

AFTERMARKET TECHNOLOGY CORP
Form 10-K
February 25, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2002

OR

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

Commission file number 0-21803

AFTERMARKET TECHNOLOGY CORP.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

One Oak Hill Center, Suite 400
Westmont, IL
(Address of Principal Executive Offices)

95-4486486
(I.R.S. Employer
Identification No.)

60559
(Zip Code)

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Registrant's telephone number, including area code: **(630) 455-6000**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$.01 par value**

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 ☒ No ☐

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant (based on the closing price of such stock, as reported by The Nasdaq National Market, on June 28, 2002) was \$203.1 million.

The number of shares outstanding of the Registrant's Common Stock, as of February 14, 2003, was 24,211,786 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

AFTERMARKET TECHNOLOGY CORP.

**ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward looking statements (as such term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) and information relating to us that are based on the current beliefs of our management as well as assumptions made by and information currently available to management, including statements related to the markets for our products, general trends in our operations or financial results, plans, expectations, estimates and beliefs. In addition, when used in this Annual Report, the words may, could, should, anticipate, believe, estimate, expect, intend, plan, predict and similar expressions and they relate to us or our management, may identify forward looking statements. These statements reflect our judgment as of the date of this Annual Report with respect to future events, the outcome of which is subject to risks, which may have a significant impact on our business, operating results or financial condition. Readers are cautioned that these forward looking statements are inherently uncertain. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein. We undertake no obligation to update forward-looking statements. The risks identified in the section of Item 1 entitled Certain Factors Affecting the Company, among others, may impact forward-looking statements contained in this Annual Report.

PART I

ITEM 1. BUSINESS

Overview

We are a leading remanufacturer and distributor of drivetrain products used in the repair of automobiles and light trucks in the automotive aftermarket. Our Logistics business is a provider of value added warehouse and distribution services as well as returned material reclamation and disposition services. Our Logistics business also remanufactures and distributes electronic components.

Our Drivetrain Remanufacturing business sells factory approved remanufactured drivetrain products directly to automobile manufacturers (known as OEMs). Our Drivetrain business products consist principally of remanufactured transmissions and also include remanufactured torque converters, valve bodies and engines. The OEMs primarily use the remanufactured products as replacement parts for their domestic dealers during the warranty and post-warranty periods following the sale of a vehicle. Remanufactured products offer several advantages to customers relative to comparable rebuilt products. Generally, remanufactured products are lower cost, are of higher quality consistency and have shorter delivery times. Our principal customers for remanufactured transmissions are Ford Motor Company, DaimlerChrysler Corporation, General Motors Corporation and a number of foreign OEMs. In addition, our Drivetrain business sells select remanufactured engines to several European OEMs.

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Demand for our products within the Drivetrain business is largely a function of the number of vehicles in operation, the average age of vehicles and the average number of miles driven per vehicle. These factors have generally increased over time, thereby increasing demand for our remanufactured products. Other factors that influence demand for our remanufactured products include product complexity and reliability, the length of OEM warranty periods and the severity of weather conditions. Because these factors are not directly dependent on new automotive sales levels, demand for remanufactured products within our Drivetrain business has been largely non-cyclical.

Our Drivetrain business has been our primary business since our formation. For the year ended December 31, 2002, revenue from our Drivetrain business was \$286.5 million, or 69% of our total revenue, of which Ford, DaimlerChrysler and General Motors accounted for 51%, 32% and 8%, respectively. In addition, in the United States we also sell remanufactured engines and transmissions in the independent aftermarket. For the year ended December 31, 2002, revenue from our aftermarket business was \$16.6 million, or 4% of our total revenue.

Our Logistics business consists of three operating units: Logistics Services, a provider of value added warehouse and distribution services, turnkey order fulfillment and information services for AT&T Wireless Services; Material Recovery, a provider of returned material reclamation and disposition services and management services for failed components, commonly referred to as cores, primarily for Ford and, to a lesser extent, General Motors and Mazda; and Autocraft Electronics, an automotive electronic remanufacturing and distribution business. Services within our Logistics business are designed to meet the specialized needs of our customers.

The logistics industry has evolved over the last 20 years due to dramatic improvements in technology and increased demand in customer service requirements. Growth in our logistics business with AT&T Wireless is primarily dependent on cellular telephone handset demand and AT&T Wireless share of new cellular telephone sales volume. Our Logistics business benefits from upgrades in cellular telephone technology through increased replacement demand for more advanced handsets, from any increases in the number of AT&T Wireless subscribers and from any expansion of our service offering with AT&T Wireless. Because we do not take actual ownership of our cellular telephone inventory, we do not face the risk of inventory obsolescence. Other growth drivers within our Logistics business include our ability to leverage our expertise in logistics in other industries. For the year ended December 31, 2002, revenue from our Logistics business was \$114.2 million, or 27% of our total revenue, of which AT&T Wireless accounted for 67%.

Industry Background

Automotive Aftermarket

The automotive aftermarket in the United States, which consists of sales of parts and services for vehicles after their original purchase, has been largely non-cyclical and has generally experienced steady growth over the past several years, unlike the market for new vehicle sales. This consistent growth is due principally to an increase in the number of vehicles in operation, an increase in the average age of vehicles, and an increase in the average number of miles driven per vehicle.

Remanufacturing Process

Remanufacturing is a process through which used assemblies are returned to a central facility where they are disassembled and their component parts are cleaned, refurbished and tested. The usable component parts are then combined with new parts in a high volume cellular manufacturing process to create remanufactured assemblies.

When an assembly such as a transmission or engine fails, there are generally three alternatives available to return the vehicle to operating condition. The dealer or independent repair shop may:

remove the assembly, disassemble it into its component pieces, replace worn or broken parts with remanufactured or new components, and reinstall the assembly in the vehicle;

replace the assembly with an assembly from a remanufacturer such as us; or

replace the assembly with a new assembly manufactured by the OEM.

In our remanufacturing operations, we obtain used transmissions, engines and related components, commonly known as cores, from the OEMs. We then sort the cores by vehicle make and model and either place them into immediate production or store them until needed. In the remanufacturing process, we evaluate the cores, disassemble them into their component parts and clean, refurbish and test the components that can be incorporated into the remanufactured product. We replace components that we determine to be not reusable or repairable with other remanufactured or new components. We conduct inspection and testing at various stages of the remanufacturing process, and we test each finished assembly on equipment designed to simulate performance under operating conditions. After testing, we generally package completed products for immediate delivery.

There are four primary benefits of using remanufactured components in the repair of vehicles:

First, costs to the OEM associated with remanufactured assemblies generally are substantially less than new or dealer-rebuilt assemblies due to our use of high volume manufacturing techniques and salvage methods that enable us to refurbish and reuse a high percentage of original components, as well as our lower cost of production. The cost savings produced by remanufactured assemblies help the OEMs manage their warranty expenses.

Second, remanufactured assemblies are generally of consistent high quality due to the precision manufacturing techniques, technical upgrades and rigorous inspection and testing procedures we employ in remanufacturing. By contrast, the quality of rebuilt assemblies generally is less consistent because it is heavily dependent on the skill level of the particular mechanic as well as the availability of adequate tooling and testing equipment. In addition, the proliferation of transmission and engine designs, the increasing complexity of transmissions and engines that incorporate electronic components and the shortage of highly trained mechanics qualified to rebuild assemblies are causing what management believes is a trend toward the use of remanufactured assemblies for aftermarket repairs. For warranty repairs, consistent quality is important to the OEM providing the applicable warranty, because once installed, the remanufactured product is usually covered by the OEM's warranty for the balance of the original warranty period.

Third, replacement of a component with a remanufactured component generally takes considerably less time than the time needed to rebuild the component, thereby significantly reducing the time the vehicle is at the dealer or repair shop and allows the dealer and repair shops to increase their volume of business.

Fourth, the environmental benefits of remanufacturing may be significant to OEMs. Remanufacturing in our facilities, when compared to rebuilding at various dealers, generally results in a more efficient re-utilization of parts and a more controlled recycling of scrap materials and excess fluids. This in turn leads to associated cost savings. We annually re-process thousands of tons of materials that would otherwise have been discarded.

