand.

The Company's net deferred assets and liabilities were as follows:

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| | (in thousands) | |
| **Deferred tax assets:** | | |
| Allowance for doubtful accounts | $ 670 | $ 527 |
| Inventory reserves/valuation | 2,625 | 2,434 |
| Warranty reserve | 540 | 383 |
| Accrued severance and other acquisition costs | 79 | 375 |
| Accrued compensation costs | 835 | 843 |
| Supplemental retirement plan | 857 | 800 |
| Accrued expenses | 504 | 424 |
| Accrued lease costs | 185 | 204 |
| Total deferred tax assets | 6,295 | 5,990 |
| **Deferred tax liabilities:** | | |
| Pension | (1,430) | (1,499) |
| Excess depreciation | (2,151) | (2,174) |
| Other | (32) | (151) |
| Total deferred tax liabilities | (3,613) | (3,824) |
| Net deferred tax asset | $ 2,682 | $ 2,166 |

## 8. Commitments and Contingencies

*(a) Operating leases*

The Company rents several manufacturing and warehouse facilities under operating lease agreements, one of which is with a related party (Note 12). Rent expense under all lease agreements amounted to approximately $1.6 million, $1.8 million and $1.8 million in 2003, 2002 and 2001, respectively.

At December 31, 2003 and 2002, approximately $469,000 and $525,000, respectively, was recorded as accrued lease costs related to leased facilities no longer in use by one of the Company's subsidiaries (Note 12). The accrual represents the discounted future rental payments, net of estimated sublease income. At December 31, 2003 and 2002, approximately $65,000 and $56,000, respectively, were included in accrued expenses.

The following is a schedule of the future minimum lease payments under operating leases which expire through 2010.

| | Year ending December 31, |
|---|---|
| | (in thousands) |
| 2004 | $ 1,508 |
| 2005 | 1,321 |
| 2006 | 1,184 |
| 2007 | 1,055 |
| 2008 | 877 |
| Thereafter | 2,598 |
| Total minimum lease payments | $ 8,543 |

*(b) Other*

Consistent with other entities its size, the Company is party to legal actions and claims, none of which individually or in the aggregate, in the opinion of management, are expected to have a material adverse effect on the Company's results of operations, cash flows or financial position.

The Company has employment agreements with certain members of management that expire through 2006.

**9. Redeemable Convertible Preferred Stock**

Effective upon the consummation of a recapitalization that the shareholders of KCI entered into in May of 2000, KCI issued Preferred and Common Stock (the "Recapitalization). Concurrent with the Recapitalization, common shareholders exchanged approximately 863,000 shares of Common Stock, through a treasury stock transaction, for Preferred Stock which was immediately sold to Kelso & Co. and affiliates ("Kelso"), an independent investment group. In addition, Kelso purchased from the Company approximately 55,000 shares of Preferred Stock. Kelso owns all of the outstanding Preferred Stock of KCI, which has a par value of $0.001. Kelso paid approximately $107.8 million ("Kelso Purchase Price") for all Preferred Stock, which the Company recorded as the fair value of the preferred stock. The Company has 1.1 million authorized shares of Preferred Stock and the Preferred Stock earns a dividend equal to 1% of the holders' original purchase price plus any earned dividends and is payable in kind. The dividend compounds on a semi-annual basis. The Preferred Stock is not entitled to vote for the election of directors but is entitled to designate two members of KCI's seven member Board of Directors. In addition, the Preferred Stock has certain approval rights and is convertible into Common Stock at the holder's option on a one for one share exchange basis.

The Preferred Stock held by Kelso & Co. has a liquidation preference equal to the Kelso Purchase Price plus any accrued dividends, and is redeemable for cash at the option of the holder after June 2, 2009.

**10. Stockholders Equity**

*(a) Common Stock*

The Company has authorized 5.0 million shares of Common Stock, which has a par value of $0.001. Members of the Company's Board of Directors as well as company management hold the outstanding shares of Common Stock.

During 2003 and 2001, the Company repurchased 1,490 and 7,713 shares of Common Stock for approximately $100,000 and $906,000, respectively. The shares were repurchased from shareholders who were no longer part of the Company's operating management and were retired by the Company.

*(b) Stock Incentive Plans of KCI*

In 1998, KCI adopted a Long-Term Incentive Plan (the "1998 Plan") to attract, retain and provide additional incentive to employees. In 2000, the Company adopted the Key Components, Inc. Stock Incentive

Plan (the "KCI Plan"). Awards under either plan may take the form of incentive stock options of KCI or non-qualified stock options of KCI. Upon the adoption of the KCI Plan, no further grants will be made under the 1998 Plan. All the options under the 1998 Plan, which account for the purchase of approximately 52,000 shares of common stock, were vested at December 31, 2003.

