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

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended November 30, 2002**

**OR**

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

**Commission File No. 1-11288**

# ACTUANT CORPORATION

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

| | |
|---|---|
| **Wisconsin** | **39-0168610** |
| **(State of incorporation)** | **(I.R.S. Employer Id. No.)** |

**6100 NORTH BAKER ROAD**
**MILWAUKEE, WISCONSIN 53209**
**Mailing address: P. O. Box 3241, Milwaukee, Wisconsin 53201**
**(Address of principal executive offices)**

**(414) 352-4160**
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No____

The number of shares outstanding of the registrant's Class A Common Stock as of December 31, 2002 was 11,644,467.

## TABLE OF CONTENTS



**Risk Factors That May Affect Future Results**

This quarterly report on Form 10-Q contains certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. The terms "may," "should," "could," "anticipate," "believe," "estimate," "expect," "objective," "plan," "project" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements, including statements under the caption Outlook, are subject to inherent risks and uncertainties that may cause actual results or events to differ materially from those contemplated by such forward-looking statements. In addition to the assumptions and other factors referred to specifically in connection with such statements, factors that may cause actual results or events to differ materially from those contemplated by such forward-looking statements include, without limitation, general economic conditions and market conditions in the recreational vehicle, truck, automotive, industrial production, and construction industries in North America, Europe and, to a lesser extent, Asia, market acceptance of existing and new products, successful integration of acquisitions, operating margin risk due to competitive pricing and operating efficiencies, supply chain risk, material or labor cost increases, foreign currency risk, interest rate risk, the economy's reaction to terrorist actions or responsive military actions, the length of economic downturns in the Company's markets, the resolution of contingent liabilities related to APW Ltd. and other litigation matters, the Company's ability to access capital markets, the Company's debt level, and other factors that may be referred to or noted in the Company's reports filed with the Securities and Exchange Commission from time to time.

## PART I—FINANCIAL INFORMATION

**Item 1—Financial Statements**

## ACTUANT CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

***(In thousands, except per share amounts)***
***(Unaudited)***

| | Three Months Ended November 30, 2002 | Three Months Ended November 30, 2001 |
|---|---|---|
| Net Sales | **$ 147,858** | $ 113,140 |
| Cost of Products Sold | **101,956** | 75,107 |
| Gross Profit | **45,902** | 38,033 |
| Selling, Administrative and Engineering Expenses | **27,087** | 19,927 |
| Amortization of Intangible Assets | **627** | 612 |
| Operating Earnings | **18,188** | 17,494 |
| Net Financing Costs | **5,662** | 9,889 |
| Charge for Early Extinguishment of Debt | **1,974** | — |
| Litigation Charge Associated with Divested Businesses | **7,300** | — |
| Other Expense, net | **246** | 360 |
| Earnings from Continuing Operations Before Income Tax Expense and Minority Interest | **3,006** | 7,245 |
| Income Tax Expense | **1,067** | 2,680 |
| Minority Interest, net of Income Taxes | **83** | — |
| Earnings Before Cumulative Effect of Change in Accounting Principle | **1,856** | 4,565 |
| Cumulative Effect of Change in Accounting Principle, net of Income Taxes | — | (7,200) |
| Net Earnings (Loss) | **$ 1,856** | $ (2,635) |
| Basic Earnings (Loss) Per Share: | | |
| Earnings Before Cumulative Effect of Change in Accounting Principle | **$ 0.16** | $ 0.57 |
| Cumulative Effect of Change in Accounting Principle, net of Income Taxes | — | (0.90) |
| Total | **$ 0.16** | $ (0.33) |
| Diluted Earnings (Loss) Per Share: | | |
| Earnings Before Cumulative Effect of Change in Accounting Principle | **$ 0.15** | $ 0.54 |
| Cumulative Effect of Change in Accounting Principle, net of Income Taxes | — | (0.85) |
| Total | **$ 0.15** | $ (0.31) |
| Weighted Average Common Shares Outstanding: | | |
| Basic | **11,603** | 8,023 |
| Diluted | **12,198** | 8,455 |

See accompanying Notes to Condensed Consolidated Financial Statements

**ACTUANT CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

***(In thousands, except share amounts)***

| ASSETS | November 30, 2002 | August 31, 2002 |
|---|---|---|
| | *(Unaudited)* | |
| Current Assets: | | |
| Cash and cash equivalents | **$ 3,799** | $ 3,043 |
| Accounts receivable, net | **84,187** | 58,304 |
| Inventories, net | **68,218** | 54,898 |
| Deferred income taxes | **20,331** | 9,127 |
| Other current assets | **5,094** | 4,592 |
| Total Current Assets | **181,629** | 129,964 |
| Property, Plant and Equipment, net | **57,514** | 36,828 |
| Goodwill | **101,354** | 101,361 |
| Other Intangible Assets, net | **20,176** | 18,466 |
| Other Long-term Assets | **10,450** | 7,992 |
| Total Assets | **$ 371,123** | $ 294,611 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Short-term borrowings | **$ 2,412** | $ 2,993 |
| Current maturities of long-term debt | **9,000** | 6,788 |
| Trade accounts payable | **49,496** | 47,834 |
| Accrued compensation and benefits | **15,906** | 12,362 |
| Income taxes payable | **17,216** | 18,365 |
| Other current liabilities | **58,006** | 23,924 |
| Total Current Liabilities | **152,036** | 112,266 |
| Long-term Debt, less current maturities | **196,287** | 182,783 |
| Deferred Income Taxes | **7,155** | 4,409 |
| Pension and Postretirement Benefit Liabilities | **26,743** | 11,550 |
| Other Long-term Liabilities | **27,657** | 27,222 |
| Minority Interest in Net Equity of Consolidated Affiliates | **3,134** | — |
| Shareholders' Equity: | | |
| Class A common stock, $0.20 par value, authorized 16,000,000 shares, issued and outstanding 11,619,252 and 11,595,417 shares, respectively | **2,324** | 2,319 |
| Additional paid-in capital | **(523,087)** | (523,419) |
| Retained earnings | **501,012** | 499,156 |
| Stock held in trust | **(533)** | (511) |
| Deferred compensation liability | **533** | 511 |
| Accumulated other comprehensive loss | **(22,138)** | (21,675) |
| Total Shareholders' Equity | **(41,889)** | (43,619) |
| Total Liabilities and Shareholders' Equity | **$ 371,123** | $ 294,611 |

See accompanying Notes to Condensed Consolidated Financial Statements

## ACTUANT CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(In thousands)*
*(Unaudited)*

| | Three Months Ended November 30, 2002 | Three Months Ended November 30, 2001 |
|---|---|---|
| **Operating Activities** | | |
| Net earnings before cumulative effect of change in accounting principle | **$ 1,856** | $ 4,565 |
| Adjustments to reconcile net earnings before cumulative effect of change in accounting principle to cash provided by operating activities: | | |
| Depreciation and amortization | **3,689** | 3,008 |
| Amortization of debt discount and debt issuance costs | **694** | 624 |
| Provision (benefit) for deferred income taxes | **366** | (140) |
| Loss (gain) on sale of assets | **25** | (53) |
| Changes in operating assets and liabilities, excluding the effects of the business acquisition: | | |
| Accounts receivable | **(6,381)** | 3,964 |
| Inventories | **1,915** | 163 |
| Prepaid expenses and other assets | **(1,018)** | (166) |
| Trade accounts payable | **(2,621)** | 656 |
| Income taxes payable | **(2,564)** | (4,374) |
| Other accrued liabilities | **8,027** | (11,597) |
| Net cash provided by (used in) operating activities | **3,988** | (3,350) |
| **Investing Activities** | | |
| Proceeds from sale of property, plant and equipment | **4** | 57 |
| Capital expenditures | **(3,392)** | (2,482) |
| Business acquisition, net of cash acquired | **(8,730)** | — |
| Net cash used in investing activities | **(12,118)** | (2,425) |
| **Financing Activities** | | |
| Partial redemption of 13% senior subordinated notes | **(9,425)** | — |
| Net principal borrowings on debt | **18,010** | 3,355 |
| Stock option exercises and other | **298** | 362 |
| Net cash provided by financing activities | **8,883** | 3,717 |
| Effect of exchange rate changes on cash | **3** | (9) |
| Net increase (decrease) in cash and cash equivalents | **756** | (2,067) |
| Cash and cash equivalents—beginning of period | **3,043** | 26,554 |
| Cash and cash equivalents—end of period | **$ 3,799** | $ 24,487 |

See accompanying Notes to Condensed Consolidated Financial Statements

## ACTUANT CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

***(In thousands, except share and per share amounts)***

**Note 1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Actuant Corporation ("Actuant" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated balance sheet data as of August 31, 2002 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. The Company's significant accounting policies are disclosed in its fiscal 2002 Annual Report on Form 10-K. For additional information, refer to the consolidated financial statements and related footnotes in the Company's fiscal 2002 Annual Report on Form 10-K.

In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Except as discussed otherwise, such adjustments consist of only those of a normal recurring nature. Operating results for the three months ended November 30, 2002 are not necessarily indicative of the results that may be expected for the entire fiscal year ending August 31, 2003.

Prior year financial statements have been reclassified where appropriate to conform to current year presentations.

**Note 2. Acquisition**

On September 3, 2002, the Company acquired approximately 80% of the outstanding capital stock of Heinrich Kopp AG ("Kopp" or the "Kopp Acquisition"). Kopp, headquartered in Kahl, Germany, is a leading provider of electrical products to the German, Austrian and Eastern European retail home center markets. The Kopp Acquisition provides the Gardner Bender business in the Tools & Supplies segment with a European platform, and supports Gardner Bender's vision of being a global supplier in the electrical marketplace. In the transaction, the Company paid approximately $15.7 million (including the assumption of debt and deferred purchase price, less acquired cash). The Company was also granted an option to acquire, and the sellers were granted a put option to sell, the remaining outstanding equity commencing in October 2003 for approximately $3 million. The Kopp Acquisition was funded with the proceeds of $10.5 million of borrowings under the Company's existing revolving credit facility and the assumption of approximately $5.5 million of debt, less "acquired cash" of approximately $1.8 million on Kopp's balance sheet. The transaction was accounted for using the purchase method of accounting; therefore, the results of operations are included in the accompanying condensed consolidated financial statements only since the acquisition date. There was no goodwill created in the acquisition, as the purchase price was less than the fair value of the acquired assets and liabilities. Accordingly, the book value of the acquired long-lived assets has been reduced as required under generally accepted accounting principles. The purchase price ($10.5 million of borrowings, less $1.8 million or cash acquired) was allocated on a preliminary basis to the fair market value of the assets acquired and liabilities assumed, excluding cash assumed in the transaction, as summarized below:

| | | |
|---|---|---|
| Accounts receivable | $ | 17,398 |
| Inventory | | 15,043 |
| Fixed assets | | 19,517 |
| Intangible assets | | 2,316 |
| Other assets | | 16,221 |
| Debt | | (5,510 ) |
| Pension liability | | (12,017 ) |
| Restructuring liability | | (16,710 ) |
| Deferred purchase price | | (1,474 ) |
| Other liabilities | | (23,202 ) |
| Minority interest | | (2,852 ) |
| | $ | 8,730 |

Future adjustments to the purchase price allocation, if any, are not expected to be material to the financial statements. Cash outflows will be required in fiscal 2003 and beyond to fund the remaining outstanding equity purchase, the deferred purchase price, and restructuring cash flow requirements.