We believe that because of this combination of high quality, low cost and efficiency, the use of remanufactured assemblies for repairs is growing compared to the use of new or rebuilt assemblies.

Logistics Industry

Logistics can generally be defined as the management and transportation of materials and inventory throughout the supply chain as well as the provision of value added services such as assembly, packaging, programming and testing. The logistics industry has evolved over the last 20 years due to dramatic improvements in technology and increased demand in customer service requirements. As companies' logistics decisions involve greater emphasis on cost efficiency and increased focus on core competencies, companies are increasingly reevaluating their in-house

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logistics functions. Many companies have decided to outsource the management of all or part of their supply chain as a means to reduce costs, increase asset and labor flexibility and improve customer service. As a result, third party logistics providers have become extensively involved in the full range of customer supply chain functions. The operational efficiencies of a third party provider enable companies to reduce investments in facilities, information technology, inventory and personnel. Third party services include order fulfillment, product labeling and packaging, inventory and warehouse management, product return and repair, reverse logistics and the physical movement of goods.

Logistics Process

Our logistics process is determined in close consultation with our customers. For instance, for AT&T Wireless, our supply chain management services include warehousing, picking, packing, shipping and delivery of wireless handsets, including wireless data devices, and accessories. Our integrated logistics services include

inventory management, private labeling, kitting and customized packaging, the management and distribution of time sensitive marketing materials and product warranty and returns processing.

Our Competitive Strengths

We believe our core competencies include the following factors:

Our Remanufacturing Technology

We specialize in volume remanufacturing of high-quality automotive transmissions, torque converters, engine long blocks and automotive electronics. Our remanufacturing process is completed by testing products using state-of-the-art equipment such as sophisticated test stands that enable us to replicate OEM test procedures.

Our High Quality Products with a Sound ISO Quality Foundation

Our remanufactured products are of consistent high quality due to the precision manufacturing techniques, technical upgrades and rigorous inspection and testing procedures employed in our remanufacturing processes. We are dedicated to upholding the quality of our customers products and hold QS-9000 Certification, ISO-9002 Certification and Ford's Q1 Certification.

Our Fulfillment and Customer Service Capabilities

Our Logistics business provides high-speed, same day, technology driven fulfillment. Our logistics approach involves our team of specialists who work with the client to understand deliverables, understand communication points within the supply chain, design solutions, establish operational and business metrics, eliminate waste and improve efficiencies.

Our Information Technology Management and Response Skills

In our Logistics business, we use state-of-the-art software and computer systems to meet customers' needs in product security and confidentiality, product qualification and identification, inventory management, interactive electronic communication, authorized product sales and commodity recycling, as well as providing customers with solutions for their supply chain management, reverse logistics, product tracking and product history needs, while maintaining service and quality levels.

Our Customer Relationships

In recognition of our consistently high level of service and product quality throughout our relationship with DaimlerChrysler, over the years we have received numerous awards from Chrysler. Additionally, over the past few years, we have strengthened our relationship with many other of our customers, as evidenced by the award of new business with Ford, Jaguar, Isuzu, Kia and General Motors. To strengthen our customer relationships and improve all aspects of customer service and operations, we have implemented our Lean and Continuous Improvement and Customer Delight programs. Under these programs, we have installed a number of training and operating initiatives aimed at improving efficiency and productivity.

Our Growth Strategies

Our strategy is to be a world class provider of remanufacturing and logistics products and services. We are pursuing the following growth strategies:

increasing sales to existing customers;

introducing new products and programs;

establishing new customer relationships; and

pursuing future acquisitions.

Increasing Sales to Existing Customers

Drivetrain Customers. We intend to increase our business with our existing Drivetrain customers by working with OEMs to increase dealer utilization of remanufactured transmissions in both the warranty and post-warranty periods. We are working in tandem with OEMs to highlight to dealers the quality and cost advantages of using remanufactured assemblies versus rebuilding. We are also working with OEMs to reduce the lag time prior to the introduction of a remanufacturing program for new transmission models and model years. In addition, the post-warranty repair market, which we believe is significantly larger than the OEM dealer warranty repair market, presents a growth opportunity. We believe that most post-warranty repairs are performed by aftermarket repair specialists rather than by OEM dealers. Given the relatively low cost and high quality of remanufactured components, OEM dealers may enhance their cost competitiveness, when compared to independent service centers, through the increased use of remanufactured components as well as providing end customers with a high quality product. To the extent that OEM dealers increase their level of post-warranty repairs, we are well positioned, given our existing OEM relationships, to capitalize on this market growth.

Logistics Customers. We intend to increase penetration of our existing Logistics business customer base by broadening our offering of Logistics products and services and by marketing our core competencies as solutions to our customers needs. In 2000, AT&T Wireless awarded us additional programs covering the packaging and distribution of cellular telephone accessories and the distribution of point-of-sale and other marketing materials. Also, in September 2001, Ford awarded us additional logistics business related to the control and management of Ford core inventory supporting Ford's remanufactured products for automobiles and light trucks in North America.

Introducing New Products and Programs

Drivetrain Business. We continue to work with our OEM customers to identify additional remanufactured products and services where we can provide value to the OEM. In this way, we believe that we will be able to leverage our customer relationships and remanufacturing competency. In 2000, Ford selected us to supply remanufactured transmissions for use in Ford's new Focus, and to supply a new line of Motorcraft-branded remanufactured transmissions. In 2002 we were awarded new business by General Motors, Kia and Jaguar.

Logistics Business. We also intend to leverage our core competencies in logistics and electronics remanufacturing by working with our existing and new customers to identify products and services where we can add value in satisfaction of our customers' needs. General Motors has awarded us a pilot national material recovery program.

Establishing New Customer Relationships

Drivetrain Customers. We believe that opportunities for growth exist with select foreign OEMs regarding United States-based remanufacturing programs. We believe that this represents an opportunity for growth and we are currently working to develop programs with these OEMs. In October 2001, Saturn Corporation awarded us a contract to remanufacture transmissions, valve body assemblies and pump assemblies, and in October 2002, Honda awarded us a contract to remanufacture transmissions for its domestic vehicles.

We also look to obtain new customers for our drivetrain products in the independent aftermarket. In July 2001, we began a program with the National AAMCO Dealers Association, which represents most of the AAMCO dealers across the United States. Under this program, we provide select remanufactured domestic transmissions to AAMCO dealers. These dealers currently face a shrinking base of technicians who are qualified to work with the increasing number of transmission types and their increasing technological complexity. Through this program, we provide various incentives for dealers to purchase remanufactured transmissions directly from us. We believe that the AAMCO dealers represent a substantial portion of the post-warranty transmission repair market in the United States.

Logistics Customers. We plan to leverage our existing relationships with automobile OEMs into new logistics customer relationships. We believe that our logistics services business should be attractive to new customers who recognize that outsourcing this function will enable them to both focus on their core competencies and have an efficient product distribution system. We also believe that the cost savings and environmental benefits

provided by our material recovery business will be attractive to other OEMs. In June 2001, Mazda North America Operations awarded us a logistics pilot program contract under which we harvest and consolidate used or excess product and then ship it to Mazda authorized dealers. In 2002, we were awarded new automotive telematics business with Motorola.

Pursuing Future Acquisitions

An important element of our growth strategy is the acquisition and integration of complementary businesses in order to broaden product offerings, capture market share and improve profitability. We have made various acquisitions in the past and, to the extent suitable acquisition candidates, acquisition terms and financing are available, we intend to make acquisitions in the future. We currently expect that there may be more acquisition opportunities available in the logistics industry than the automotive drivetrain remanufacturing industry.

Our Drivetrain Remanufacturing Business

Our Drivetrain business consists of five operating units that primarily remanufacture and sell transmissions directly to automobile manufacturers. Drivetrain segment sales accounted for 68.9%, 67.7%, 68.3%, 73.6% and 77.3% of our 2002, 2001, 2000, 1999 and 1998 revenues, respectively.