Under the KCI Plan, options to purchase approximately 45,000 shares of common stock were vested at December 31, 2003. Options to purchase approximately 5,700 shares of common stock vest over the next three years. The remaining options issued under the KCI Plan to purchase approximately 88,000 shares of common stock (the "Exit Options") vest only after a change in control of the Company and if KCI's preferred shareholders obtain a targeted return on their investment. The vesting event would allow the holder to be compensated for the net accretive value of the underlying shares. The Company would take a charge to earnings for the accretion in value upon the date that the Company is reasonably assured that such criteria would be satisfied. The holders of vested options under the KCI Plan can, under certain circumstances, require KCI to repurchase the shares acquired by exercise of the vested options at fair market value, as defined in the Shareholders Agreement.

Information regarding outstanding stock options is as follows:

| | 1998 Incentive Plan | | KCI Stock Incentive Plan | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Options outstanding at January 1, 2001 | 53,025 | $ 42 | 118,985 | $ 117 |
| Options granted | — | — | 12,711 | 125 |
| Options canceled | (1,053) | (95) | (1,500) | (122) |
| Options outstanding at December 31, 2001 | 51,972 | 40 | 130,196 | 118 |
| Options granted | — | — | 11,350 | 100 |
| Options canceled | (169) | (95) | (1,750) | (117) |
| Options outstanding at December 31, 2002 | 51,803 | 41 | 139,796 | 117 |
| Options granted | — | — | 1,338 | 100 |
| Options canceled | — | — | (2,100) | (112) |
| Options outstanding at December 31, 2003 | 51,803 | $ 41 | 139,034 | $ 116 |
| Exercise prices per share | — | $ 25-$95 | — | $ 100-$125 |
| Shares available for options | — | — | 65,845 | — |

A summary of stock options at December 31, 2003 is as follows:

| | | | | Options Exercisable | |
|---|---|---|---|---|---|
| | Weighted Average | | | Weighted Average | |
| Range of Exercise Prices | Shares | Life (yrs) | Price | Shares | Exercise Price |
| $25-$35 | 44,578 | 3.3 | $ 33 | 44,578 | $ 33 |
| $75-$95 | 7,225 | 5.9 | $ 85 | 7,225 | $ 85 |
| $117-$125 | 139,034 | 6.8 | $116 | 45,073 | $ 117 |
| | 190,837 | | | 96,876 | |

The Company accounts for the outstanding options under the two plans using the intrinsic method as provided under APB Opinion 25 and related Interpretations. Accordingly, as the exercise price of options was at or above the market value estimated by management, based on an independent appraisal, at date of grant, no compensation cost has been recognized.

Pro forma information regarding net income is required by SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosures" and has been determined as if the Company had accounted for its employee stock options under the fair value method with the following assumptions:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Weighted average risk-free interest rate | 4.9% | 4.9% | 5.2% |
| Dividend yield | None | None | None |
| Weighted average expected life | 5.8 years | 6.0 years | 7.3 years |

Had compensation cost for the stock options been determined based on the fair values at the grant dates, the Company's net income would have been reduced to the pro forma amounts indicated below:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (in thousands) | |
| Net (loss) income | | | |
| As reported | $(3,430) | $(6,631) | $4,731 |
| Option Expense, net of income taxes | (398) | (453) | (364) |
| Pro forma | $(3,828) | $(7,084) | $4,367 |

## 11. Retirement Plans

*(a) 401(k) Plans*

At December 31, 2003, the Company had two 401(k) plans in effect. The Company's employees at domestic locations, other than those of Acme, are covered under the Key Components, Inc. Plan, which the Company matches 50% of the employees' contributions up to 4% of each covered employee's annual compensation. The employees of Acme are covered by a separate 401(k) plan. Employer contributions to the Acme plans are discretionary. Employer contributions in the aggregate were approximately $355,000, $358,000 and $414,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

*(b) Profit Sharing Plan*

The Company sponsors a profit sharing plan for all non-union employees at two subsidiaries acquired in 1999. Under this plan, contributions are discretionary and limited to a percentage of eligible employees' compensation. There was no profit sharing expense for this plan for the year ended December 31, 2003, 2002 and 2001. In December 2002 the plan was terminated and distributions of approximately $3.3 million were completed to the former participants.

*(c) Pension Plans*

The Company has a non-contributory defined benefit pension plan covering substantially all the employees of Acme (the "Acme Pension Plan"). The formula covering the employees of Acme provides pension benefits based upon the employee's individual yearly compensation. The Acme Pension Plan assets are managed and invested by a financial institution. Upon acquiring Acme, management had decided to terminate the Acme Pension Plan. At December 31, 2002, the Company had recorded against the prepaid pension asset approximately $1.8 million of anticipated excise tax liabilities and the estimated future employer 401(k) contribution liability related to the participant accounts of former Acme Pension Plan participants who participate in the Key Components, Inc. 401(k) plan that will be paid using part of the Acme Pension Plan over-funding. In January 2003, management decided to retain the pension plan indefinitely. As a result the termination liabilities were recorded against the unrecognized net actuarial loss on the books of the Company.