The Company committed to integration plans to restructure portions of Kopp's operations during the first quarter of fiscal 2003. These plans are designed to reduce administrative and operational costs and resulted in the recording of a $16.7 million restructuring reserve in the purchase accounting process. Of the reserve, $3.1 million relates to the closure of Kopp's manufacturing facility in Ingolstadt, Germany, with the balance primarily representing other employee severance costs to be incurred in connection with the transfer of certain production to lower cost locations and general reductions in the workforce. As a result of these plans, the Company expects to terminate a significant number of employees, with the majority of such actions to be completed in fiscal 2003.

A rollforward of the restructuring reserve follows:

| | Reserves Established | Cash Payments | Currency Impact | November 30, 2002 Balance |
|---|---|---|---|---|
| Severance | $ 15,245 | $ (289) | $ 177 | $ 15,133 |
| Exit costs | 1,465 | — | 18 | 1,483 |
| Total reserve | $ 16,710 | $ (289) | $ 195 | $ 16,616 |

The following unaudited pro forma results of operations of the Company for the quarter ended November 30, 2001 give effect to the Kopp acquisition as though the transaction had occurred on September 1, 2001.

| | |
|---|---|
| **Operating Results:** | |
| Net sales | $ 136,263 |
| Earnings before cumulative effect of change in accounting principle | 4,956 |
| Net loss | $ (2,244) |
| **Basic Earnings per share:** | |
| Earnings before cumulative effect of change in accounting principle | $ 0.62 |
| Net loss | $ (0.28) |
| **Diluted Earnings per share:** | |
| Earnings before cumulative effect of change in accounting principle | $ 0.59 |
| Net loss | $ (0.27) |

The unaudited pro forma financial information presented above is not necessarily indicative of either the results of operations that would have occurred had the transaction taken place on September 1, 2001 or the future results of operations.

**Note 3. Accounts Receivable Financing**

The Company utilizes an accounts receivable securitization program whereby it sells certain of its United States trade accounts receivable to a wholly owned special purpose subsidiary which, in turn, sells participating interests in its pool of receivables to a financial institution. Sales of the participating interests in the trade receivables are reflected as a reduction of accounts receivable in the accompanying Condensed Consolidated Balance Sheets and the proceeds received are included in cash flows from operating activities in the accompanying Condensed Consolidated Statements of Cash Flows. Trade receivables sold and being serviced by the Company were $26.5 million and $24.9 million at November 30, 2002 and August 31, 2002, respectively.

Accounts receivable financing costs of $0.1 million and $0.3 million for the three months ended November 30, 2002 and 2001, respectively, are included in "Net Financing Costs" in the accompanying Condensed Consolidated Statements of Earnings. Total cash proceeds under the trade accounts receivable financing program were $27.9 million and $29.4 million for the three months ended November 30, 2002 and 2001, respectively.

**Note 4. Inventories, Net**

The nature of the Company's products is such that they generally have a very short production cycle. Consequently, the amount of work-in-process at any point in time is minimal. In addition, many parts or components are ultimately either sold individually or assembled with other parts making a distinction between raw materials and finished goods impractical to determine. Other locations maintain and manage their inventories using a job cost system where the distinction of categories of inventory by state of completion is also not available.

As a result of these factors, it is neither practical nor cost effective to segregate the amounts of raw materials, work-in-process or finished goods inventories at the respective balance sheet dates, as segregation would only be possible as the result of physical inventories which are taken at dates different from the balance sheet dates.

**Note 5. Goodwill and Other Intangible Assets**

The Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," in the first quarter of fiscal 2002. Under the transitional provisions of SFAS No. 142, the Company recorded a goodwill impairment loss associated with its Milwaukee Cylinder reporting unit of $7.2 million. The impairment loss was recorded as a cumulative effect of change in accounting principle on the accompanying Condensed Consolidated Statements of Earnings for the three months ended November 30, 2001.

The changes in the carrying amount of goodwill for the year ended August 31, 2002 and for the three months ended November 30, 2002 are as follows:

| | Tools & Supplies Segment | Engineered Solutions Segment | Total |
|---|---|---|---|
| Balance as of August 31, 2001 | $ 42,882 | $ 65,242 | $108,124 |
| Transitional impairment charge | — | (7,200) | (7,200) |
| Purchase price allocation adjustment | — | 491 | 491 |
| Currency impact | — | (54) | (54) |
| Balance as of August 31, 2002 | 42,882 | 58,479 | 101,361 |
| Currency impact | — | (7) | (7) |
| Balance as of November 30, 2002 | $ 42,882 | $ 58,472 | $101,354 |

The gross carrying amount and accumulated amortization of the Company's intangible assets that are subject to amortization as of November 30, 2002 and August 31, 2002 are as follows:

| | November 30, 2002 | | | August 31, 2002 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Patents | $ 22,260 | $ 8,399 | $13,861 | $ 21,703 | $ 8,049 | $13,654 |
| Trademarks | 4,516 | 1,154 | 3,362 | 4,516 | 1,095 | 3,421 |
| Non-compete agreements | 3,253 | 2,740 | 513 | 3,268 | 2,562 | 706 |
| Other | 1,334 | 684 | 650 | 1,341 | 656 | 685 |
| Total | $ 31,363 | $ 12,977 | $18,386 | $ 30,828 | $ 12,362 | $18,466 |

In connection with the acquisition of Kopp in the first quarter of fiscal 2003, the Company acquired certain patents totaling approximately $0.6 million that will be amortized over their estimated useful life of eight years. The Company also acquired the "Kopp" tradename valued at approximately $1.8 million, which is classified as an indefinite lived intangible asset that is not subject to amortization. See Note 2, "Acquisition," for further information about the acquisition of Kopp. As of November 30, 2002, the Company did not own any other indefinite lived intangible assets other than the tradename mentioned above.

Amortization expense recorded on the intangible assets listed in the above table was $0.6 million for both the three months ended November 30, 2002 and 2001. The estimated amortization expense for each of the next five fiscal years is as follows:

| | |
|---|---|
| 2003 | $2,266 |
| 2004 | $1,852 |
| 2005 | $1,669 |
| 2006 | $1,647 |
| 2007 | $1,647 |

**Note 6. New Accounting Pronouncements**

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 related to the disposal of a segment of a business. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 144 effective September 1, 2002. The adoption did not have any impact on the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," related to accounting for debt extinguishments, leases, and intangible assets of motor carriers. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002. The Company adopted SFAS No. 145 effective September 1, 2002. As a result of the adoption of this statement, costs incurred by the Company in connection with the early retirement of debt will no longer be classified as extraordinary items. As required by SFAS No. 145, prior year financial statements will be reclassified.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The Company is currently evaluating the impact of this statement.

**Note 7. Debt**

The Company's indebtedness, other than short-term borrowings, as of November 30, 2002 and August 31, 2002 was as follows:

| | November 30, 2002 | August 31, 2002 |
|---|---|---|
| Senior secured credit agreement | | |
| Revolving credit borrowings | **$ 17,000** | $ — |
| Tranche A term loan | **66,151** | 66,151 |
| Sub-total—senior secured credit agreement | **83,151** | 66,151 |
| Euro denominated term loans | **12,916** | 4,914 |
| Senior subordinated notes ("13% Notes"), net of discount | **109,064** | 118,352 |
| Other | **156** | 154 |
| Total debt | **205,287** | 189,571 |
| Less: current maturities of long-term debt | **(9,000)** | (6,788) |
| Total long-term debt, less current maturities | **$ 196,287** | $ 182,783 |

During the first quarter of fiscal 2003, the Company retired $9.4 million (gross principle amount) of its 13% Notes acquired through open market purchases. The Company recorded a pre-tax charge of $2.0 million related to the redemption of the 13% Notes. The pre-tax charge consisted of the $1.7 million bond redemption premium payment and a $0.3 million non-cash write-off of the associated debt discount and debt issuance costs.

In connection with the Kopp Acquisition, the Company assumed $5.5 million of Euro denominated term loans. Two of the loans assumed bear interest at floating rates ranging from EURIBOR plus 0.76% to EURIBOR plus 1.25% and are payable semiannually through June 2007. The third loan assumed bears interest at a fixed rate of 4.5% and is payable semiannually through September 2008. See Note 2, "Acquisition," for more information on the Kopp acquisition.

**Note 8. Distribution of Electronics Segment**

On January 25, 2000, the Company's board of directors authorized various actions to enable it to distribute its Electronics segment ("APW") to its shareholders (the "Distribution"). Refer to Note 2 to the consolidated financial statements in the Company's fiscal 2002 Annual Report on Form 10-K for a discussion of certain indemnification matters. Prior to the Distribution, the Company, in the normal course of business, entered into certain real estate and equipment leases or guaranteed such leases on behalf of its subsidiaries, including those in its Electronics segment. In conjunction with the Distribution, the Company assigned its rights in the leases used in the Electronics segment to APW, but was not released as a responsible party from all such leases by the lessors. As a result, the Company remains contingently liable for such leases. The discounted present value of future minimum lease payments for such leases totals approximately $20.0 million at November 30, 2002. A future breach of these leases could potentially have a material adverse impact upon the Company's financial position and results of operations.

**Note 9. Derivatives**

All derivatives are recognized on the balance sheet at their estimated fair value. At November 30, 2002 and August 31, 2002, the Company was a party to two interest rate swap contracts to convert variable rate debt to a fixed rate with a combined notional value of $50 million and one interest rate swap contract to convert fixed rate debt to a variable rate with a notional amount of $25 million. Unrealized gains (losses), net of income taxes, of $0.1 million and $(0.7) million were recorded in other comprehensive income to recognize the fair value of the contracts to convert variable rate debt to a fixed rate for the three months ended November 30, 2002 and 2001, respectively. No net gain or loss has been recorded in earnings related to changes in the fair value of the contract to convert fixed rate debt to floating rate since the contract is considered to be "effective" as the terms of the contract exactly match the terms of the underlying debt.