We remanufacture factory approved transmissions for warranty and post-warranty replacement of transmissions for Ford, DaimlerChrysler, General Motors and several foreign OEMs, including Honda, Mitsubishi, Isuzu, Subaru and Kia, primarily for their United States dealer networks, and Hyundai for its Canadian network. The number of transmission models we remanufacture has been increasing to accommodate the greater number of models currently used in vehicles manufactured by our OEM customers.

We operate a facility in England that remanufactures factory approved engines for several European OEMs, including Jaguar and the European divisions of Ford and General Motors. These engines are used for warranty and post-warranty replacement. The facility in England also does assembly and modification of new production engines for some of our OEM customers.

Our largest Drivetrain segment customers are Ford and DaimlerChrysler, to whom we primarily supply remanufactured transmissions for use in Ford and Chrysler automobiles and light trucks. Additionally, we provide remanufactured components to several other OEMs including transmissions to General Motors, Honda, Kia, Mitsubishi, Subaru and Isuzu and engines to Jaguar, Land Rover, Aston Martin and the European divisions of Ford and General Motors. In general, the OEMs retain ownership of cores. We generally sell products to each OEM pursuant to supply arrangements for individual transmission or engine models, which supply arrangements typically may be terminated by the OEM on 90 days notice or less.

Historically, we have developed and maintained strong relationships at many levels in both the corporate and factory organizations of the Chrysler division of DaimlerChrysler, and we have received numerous awards over the years from Chrysler in recognition of our consistently high level of service and product quality. Additionally, over the past few years, we have strengthened our relationships with many of our other Drivetrain customers, as evidenced by the award of new business with Ford, Jaguar, Isuzu and General Motors. In addition, we have received Ford's Q-1 and Dedication to Customer Service awards in recent years.

All of our facilities that remanufacture transmissions have QS-9000 certification, a complete quality management system developed for manufacturers who subscribe to the ISO 9002 quality standards. The system is designed to help suppliers, such as us, develop a quality system that emphasizes defect prevention and continuous improvement in manufacturing processes.

DaimlerChrysler began implementing remanufacturing programs for certain of its Chrysler transmission models in 1986 and has utilized us as its sole supplier of remanufactured transmissions since 1989. DaimlerChrysler has advised us that, by implementing a remanufacturing program for Chrysler vehicles, DaimlerChrysler has realized substantial warranty cost savings, standardized the quality of its dealers' aftermarket repairs and reduced its own inventory of replacement parts. We presently do not provide remanufactured transmissions or other components to DaimlerChrysler's Mercedes Benz division.

We began remanufacturing transmissions for Ford in 1989 and for General Motors in 1985. We believe that we are the largest provider of remanufactured transmissions to Ford for automobiles and light trucks in North America and we are one of three suppliers of remanufactured transmissions to General Motors.

Our Logistics Business

Our Logistics business provides supply chain management to our customers. Our operations consist of a warehouse, distribution and turnkey order fulfillment and information services business, an automotive electronic parts remanufacturing and distribution business and a material recovery parts processing, or reverse logistics business. We acquired our Logistics business as part of the Autocraft acquisition in 1998.

Logistics Customers

AT&T Wireless Services. The logistics services operating unit provides value added warehouse and distribution services, turnkey order fulfillment and information services for AT&T Wireless. As part of our product offering, we provide bulk and direct fulfillment of cellular telephones and accessories to AT&T Wireless subscribers and partners and point-of-sale and other marketing materials to AT&T Wireless partners. We deliver products both to AT&T Wireless retail locations and directly to individuals who order a cellular phone. Our arrangement with AT&T Wireless originally focused primarily on cellular telephones and we then expanded our relationship to include accessories and promotional items. We also provide accessory packaging services and inventory tracking and management and process all warranty-service exchanges. We do not take title to any telephones or accessories and do not reflect any of these items as inventory.

Automotive Electronic Components. The automotive electronic components operating unit remanufactures and distributes radios and instrument and display clusters for General Motors, Delphi and Visteon, and remanufactures and distributes various cellular products (*e.g.*, navigation systems) primarily for Visteon and General Motors.

Material Recovery. We provide returned material reclamation and disposition services to assist automobile OEMs with the management of their dealer parts inventory, thereby reducing the OEMs' parts costs and assisting them in being more environmentally responsible. Under this program, various points in the OEM supply chain send their excess and obsolete parts inventory to our facility in Oklahoma City. We then sort the parts and redistribute the useful parts on behalf of the OEM to other dealers to fill back orders or to the OEM's product distribution centers for restocking. Parts that are no longer useful are scrapped and recycled. The parts remain the property of the OEM, and we receive a fee for our redistribution services.

We developed this program primarily with Ford as a way to substantially improve the rate of recycling of automotive parts. As a result of the material recovery program, the number of Ford parts that are sent to landfills has been significantly reduced. We recently expanded the scope of

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this business by providing similar services, currently on a more limited scale, to General Motors and Mazda. We believe that the opportunity to provide material recovery services for other OEMs will arise in the future as OEMs recognize the benefits of this program.

As part of our material recovery program, we have developed an Internet-enabled interactive system that allows an OEM to track the availability, condition and value of core, and to produce dealer credits and facilitate logistics. Our system also allows an OEM and its dealers and vendors to track product on a real time basis and provides system-wide inventory management, cross docking and product redistribution capabilities.

Competition

In our Drivetrain business, we primarily compete in the market for remanufactured transmissions sold to the automotive aftermarket through the OEM dealer networks. This market, narrowly defined, is one in which the majority of industry supply comes from a limited number of participants. Competition is based primarily on product quality, service, delivery, technical support and price and tends to be split along customer lines. We believe that we have established excellent relationships with our customers and believe we are well positioned to enhance our competitive position by expanding our product line through the development of new products or acquisition of new businesses.

In our Logistics business, we primarily compete in a fragmented market as a niche participant offering a specialized value added service requiring severe service level requirements. Based on our performance levels, we believe we are well positioned to compete in this market. However, some of our competitors in this segment are larger and have greater financial and other resources.

Corporate History

We were formed in 1994 as a Delaware corporation at the direction of Aurora Capital Group. Since then, we have completed the following acquisitions:

Year	Company(1)	Description	Acquisition Price(2) (in millions)
1994	Aaron's Automotive Products, Inc.	Remanufactures transmissions for DaimlerChrysler	\$ 113.2
1995	Component Remanufacturing Specialists, Inc.	Remanufactures transmissions for several foreign OEMs, including Hyundai, Mitsubishi, Isuzu and Subaru	\$ 30.5
1997	ATS Remanufacturing	Remanufactures transmissions for General Motors	\$ 12.9(3)
1998	Autocraft	Provides value added warehouse and distribution services, turnkey order fulfillment and information services for AT&T Wireless Services	\$ 121.7
		Provides returned material reclamation and disposition services (known as reverse logistics) for Ford	
		Remanufactures transmissions for Ford and remanufactures engines for European operations of Ford, General Motors and Jaguar	
		Remanufactures and distributes automotive electronic components	

(1) Excludes acquisitions that were subsequently sold.

(2) Includes transaction fees and related expenses.

(3) Excludes subsequent payments totaling \$19 million due on each of the first 14 anniversaries of the closing date, of which a total of \$7.4 million has been paid through December 31, 2002.

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In August 2000, we adopted a plan to discontinue and sell a segment of our business that we referred to as our independent aftermarket. This independent aftermarket segment consisted of two parts. The first part was the ATC Distribution Group, Inc., which sold transmission parts to automotive aftermarket customers such as independent transmission rebuilders, general repair shops, distributors and retail automotive parts stores. This group consisted of various companies that we purchased between 1994 and 1999. We completed the sale of the Distribution Group in October 2000. The ATC Distribution Group has been reflected as discontinued operations in the consolidated financial statements and related discussion and analysis included in this annual report.