In addition, Gits has a noncontributory defined benefit pension plan (the "Gits Plan") covering its union employees retiring after August 1, 1993. Pension benefits are based on a multiple of a fixed amount per month and years of service, as defined in the union agreement. Benefits of the Gits Plan generally vest over a seven-year period. The assets of the Gits Plan are managed and invested by an insurance company.

It is the Company's funding policy for the Gits Plan and the Acme Pension Plan to fund at least an amount necessary to satisfy the minimum requirements of the Employee Retirement Income Security Act of 1974. The amount to be funded is subject to annual review by management and its consulting actuary. In recent years, funding contributions have been restricted due to application of Internal Revenue Code full-funding limitations. No funding has been required during the three years ended December 31, 2003.

At December 31, 2003, approximately 94% of the plans' assets are invested in cash and cash equivalents and 6% are invested in equities. At December 31, 2002, approximately 0.4% of the plans' assets were invested in cash and cash equivalents, 54% were invested in equities and 45.6% were invested in fixed income securities and annuities.

Summarized information of the Plans is as follows:

**Pension Obligation**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| Benefit obligation at beginning of year | $ 18,513 | $ 18,586 | $ 17,867 |
| Service cost | 391 | 519 | 513 |
| Interest cost | 1,138 | 1,104 | 1,055 |
| Actuarial gain (loss) | 778 | 504 | (29) |
| Benefits paid | (2,136) | (2,200) | (820) |
| Benefit obligation at end of year | $ 18,684 | $ 18,513 | $ 18,586 |

**Plan Assets**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| Fair value of plan assets at beginning of year | $ 18,527 | $ 21,996 | $ 23,583 |
| Actual return on plan assets | 1,603 | (1,226) | (733) |
| Benefits paid | (2,136) | (2,200) | (820) |
| Other | (51) | (43) | (34) |
| Fair value of plan assets at end of year | $ 17,943 | $ 18,527 | $ 21,996 |

**Amounts recognized in the balance sheet**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| Funded status | $ (741) | $ 14 | $ 3,410 |
| Unrecognized net actuarial loss (gain) | 3,363 | 5,020 | 2,365 |
| Recorded liability for future 401(k) contributions and excise taxes | — | (2,080) | (2,269) |
| Unrecognized prior service cost (benefit) | 64 | 73 | 82 |
| Net amount recognized | $ 2,686 | $ 3,027 | $ 3,588 |

**Amounts recognized in the balance sheet consist of**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| Prepaid benefit cost | $ 2,684 | $ 3,027 | $ 3,588 |
| Accrued benefit cost | (284) | — | — |
| Intangible assets | 64 | — | — |
| Accumulated other comprehensive income (gross) | 222 | — | — |
| Net amount recognized | $ 2,686 | $ 3,027 | $ 3,588 |

**Information for pension plans with an accumulated benefit obligation in excess of plan assets**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| Projected benefit obligation | $ 1,397 | $ 1,183 | $ 1,149 |
| Accumulated benefit obligation | 1,397 | 1,183 | 1,149 |
| Fair value of plan assets | 1,113 | 1,041 | 1,154 |

**Components of Net Periodic Cost (Benefit)**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| Service cost | $ 443 | $ 562 | $ 547 |
| Interest cost | 1,138 | 1,104 | 1,055 |
| Expected return on plan assets | (1,323) | (1,636) | (1,785) |
| Other | 83 | 531 | 7 |
| Net periodic cost (benefit) | $ 341 | $ 561 | $ (176) |

**Weighted average assumptions used to determine benefit obligations**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Discount rate | 6.0% | 6.5% | 6.0% |
| Rate of compensation increase | 3.0% | 3.0% | 0.0% |

**Weighted average assumptions used to determine net periodic pension expense**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Discount rate | 6.5% | 6.5% | 6.0% |
| Expected long-term rate of return on assets | 7.5%-8.0% | 7.5%-8.0% | 7.5% to 8.5% |
| Rate of compensation increase | 3.0% | 0.0% | 0.0% |

***Additional Information***

The accumulated benefit obligation of all defined benefit plans was approximately $18.0 million, $17.9 million and $18.6 million at December 31, 2003, 2002 and 2001, respectively.

In December 2002 and into the first quarter of 2003, the Acme Pension Plan paid out the current benefit obligations of the participants in the Acme Pension Plan that were formerly employed at Acme Electronics division within one year of the time of the sale.

*(d) Other retirement liabilities*

At December 31, 2003 and 2002, the Company had approximately $1,051,000 and $940,000 recorded, respectively, as other long-term liabilities related to obligations under Acme's non-qualified Supplemental Executive Retirement Plan ("SERP") and a non-qualified post-retirement benefits plan for certain former officers of Acme. The SERP provides benefits based upon an executive's compensation in the last year of service and is reduced by benefits received from the salaried pension plan. The nonqualified benefits plan provides post retirement health care. Six participants of this plan are retired and receiving payments under the SERP. Due to certain provisions under the SERP, the Company was required to fund approximately $1.1 million to a trust account on behalf of certain of the SERP's participants. The assets in the trust remain a part of the books and records of the Company and are subject to the Company's creditors.