**Note 10. Earnings Per Share**

The reconciliations between basic and diluted earnings per share are as follows:

| | Three Months Ended November 30, | |
|---|---|---|
| | **2002** | **2001** |
| **Numerator:** | | |
| Earnings before cumulative effect of change in accounting principle | **$ 1,856** | $ 4,565 |
| Cumulative effect of change in accounting principle, net of income taxes | — | (7,200) |
| Net earnings (loss) | **$ 1,856** | $ (2,635) |
| **Denominator:** | | |
| Weighted average common shares outstanding for basic earnings per share | **11,603** | 8,023 |
| Net effect of stock options based on the treasury stock method using average market price | **595** | 432 |
| Weighted average common and equivalent shares outstanding for diluted earnings per share | **12,198** | 8,455 |
| **Basic Earnings Per Share:** | | |
| Earnings before cumulative effect of change in accounting principle | **$ 0.16** | $ 0.57 |
| Cumulative effect of change in accounting principle, net of income taxes | — | (0.90) |
| Basic earnings per share | **$ 0.16** | $ (0.33) |
| **Diluted Earnings per Share:** | | |
| Earnings before cumulative effect of change in accounting principle | **$ 0.15** | $ 0.54 |
| Cumulative effect of change in accounting principle, net of income taxes | — | (0.85) |
| Diluted earnings per share | **$ 0.15** | $ (0.31) |

**Note 11. Comprehensive Income**

The components of comprehensive income are as follows:

| | Three Months Ended November 30, | |
|---|---|---|
| | **2002** | **2001** |
| Net earnings (loss) | **$1,856** | $(2,635) |
| Foreign currency adjustments | **(541)** | (519) |
| Fair value of interest rate swap, net of taxes | **78** | (668) |
| Comprehensive income (loss) | **$1,393** | $(3,822) |

**Note 12. Segment Information**

The Company is organized and managed as two business segments: Tools & Supplies and Engineered Solutions, with separate and distinct operating management and strategies. The Tools & Supplies segment is primarily involved in the design, manufacture, and distribution of tools and supplies to the construction, electrical wholesale, retail do-it-yourself, industrial and production automation markets. The Engineered Solutions segment focuses on developing and marketing value-added, customized motion control systems for original equipment manufacturers in the recreational vehicle, automotive, truck, and industrial markets. "General corporate and other" as indicated below primarily includes general corporate expenses, financing costs on third party debt and foreign currency exchange adjustments.

The following table summarizes financial information by reportable segment:

| | Three Months Ended November 30, | |
|---|---|---|
| | **2002** | **2001** |
| **Net Sales:** | | |
| Tools & Supplies | **$ 92,014** | $ 64,067 |
| Engineered Solutions | **55,844** | 49,073 |
| Total | **$147,858** | $113,140 |
| **Earnings Before Income Tax Expense and Minority Interest:** | | |
| Tools & Supplies | **$ 11,297** | $ 10,310 |
| Engineered Solutions | **3,807** | 3,928 |
| General Corporate and Other | **(12,098)** | (6,993) |
| Total | **$ 3,006** | $ 7,245 |

Kopp is included in the Tools & Supplies segment from its date of acquisition, which impacts the comparability of the segment data.

**Note 13. Litigation and Contingencies**

In September 2002, the Company was informed that its Federal income tax return for fiscal year 2000 will be subject to audit by the Internal Revenue Service ("IRS"). Company management believes that adequate reserves are maintained as of November 30, 2002 to cover a reasonable estimate of its potential exposure with respect to the income tax liabilities that may result from such audit. Nonetheless, there can be no assurance that such reserves will be sufficient upon completion of the IRS audit, and if not, there could be a material adverse impact on the Company's financial position and results of operations.

In November 2002, the Company recorded a pre-tax charge of $7.3 million to recognize the impact of recent adverse developments in litigation matters associated with businesses divested prior to the spin-off of APW in July 2000, for which the Company retained indemnification risk. These matters are expected to be resolved and funded prior to the end of calendar year 2003.

**Note 14. Guarantor Condensed Financial Statements**

In July 2000, Actuant issued the 13% Notes. All of the Company's material domestic wholly owned subsidiaries (the "Guarantors") fully and unconditionally guarantee the 13% Notes on a joint and several basis. The Company believes separate financial statements and other disclosures concerning each of the Guarantors would not provide additional information that is material to investors. Therefore, the Guarantors are combined in the presentation below. There are no significant restrictions on the ability of the Guarantors to make distributions to Actuant. The following tables present the results of operations, financial position and cash flows of Actuant Corporation, the Guarantors and non-guarantor entities, and the eliminations necessary to arrive at the information for the Company and its subsidiaries on a condensed consolidated basis.

**CONDENSED CONSOLIDATING STATEMENTS OF EARNINGS**

| | Three Months Ended November 30, 2002 | | | | |
|---|---|---|---|---|---|
| | Actuant Corporation | Guarantors | Non–Guarantors | Eliminations | Consolidated |
| Net sales | $ 18,482 | $ 56,176 | $ 73,200 | $ — | $ 147,858 |
| Cost of products sold | 10,180 | 40,176 | 51,600 | — | 101,956 |
| Gross profit | 8,302 | 16,000 | 21,600 | — | 45,902 |
| Selling, administrative, and engineering expenses | 6,642 | 8,276 | 12,169 | — | 27,087 |
| Amortization of intangible assets | — | 605 | 22 | — | 627 |
| Operating earnings | 1,660 | 7,119 | 9,409 | — | 18,188 |
| Other expense (income): | | | | | |
| Intercompany activity, net | (571) | (168) | 739 | — | — |
| Net financing costs | 5,312 | 246 | 104 | — | 5,662 |
| Early extinguishment of debt | 1,974 | — | — | — | 1,974 |
| Litigation charge associated with divested businesses | 7,300 | — | — | — | 7,300 |
| Other (income) expense | (286) | (32) | 564 | — | 246 |
| (Loss) earnings before income tax (benefit) expense and minority interest | (12,069) | 7,073 | 8,002 | — | 3,006 |
| Income tax (benefit) expense | (4,837) | 2,590 | 3,314 | — | 1,067 |
| Minority interest, net of income taxes | — | — | 83 | — | 83 |
| Net (loss) earnings | $ (7,232) | $ 4,483 | $ 4,605 | $ — | $ 1,856 |

## CONDENSED CONSOLIDATING STATEMENTS OF EARNINGS

| | Three Months Ended November 30, 2001 | | | | |
|---|---|---|---|---|---|
| | Actuant Corporation | Guarantors | Non – Guarantors | Eliminations | Consolidated |
| Net sales | $ 17,581 | $ 55,996 | $ 39,563 | $ — | $ 113,140 |
| Cost of products sold | 9,554 | 40,390 | 25,163 | — | 75,107 |
| Gross profit | 8,027 | 15,606 | 14,400 | — | 38,033 |
| Selling, administrative, and engineering expenses | 6,168 | 8,008 | 5,751 | — | 19,927 |
| Amortization of intangible assets | 2 | 605 | 5 | — | 612 |
| Operating earnings | 1,857 | 6,993 | 8,644 | — | 17,494 |
| Other expense (income): | | | | | |
| Intercompany activity, net | (911) | 2,680 | (1,769) | — | — |
| Net financing costs | 9,911 | (186) | 164 | — | 9,889 |
| Other expense (income) | 246 | (47) | 161 | — | 360 |
| (Loss) earnings before income tax (benefit) expense | (7,389) | 4,546 | 10,088 | — | 7,245 |
| Income tax (benefit) expense | (1,279) | 2,244 | 1,715 | — | 2,680 |
| Net (loss) earnings before cumulative effect of change in accounting principle | (6,110) | 2,302 | 8,373 | — | 4,565 |
| Cumulative effect of change in accounting principle, net of income taxes | — | (7,200) | — | — | (7,200) |
| Net (loss) earnings | $ (6,110) | $ (4,898) | $ 8,373 | $ — | $ (2,635) |

## CONDENSED CONSOLIDATING BALANCE SHEETS

| | November 30, 2002 | | | | |
|---|---|---|---|---|---|
| | Actuant Corporation | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| **ASSETS** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 1,054 | $ (562) | $ 3,307 | $ — | $ 3,799 |
| Accounts receivable, net | 2,424 | 337 | 81,426 | — | 84,187 |
| Inventories, net | 12,137 | 32,562 | 23,519 | — | 68,218 |
| Deferred income taxes | 8,237 | 9 | 12,085 | — | 20,331 |
| Other current assets | 1,658 | 525 | 2,911 | — | 5,094 |
| Total current assets | 25,510 | 32,871 | 123,248 | — | 181,629 |
| Property, plant and equipment, net | 5,413 | 17,648 | 34,453 | — | 57,514 |
| Goodwill | — | 96,597 | 4,757 | — | 101,354 |
| Other intangible assets, net | — | 17,823 | 2,353 | — | 20,176 |
| Other long-term assets | 9,084 | 852 | 514 | — | 10,450 |
| Total assets | $ 40,007 | $ 165,791 | $ 165,325 | $ — | $ 371,123 |
| **LIABILITIES AND EQUITY** | | | | | |
| Current liabilities | | | | | |
| Short-term borrowings | $ — | $ — | $ 2,412 | $ — | $ 2,412 |
| Current maturities of long-term debt | 6,139 | — | 2,861 | — | 9,000 |
| Trade accounts payable | 8,297 | 17,399 | 23,800 | — | 49,496 |
| Accrued compensation and benefits | 4,138 | 2,181 | 9,587 | — | 15,906 |
| Income taxes payable | 15,364 | 2,772 | (920) | — | 17,216 |
| Other current liabilities | 14,635 | 8,665 | 34,706 | — | 58,006 |
| Total current liabilities | 48,573 | 31,017 | 72,446 | — | 152,036 |
| Long-term debt, less current maturities | 186,232 | — | 10,055 | — | 196,287 |
| Deferred income taxes | 5,389 | (1,023) | 2,789 | — | 7,155 |
| Pension and postretirement benefit liabilities | 14,198 | — | 12,545 | — | 26,743 |
| Other long-term liabilities | 26,865 | — | 792 | — | 27,657 |
| Minority interest in net equity of consolidated affiliates | — | — | 3,134 | — | 3,134 |
| Intercompany balances, net | 204,395 | (157,226) | (214,756) | 167,587 | — |
| Total shareholders’ equity (deficit) | (445,645) | 293,023 | 278,320 | (167,587) | (41,889) |
| Total liabilities and shareholders’ equity | $ 40,007 | $ 165,791 | $ 165,325 | $ — | $ 371,123 |