The second part of the segment was the independent aftermarket engine business that remanufactured domestic and foreign engines primarily for sale not to OEMs, as is the case in our Drivetrain business, but instead through a branch distribution network into the independent aftermarket. In preparing this independent aftermarket engine business for sale, we restructured the business by eliminating our branch distribution network and selling directly to customers on an overnight basis from four regional distribution centers in the eastern half of the United States, and by applying lean manufacturing techniques to improve productivity, reduce manufacturing costs and improve product quality. However, efforts to identify an interested buyer placing sufficient value on this business were unsuccessful and we ultimately elected to retain our independent aftermarket engine business. With the expansion of the product offering to include select remanufactured domestic transmissions, we are now working to grow this business.

Employees

As of December 31, 2002, we had approximately 3,500 full-time and temporary employees. We believe our employee and labor relations are good. We have not experienced any work stoppage to date. At our Mahwah, NJ facility, which remanufactures transmissions, transfer cases and assorted components, workers voted (by one vote) in November 2002 to join District 6 of the International Union of Industrial, Service, Transport, and Health Employees. This action affects approximately 100 hourly workers. Collective bargaining began in January 2003.

Environmental

We are subject to various evolving federal, state, local and foreign environmental laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of a variety of hazardous and non-hazardous substances and wastes. These laws and regulations provide for substantial fines and criminal sanctions for violations and impose liability for the costs of cleaning up, and damages resulting from, past spills, disposals or other releases of hazardous substances.

In connection with the acquisition of our subsidiaries, some of which have been subsequently divested or relocated, we conducted certain investigations of these companies' facilities and their compliance with applicable environmental laws. The investigations, which included Phase I assessments by independent consultants of all manufacturing and various distribution facilities, found that a number of these facilities have had or may have had releases of hazardous materials that may require remediation and also may be subject to potential liabilities for contamination from off-site disposal of substances or wastes. These assessments also found that reporting and other regulatory requirements, including waste management procedures, were not or may not have been satisfied. Although there can be no assurance, we believe that, based in part on the investigations conducted, in part on remediation completed prior to or since the acquisitions, and in part on the indemnification provisions of the agreements entered into in connection with our acquisitions, we will not incur any material liabilities relating to these matters.

One of our former subsidiaries, RPM, leased several facilities in Azusa, California located within what is part of the San Gabriel Valley Superfund Site (the Superfund Site). Neither Aftermarket Technology Corp. nor RPM has been named as a Potentially Responsible Party (PRP) for the Superfund Site, but the entity that leased the facilities to RPM has been named as one of approximately nineteen PRPs. Under the Comprehensive Environmental Response Compensation and Liability Act (Superfund), PRPs, which include current and former owners and operators of a contaminated site, as well as persons who sent or transported waste to the site, are responsible for the clean up of the site and for damage to natural resources caused by contamination at the site. The United States Environmental Protection Agency (EPA) has preliminarily estimated that it will cost between \$150 million and \$200 million to construct and operate for an indefinite period an interim groundwater remediation system for the portion of the Superfund Site where the leased properties are located. The actual cost of this remediation could vary substantially from this estimate and additional costs associated with the Superfund Site are likely to be assessed. RPM moved all manufacturing operations out of the Superfund Site area in 1995. Since June 1995, RPM's only real property interest in this area has been the lease of a 6000 square foot warehouse. The company that sold us RPM and that company's shareholders indemnified us from liabilities for conditions in existence on or before our acquisition of RPM. There can be no assurance, however, that we would be able to obtain any recovery under this indemnity. Since our acquisition of RPM, we have engaged in negotiations with EPA to settle any liability that RPM may have for the Superfund Site. Although there can be no assurance, we believe that we will not incur any material liability as a result of RPM's lease of properties within the Superfund Site.

In connection with the October 2000 sale of our Distribution Group, we have agreed to indemnify the buyer against environmental liability at former Distribution Group facilities that had been closed prior to the Distribution Group sale, including the former facilities in Azusa, California within the Superfund site mentioned above and former manufacturing facilities in Mexicali, Mexico and Dayton, Ohio. We also agreed to indemnify the buyer against any other environmental liability of the Distribution Group relating to periods prior to the closing of the Distribution

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Group sale. Our indemnification obligations to the buyer are subject to a \$750,000 deductible and a \$12.0 million cap, except with respect to closed facilities. In 2002, we negotiated an additional \$100,000 deductible applicable to all Distribution Group claims for indemnification.

Certain Factors Affecting the Company

We rely on a few major customers for a significant majority of our business and the loss of any of those customers, or significant changes in prices or other terms with any of our major customers, could reduce our net income and operating results.

A few customers account for a significant majority of our net revenues each year. In 2002, we had three customers that individually accounted for more than 10% of our revenues. Ford accounted for 37.0%, 34.6% and 30.0% of our net sales for 2002, 2001 and 2000, respectively, DaimlerChrysler accounted for 22.4%, 24.7% and 29.6% of our net sales in 2002, 2001 and 2000, respectively, and AT&T Wireless accounted for 18.5%, 17.6% and 14.1% of our net sales during 2002, 2001 and 2000, respectively. If we lose any of these customers, or if any of them reduces or cancels a significant order, our net sales and operating results could decrease significantly.

DaimlerChrysler and Ford, like other North American OEMs, generally require that their dealers using remanufactured products for warranty application use only products from approved suppliers. Although we are currently the only factory approved supplier of remanufactured transmissions for Chrysler automobiles and light trucks and one of two suppliers to Ford, DaimlerChrysler and Ford are not obligated to continue to purchase our products and generally may terminate our agreements on 90 days notice or less. They may approve other suppliers in the future and we may not be able to maintain or increase our sales to them. Within the last five years the standard new vehicle warranty provided by our customers has varied and shorter warranty periods could be implemented in the future. Any shortening of warranty periods could reduce the amount of warranty work performed by dealers and reduce the demand for our services.

Substantially all of our contracts or arrangements with our customers are terminable on 90 days notice or less. In addition, we periodically renegotiate the prices and other terms of our products with our customers. For instance, we recently negotiated lower prices with AT&T Wireless in connection with the renewal of the contract through the end of 2003. Because of the short termination periods and periodic price negotiations, we cannot give any assurances of the stability of the prices for our products and, therefore, our revenue streams. Significant price fluctuations could materially affect our business.

Interruptions or delays in obtaining transmission cores and component parts could impair our business.

In our remanufacturing operations, we obtain used transmissions, engines and related components, commonly known as cores, which are sorted and either placed into immediate production or stored until needed. The majority of the cores we remanufacture are obtained from OEMs. Our ability to obtain cores of the types and in the quantities we require is critical to our ability to meet demand and expand production. With the increased acceptance in the aftermarket of remanufactured assemblies, the demand for cores has increased. We have periodically experienced situations in which the inability to obtain sufficient cores has limited our ability to accept orders. We may experience core shortages in the future. In addition, from time to time, we experience shortages of components manufactured by our OEM customers that we require for our transmission remanufacturing process. If we experience such shortages for an extended period of time, it could have a material adverse effect on our business and negatively impact our competitive position.

Our financial results are affected by transmission failure rates, which are outside our control.

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Our quarterly and annual operating results are affected by transmission failure rates, and a drop in rates could adversely affect sales or profitability or lead to variability of our operating results. Generally, if transmissions last longer, there will be less demand for our remanufactured transmissions. Transmission failure rates could drop due to a number of factors outside our control, including:

consumers retaining automobiles for shorter periods, which could occur in periods of economic growth or stability;

transmission design that results in greater reliability;

consumers driving fewer miles per year, which could occur if gasoline prices were to increase; and

mild weather, such as that experienced during the winter of 2001-2002.

Our financial results are affected by our customers' policies, which are outside our control.

Our financial results are also affected by the policies of our OEM customers. Changes to our key OEM customers' policies that could materially affect our business include:

shortened warranty periods that could reduce the demand for our products;

reductions in the amount of inventory our OEM customers elect to retain;

longer time periods before remanufactured transmissions are introduced for use with a particular automobile;

guidelines that affect dealer decisions to rebuild units at the dealer rather than install remanufactured transmissions; and

pricing strategies.

Our Logistics business is dependent on the strength of our customers.