**12. Related Party Transactions**

The Company rented its former Leominster, Massachusetts manufacturing facility under an operating lease agreement entered into with a company that is co-owned by a former shareholder of KCI. The lease expired on May 31, 2003 in accordance with its terms. Rental payments for the three years ended December 31, 2003 were approximately $91,000, $217,000, and $213,000, respectively.

The Company rents one of its manufacturing facilities under an operating lease agreement entered into with a company that is co-owned by the President of Elliott who also is a shareholder of KCI. The terms of the lease, which expires December 31, 2008, provide for annual rent increases of 5%. Rental payments amounted to $176,000, $167,000 and $159,000 for the three years ended December 31, 2003, 2002 and 2001, respectively.

The Company pays management fees to Millbrook, a party related to certain shareholders of the Company. These management fees amounted to $175,000, $175,000 and $920,000 for the years ended

December 31, 2003, 2002 and 2001, respectively. KCI, Kelso and certain shareholders of KCI entered into a Shareholders Agreement and a Registration Rights Agreement and KCI and Kelso entered into an Advisory Agreement. As part of Advisory Agreement, KCI is required to pay a $325,000 annual management fee to Kelso. Kelso agreed that amounts paid by Millbrook Capital Management ("Millbrook") (Note 12) to Kelso out of management fees received by Millbrook from KCI or KCLLC would offset KCI's obligation to Kelso under the Advisory Agreement between Kelso and KCI. These are recorded as part of the Company's corporate expenses.

**13. Statement of Cash Flows**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid during the year: | | | |
| Interest | $ 10,864 | $ 12,724 | $ 15,608 |
| Income taxes | $ 227 | $ 5,305 | $ 3,050 |

**14. Subsequent Events**

*(a) Hudson Lock*

The Company's lock product line's net sales declined significantly during the three years ended December 31, 2003. Net sales of the lock product line were approximately $17.2 million, $21.8 million and $32.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. Management attributes such decline to the downturn in the economy plus the impact of foreign competition, both of which have led to the product line becoming a commodity over that period. As the net sales volume eroded, the shift in manufacturing to Mexico negatively impacted customer service and quality. Further, the decline in sales volume made it prohibitive to support the dual overhead infrastructures of its domestic and Mexico manufacturing facilities. As a result, the Company closed the lock manufacturing facility in Mexico in February 2004. In closing the facility, the Company recorded a charge of approximately $664,000 for severance, closing costs and to adjust inventory and leaseholds to the lower of cost or fair value. In addition, the Company recorded a charge of approximately $605,000 to record the balance of the lease of the facility on a present value basis, less any estimate for sublease income.

In March 2004, the Board of Directors of KCI and KCLLC concluded to sell Hudson Lock, LLC ("Hudson"). In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company recorded the assets and liabilities of Hudson as held for sale and reported the results as discontinued operations. Based on initial indications of value from prospective buyers, at June 30, 2004, the Company recorded a charge of approximately $4.3 million (net of tax benefit of approximately $2.6 million) to reduce the carrying value of the assets held for sale to its fair value.

On October 22, 2004, the Company consummated the sale of the net assets of Hudson to Waveland Investments ("the Buyer"), an independent third party. As a result of the sale, the domestic assets, which primarily consisted of accounts receivable, inventory and fixed assets, and the domestic liabilities of Hudson were sold to the Buyer for consideration of approximately $4.5 million, consisting of a note receivable of approximately $1.2 million with the balance of the proceeds being paid in cash. The note receivable matures on April 22, 2008 and requires payment of interest at 8.0% per annum through April 22, 2005, 10% per annum through October 2005 and 14% per annum subsequent to October 2005 until the maturity date. The Buyer has the ability to convert the outstanding interest due to the Company to additional notes receivable, which would then be due and payable on the same date as the original note. If Hudson meets certain operating thresholds the Buyer is required to prepay portions of the outstanding note receivable and the

Buyer has the right to prepay the balance of the notes receivable. The note receivable is subordinate to the Buyer's acquisition and operating debt. The remaining assets and liabilities of Hudson's Mexico operations, which are not material, were not sold in the transaction. The Company used the cash proceeds received in the transaction to pay down outstanding bank debt. As a result of the expected proceeds from the sale, at September 30, 2004, the Company recorded an additional charge of approximately $680,000 (net of tax benefit of approximately $351,000) to reduce the carrying value of the assets held for sale to the lower of cost or fair value.