## CONDENSED CONSOLIDATING BALANCE SHEETS

| | August 31, 2002 | | | | |
|---|---|---|---|---|---|
| | Actuant Corporation | Guarantors | Non–Guarantors | Eliminations | Consolidated |
| **ASSETS** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 1,835 | $ (228) | $ 1,436 | $ — | $ 3,043 |
| Accounts receivable, net | 2,534 | 2,730 | 53,040 | — | 58,304 |
| Inventories, net | 12,591 | 31,330 | 10,977 | — | 54,898 |
| Deferred income taxes | 8,313 | 9 | 805 | — | 9,127 |
| Other current assets | 1,489 | 1,062 | 2,041 | — | 4,592 |
| Total current assets | 26,762 | 34,903 | 68,299 | — | 129,964 |
| Property, plant and equipment, net | 5,489 | 18,713 | 12,626 | — | 36,828 |
| Goodwill | — | 96,597 | 4,764 | — | 101,361 |
| Other intangible assets, net | — | 18,428 | 38 | — | 18,466 |
| Other long-term assets | 6,667 | 835 | 490 | — | 7,992 |
| Total assets | $ 38,918 | $ 169,476 | $ 86,217 | $ — | $ 294,611 |
| **LIABILITIES AND EQUITY** | | | | | |
| Current liabilities | | | | | |
| Short-term borrowings | $ 943 | $ — | $ 2,050 | $ — | $ 2,993 |
| Current maturities of long-term debt | 3,839 | — | 2,949 | — | 6,788 |
| Trade accounts payable | 11,137 | 19,318 | 17,379 | — | 47,834 |
| Accrued compensation and benefits | 4,923 | 2,462 | 4,977 | — | 12,362 |
| Income taxes payable | 7,166 | 10,115 | 1,084 | — | 18,365 |
| Other current liabilities | 12,796 | 8,513 | 2,615 | — | 23,924 |
| Total current liabilities | 40,804 | 40,408 | 31,054 | — | 112,266 |
| Long-term debt, less current maturities | 180,818 | — | 1,965 | — | 182,783 |
| Deferred income taxes | 5,377 | (1,016) | 48 | — | 4,409 |
| Pension and postretirement benefit liabilities | 11,268 | — | 282 | — | 11,550 |
| Other long-term liabilities | 27,278 | — | (56) | — | 27,222 |
| Intercompany balances, net | 210,797 | (157,796) | (209,956) | 156,955 | — |
| Total shareholders’ equity (deficit) | (437,424) | 287,880 | 262,880 | (156,955) | (43,619) |
| Total liabilities and shareholders’ equity | $ 38,918 | $ 169,476 | $ 86,217 | $ — | $ 294,611 |

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

| | Three Months Ended November 30, 2002 | | | | |
|---|---|---|---|---|---|
| | Actuant Corporation | Guarantors | Non – Guarantors | Eliminations | Consolidated |
| Operating activities | | | | | |
| Net (loss) earnings | $ (7,232) | $ 4,483 | $ 4,605 | $ — | $ 1,856 |
| Adjustments to reconcile net (loss) earnings to cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 495 | 1,909 | 1,285 | — | 3,689 |
| Amortization of debt discount and debt isssuance costs | 694 | — | — | — | 694 |
| Provision (benefit) for deferred income taxes | 11 | (7) | 362 | — | 366 |
| Loss on sale of assets | — | 5 | 20 | — | 25 |
| Changes in operating assets and liabilities, net | 4,197 | (7,004) | 10,796 | (10,631) | (2,642) |
| Net cash provided by (used in) operating activities | (1,835) | (614) | 17,068 | (10,631) | 3,988 |
| Investing activities | | | | | |
| Proceeds from sale of property, plant and equipment | — | 4 | — | — | 4 |
| Capital expenditures | (417) | (294) | (2,681) | — | (3,392) |
| Business acquisitions, net of cash acquired | — | — | (8,730) | — | (8,730) |
| Net cash (used in) provided by investing activities | (417) | (290) | (11,411) | — | (12,118) |
| Financing activities | | | | | |
| Partial redemption of 13% Notes | (9,425) | — | — | — | (9,425) |
| Net principal borrowings on debt | 17,000 | — | 1,010 | — | 18,010 |
| Debt issuance costs | (18) | — | — | — | (18) |
| Stock option exercises | 316 | — | — | — | 316 |
| Intercompany payables (receivables) | (6,402) | 570 | (4,799) | 10,631 | — |
| Net cash provided by (used in) financing activities | 1,471 | 570 | (3,789) | 10,631 | 8,883 |
| Effect of exchange rate changes on cash | — | — | 3 | — | 3 |
| Net increase (decrease) in cash and cash equivalents | (781) | (334) | 1,871 | — | 756 |
| Cash and cash equivalents—beginning of period | 1,835 | (228) | 1,436 | — | 3,043 |
| Cash and cash equivalents—end of period | $ 1,054 | $ (562) | $ 3,307 | $ — | $ 3,799 |

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

| | Three Months Ended November 30, 2001 | | | | |
|---|---|---|---|---|---|
| | Actuant Corporation | Guarantors | Non – Guarantors | Eliminations | Consolidated |
| Operating activities | | | | | |
| Net (loss) earnings before cumulative effect of change in accounting principle | $ (6,110) | $ 2,302 | $ 8,373 | $ — | $ 4,565 |
| Adjustments to reconcile net (loss) earnings to cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 373 | 1,970 | 665 | — | 3,008 |
| Amortization of debt discount and debt isssuance costs | 624 | — | — | — | 624 |
| Provision (benefit) for deferred income taxes | 14 | 10 | (164) | — | (140) |
| Gain on sale of assets | — | (53) | — | — | (53) |
| Changes in operating assets and liabilities, net | (19,604) | (718) | 3,424 | 5,544 | (11,354) |
| Net cash (used in) provided by operating activities | (24,703) | 3,511 | 12,298 | 5,544 | (3,350) |
| Investing activities | | | | | |
| Proceeds from sale of property, plant and equipment | — | 57 | — | — | 57 |
| Capital expenditures | (563) | (834) | (1,085) | — | (2,482) |
| Net cash used in investing activities | (563) | (777) | (1,085) | — | (2,425) |
| Financing activities | | | | | |
| Net principal borrowings (payments) | 3,806 | — | (451) | — | 3,355 |
| Stock option exercises | 362 | — | — | — | 362 |
| Intercompany payables (receivables) | 16,779 | (3,567) | (7,668) | (5,544) | — |
| Net cash provided by (used in) financing activities | 20,947 | (3,567) | (8,119) | (5,544) | 3,717 |
| Effect of exchange rate changes on cash | — | — | (9) | — | (9) |
| Net (decrease) increase in cash and cash equivalents | (4,319) | (833) | 3,085 | — | (2,067) |
| Cash and cash equivalents—beginning of period | 25,785 | 621 | 148 | — | 26,554 |
| Cash and cash equivalents—end of period | $ 21,466 | $ (212) | $ 3,233 | $ — | $ 24,487 |

**Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations**

Throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" when we refer to "Actuant" or the "Company," we mean Actuant Corporation and its subsidiaries. The Company's significant accounting policies are disclosed in the Notes to Consolidated Financial Statements in the fiscal 2002 Annual Report on Form 10-K. The more critical of these policies include revenue recognition, inventory valuation, goodwill and other intangible asset accounting, and the use of estimates, which are summarized below.

*Consolidation and Presentation:* The consolidated financial statements include the accounts of Actuant Corporation and its consolidated subsidiaries. The Company consolidates companies in which it owns or controls more than fifty percent of the voting shares. The minority interest amount included on the condensed consolidated balance sheet as of November 30, 2002 represents the amount of equity attributable to minority shareholders of consolidated subsidiaries. The results of companies acquired or disposed are included in the consolidated financial statements from the date of acquisition or until the date of disposal. All significant intercompany balances, transactions, and profits have been eliminated in consolidation.

*Revenue Recognition:* Revenue is recognized when title to the products being sold transfers to the customer, which is generally upon shipment.

*Inventories:* Inventories are comprised of material, direct labor and manufacturing overhead, and are stated at the lower of cost or market. Inventory cost is determined using the last-in, first-out ("LIFO") method for a portion of U.S. owned inventory (approximately 45% and 56% of total inventories at November 30, 2002 and August 31, 2002, respectively). The first-in, first-out or average cost method is used for all other inventories. If the LIFO method were not used, the inventory balance would be higher than the amount in the Condensed Consolidated Balance Sheet by approximately $6.7 million at both November 30, 2002 and August 31, 2002.

*Goodwill and Other Intangible Assets:* Other intangible assets, consisting primarily of purchased patents, trademarks and noncompete agreements, are amortized over periods from three to twenty-five years unless the asset is an indefinite lived intangible. Indefinite lived intangibles and goodwill are not amortized, but are subjected to annual impairment testing.

*Use of Estimates:* As required under generally accepted accounting principles, the condensed consolidated financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the periods presented. They also affect the disclosure of contingencies. Actual results could differ from those estimates and assumptions.

**Results of Operations for the Three Months Ended November 30, 2002 and 2001**

On September 3, 2002, the Company acquired 80% of the outstanding capital stock of Heinrich Kopp AG ("Kopp"or the "Kopp Acquisition") which impacts the comparability of the operating results for the three months ended November 30, 2002. See Note 2, "Acquisition" in Notes to Condensed Consolidated Financial Statements.

Net earnings for the three months ended November 30, 2002 were $1.9 million, or $0.15 per diluted share compared with a net loss of $2.6 million, or $0.31 per diluted share, for the three months ended November 30, 2001. During the first quarter of fiscal 2003, the Company recorded charges, discussed later in this management's discussion and analysis, related to the early extinguishment of debt and litigation matters associated with divested businesses. During the first quarter of fiscal 2002, the Company recorded a charge of $7.2 million, or $0.85 per diluted share, for the cumulative effect of a change in accounting principle related to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Excluding these charges, the net earnings for the three months ended November 30, 2002 and 2001 were $7.8 million and $4.6 million, respectively. Diluted earnings per share excluding these charges was $0.64 per diluted share for the three months ended November 30, 2002, or 19% higher than the $0.54 per diluted share for the three months ended November 30, 2001.

The following table summarizes net sales for the three months ended November 30, 2002 and 2001:

| | Three Months Ended November 30, 2002 | Three Months Ended November 30, 2001 | Change |
|---|---|---|---|
| | (in thousands) | | |
| **Net Sales by Segment** | | | |
| Tools & Supplies | $ 92,014 | $ 64,067 | 44% |
| Engineered Solutions | 55,844 | 49,073 | 14% |
| Total net sales | $ 147,858 | $ 113,140 | 31% |

Total net sales increased by $34.7 million, or 31%, from $113.1 million for the three months ended November 30, 2001 to $147.9 million for the three months ended November 30, 2002. Sales from Kopp, which was acquired on September 3, 2002, comprised 79% of the increase. Excluding the impact of Kopp and foreign currency rate changes on translated results, sales increased 4% over the first quarter of the prior year.

**Tools & Supplies**

Net sales for the Tools & Supplies segment increased by $27.9 million or 44%, from $64.1 million for the three months ended November 30, 2001 to $92.0 million for the three months ended November 30, 2002. Kopp, which was acquired in fiscal 2003, comprised 98% of the increase, with the remaining $0.6 million increase caused by the impact of foreign currency rate changes on translated results.