AT&T Wireless, our principal Logistics customer, operates in a highly competitive technology market. The number of cell phones sold by AT&T Wireless, whether to new subscribers or as replacement phones to existing subscribers, is dependent on its ability to keep pace with technological advancements and to provide service programs and prices that are attractive to current and potential customers. Our Logistics revenue from AT&T Wireless is substantially related to the number of phones sold by AT&T Wireless. Consequently, any material decrease in phones sold by AT&T Wireless will materially and adversely affect our Logistics revenue.

We may incur material liabilities under various federal, state, local and foreign environmental laws.

We are subject to various evolving federal, state, local and foreign environmental laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of a variety of hazardous and non-hazardous substances and wastes. These laws and regulations provide for substantial fines and criminal sanctions for violations and impose liability for the costs of cleaning up, and the damages resulting from, past spills, disposals or other releases of hazardous substances. In connection with our acquisition activity, we have conducted certain investigations of facilities we have acquired and their compliance with applicable environmental laws. Similarly, in the course of lease terminations, we have generally conducted investigations into potential environmental impacts resulting from our operations. These investigations revealed various environmental matters and conditions that could expose us to liability or which have required us to undertake compliance related improvements or remedial activities. Furthermore, one of our former subsidiaries, RPM, leased several facilities in Azusa, California located within what is now a federal Superfund site. The entity that leased the facilities to RPM has been identified by the United States Environmental Protection Agency as one of the many potentially responsible parties for environmental liabilities associated with that Superfund site. Any liability we may have from this site or otherwise under environmental laws could materially affect our business.

Substantial competition could reduce our market share and significantly harm our financial performance.

While we believe that our business is well positioned to compete in our two primary market segments, transmission remanufacturing and logistics, our industry segments are highly competitive. We may not be successful in competing against other companies, some of which are larger than us and have greater financial and other resources available to them than we do. Increased competition could require us to reduce prices or take other actions which may have an adverse effect on our operating results.

Our stock price is volatile, and investors may not be able to recover their investment if our stock price declines.

The trading price of our common stock has been volatile and can be expected to be affected by factors such as:

quarterly variations in our results of operations, which may be impacted by, among other things, price renegotiations with our customers;

quarterly variations in the results of operations or stock prices of comparable companies;

announcements of new products or services offered by us or our competitors;

changes in earnings estimates or buy/sell recommendations by financial analysts;

the stock price performance of our customers; and

general market conditions or market conditions specific to particular industries.

In addition to the factors listed above affecting us, our competitors and the economy generally, the stock price of our common stock may be affected by any significant sale of shares by our principal stockholders. As of February 14, 2003, Aurora Equity Partners L.P. and Aurora Overseas Equity Partners I, L.P. collectively owned 7,443,026 shares of our common stock. Any significant sales by the Aurora partnerships of these shares could have a negative impact on our stock price.

Our future operating results may fluctuate significantly.

We may experience significant variations in our future quarterly results of operations. These fluctuations may result from many factors, including the condition of our industry in general and shifts in demand and pricing for our products. Our operating results are also highly dependent on our level of gross profit as a percentage of net sales. Our gross profit percentage fluctuates due to numerous factors, some of which may be outside of our control. These factors include:

pricing strategies;

changes in product costs from vendors;

the risk of some of the items in our inventory becoming obsolete;

the relative mix of products sold during the period; and

general market and competitive conditions.

Results of operations in any period, therefore, should not be considered indicative of the results to be expected for any future period.

Our success depends on our ability to retain our senior management and to attract and retain key personnel.

Our success depends to a significant extent on the efforts and abilities of our senior management team. We have various programs in place to motivate, reward and retain our management team, including bonus and stock option plans. However, the loss of one or more of these persons could have an adverse effect on our business. Our success and plans for future growth will also depend on our ability to hire, train and retain skilled workers in all areas of our business. We currently do not have key executive insurance relating to our senior management team.

We cannot predict the impact of unionization efforts or labor shortages on our business.

From time to time, labor unions have indicated their interest in organizing our workforce. Given that our OEM customers are in the highly unionized automotive industry, our business is likely to continue to attract the attention of union organizers. While these efforts have not been successful to date except in the case of our Mahwah, New Jersey facility, we cannot give any assurance that we will not experience additional union activity in the future. Any union organization activity, if successful, could result in increased labor costs and, even if unsuccessful, could result in a temporary disruption of our production capabilities and a distraction to our management. Additionally, we need qualified managers and a number of skilled employees with technical experience in order to operate our business successfully. From time to time, there may be a shortage of skilled labor which may make it more difficult and expensive for us to attract and retain qualified employees. If we are unable to attract and retain qualified individuals or our costs to do so increase significantly, our operations would be materially adversely affected.

We are subject to risks associated with future acquisitions.

An important element of our growth strategy is the acquisition and integration of complementary businesses in order to broaden product offerings, capture market share and improve profitability. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities, obtain financing on acceptable terms or reach mutually agreeable terms with acquisition candidates. The negotiation of potential acquisitions as well as the integration of an acquired business could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

dilutive issuances of equity securities;

reductions in our operating results;

incurrence of debt and contingent liabilities;

future impairment of goodwill and other intangibles; and

other acquisition-related expenses.

Some or all of these items could have a material adverse effect on our business. The businesses we acquire in the future may not achieve sales and profitability that justify our investment. In addition, to the extent that consolidation becomes more prevalent in our industry, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our growth.

We may encounter problems in integrating the operations of companies that we acquire.

We may encounter difficulties in integrating any businesses we acquire with our operations. The success of these transactions depends on our ability to:

retain key management members and technical personnel of acquired companies;

successfully merge corporate cultures and operational and financial systems; and

realize sale and cost reduction synergies.

Furthermore, we may not realize the benefits we anticipated when we entered into these transactions. In addition, after we have completed an acquisition, our management must be able to assume significantly greater responsibilities, and this in turn may cause them to divert their attention from our existing operations. Any of the foregoing could have a material adverse effect on our business and results of operations.

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

As of December 31, 2002, our outstanding indebtedness was \$164.6 million, and we had cash on hand of \$65.5 million. While the proceeds from our public offering that was completed on March 8, 2002 have been used to reduce our outstanding indebtedness, our indebtedness may increase from time to time in the future for various reasons, including fluctuations in operating results, capital expenditures and possible acquisitions. Our consolidated indebtedness level could materially affect our business because:

a substantial portion of our cash flow from operations must be dedicated to interest payments on our indebtedness and is not available for other purposes, which amount would increase if prevailing interest rates rise;

it may materially limit or impair our ability to obtain financing in the future;

it may reduce our flexibility to respond to changing business and economic conditions or take advantage of business opportunities that may arise; and

our ability to pay dividends is limited.

In addition, our credit facility requires us to meet specified financial ratios and limits our ability to enter into various transactions.

If we default on any of our indebtedness, or if we are unable to obtain necessary liquidity, our business could be adversely affected.

Our significant stockholders have the ability to influence all matters requiring the approval of our board of directors and our stockholders.

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As of February 14, 2003, the Aurora partnerships held approximately 40% of our voting power, through direct ownership of shares and voting arrangements, and four of the nine members of our Board of Directors are affiliated with the Aurora partnerships. As a result, they are able to exercise substantial control over us. As a result, it may be more difficult for a third party to acquire us. See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and Item 13. Certain Relationships and Related Transactions.

Our certificate of incorporation contains provisions that may hinder or prevent a change in control of our company.

Provisions of our certificate of incorporation could make it more difficult for a third party to obtain control of us, even if such a change in control would benefit our stockholders. Our Board of Directors can issue preferred stock without stockholder approval. The rights of common stockholders could be adversely affected by the rights of holders of preferred stock that we issue in the future. These provisions could discourage a third party from obtaining control of us. Such provisions may also impede a transaction in which our stockholders could receive a premium over then current market prices and our stockholders' ability to approve transactions that they consider in their best interests.