The following table summarizes the net assets of the lock product line:

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| | (In thousands) | |
| Accounts receivable | $ 2,011 | $ 3,319 |
| Inventory | 4,628 | 4,443 |
| Other current assets and prepaid expenses | 524 | 277 |
| Plant and equipment, net | 6,018 | 6,487 |
| Goodwill | — | 17,374 |
| Deferred tax assets | 7,283 | 2,550 |
| Assets held for sale | 20,464 | 34,450 |
| Accounts payable | 845 | 1,077 |
| Accrued wages and related expenses | 562 | 423 |
| Accrued expenses | 515 | 625 |
| Liabilities associated with assets held for sale | 1,922 | 2,125 |
| Net assets of lock product line | $ 18,542 | $ 32,325 |

The following summarizes the operations of the lock business for the three years ended December 31, 2003:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands) | |
| Net sales | $ 17,194 | $ 21,833 | $ 32,678 |
| (Loss) income from discontinued operations, net of taxes (benefit) of $(6,358), $(2,428) and $3,055, respectively | $ (13,223) | $ (7,853) | $ 3,994 |

*(b) Advanced Devices, Inc.*

On May 7, 2004, the Company acquired the net assets of Advanced Devices, Inc. ("ADI") for a purchase price of approximately $8.0 million and assumed liabilities of approximately $62,000. The Company recorded the estimated excess purchase price over net assets acquired of approximately $6.2 million as goodwill. The value ascribed to the estimated excess purchase price over net assets acquired is preliminary and is subject to change. Other intangibles acquired were not material. The ADI product line, which manufactures electrical wiring devices, has been integrated into the Company's Napa Valley, California manufacturing facility. The Company paid approximately $6.1 million in cash at closing and borrowed approximately $4.5 million on its revolving credit facility to partially finance this acquisition. The purchase agreement required approximately 75% of the total purchase price to be paid at closing, 10% to be paid at the earlier of the date when the product line is fully integrated into the Company's Napa, California manufacturing facility or March 7, 2005, and the remainder over the next four years annually commencing on May 7, 2005.

*(c) Amveco Magnetics, Inc.*

On August 23, 2004, the Company acquired the common stock of Amveco Magnetics, Inc. ("Amveco"), a Texas corporation, for a purchase price of approximately $6.0 million, subject to adjustment, less assumed liabilities of approximately $2.1 million. In October 2004, the Company paid approximately $462,000 of additional consideration related to the closing balance sheet. The Company recorded the estimated excess purchase price over net assets acquired of approximately $2.5 million as goodwill. The value ascribed to the estimated excess purchase price over net assets acquired is preliminary and is subject to change. Other intangibles acquired were not material. The agreement calls for three contingent payments, two of which up to $1.0 million in aggregate and the other based upon a percentage of revenues exceeding a baseline specified in the purchase agreement, based on the performance of the business for the six months ended September 30, 2004 and for the year ending December 31, 2005. In addition, the Company currently has approximately $1.6 million in escrow, which is included in other assets, related to the Amveco transaction. The escrow was established to cover potential liabilities related to the Mexico operation of Amveco. The agreement calls for the escrow to be paid upon certain open issues related to the legal and tax establishment of the Mexico operation are rectified. The contingent payments and any payments out of escrow, if made, will be recorded as goodwill at the time of payment. Amveco, which manufactures torroidal transformers primarily for medical applications, will be integrated into the Company's Monterrey, Mexico and Lumberton, North Carolina facilities. The Company paid approximately $6.0 million in cash at closing and borrowed approximately $5.0 million on its revolving credit facility to partially finance this acquisition.

*(d) Sale of KCI*

In November 2004, the board of KCI authorized the sale of the Company to Actuant Corporation, a publicly traded company. The sales price, which is to be paid in cash, is approximately $315 million, less expenses and net debt (outstanding debt of the Company, as defined in the agreement, less cash) of the Company as of the date the transaction closes. The Company's outstanding options to purchase common stock will all exercise, except for the Exit Options which will terminate. Options exercised will be settled for cash. The agreement calls for a $20 million escrow, which will remain in place for three years to cover the indemnities under the agreement. The sale is expected to close during December 2004. The agreement calls for a purchase price adjustment if the Company's working capital (current assets less current liabilities) is under a certain threshold as of the closing date of the agreement. In connection with the sale process, the Company entered into agreements with its corporate executives whereby they receive a bonus contingent on the sales price of the Company.