**Engineered Solutions**

Engineered Solutions net sales increased $6.7 million, or 14%, from $49.1 million for the three months ended November 30, 2001 to $55.8 million for the three months ended November 30, 2002. Excluding the impact of foreign currency rate changes on translated results, which comprised $1.7 million of the increase, sales increased in most of the markets that Engineered Solutions serve. RV market sales increased 17% and truck market sales increased 8%, due to underlying growth is demand in each of their markets. Convertible top actuation market sales increased 1% on a constant dollar basis, but unit volumes were significantly higher due to more lower priced units sold during the first quarter of fiscal 2003.

**Gross Profit**

The following table summarizes gross profit and gross profit margins for the three months ended November 30, 2002 and 2001:

| | Three Months Ended November 30, 2002 | Three Months Ended November 30, 2001 | Change |
|---|---|---|---|
| | (in thousands) | | |
| **Gross Profit by Segment** | | | |
| Tools & Supplies | $33,274 | $26,453 | 26% |
| Engineered Solutions | 12,628 | 11,580 | 9% |
| Total gross profit | $45,902 | $38,033 | 21% |
| **Gross Profit Margins by Segment** | | | |
| Tools & Supplies | 36.2% | 41.3% | |
| Engineered Solutions | 22.6% | 23.6% | |
| Total gross profit margin | 31.0% | 33.6% | |

Total gross profit for the first quarter of fiscal 2003 was $45.9 million, a $7.9 million increase from the $38.0 million reported in the first quarter of fiscal 2002. The increase in gross profit for the three months ended November 30, 2002 is the result of the Kopp Acquisition and incremental profit on the sales increase realized during the quarter, partially offset by the impact of lower margins in both the Tools & Supplies and Engineered Solutions segments. Total gross profit margin decreased from 33.6% to 31.0% for the three months ended November 30, 2002 due to the lower gross profit margins at Kopp as compared to the other Actuant businesses. Excluding Kopp, gross profit increased 4% in the first quarter of fiscal 2003 over the comparable prior year period.

**Tools & Supplies**

Tools & Supplies gross profit increased $6.8 million, or 26%, from $26.5 million to $33.3 million for the three months ended November 30, 2001 and 2002, respectively. The increase resulted from the Kopp Acquisition. Gross profit margins in Tools & Supplies decreased for the three-month period due the lower gross profit margins realized by Kopp as compared to the rest of the Tools & Supplies segment. Significant progress was made during the quarter ended November 30, 2002 implementing our LEAD ("Lean Enterprise Across Disciplines") process at Kopp, which we expect to favorably impact gross profit margins in the future. Specifically, 2,000 of Kopp's 8,000 SKUs (stock keeping units) were identified for elimination, lean manufacturing activities have begun, and global sourcing initiatives are underway. In addition, we have announced the closure of one plant and have made other workforce reductions.

**Engineered Solutions**

Engineered Solutions gross profit increased $1.0 million, or 9%, from $11.6 million to $12.6 million for the three months ended November 30, 2001 and 2002, respectively. The increase resulted from higher sales levels as compared to the prior year first quarter, offset by lower gross profit margins. Gross profit margin declined from 23.6% to 22.6% for the three months ended November 30, 2001 and 2002, respectively. This decline in gross profit margin was caused by production/learning curve inefficiencies incurred in launching production on new convertible top models, engineering costs on new automotive platforms, start-up costs associated with the ramp up of US convertible top actuation production and pricing pressures in the RV marketplace.

The following table summarizes selling, administrative, and engineering expenses for the three months ended November 30, 2002 and 2001:

| | Three Months Ended November 30, | | |
|---|---|---|---|
| | 2002 | 2001 | Change |
| | (in thousands) | | |
| **Selling, Administrative, and Engineering ("SAE") Expense by Segment** | | | |
| Tools & Supplies | $20,031 | $14,475 | 38% |
| Engineered Solutions | 5,810 | 4,344 | 34% |
| General Corporate | 1,246 | 1,108 | 13% |
| Total SAE expense | $27,087 | $19,927 | 36% |

Total SAE expenses increased $7.2 million, or 36%, from $19.9 million for the three months ended November 30, 2001 to $27.1 million for the three months ended November 30, 2002. The majority of this increase is due to the Kopp Acquisition.

**Tools & Supplies**

Tools & Supplies SAE expenses increased $5.5 million, or 38%, from $14.5 million for the three months ended November 30, 2001 to $20.0 million for the three months ended November 30, 2002. This increase was primarily driven by the inclusion of SAE costs incurred at Kopp and the impact of foreign currency exchange rates on translated results. Excluding Kopp, Tools & Supplies SAE costs increased 7%.

**Engineered Solutions**

Engineered Solutions SAE expenses increased $1.5 million, or 34%, from $4.3 million for the three months ended November 30, 2001 to $5.8 million for the three months ended November 30, 2002. The increase was primarily the result of severance costs incurred during the quarter and costs incurred in anticipation of the start of convertible top production in the United States during the third quarter.

**Amortization Expense**

Amortization expense for the three months ended November 30, 2002 and 2001 was $0.6 million.

**Net Financing Costs**

Net financing costs for the three months ended November 30, 2002 decreased $4.2 million compared to the respective prior year period. This reduction was primarily due to reduced debt levels, especially the senior subordinated notes (the "13% Notes"), and lower market interest rates in fiscal 2003. See "Liquidity and Capital Resources" below for further information.

**Charge for Early Extinguishment of Debt**

During the first quarter of fiscal 2003, the Company retired $9.4 million of its 13% Notes acquired through open market purchases. The Company recorded a pre-tax charge of $2.0 million related to the redemption of the 13% Notes. The pre-tax charge consisted of the $1.7 million bond redemption premium payment and a $0.3 million non-cash write-off of the associated debt discount and debt issuance costs. In accordance with the adoption of SFAS No. 145, this charge has been recorded in earnings from continuing operations, and not as an extraordinary item, as was required under the prior accounting rules.

**Litigation Charge Associated with Divested Businesses**

In November 2002, the Company recorded a pre-tax charge of $7.3 million to recognize the impact of recent adverse developments in litigation matters associated with businesses divested prior to the spin-off of APW in July 2000 for which the Company retained indemnification risk. These matters are expected to be resolved and funded prior to the end of calendar year 2003.

**Other Expense (Income)**

Other expense (income) for the three months ended November 30, 2002 and 2001 is comprised of the following (in thousands):

| | Three Months Ended November 30, | |
|---|---|---|
| | 2002 | 2001 |
| Net foreign currency transaction loss | $ 169 | $ 503 |
| Loss (gain) on sale of assets | 25 | (53) |
| Other, net | 52 | (90) |
| Other expense (income) | $ 246 | $ 360 |

**Cumulative Effect of Change in Accounting Principle**

On September 1, 2001 the Company adopted SFAS No. 142. Under the transitional provisions of SFAS No. 142, the Company identified its reporting units and performed impairment tests on the net goodwill associated with each of the reporting units. The Company recorded an impairment loss associated with its Milwaukee Cylinder reporting unit of $7.2 million, or $0.85 per diluted share in the first quarter of fiscal 2002.

**Restructuring Reserves**

The Company committed to integration plans to restructure portions of Kopp's operations during the first quarter of fiscal 2003. These plans are designed to reduce administrative and operational costs and resulted in the recording of a $16.7 million restructuring reserve in the purchase accounting process. Of the reserve, $3.1 million relates to the closure of Kopp's manufacturing facility in Ingolstadt, Germany, with the balance primarily representing other employee severance costs to be incurred in connection with the transfer of certain production to lower cost locations and general reductions in the workforce. As a result of these plans, the Company expects to terminate a significant number of employees, with the majority of such actions to be completed in fiscal 2003.

A rollforward of the restructuring reserve follows:

| | Reserves Established | Cash Payments | Currency Impact | November 30, 2002 Balance |
|---|---|---|---|---|
| Severance | $ 15,245 | $ (289) | $ 177 | $ 15,133 |
| Exit costs | 1,465 | — | 18 | 1,483 |
| Total reserve | $ 16,710 | $ (289) | $ 195 | $ 16,616 |

**Liquidity and Capital Resources**

Cash and cash equivalents totaled $3.8 million and $3.0 million at November 30, 2002 and August 31, 2002, respectively. Our goal is to maintain low cash balances, utilizing any excess cash to pay down debt in an effort to reduce financing costs.

Net cash provided by operating activities was $4.0 million for the three months ended November 30, 2002, as compared to net cash used in operating activities of $3.4 million for the three months ended November 30, 2001. Operating cash flows for the first quarter of fiscal 2003 were higher than the prior year because the prior year included payments of approximately $7.0 million for income taxes and transaction costs related to the August 2001 sale of Mox-Med. There were no similar payments in the current year.

Net cash used in investing activities totaled $12.1 million and $2.4 million for the three months ended November 30, 2002 and 2001, respectively. In the first quarter of fiscal 2003, $3.4 million of cash was used to fund capital expenditures and $8.7 million for the acquisition of Kopp, net of cash acquired. In fiscal 2002, the net cash used in investing activities primarily consisted of capital expenditures of $2.5 million.

Net cash provided by financing activities totaled $8.9 million and $3.7 million for the three months ended November 30, 2002 and 2001, respectively, both representing net borrowings under the Senior Secured Credit Facility's revolver.

**Debt**

During the first quarter of fiscal 2003, the Company retired an additional $9.4 million of its 13% Notes acquired through open market purchases. The Company completed the Kopp Acquisition by borrowing $10.5 million under its revolver and assuming $5.5 million of Kopp term loans. See Note 7, "Debt," in the accompanying Condensed Consolidated Financial Statements for further information.

At November 30, 2002 the Company was party to two interest rate swaps to convert variable rate debt to a fixed rate with a combined notional value of $50 million and one interest rate swap to convert fixed rate debt to a variable rate with a notional amount of $25 million. See Note 9, "Derivatives," in the accompanying Condensed Consolidated Financial Statements for further information.

Long-term debt outstanding at November 30, 2002 is payable as follows:

| Years ended August 31, | |
|---|---|
| 2003 | $ 5,356 |
| 2004 | 15,014 |
| 2005 | 16,231 |
| 2006 | 57,892 |
| 2007 | 927 |
| Thereafter | 109,867 |
| Total | $ 205,287 |

**Commitments and Contingencies**

The Company leases certain facilities, computers, equipment, and vehicles under various operating lease agreements, generally over periods from one to twenty years. Under most arrangements, the Company pays the property taxes, insurance, maintenance and expenses related to the leased property. Many of the leases include provisions that enable the Company to renew the lease based upon fair value rental rates on the date of expiration of the initial lease. For a schedule of future minimum lease payments, see Note 9, "Leases," in the financial statements contained in the Company's Annual Report on Form 10-K for the year ended August 31, 2002.