ITEM 2. PROPERTIES

We conduct our business from the following facilities:

Location	Approx. Sq. Feet	Lease Expiration Date	Products Produced/Services Provided
Springfield, MO	280,800	12/31/03	transmissions(1)
Springfield, MO	200,000	2006	engines(1)
Gastonia, NC	130,000	2009	transmissions and valve bodies(1)
Mahwah, NJ	147,000	12/31/03	transmissions, transfer cases and assorted components(1)
Oklahoma City, OK	100,000	owned	returned material reclamation and disposition(2)
Oklahoma City, OK	200,000	owned	transmissions(1)
Oklahoma City, OK	94,000	10/31/08	core qualification center(2)
Carrollton (Dallas), TX	39,000	2006	radios and instrument and display clusters(2)
Ft. Worth, TX	221,000	2008	cellular phone and accessory distribution(2)
Ft. Worth, TX	108,000	2005	cellular phone accessory packaging and returns processing(2)
Houston, TX	10,000	12/31/03	radios(2)
Grantham, England	120,000	owned	engines and related components(1)

(1) This facility is used by the Drivetrain business.

(2) This facility is used by the Logistics business.

We also lease assorted warehouses and space for our corporate offices and computer services centers. We believe that our current facilities are adequate for the current level of our activities. In the event we were to require additional facilities, we believe that we could procure acceptable facilities.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we have been, and currently are, involved in various legal proceedings. Management believes that all of our litigation is routine in nature and incidental to the conduct of our business, and that none of our litigation, if determined to be adverse to us, would have a material adverse effect, individually or in the aggregate, on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the stockholders of the Company during the quarter ended December 31, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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Our common stock has been traded on the Nasdaq National Market under the symbol ATAC since our initial public offering in December 1996. As of February 14, 2003, there were approximately 47 record holders of our common stock. The following table sets forth for the periods indicated the range of high and low sale prices of the common stock as reported by Nasdaq:

	High	Low
2002		
First quarter	\$ 19.47	\$ 15.55
Second quarter	24.70	17.50
Third quarter	22.05	12.65
Fourth quarter	14.90	8.76
2001		
First quarter	\$ 6.00	\$ 2.38
Second quarter	7.50	4.50
Third quarter	15.63	7.11
Fourth quarter	19.99	13.26

On February 14, 2003, the last sale price of the common stock, as reported by Nasdaq, was \$10.11 per share.

We have not paid cash dividends on the common stock to date. Because we currently intend to retain any earnings to provide funds for the operation and expansion of our business and for the servicing and repayment of indebtedness, we do not intend to pay cash dividends on the common stock in the foreseeable future. Furthermore, as a holding company with no independent operations, the ability of Aftermarket Technology Corp. to pay cash dividends is dependent upon the receipt of dividends or other payments from its subsidiaries. The agreement for our bank credit facility contains certain covenants that, among other things, prohibit the payment of dividends. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. Any determination to pay cash dividends on the common stock in the future will be at the sole discretion of our Board of Directors.

On July 29, 2002, we issued 70,176 shares of our common stock in a transaction that was not registered under the Securities Act of 1933, as amended. The shares were issued upon the exercise of warrants that had been issued by us in 1994 to Mr. Michael Hartnett for serving on our Board of Directors. The warrant exercise price of \$1.67 per share was paid in cash. We relied on Section 4(2) of the Securities Act as an exemption from registration, based on the private nature of the offering and the limited number of offerees.

ITEM 6.

SELECTED FINANCIAL DATA

The selected financial data presented below with respect to the statements of operations data for the years ended December 31, 2002, 2001 and 2000 and the balance sheet data as of December 31, 2002 and 2001 are derived from the Consolidated Financial Statements of the Company that have been audited by Ernst & Young LLP, independent auditors, and are included elsewhere herein, and are qualified by reference to such financial statements and notes related thereto. The selected financial data with respect to the statements of operations data for the years ended December 31, 1999 and 1998 and the balance sheet data as of December 31, 2000, 1999 and 1998, are derived from the Consolidated Financial Statements of the Company that have been audited by Ernst & Young LLP, independent auditors, but are not included herein. The data provided should be read in conjunction with the Consolidated Financial Statements, related notes and other financial information included in this Annual Report. The results of the Distribution Group, Inc. subsidiary, which was sold in October 2000, are classified as discontinued operations and are excluded from the selected financial data presented below.

	Year Ended December 31,													
	2002			2001			2000			1999			1998	
	(In thousands, except per share data)													
Statement of Operations Data:														
Net sales	\$	415,902		\$	393,381		\$	372,493		\$	365,563		\$	300,723
Cost of sales	272,360			255,360			248,438			246,224			219,539	
Special charges(1)				216			9,134			2,965			1,347	
Gross profit	143,542			137,805			114,921			116,374			79,837	
Selling, general and administrative expense	60,370			59,939			57,331			56,736			47,496	
Amortization of intangible assets	333			5,028			5,255			5,527			5,038	
Special (credits) charges(1)	(277)			5,114			23,450			4,345			5,327	
Income from operations	83,116			67,724			28,885			49,766			21,976	
Interest income	2,769			1,524			234							
Interest expense and other, net	(12,768)			(21,623)			(24,830)			(23,251)			(21,917)	
Income tax expense	(25,141)			(18,098)			(1,883)			(9,739)			(974)	
Income (loss) from continuing operations before extraordinary items(2)(3)	\$	47,976		\$	29,527		\$	2,406		\$	16,776		\$	(915)
Per share income (loss) from continuing operations before extraordinary items(4)	\$	1.99		\$	1.40		\$	0.11		\$	0.79		\$	(0.05)
Shares used in computation of per share income (loss) from continuing operations before extraordinary items(4)	24,119			21,059			21,163			21,164			19,986	
Other Data:														
Capital expenditures(5)	\$	13,103		\$	13,516		\$	11,682		\$	10,072		\$	10,764

	As of December 31,														
	2002			2001			2000			1999			1998		
	(In thousands)														
Balance Sheet Data:															
Working capital, continuing operations	\$	128,342		\$	52,700		\$	53,457		\$	29,744		\$	36,128	
Property, plant and equipment, net	54,616			52,577			46,276			47,897			45,830		
Total assets	454,030			396,858			407,499			577,782			517,794		
Long-term liabilities, less current portion	159,561			181,694			213,537			302,491			258,051		
Common stockholders' equity	206,435			109,335			80,239(6)			176,144			168,011		

(1) See Item 8. Consolidated Financial Statements and Supplementary Data-Note 20 for a description of special (credits) charges.

(2) Income (loss) from continuing operations before extraordinary items for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 excludes gain (loss) from discontinued operations, net of income taxes, of \$1,279, \$(959), \$(99,289), \$(9,969) and \$(6,200), respectively.

(3) Income (loss) from continuing operations before extraordinary items for the year ended December 31, 2002 excludes extraordinary items in the amount of \$2,828 (\$4,502 less related income tax benefit of \$1,674). In addition, income (loss) from continuing operations before extraordinary items for the year ended December 31, 1998 excludes an extraordinary item in the amount of \$703 (\$1,172 less related income tax benefit of \$469).

(4) See Item 8. Consolidated Financial Statements and Supplementary Data-Note 14 for a description of the computation of earnings per share.

(5) Excludes capital expenditures made by certain of the Company's subsidiaries prior to such subsidiaries' respective acquisitions and any capital expenditures made in connection with such acquisitions.

(6) Common stockholders' equity as of December 31, 2000 reflects the loss on the sale of our Distribution Group business and from the initial discontinuance of, and subsequent election to retain, our independent aftermarket engine business.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Annual Report. See Item 8. Consolidated Financial Statements and Supplementary Data.

Readers are cautioned that the following discussion contains certain forward-looking statements and should be read in conjunction with the Special Note Regarding Forward-Looking Statements appearing at the beginning of this Annual Report.

OVERVIEW

We are a leading remanufacturer and distributor of drivetrain products used in the repair of automobiles and light trucks in the automotive aftermarket. Our Logistics business is a provider of value added warehouse and distribution services as well as returned material reclamation and disposition services. Our Logistics business also remanufactures and distributes electronic components.