**Exhibit 99.2**

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We derived the following unaudited pro forma condensed consolidated financial statements by applying pro forma adjustments to our historical financial statements and the historical financial statements of Key Components, Inc. (“KCI”). The following unaudited pro forma statement of earnings for the fiscal year ended August 31, 2004 reflects the following events as if each had occurred at the beginning of the period, and the following unaudited pro forma balance sheet as of August 31, 2004 reflects the following events as if each had occurred on August 31, 2004:

- Our acquisition of KCI on December 27, 2004 (the “KCI Acquisition”) for $315 million, of which $235 million was paid in cash (the “Cash Portion”) and $80 million was paid through the assumption of the KCI 10.5% senior subordinated notes due 2008 (referred to herein as the “KCI senior notes”);
- The sale on December 28, 2004 of 2,875,000 shares of our common stock in a public offering (the “Offering”) and our receipt of approximately $133.9 million of net proceeds;
- The amendment of our senior credit facility and our borrowing of $250 million pursuant to a new term loan thereunder on December 27, 2004;
- The redemption of the KCI senior notes for an assumed aggregate redemption price of $84.2 million, including redemption premium and accrued interest to the redemption date (the “Redemption Deposit”);
- The application of the estimated net proceeds from the offering and the proceeds from the new $250 million term loan to pay the Cash Portion of the acquisition price of KCI, to redeem the KCI senior notes, to reduce our revolving credit and/or commercial paper borrowings and to pay costs and expenses relating to the foregoing; and
- The application of some of the Cash Portion of the acquisition price to repay all of KCI’s other outstanding indebtedness.

The actual purchase price for KCI is subject to a possible reduction in the event that KCI’s working capital as of the closing date is less than a specified amount.

On December 27, 2004, we provided to the trustee of the KCI senior notes a notice to redeem the KCI senior notes along with funds to satisfy the Redemption Deposit. We expect that the redemption of the KCI senior notes will occur on January 26, 2005.

The unaudited pro forma financial statements do not reflect the activity of Yvel and Sperry, which we acquired after August 31, 2004. In addition, the unaudited pro forma financial statements do not reflect the full year impact of our acquisition of Dresco, which was acquired on December 30, 2003, or KCI’s acquisitions of Advanced Devices, Inc. and Amveco Magnetics, Inc. on May 7, 2004 and August 23, 2004, respectively.

The unaudited pro forma condensed consolidated statement of earnings for the fiscal year ended August 31, 2004 combines the historical consolidated statement of earnings of Actuant for the fiscal year ended August 31, 2004 and the consolidated historical results of operations of KCI for the twelve months ended September 30, 2004. The unaudited pro forma condensed consolidated balance sheet as of August 31, 2004 combines the consolidated historical balance sheet of Actuant as of that date with the consolidated historical balance sheet of KCI as of September 30, 2004. The unaudited pro forma condensed consolidated financial statements appearing below should be read in conjunction with KCI’s historical financial statements and related notes included elsewhere in this Form 8-K and the historical financial statements and related notes of Actuant appearing in its Annual Report on Form 10-K for the fiscal year ended August 31, 2004.

The unaudited pro forma condensed consolidated financial statements have been prepared giving effect to the KCI acquisition, which will be accounted for using the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations." The total purchase price will be allocated to the net assets of KCI based upon estimates of their fair value. The fair value of some of these assets will be determined on the basis of professional appraisals, none of which has yet commenced. The pro forma adjustments reflected in the following unaudited pro forma financial statements are based on our estimates of the value of KCI's tangible and intangible assets without the benefit of professional appraisals. Accordingly, the final purchase price allocation will likely differ from the allocation reflected in the following unaudited pro forma condensed consolidated financial statements. In addition, the final purchase price allocation may also differ from that reflected in these unaudited pro forma financial statements to the extent that the actual purchase price we pay for KCI is reduced because KCI's working capital as of the closing date is less than a specified amount.

The unaudited pro forma condensed consolidated financial statements are based upon available information and a number of assumptions and estimates and are subject to other uncertainties. These unaudited pro forma condensed consolidated financial statements are presented for informational purposes only and do not purport to represent what our actual results of operations or financial position would have been had the KCI acquisition and related transactions described above been consummated at the dates indicated, nor do they purport to be indicative of our future results of operations or financial condition.

References to "Actuant," "we," "us," "our," and other similar references in this Exhibit mean Actuant Corporation and its subsidiaries unless otherwise expressly stated or the context otherwise requires.

**Unaudited Pro Forma Condensed Consolidated Balance Sheet**
**August 31, 2004**
**(dollars in millions)**
**(unaudited)**