As discussed in Note 8, "Distribution of Electronics Segment," in the accompanying Condensed Consolidated Financial Statements, the Company is contingently liable for certain lease agreements held by APW. If APW were unable to fulfill its obligations under the leases, the Company could be liable for such leases. A future breach of the lease agreements by APW could potentially have a material adverse effect on the Company's results of operations and financial position.

As more fully discussed in Note 3, "Accounts Receivable Financing," in the accompanying Condensed Consolidated Financial Statements, the Company is party to an accounts receivable securitization arrangement. Trade receivables sold and being serviced by the Company were $26.5 million and $24.9 million at November 30, 2002 and August 31, 2002, respectively. If the Company were to discontinue this securitization program, at November 30, 2002 it would have been required to borrow approximately $26.5 million to finance the working capital increase. Total capacity under the program is approximately $35 million.

Pursuant to our agreement with our former subsidiary, APW, the Company will be required to pay an estimated $18 to $19 million to APW or other third parties as Distribution related contingencies are resolved. We estimate
that these payments will be made sometime in fiscal 2004 or fiscal 2005, and will be funded by availability under our revolving credit facilities and funds generated from operations. In addition, cash outflows will be required in fiscal 2003 and beyond to fund the remaining Kopp purchase price of $1.5 million, the probable $3 million acquisition of the Kopp minority interest, and Kopp restructuring cash flow requirements. See Note 2, "Acquisition," in the accompanying Condensed Consolidated Financial Statements for further information.

In September 2002, the Company was informed that its Federal income tax return for fiscal year 2000 will be subject to audit by the Internal Revenue Service ("IRS"). Company management believes that adequate reserves are maintained as of November 30, 2002 to cover a reasonable estimate of its potential exposure with respect to the income tax liabilities that may result from such audit. Nonetheless, there can be no assurance that such reserves will be sufficient upon completion of the IRS audit, and if not, there could be a material adverse impact on the Company's financial position and results of operations.

At November 30, 2002 the Company had outstanding letters of credit totaling $8.7 million for contractual and contingent payments due to the former owners of Kopp and for contingent payments related to indemnifications provided to purchasers of sold subsidiaries.

Dividends were not declared or made during the first quarter of fiscal 2003, nor does the Company expect to pay dividends in the foreseeable future. Cash flow will instead be retained for working capital needs, acquisitions, and to reduce outstanding debt. At November 30, 2002, the Company had $74.3 million of availability under its revolver. The Company's senior credit agreement contains customary limits and restrictions concerning investments, sales of assets, liens on assets, interest and fixed cost coverage ratios, maximum leverage, capital expenditures, acquisitions, excess cash flow, dividends, and other restricted payments. At November 30, 2002 the Company was in compliance with all debt covenants. The Company believes that availability under its credit facilities, plus funds generated from operations, will be adequate to meet operating, debt service and capital expenditure requirements for at least the next twelve months.

**Outlook**

The Company has reaffirmed its estimates of its projected operating results for fiscal 2003, excluding special charges for early extinguishment of debt and litigation charges associated with divested businesses. Those estimates include sales ranging from $545– 575 million, earnings before interest, taxes, depreciation and amortization of $90–95 million and diluted earnings per share (excluding special charges) of $2.75–3.00 per share.

**Item 3—Quantitative and Qualitative Disclosures about Market Risk**

The Company is exposed to market risk from changes in foreign exchange and interest rates and, to a lesser extent, commodities. To reduce such risks, the Company selectively uses financial instruments. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures established by the Company's board of directors, which strictly prohibit the use of financial instruments for trading purposes.

A discussion of the Company's accounting policies for derivative financial instruments is included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2002 within Note 1—"Summary of Significant Accounting Policies" in Notes to Consolidated Financial Statements.

Currency Risk—The Company has significant international operations. In most instances, the Company's products are produced at manufacturing facilities located near the customer. As a result, significant volumes of finished goods are manufactured in countries for sale into those markets. For goods purchased from other Company affiliates, the Company denominates the transaction in the functional currency of the producing operation.

The Company has adopted the following guidelines to manage its foreign exchange exposures:

(i) increase the predictability of costs associated with goods whose purchase price is not denominated in the functional currency of the buyer;

(ii) minimize the cost of hedging through the use of naturally offsetting positions (borrowing in local currency), netting, and pooling; and

(iii) where possible, sell product in the functional currency of the producing operation.

The Company's identifiable foreign exchange exposures result primarily from the anticipated purchase of product from affiliates and third-party suppliers along with the repayment of intercompany loans with foreign subsidiaries denominated in foreign currencies. The Company periodically identifies areas where it does not have naturally occurring offsetting positions and then may purchase hedging instruments to protect against anticipated exposures. There are no such hedging instruments in place as of the date of this filing. The Company's financial position is not materially sensitive to fluctuations in exchange rates as any gains or losses on foreign currency exposures are generally offset by gains and losses on underlying payables, receivables and net investments in foreign subsidiaries.

Interest Rate Risk—The Company is exposed to interest rate risk from changes in interest rates. The Company has periodically utilized interest rate swap agreements to manage overall financing costs and interest rate risk. At November 30, 2002, the Company was a party to three interest rate swap agreements. Together, two of these swap contracts convert $50 million of the Company's floating rate debt, issued pursuant to the Senior Credit Agreement, to fixed rate debt. A third swap contract converts $25 million of fixed rate senior subordinated debt to a variable rate. At November 30, 2002, the aggregate fair value of these contracts was approximately $(0.7) million.

The Company's Senior Credit Agreement stipulates that the lower of 50% of total debt or $200.0 million be fixed interest rate obligations. The Company is in compliance with this requirement.

**Item 4—Controls and Procedures**

The Company's chief executive officer and chief financial officer have concluded, based on their evaluation within 90 days of the filing date of this report, that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information required to be disclosed in the reports filed under the Securities Exchange Act of 1934. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

## PART II—OTHER INFORMATION

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

The Annual Meeting of Shareholders was held on January 10, 2003 to elect a board of seven directors and vote on several proposals. Each director nominee was elected. The number of votes for each nominee is set forth below:

| | Share Votes For | Share Votes Withheld |
|---|---|---|
| Robert C. Arzbaecher | 10,061,297 | 228,405 |
| Gustav H.P. Boel | 10,006,808 | 282,894 |
| Bruce S. Chelberg | 10,061,661 | 228,041 |
| H. Richard Crowther | 9,880,002 | 409,700 |
| William K. Hall | 9,880,813 | 408,889 |
| Kathleen J. Hempel | 9,880,698 | 409,004 |
| William P. Sovey | 9,880,650 | 409,052 |

In addition, the following proposals were voted on at the January 10, 2003 annual meeting:

1. Proposal to approve the Actuant Corporation 2002 Stock Plan.

| For | Against | Abstain |
|---|---|---|
| 9,691,930 | 577,657 | 20,115 |

2. Proposal to amend the Company's Outside Directors' Stock Option Plan to increase the number of shares available for issuance under the plan.

| For | Against | Abstain |
|---|---|---|
| 9,829,346 | 431,346 | 29,010 |

3. Proposal to amend the Company's Restated Articles of Incorporation to increase the number of authorized shares of Class A Common Stock.

| For | Against | Abstain |
|---|---|---|
| 9,772,304 | 502,129 | 15,269 |

**Item 6—Exhibits and Reports on Form 8-K**

**(a) Exhibits**

See "Index to Exhibits" on page 29, which is incorporated herein by reference.

**(b) Reports on Form 8-K**

No reports on Form 8-K have been filed during the quarter ended November 30, 2002.

## SIGNATURE

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

ACTUANT CORPORATION

(Registrant)

By: /s/ Andrew G. Lampereur

Andrew G. Lampereur
Vice President and Chief Financial Officer (Principal Financial Officer and duly authorized to sign on behalf of the registrant)

Date: January 14, 2003

**CERTIFICATION**

I, Robert C. Arzbaecher, certify that:

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

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

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

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

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

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

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

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

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

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

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/s/ Robert C. Arzbaecher

Robert C. Arzbaecher
Chairman, Chief Executive Officer,
and President

**CERTIFICATION**

I, Andrew G. Lampereur, certify that:

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

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

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

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

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

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

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

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

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

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

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/S/ ANDREW G. LAMPEREUR

Andrew G. Lampereur
Vice President and Chief Financial Officer

**ACTUANT CORPORATION**
**(the “Registrant”)**
**(Commission File No. 1-11288)**

**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE QUARTER ENDED NOVEMBER 30, 2002**
**INDEX TO EXHIBITS**

| Exhibit | Description | Incorporated Herein By Reference To | Filed Herewith |
|---|---|---|---|
| 10.1 | Actuant Corporation Executive Deferred Compensation Plan | | X |
| 99.1 | Written Statements of the Chief Executive Officer | | X |
| 99.2 | Written Statements of the Chief Financial Officer | | X |

Exhibit 10.1

ACTUANT CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN

ACTUANT CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN

Actuant Corporation, a Wisconsin corporation, hereby establishes the Actuant Corporation Executive Deferred Compensation Plan, to become effective as of December 1, 2002 (the "Effective Date") for the benefit of a select group of management and highly compensated employees of the Company and its participating Affiliates. The Plan is intended to provide such employees with certain deferred compensation benefits. The Plan is an unfunded deferred compensation plan that is intended to qualify for the exemptions provided in sections 201, 301, and 401 of ERISA.

SECTION 1

DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

1.1 "Administrator" shall mean the Company, as provided in the Section 7.1.

1.2 "Affiliate" shall mean a corporation, trade or business which is, together with any Employer, a member of a controlled group of corporations or an affiliated service group or under common control (within the meaning of section 414(b), (c) or (m) of the Code), but only for the period during which such other entity is so affiliated with any Employer.

1.3 "Beneficiary" shall mean the person or persons entitled to receive benefits under the Plan upon the death of a Participant, as provided in Section 5.7.

1.4 "Board of Directors" shall mean the Board of Directors of the Company, as constituted from time to time.

1.5 "Change of Control" means the first to occur of the following (a) the Company sells, exchanges, or otherwise transfers all or substantially all of its business or operating assets in a transaction or series of related transactions, other than sales, exchanges, or transfers to an Affiliate or Affiliates; (b) the Company merges, consolidates or otherwise combines with or into any other corporation or corporations, and the Company is not the surviving entity, other than a merger, consolidation, or other combination with an Affiliate or Affiliates; or (c) any person, corporation, or other entity or group (the "acquiror") excluding Affiliates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended), directly or indirectly, of more than fifty percent (50%) of the outstanding shares of the class of stock of the Company entitled to elect more than one-half of the members of the Board of Directors of the Company.

1.6 “Code” shall mean the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing or superseding such section.

1.7 “Committee” shall mean the Company’s Compensation Committee, as it may be constituted from time to time. The members of the Compensation Committee are appointed by, and serve at the pleasure of, the Board of Directors.

1.8 “Company” shall mean Actuant Corporation, a Wisconsin corporation.