Demand for our products within the Drivetrain business is largely a function of the number of vehicles in operation, the average age of vehicles and the average number of miles driven per vehicle. These factors have generally increased over time, thereby increasing demand for our remanufactured products. Other factors that influence demand for our remanufactured products include product complexity and reliability, the length of OEM warranty periods and the severity of weather conditions. Because these factors are not directly dependent on new automotive sales levels, demand for remanufactured products within our Drivetrain business has been largely non-cyclical.

Our Drivetrain business has been our primary business since our formation. For the year ended December 31, 2002, revenue from our Drivetrain business was \$286.5 million, or 68.9% of our total revenue. In addition, in the United States we also sell remanufactured engines and transmissions to the independent aftermarket. For the year ended December 31, 2002, revenue from this portion of our business was \$16.6 million, or 4.0% of our total revenue.

Growth in our Logistics business with AT&T Wireless is primarily dependent on cellular telephone handset demand and AT&T Wireless' share of new cellular telephone sales volume. Our Logistics business benefits from upgrades in cellular telephone technology through increased replacement demand for more advanced handsets, from any increases in the number of AT&T Wireless subscribers and from any expansion of our service offering with AT&T Wireless. Because we do not take actual ownership of the cellular telephone inventory, we do not face the risk of inventory obsolescence. For the year ended December 31, 2002, revenue from our Logistics business was \$114.2 million, or 27.4% of our total revenue, of which AT&T Wireless accounted for 67.2%.

COMPONENTS OF INCOME AND EXPENSE

Revenue. In our Drivetrain Remanufacturing segment and independent aftermarket business, we recognize revenues, primarily from the sale of remanufactured transmissions and remanufactured engines, at the time of shipment to the customer and, to a lesser extent, upon the completion or performance of a service. In our Logistics segment, revenue is primarily related to providing:

value added warehouse and distribution services;

turnkey order fulfillment and information services;

returned material reclamation and disposition services;

core management services; and

automotive electronic components remanufacturing and distribution services,

and is generally recognized upon completion or performance of those services.

Cost of Sales. Cost of sales represents the actual cost of purchased components and other materials, direct labor, indirect labor and warehousing cost and manufacturing overhead costs, including depreciation, utilized directly in the production of products or performance of services for which revenue has been recognized.

Selling, General & Administrative Expense. Selling, general and administrative (SG&A) expenses generally are those costs not directly related to the production process or the performance of a revenue generating service and include all selling, marketing and customer service expenses as well as expenses related to general management, finance and accounting, information services, human resources, legal, and corporate overhead expense.

Amortization of Intangibles. On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, which no longer permits the amortization of goodwill and indefinite lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under specified conditions) for impairment in accordance with SFAS No. 142. The adoption of the impairment provisions of SFAS No. 142 has had no effect on our results of operations or our financial position. During 2002, amortization of intangible assets primarily consisted of amortization expense for non-compete agreements, whereas prior to 2002 this consisted primarily of amortization of goodwill.

Special (Credits) Charges. We have periodically identified areas where cost reductions and efficiencies could be achieved through consolidation of redundant facilities, outsourcing functions or changing processes or systems. Some of these cost reduction or process improvement initiatives result in costs which we have described as special charges and include, but are not limited to, severance benefits for terminated employees, lease termination and other facility exit costs, losses on the disposal of fixed assets, impairment of goodwill and write-down of inventories.

Critical Accounting Policies

Our financial statements are based on the selection and application of significant accounting policies, some of which require management to make estimates and assumptions. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. We evaluate the adequacy of our allowance for doubtful accounts and make judgments and estimates in determining the appropriate allowance at each reporting period. If a customer's financial condition were to deteriorate, additional allowances that may be required could have a material adverse impact on our financial statements.

Reserve for Inventory Obsolescence. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about market conditions, future demand and expected usage rates. If actual market conditions are less favorable than those projected by management causing usage rates to vary from those estimated, additional inventory write downs may be required, however these would not be expected to have a material adverse impact on our financial statements.

Warranty Liability. We provide an allowance for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including inspection and testing at various stages of the remanufacturing process and the testing of each finished assembly on equipment designed to simulate performance under operating conditions, our warranty obligation is affected by product failure rates. Should actual product failure rates differ from our estimates, revisions to the estimated warranty liability may be required, however these would not be expected to have a material adverse impact on our financial statements.

Segment Reporting

We have two reportable segments in continuing operations: the Drivetrain Remanufacturing segment and the Logistics segment. The Drivetrain Remanufacturing segment consists of five operating units that primarily sell remanufactured transmissions directly to Ford, DaimlerChrysler, General Motors and several foreign OEMs, primarily for use as replacement parts by their domestic dealers during the warranty and post-warranty periods following the sale of a vehicle. In addition, the Drivetrain Remanufacturing segment sells select remanufactured and newly assembled engines to European OEMs including Ford's and General Motor's European operations and Jaguar. Our Logistics segment consists of three operating units:

a provider of value added warehouse and distribution services, turnkey order fulfillment and information services for AT&T Wireless;

a provider of returned material reclamation and disposition services and core management services primarily to Ford and to a lesser extent, General Motors and Mazda; and

an automotive electronic components remanufacturing and distribution business, including components for the OnStar program, primarily for Delphi and Visteon.

Our Other business unit, which is not a separate reportable segment, remanufactures and distributes domestic and foreign engines and, to a lesser extent, distributes domestic remanufactured transmissions from regional distribution points primarily to independent aftermarket customers.

We evaluate the performance of each segment based upon income from operations. The reportable segments and the Other business unit are each managed and measured separately primarily due to the differing customers, production processes, products sold and distribution channels.

Results of Operations

The following table sets forth financial statement data expressed as a percentage of net sales.

	Year Ended December 31,		
	2002	2001	2000
Net sales	100.0%	100.0%	100.0%
Cost of sales	65.5	64.9	66.7

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Special charges		0.1	2.5
Gross profit	34.5	35.0	30.8
SG&A expense	14.5	15.2	15.4
Amortization of intangible assets	0.1	1.3	1.4
Special (credits) charges	(0.1)	1.3	6.2
Income from operations	20.0	17.2	7.8
Interest income	0.7	0.4	0.1
Other income, net		0.2	
Equity in losses of investee	(0.1)		
Interest expense	(3.0)	(5.7)	(6.7)
Income from continuing operations before income taxes and extraordinary items	17.6	12.1	1.2
Income tax expense	6.1	4.6	0.6
Income from continuing operations before extraordinary items	11.5%	7.5%	0.6%

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

Income from continuing operations before extraordinary items increased \$18.5 million, or 62.7%, to \$48.0 million (\$1.99 per diluted share) in 2002 from \$29.5 million (\$1.40 per diluted share) in 2001.

Our results include the following special items for 2002:

\$1.9 million (net of tax), or \$0.08 per diluted share, for certain non-operating income items primarily related to income tax refunds and associated interest income which we do not expect to recognize in future periods; and

\$0.2 million (net of tax), or \$0.01 per diluted share, of income for an adjustment to previously recorded special charges,

and the following special items for 2001:

\$3.4 million (net of tax), or \$0.16 per diluted share, of expense for amortization of intangibles with no comparable expense in 2002 due to the adoption of SFAS No. 142 on January 1, 2002, pursuant to which we no longer recognize goodwill amortization;

\$3.3 million (net of tax), or \$0.16 per diluted share, of special charges, see Special Charge discussion below; and

\$0.6 million (net of tax), or \$0.03 per diluted share, gain related to the sale of the preferred stock of the Distribution Group, which we received in 2000 as partial consideration for the sale of that business.

Excluding these items, the increase is primarily attributable to revenue growth and improved profitability in our Logistics segment and to a lesser extent in our Drivetrain Remanufacturing segment combined with a reduction in interest expense, partially offset by reduced engines volume in our independent aftermarket business.