| | Actuant (1) | KCI (1) | Pro Forma Adjustments | Pro Forma Consolidated |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 6.0 | $ 1.1 | $ 17.8(2) | $ 24.9 |
| Accounts receivable, net | 90.5 | 30.0 | | 120.5 |
| Inventories, net | 87.1 | 35.8 | 3.0(3) | 125.9 |
| Deferred income taxes | 11.1 | 4.9 | | 16.0 |
| Other current assets | 7.6 | 2.4 | | 10.0 |
| Assets held for sale | — | 15.6 | (15.6)(2) | |
| Total current assets | 202.3 | 89.8 | 5.2 | 297.3 |
| Property, plant and equipment, net | 48.0 | 18.9 | 18.0(3) | 84.9 |
| Goodwill | 145.4 | 89.1 | 139.3(3) | 373.8 |
| Other intangibles, net | 22.1 | — | 53.0(3) | 75.1 |
| Other long-term assets | 6.3 | 7.5 | (0.1)(4) | 11.0 |
| | | | (2.7)(3) | |
| Total assets | $ 424.1 | $205.3 | $ 212.7 | $ 842.1 |
| **Liabilities and shareholders' equity** | | | | |
| Current liabilities | | | | |
| Short-term borrowings | $ 1.0 | $ — | $ | $ 1.0 |
| Trade accounts payable | 64.2 | 15.2 | | 79.4 |
| Accrued compensation and benefits | 21.4 | 5.2 | | 26.6 |
| Income taxes payable | 9.6 | 9.0 | | 18.6 |
| Current maturities of long-term debt | 3.8 | 17.7 | (17.7)(5) | 3.8 |
| Other current liabilities | 34.6 | 14.0 | 2.0(3) | 47.3 |
| | | | (3.3)(2) | |
| Liabilities associated with assets held for sale | — | 1.0 | (1.0)(2) | — |
| Total current liabilities | 134.6 | 62.1 | (20.0) | 176.7 |
| Long-term debt, less current maturities | 189.1 | 109.3 | 101.9(5) | 400.3 |
| Deferred income taxes | 8.3 | 2.5 | 25.1(3) | 35.9 |
| Other long-term liabilities | 60.1 | 2.5 | 0.7(3) | 63.3 |
| Minority interest in net equity of consolidated affiliates | 0.2 | — | | 0.2 |
| Redeemable convertible preferred stock | — | 112.8 | (112.8)(7) | — |
| **Shareholders' equity** | | | | |
| Capital stock | 4.8 | — | 0.6(6) | 5.4 |
| Additional paid-in capital | (518.3) | — | 133.3(6) | (385.0) |
| Retained earnings | 562.9 | (83.9) | 83.9(7) | 562.9 |
| Accumulated other comprehensive income (loss) | (17.6) | — | | (17.6) |
| Total shareholders' equity | 31.8 | (83.9) | 217.8 | 165.7 |
| Total liabilities and shareholders' equity | $ 424.1 | $205.3 | $ 212.7 | $ 842.1 |

(1) Actuant's fiscal year ends on August 31 and KCI's fiscal year ends on December 31. The unaudited pro forma condensed consolidated balance sheet combines Actuant's historical consolidated balance sheet as of August 31, 2004 with KCI's historical consolidated balance sheet as of September 30, 2004, which is the last day of the third quarter of KCI's fiscal year.

(2) Reflects the elimination of KCI assets and liabilities not acquired or assumed. In addition, cash and cash equivalents reflect the $18.9 million increase in cash from the estimated net proceeds from this offering and the proceeds from the new $250 million term loan in excess of amounts required to pay the Cash Portion of the acquisition price of KCI, to redeem the KCI senior notes, to pay costs and expenses relating to the foregoing, and to reduce revolving credit and/or commercial paper borrowings.

(3) Under purchase accounting, a portion of the purchase price of KCI will be allocated to KCI's tangible assets and liabilities based on their relative fair values. The remaining purchase price will be allocated to KCI's identifiable intangible assets with a finite life and amortized over that life, as well as to goodwill and KCI's identifiable intangible assets with an indefinite life, which are not amortized, but are evaluated on an annual basis to determine impairment and, if appropriate, adjusted accordingly. The pro forma adjustments are based on our preliminary assessment of the value of KCI's tangible and intangible assets. As discussed in the introduction to these unaudited pro forma financial statements, the final purchase price allocation will likely differ from the preliminary allocation reflected in these unaudited pro forma financial statements. The preliminary purchase price allocation reflected in these unaudited pro forma financial statements is as follows (dollars in millions):

| | |
|---|---|
| **Purchase price allocation:** | |
| Net cash paid for KCI acquisition | $235.0 |
| Assumption of the KCI senior notes | 80.0 |
| Estimated acquisition expenses | 4.5 |
| Total acquisition consideration | 319.5 |
| Less: Estimated net book value of tangible assets acquired | (51.8) |
| Excess purchase price to be allocated | $267.7 |
| **Preliminary allocations of excess purchase price:** | |
| Inventory adjustment to reflect fair value | $ 3.0 |
| Fixed asset adjustment to reflect fair value | 18.0 |
| Identifiable intangible assets—finite life | 23.0 |
| Identifiable intangible assets—indefinite life | 30.0 |
| Fair value of pension liability | (3.4) |
| Fair value of debt | (4.2) |
| Costs to close KCI's corporate headquarters | (2.0) |
| Deferred tax liability | (25.1) |
| Goodwill | 228.4 |
| | $267.7 |

Amortization of intangible assets, if applicable, will occur over the estimated useful lives of the intangible assets, which we estimate will range from five to ten years. Estimated intangible assets include $30 million of trademarks (indefinite life), $16 million of patents (ten year amortization) and $7 million of customer relationships (five year amortization).