1.9 “Compensation” shall mean the base salary of a Participant and any bonuses paid to him or her under any of the Company’s incentive or bonus plans.

1.10 “Compensation Deferrals” shall mean the amounts credited to Participants’ Accounts under the Plan pursuant to their deferral elections made in accordance with Section 2.1.

1.11 “Disability” or “Disabled” shall mean the mental or physical inability of a Participant to perform the regularly assigned duties of his or her employment, provided that such inability (a) has continued or is expected to continue for a period of at least 12 months and (b) is evidenced by the certificate of a physician satisfactory to the Committee stating that such inability exists and is likely to be permanent.

1.12 “Eligible Employee” shall mean an employee who the Committee determines is eligible to participate in the Plan. The Committee may make such determination by individual or employment classification prior to the beginning of each plan year. The Committee may name additional employees eligible on each March 1, June 1 and December 1.

1.13 “Employers” shall mean the Company and each of its Affiliates who adopts the Plan with the consent of the Company. With respect to an individual Participant, Employer shall mean the Company or its Affiliate that directly employs such Participant.

1.14 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended. Reference to a specific section of ERISA shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing or superseding such section.

1.15 “Participant” shall mean an Eligible Employee who (a) has become a Participant in the Plan pursuant to Section 2.1 and (b) has not ceased to be a Participant pursuant to Section 2.3.

1.16 “Participant’s Account” or “Account” shall mean as to any Participant the separate account maintained on the books of the Employers in order to reflect his or her interest under the Plan. Such Account shall include any amounts transferred from the Applied Power Inc. Executive Deferred Compensation Plan.

1.17 “Plan” shall mean the Actuant Corporation Executive Deferred Compensation Plan, as set forth in this instrument and as hereafter amended from time to time.

1.18 “Plan Year” shall mean the Company’s fiscal year; provided that the initial Plan Year shall be the short period from the Effective Date through August 31, 2003.

SECTION 2

PARTICIPATION

2.1 Participation. Each Eligible Employee’s decision to become a Participant shall be entirely voluntary.

2.1.1 Election to Defer Compensation Bonuses. Each Eligible Employee who makes an election under this Section 2.1 shall make a separate Compensation Deferral election with respect to the salary portion and the bonus portion of his or her Compensation.

2.1.2 Specific Timing and Method of Election. The Administrator, in its sole discretion, shall determine the manner and deadlines for Participants to make Compensation Deferral elections. Any employee designated as eligible to participate in the Plan as of March 1, June 1 or December 1 may become a participant by making a Compensation Deferral election in the time and manner determined by the Administrator. Such election shall apply only to the participant’s Compensation beginning on such eligibility date.

2.1.3 Election Changes During Plan Year. In accordance with rules established by the Administrator, a Participant may revoke a Compensation Deferral election for the salary portion of his or her Compensation during the Plan Year. However, any revocation shall not be effective with respect to any prior deferrals. A Participant shall not be permitted to change or revoke his or her election for the bonus portion of his or her Compensation during the Plan Year, except as provided in Section 2.2.

2.2 Hardship Suspension of Participation. In the event that a Participant incurs a “financial hardship” (as defined in this Section 2.2), the Administrator, in its sole discretion, may suspend the Participant’s Compensation Deferrals for the bonus portion of his or her Compensation. However, an election to make Compensation Deferrals under Section 2.1 shall be irrevocable as to amounts deferred as of the effective date of any suspension in accordance with this Section 2.2. A “financial hardship” for purposes of the Plan shall mean a severe financial emergency which is caused by a sudden and unexpected accident, illness or other event beyond the control of the Participant which would, if no suspension of deferrals (or accelerated distribution under Section 5.8) were made, result in severe financial burden to the Participant or a member of his or her immediate family. Also, a financial hardship does not exist to the extent that the hardship may be relieved by (a) reimbursement or compensation by insurance, or (b) by liquidation of the Participant’s other assets (to the extent such liquidation would not itself cause severe financial hardship).

2.3. Termination of Participation. An Eligible Employee who has become a Participant shall remain a Participant until his or her entire vested Account balance is distributed. However, an Eligible Employee who has become a Participant may or may not be an active Participant making Compensation Deferrals for a particular Plan Year, depending upon whether he or she has elected to make Compensation Deferrals for such Plan Year.

## SECTION 3

## COMPENSATION DEFERRAL ELECTIONS

3.1 Compensation Deferrals. At the times and in the manner prescribed in Section 2.1, each Eligible Employee may elect to defer portions of his or her Compensation and to have the amounts of such deferrals credited to his or her Account under the Plan on the books of the Employer in accordance with such rules as the Committee may establish. The Administrator may establish rules and regulations regarding compensation deferrals, including minimum deferral requirements.

3.2 Crediting of Compensation Deferrals. The amounts deferred pursuant to Section 3.1 shall reduce the Participant's Compensation during the Plan Year and shall be credited to the Participant's Account as of the last day of the month in which the amounts (but for the deferral) would have been paid to the Participant. For each Plan Year, the exact dollar amount to be deferred from each Compensation payment shall be determined by the Administrator under such formulae as it shall adopt from time to time.

3.3 Deemed Interest on Accounts. Each Participant's Account shall be credited with deemed interest as of the end of each month. The monthly interest credit shall be equal to the Participant's Account as of the first day of the month less any distributions during the month pursuant to Article 5, multiplied by a rate equal to one-twelfth of the "Deferral Interest Rate," which is eight percent (8%).

## SECTION 4

## ACCOUNTING

4.1 Participants' Accounts. For each Plan Year, at the direction of the Administrator, there shall be established and maintained on the books of the Employer, a separate Account for each Participant to which shall be credited all Compensation Deferrals made by the Participant during such Plan Year, and the deemed interest on such Compensation Deferrals.

4.2 Participants Remain Unsecured Creditors. All amounts credited to a Participant's Account under the Plan shall continue for all purposes to be a part of the general assets of the Employer. Each Participant's interest in the Plan shall make him or her only a general, unsecured creditor of the Employer. In the event that an Employer (other than the Company) becomes insolvent and therefore unable to make a payment or payments owed by it under the Plan, the Company shall make such payments; provided, however, that nothing in this sentence shall make any Participant anything other than a general, unsecured creditor of the Company.

4.3 Accounting Methods. The accounting methods or formulae to be used under the Plan for the purpose of maintaining the Participants' Accounts, including the calculation and crediting of deemed interest, shall be determined by the Administrator, in its sole discretion. The accounting methods or formulae selected by the Administrator may be revised from time to time. No Participant or Beneficiary shall have any right to examine books, records, or account of the Employers in connection with amounts payable under the Plan.

4.4 Reports. Each Participant shall be furnished with periodic statements of his or her Account, reflecting the status of his or her interest in the Plan, at least annually.

## SECTION 5

## DISTRIBUTIONS

5.1 Normal Time for Distribution. Except as otherwise provided in this Section 5, a Participant's Account shall be distributed within ninety days of the Participant's termination of employment with all Employers and Affiliates, but only to the extent that the payments in any Plan Year are deductible under section 162 of the Code. If, pursuant to the foregoing sentence, any amounts are not paid when originally scheduled, such amounts shall be paid in the immediately following taxable year or years to the extent that such payments would be deductible under section 162 of the Code. (During any such delay in payment, unpaid amounts shall continue to be credited with deemed interest under Section 3.3.) Notwithstanding the foregoing, distribution of a Participant's Account shall be made without regard to the deductibility of the payments under section 162 of the Code if the time for distribution is accelerated pursuant to Section 5.5 or Section 5.6.

5.2 Form of Payment. Each Participant shall indicate on his or her deferral election (made pursuant to Section 3.1) the form of payment for the Compensation Deferrals (and the deemed interest thereon) to be made for the specific Plan Year covered by such deferral election. A Participant may elect (a) a lump sum payment, (b) five annual installment payments, or (c) ten annual installment payments; provided, however, that a Participant who elects to receive annual installments for five or ten years shall receive payment in a lump sum if: (1) the Participant's termination of employment occurs due to his or her death or Disability, or (2) distribution to the Participant is accelerated due to a Change of Control. A Participant's election as to the form of payment shall be irrevocable and shall apply to all amounts credited to the Participant's Account for the Plan Year with respect to which the election is made. If the Participant elected to receive five or ten annual installment payments, his or her first installment shall be equal to 1/5th or 1/10th (respectively) of the balance then credited to his or her Account. Each subsequent annual installment shall be paid to the Participant as near as administratively practicable to each anniversary of the first installment payment. The amount of each subsequent installment shall be equal to the balance then credited to the Participant's Account, divided by the number of installments remaining to be made. While a Participant's Account is in installment payout status, the unpaid balance credited to the Participant's Account shall continue to be credited with deemed interest under Section 3.3.

5.3 Short-Term Payout. A Participant may elect, on his or her deferral election for any Plan Year, to receive a short-term payout of the Participant's Compensation Deferrals (and the deemed interest thereon) for that Plan Year. The short-term payout shall be a lump sum payment in cash. Subject to the other terms and conditions of this Plan, the short-term payout shall be paid within 60 days of the earlier of (a) the date selected by the Participant (which must be at least 3 years after the date of the Participant's Compensation Deferral election), or (b) the date the Participant ceases to be an Employee.

5.4 Deferral Elections for Short-Term Payouts By filing a deferral election with the Committee at least six (6) months prior to the date any short-term payout becomes payable, a Participant may defer payment of all or any portion of a short-term payout or an amount payable pursuant to a prior deferral election for a one-year period (or such longer period as is approved by the Committee); provided that any such deferral election shall be effective only with the consent of the Committee. As it is in the Company's interest to defer payments of compensation, the Committee shall be deemed to consent to a deferral election unless the Committee notifies the Participant in writing, within thirty business days after receipt of the deferral election, that consent is not given.

5.5 Change of Control. If there is a Change of Control, the balance then credited to a Participant's Account shall be distributed to him or her in a lump sum as soon as administratively practicable after the date of the Change of Control.

5.6 Special Rule for Death or Disability. If a Participant dies or becomes Disabled, the balance then credited to his or her Account shall be distributed to the Participant (or his or her Beneficiary) in a lump sum as soon as administratively practicable after the date of death or Disability.

5.7 Beneficiary Designations. Each Participant may, pursuant to such procedures as the Administrator may specify, designate one or more Beneficiaries. A Participant may designate different Beneficiaries (or may revoke a prior Beneficiary designation) at any time by delivering a new designation (or revocation of a prior designation) in like manner. Any designation or revocation shall be effective only if it is received by the Administrator. However, when so received, the designation or revocation shall be effective as of the date the notice is executed (whether or not the Participant still is living), but without prejudice to the Administrator on account of any payment made before the change is recorded. The last effective designation received by the Administrator shall supersede all prior designations. If a Participant dies without having effectively designated a Beneficiary, or if no Beneficiary survives the Participant, the Participant's Account shall be payable to his or her surviving spouse, or, if the Participant is not survived by his or her spouse, the Account shall be paid to his or her estate.