(4) Reflects the estimated debt issuance costs of $2.5 million relating to our new term loan and amended senior credit facility, offset by the elimination of KCI's $2.6 million of capitalized debt issuance costs that will no longer be amortized due to the repayment of KCI's outstanding indebtedness in connection with the KCI acquisition.

(5) Reflects the adjustments of KCI's and our outstanding indebtedness as follows (in millions):

| | |
|---|---|
| Repayment of KCI senior notes | $ (80.0) |
| Repayment of KCI's senior and other debt | (47.0) |
| Incurrence of the new Actuant term loan | 250.0 |
| Utilization of the proceeds from this offering and the new term loan to repay Actuant's revolving credit and commercial paper borrowings | (38.8) |
| Total change in debt | $ 84.2 |

Immediately prior to the closing of the offering, excluding any borrowings made in connection with the Redemption Deposit which were repaid with a portion of the net proceeds from the offering, we had approximately $80 million of revolving credit and commercial paper borrowings outstanding. Accordingly, the actual amount of revolving credit and/or commercial paper borrowings that we repaid with the proceeds from the offering and the new term loan (excluding borrowings made in connection with the Redemption Deposit) was approximately $57.7 million.

(6) Reflects the issuance of shares of our common stock in the offering.

(7) Reflects the elimination of KCI's historical shareholders' equity accounts and redeemable convertible preferred stock pursuant to the application of purchase accounting, and the issuance of shares of common stock in the offering.

**Unaudited Pro Forma Condensed Consolidated Statements Of Earnings**
**For the Fiscal Year Ended August 31, 2004**
**(dollars in millions, except per share amounts)**
**(unaudited)**

| | Actuant (1) | KCI (1) | Pro Forma Adjustments | Pro Forma Consolidated |
|---|---|---|---|---|
| Net sales | $ 726.9 | $209.1 | $ — | $ 936.0 |
| Cost of products sold | 495.7 | 131.2 | 0.9(2) | 632.8 |
| | | | 2.0(3) | |
| | | | 3.0(4) | |
| Gross profit | 231.2 | 77.9 | (5.9) | 303.2 |
| Selling, administrative and engineering expenses | 138.7 | 41.6 | (0.9)(2) | 179.4 |
| Amortization of intangible assets | 2.2 | — | 3.0(3) | 5.2 |
| Operating profit | 90.3 | 36.3 | (8.0) | 118.6 |
| Financing costs, net | 13.6 | 12.0 | (3.6)(5) | 22.0 |
| Charge for early extinguishment of debt | 36.7 | — | | 36.7 |
| Other expense (income), net | 1.2 | — | — | 1.2 |
| Earnings from continuing operations before income tax expense and minority interest | 38.8 | 24.3 | (4.4) | 58.7 |
| Income tax expense | 14.7 | 9.4 | (1.7)(6) | 22.4 |
| Minority interest, net of income taxes | 0.2 | — | — | 0.2 |
| Earnings from continuing operations | $ 23.9 | $ 14.9 | $ (2.7) | $ 36.1 |
| Basic earnings per share from continuing operations | $ 1.01 | | | $ 1.38 |
| Diluted earnings per share from continuing operations | $ 0.97 | | | $ 1.33 |
| Weighted average common shares outstanding: | | | | |
| Basic | 23.7 | | 2.5(7) | 26.2 |
| Diluted | 24.7 | | 2.5(7) | 27.2 |

(1) Because of differing fiscal year-ends for Actuant and KCI, the unaudited pro forma condensed consolidated statement of earnings for the fiscal year ended August 31, 2004 combines Actuant's historical consolidated statement of earnings for that fiscal year with KCI's historical consolidated results of operations for the twelve months ended September 30, 2004.

(2) Reflects the reclassification of certain costs classified as selling, general and administrative costs by KCI to conform to Actuant's classification as cost of sales.

(3) Reflects the expected annual amortization of identifiable finite-lived intangible assets acquired as part of the KCI acquisition and the incremental depreciation on the write-up of the fixed assets to fair value.

(4) Reflects the amortization of the purchase accounting adjustment to record inventory at its fair value.

(5) Reflects the net change in interest expense to give effect to (a) borrowings under our new term loan at an assumed interest rate of 3.8% per annum, which is based upon LIBOR as of December 1, 2004 plus a borrowing spread, determined pursuant to the anticipated terms of the amended senior credit agreement, of 1.50%, (b) the repayment of all of KCI's outstanding borrowings and the redemption of the KCI senior notes, (c) the amortization of $2.5 million of estimated debt issuance costs incurred in connection with our amended senior credit facility over five years and (d) the elimination of interest expense and debt issue cost amortization for KCI. A 1/8% increase in the LIBOR rate would result in an additional $0.3 million of interest expense under the new term loan.

(6) Tax effects of the pro forma adjustments have been calculated based on the estimated statutory tax rate of 39%.

(7) Reflects the issuance of shares of common stock in the offering.