5.8 Financial Hardship. In the event that a Participant incurs a "financial hardship" (as defined in Section 2.2), the Administrator, in its sole discretion and notwithstanding any contrary provision of the Plan, may determine that all or part of the Participant's Account shall be paid to him or her immediately; provided, however, that the amount paid to the Participant pursuant to this Section 5.8 shall be limited to the amount reasonably necessary to alleviate the Participant's hardship. Also, payment under this Section 5.8 may not be made to the extent that the hardship may be relieved by suspension of the Participant's Compensation Deferrals in accordance with Section 2.2.

5.9 Payments to Incompetents. If any individual to whom a benefit is payable under the Plan is a minor or legally incompetent, the Committee shall determine whether payment shall be made directly to the individual, any person acting as his or her custodian or legal guardian under the Uniform Transfers to Minors Act, his or her legal representative or a near relative, or directly for his or her support, maintenance or education.

5.10 Undistributable Accounts. Each Participant and (in the event of death) his or her Beneficiary shall keep the Administrator advised of his or her current address. If the Administrator is unable to locate a Participant to whom a Participant's Account is payable under this Section 5, the Participant's Account shall be held in suspense pending location of the Participant, but shall continue to be credited with deemed interest in accordance with Section 3.3. If the Administrator is unable to locate a Beneficiary to whom a Participant's Account is payable under this Section 5 within six (6) months of the Participant's death, the Participant's Account shall be paid to his or her estate.

5.11 Committee Discretion. Within the specific time periods described in this Section 5, the Committee shall have sole discretion to determine the specific timing of the payment of any Account balance under the Plan. In addition and notwithstanding any contrary provision of the Plan, the Committee, in its sole discretion, may cause the balance credited to a Participant's Account to be paid to him or her in a lump sum at any time following the Participant's termination of employment with all Employers and Affiliates.

5.12 Withholding; Employment Taxes. To the extent required by law in effect at the time any distribution is made from the Plan, the Employers shall withhold any taxes required to be withheld by Federal, state or local governments.

## SECTION 6

## PARTICIPANT'S INTEREST IN ACCOUNT

6.1 Compensation Deferral Contributions. Subject to Sections 4.2 (relating to creditor status) and 8.2 (relating to amendment and/or termination of the Plan), a Participant's interest in the balance credited to his or her Account at all times shall be 100% vested and nonforfeitable.

## SECTION 7

## ADMINISTRATION OF THE PLAN

7.1 Plan Administrator. The Company is hereby designated as the administrator of the Plan (within the meaning of section 3(16)(A) of ERISA).

7.2 Committee. The Committee shall have the authority to control and manage the operation and administration of the Plan. Any member of the Committee may resign at any time by notice in writing mailed or delivered to the Secretary of the Company.

7.3 Actions by Committee. Each decision of a majority of the members of the Committee then in office shall constitute the final and binding act of the Committee. The Committee may act with or without a meeting being called or held and shall keep minutes of all meetings held and a record of all actions taken by written consent.

7.4 Powers of Committee. The Committee shall have all powers and discretion necessary or appropriate to supervise the administration of the Plan and to control its operation in accordance with its terms, including, but not by way of limitation, the following powers:

(a) To interpret and determine the meaning and validity of the provisions of the Plan and to determine any question arising under, or in connection with, the administration, operation or validity of the Plan or any amendment thereto;

(b) To determine any and all considerations affecting the eligibility of any employee to become a Participant or remain a Participant in the Plan;

(c) To cause one or more separate Accounts to be maintained for each Participant;

(d) To cause Compensation Deferrals and deemed interest to be credited to Participants' Accounts;

(e) To establish and revise an accounting method or formula for the Plan, as provided in Section 4.3;

(f) To determine the manner and form in which any distribution is to be made under the Plan;

(g) To determine the status and rights of Participants and their spouses, Beneficiaries or estates;

(h) To employ such counsel, agents and advisers, and to obtain such legal, clerical and other services, as it may deem necessary or appropriate in carrying out the provisions of the Plan;

(i) To establish, from time to time, rules for the performance of its powers and duties and for the administration of the Plan;

(j) To arrange for annual distribution to each Participant of a statement of benefits accrued under the Plan;

(k) To establish a claims and appeal procedure satisfying the minimum standards of section 503 of ERISA pursuant to which individuals or estates may claim Plan benefits and appeal denials of such claims;

(l) To delegate to any one or more of its members or to any other person, severally or jointly, the authority to perform for and on behalf of the Committee one or more of the functions of the Committee under the Plan; and

(m) To decide all issues and questions regarding Account balances, and the time, form, manner, and amount of distributions to Participants.

7.5 Decisions of Committee. All actions, interpretations, and decisions of the Committee shall be conclusive and binding on all persons, and shall be given the maximum possible deference allowed by law.

7.6 Administrative Expenses. All expenses incurred in the administration of the Plan by the Committee, or otherwise, including legal fees and expenses, shall be paid and borne by the Employers.

7.7 Eligibility to Participate. No member of the Committee who is also an employee of an Employer shall be excluded from participating in the Plan if otherwise eligible, but he or she shall not be entitled, as a member of the Committee, to act or pass upon any matters pertaining specifically to his or her own Account under the Plan.

7.8 Indemnification. Each of the Employers shall, and hereby does, indemnify and hold harmless the members of the Committee, from and against any and all losses, claims, damages or liabilities (including attorneys' fees and amounts paid, with the approval of the Board of Directors, in settlement of any claim) arising out of or resulting from the implementation of a duty, act or decision with respect to the Plan, so long as such duty, act or decision does not involve gross negligence or willful misconduct on the part of any such individual.

## SECTION 8

## MODIFICATION OR TERMINATION OF PLAN

8.1 Employers' Obligations Limited. The Employers intend to continue the Plan indefinitely, and to maintain each Participant's Account until it is scheduled to be paid to him or her in accordance with the provisions of the Plan. However, the Plan is voluntary on the part of the Employers, and the Employers do not guarantee to continue the Plan. The Company at any time may, by amendment of the Plan, suspend Compensation Deferrals or may discontinue Compensation Deferrals, with or without cause. Complete discontinuance of all Compensation Deferrals shall be deemed a termination of the Plan.

8.2 Right to Amend or Terminate. The Board of Directors reserves the right to alter, amend or terminate the Plan, or any part thereof, in such manner as it may determine, at any time and for any reason. The Company, in its sole discretion, may seek a private letter ruling from the Internal Revenue Service regarding the tax consequences of the Plan. If such a ruling is sought, the Committee shall have the right to adopt such amendments to the Plan, including retroactive amendments, as the Internal Revenue Service may require as a condition to the issuance of such ruling.

8.3 Effect of Termination. If the Plan is terminated pursuant to this Section 8, the balances credited to the Accounts of the affected Participants shall be distributed to them at the time and in the manner set forth in Section 5; provided, however, that the Committee, in its sole discretion, may authorize accelerated distribution of Participants' Accounts as of any earlier date.

## SECTION 9

## GENERAL PROVISIONS

9.1 Inalienability. In no event may either a Participant, a former Participant or his or her Beneficiary, spouse or estate sell, transfer, anticipate, assign, hypothecate, or otherwise dispose of any right or interest under the Plan; and such rights and interests shall not at any time be subject to the claims of creditors nor be liable to attachment, execution or other legal process. Accordingly, for example, a Participant's interest in the Plan is not transferable pursuant to a domestic relations order.

9.2 Successors, Acquisitions, Mergers, Consolidations. The terms and conditions of the Plan shall inure to the benefit of and bind the Employers, the Participants, their successors, assigns and personal representatives.

9.3 Rights and Duties. Neither the Employers nor the Committee shall be subject to any liability or duty under the Plan except as expressly provided in the Plan, or for any action taken, omitted or suffered in good faith.

9.4 No Right to Employer Assets. No participant or other person shall acquire by reason of the Plan any right in or title to any assets, funds or property of the Employers whatsoever, including, without limited the generality of the foregoing, any specific funds, assets, or other property which the Employers, in their sole discretion, may set aside in anticipation of liability hereunder. Any benefit which become payable hereunder shall be paid from the general assets of the Employers. A Participant shall have only a contractual right to the amounts, if any, payable hereunder to that participant. The Employer's obligations under this Plan are not secured or funded in any manner.

9.5 No Enlargement of Employment Rights. Neither the establishment or maintenance of the Plan, the making of any Compensation Deferrals nor any action of any Employer or the Committee, shall be held or construed to confer upon any individual any right to be continued as an employee of the Employer nor, upon dismissal, any right or interest in any specific assets of the Employers other than as provided in the Plan. Each Employer expressly reserves the right to discharge any employee at any time.

9.6 Apportionment of Costs and Duties. All acts required of the Employers under the Plan may be performed by the Company for itself and its Affiliates, and the costs of the Plan may be equitably apportioned by the Committee among the Company and the other Employers. Whenever an Employer is permitted or required under the terms of the Plan to do or perform any act, matter or thing, it shall be done and performed by any officer or employee of the Employer who is thereunto duly authorized by the board of directors of the Employer.

9.7 Compensation Deferrals Not Counted Under Other Employee Benefit Plans. Compensation Deferrals under the Plan will not be considered for purposes of contributions or benefits under any other employee benefit plan sponsored by the Employers.

9.8 Applicable Law. The provisions of the Plan shall be construed, administered and enforced in accordance with ERISA, and to the extent not preempted by ERISA, with the laws of the State of Wisconsin.

9.9 Responsibility for Legal Effect. No representations or warranties, express or implied, are made by the Employers or the Committee and neither the Employers nor the Committee assumes any responsibility concerning the legal, tax, or other implications or effects of the Plan.

9.10 Severability. If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provisions of the Plan, and in lieu of each provision which is held invalid or unenforceable, there shall be added as part of the Plan a provision that shall be as similar in terms to such invalid or unenforceable provision as may be possible and be valid, legal, and enforceable.

9.11 Captions. The captions contained in and the table of contents prefixed to the Plan are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge or describe the scope or intent of the Plan nor in any way shall affect the construction of any provision of the Plan.

**WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER**

Pursuant to 18 U.S.C. ss.1350, I, the undersigned Chairman, Chief Executive Officer and President of Actuant Corporation (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended November 30, 2002 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January , 2003

/S/ ROBERT C. ARZBAECHER

Robert C. Arzbaecher

**Exhibit 99.2**

**WRITTEN STATEMENT OF THE CHIEF FINANCIAL OFFICER**

Pursuant to 18 U.S.C. ss.1350, I, the undersigned Vice President and Chief Financial Officer of Actuant Corporation (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended November 30, 2002 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January , 2003

/S/ ANDREW G. LAMPEREUR

Andrew G. Lampereur