Net Sales. Net sales increased \$22.5 million, or 5.7%, to \$415.9 million for 2002 from \$393.4 million for 2001. This increase was driven primarily by:

an increase in sales of remanufactured transmissions to Ford, driven by growth in the installed base, a relatively harsh summer and an improvement in customer fill-rate that resulted in the capture of previously lost sales;

an increase in sales to General Motors of approximately \$9 million related to a new program that began in July, 2002 under which we bill General Motors for previously consigned direct materials costs plus a fee for materials management and inventory carrying costs;

an increase in sales for value added warehouse and distribution services to AT&T Wireless, driven by continued growth in the market for cellular phones and services;

an increase in sales of new engines and related parts to Ford Power Products in support of certain fleet programs;

an increase in sales to General Motors and Delphi for electronics remanufacturing and logistics support associated with the OnStar telematics program that began in the third quarter of 2001; and

an increase in sales for core management services provided to Ford under a new core management program we were awarded in 2001, partially offset by

a decrease in sales of remanufactured engines to the independent aftermarket primarily attributable to a general softness in demand believed to be driven by general economic conditions, which include the continuation of new car incentives, a reduction in used car values and a corresponding increase in the utilization of salvage engines, combined with an unusually mild winter;

a decrease in sales of remanufactured transmissions to DaimlerChrysler due to an unusually mild winter, and a disruption of market demand resulting from an OEM-to-dealer price increase primarily impacting post warranty sales. This decrease was partially offset by a lessening of the impact of DaimlerChrysler's on-going inventory reductions, whereby DaimlerChrysler reduced its inventory levels by approximately six weeks in 2001 but only by approximately two weeks in 2002. We estimate DaimlerChrysler's inventory level to currently be at about five weeks;

a decrease in sales of remanufactured radios, instrument display clusters and other electronic components; and

a decrease in sales of remanufactured electronic engine control modules as a result of our exit from that product line.

Sales to Ford accounted for 37.0% and 34.6%, DaimlerChrysler accounted for 22.4% and 24.7% and AT&T Wireless accounted for 18.5% and 17.6% of our revenues for 2002 and 2001, respectively.

Gross Profit. Gross profit increased \$5.7 million, or 4.1%, to \$143.5 million for 2002 from \$137.8 million for 2001. This increase was primarily the result of the changes in volume and mix of revenues described above coupled with the benefits of our Lean and Continuous Improvement initiatives and other cost reduction programs. As a percentage of net sales, gross profit decreased to 34.5% in 2002 from 35.0% for 2001. This decrease is primarily the result of the billing to General Motors of approximately \$9 million of direct material costs, which were previously consigned, with a slightly smaller amount reflected in cost of goods sold.

SG&A Expense. SG&A expense increased \$0.5 million, or 0.8%, to \$60.4 million for 2002 from \$59.9 million for 2001. As a percentage of net sales, SG&A expense decreased to 14.5% for 2002 from 15.2% for 2001. The increase results primarily from spending in support of the General Motors materials management program, the Ford core management program and our initiative to penetrate the independent aftermarket for remanufactured transmissions, largely offset by benefits from our cost reduction initiatives.

Amortization of Intangible Assets. Amortization of intangible assets decreased \$4.7 million to \$0.3 million for 2002 from \$5.0 million for 2001. We no longer amortize goodwill due to the application of SFAS No. 142.

Special (Credits) Charges. During 2002, we recorded income of \$0.3 million (\$0.2 million net of tax) from the adjustment of provisions previously established (i) primarily for asset write-downs related to the shut-down of our remanufactured automotive electronic control modules operation where actual recoveries from the sale of assets were favorable to original estimates and (ii) for severance and related costs primarily related to the consolidation of our information systems groups that are no longer expected to be incurred. Additionally, we recorded a gain of \$0.8 million for the partial reversal of a previously established provision related to the Drivetrain Remanufacturing segment for a potential non-income state tax liability whose maximum exposure has been reduced, offset by a special charge of \$0.8 million related to the Drivetrain Remanufacturing segment for a retroactive insurance premium adjustment related to 1998 and 1999 self-insured workers compensation claims.

During 2001, we recorded \$5.3 million of special charges (\$3.3 million net of tax) including \$2.4 million for the Drivetrain Remanufacturing segment, \$2.4 million for the Logistics segment and \$0.5 million for consolidation of our two information systems groups. The \$2.4 million related to the Drivetrain Remanufacturing segment consisted of \$1.6 million of severance and related costs for 35 people, primarily associated with the de-layering of certain management functions and \$0.8 million of facility exit and idle capacity costs associated with facility consolidations and implementation of cellularized manufacturing within the segment. The \$2.4 million of special charges in the Logistics segment consisted of \$1.9 million of costs related to the shut-down of our remanufactured automotive electronic control modules product line and \$0.5 million of severance and related costs for eight people primarily associated with the upgrade of certain management functions within the segment. The \$0.5 million related to our two information systems groups was related to severance costs for four people primarily associated with the consolidation of those functions.

As an on-going part of our planning process, we continue to identify and evaluate areas where cost efficiencies can be achieved through consolidation of redundant facilities, outsourcing functions or changing processes or systems. Implementation of any of these could require us to incur special charges, which would be offset over time by the projected cost savings.

Income from Operations. Income from operations increased \$15.4 million, to \$83.1 million for 2002 from \$67.7 million for 2001. This increase is primarily attributable to a \$5.6 million decrease in special charges (credits) for 2002 as compared to 2001 and a \$4.7 million decrease in amortization of intangibles for 2002 as compared to 2001 due to the adoption of SFAS No. 142, combined with revenue growth and the benefit of cost reduction initiatives, partially offset by the increase in SG&A expense in support of growth initiatives. As a percentage of net sales, income from operations increased to 20.0% in 2002 from 17.2% in 2001.

Interest Income. Interest income increased \$1.3 million, or 86.7%, to \$2.8 million for 2002 from \$1.5 million for 2001. This increase was primarily due to interest income earned on our increased cash balances invested in cash and cash equivalents during 2002 as compared to 2001. In addition, 2002 includes \$0.3 million of interest income from tax refunds recorded during 2002, which we do not expect to recognize in future periods.

Other Income (Expense), Net. Other income (expense) net, decreased \$0.7 million, to \$0.1 million for 2002 from \$0.8 million for 2001. During 2001, we recorded a gain of \$0.9 million on the sale of the preferred stock of the Distribution Group, which was received in 2000 as partial consideration for the sale of that business.

Equity in Losses of Investee. The loss from our equity investment in our unconsolidated subsidiary increased \$0.5 million in 2002 as compared to 2001, primarily due to start-up costs of this business.

Interest Expense. Interest expense decreased \$10.1 million, or 45.1%, to \$12.3 million for 2002 from \$22.4 million for 2001. This decrease was primarily due to a general decline in interest rates and the use of lower rate debt, combined with a reduction in debt outstanding. In addition, we recorded income of \$0.2 million for an interest expense adjustment related to deferred compensation payments associated with the 1997 ATS acquisition that were made during 2002.

Income Tax Expense. Our effective income tax rate decreased to 34.4% for 2002 from 38.0% in 2001. During 2002 we recorded income, which we do not expect to recognize in future periods, of (i) \$0.8 million related to federal and state income tax refunds recorded in 2002 and (ii) \$0.7 million related to adjustments to deferred tax liabilities relating to closed tax years. The balance of our effective income tax rate reduction is primarily the result of the adoption of SFAS No. 142 and the impact of tax deductible goodwill, combined with a favorable change in the mix of taxable income generated in states with lower tax rates in 2002 as compared to 2001.

Discontinued Operations. During 2002, we recorded a gain from discontinued operations of \$1.3 million related to the sale of the Distribution Group comprised of (i) \$1.0 million for an increase in the estimated income tax benefits associated with the sale and (ii) \$0.3 million based upon updated information regarding remaining obligations and other costs.

During 2001, we recorded a loss from discontinued operations of \$1.0 million, net of income tax benefits of \$0.6 million. This charge included the following on a pre-tax basis: (i) \$2.7 million in expense for the increase to the estimated loss on the sale of the Distribution Group; (ii) \$2.1 million in income for the reversal of the estimated accrued loss on disposal of our independent aftermarket engines business; and (iii) \$1.0 million in expense for the reclassification of the operating results of our independent aftermarket engines business from discontinued operations to continuing operations, as required by EITF No. 90-16.

Extraordinary Items. During 2002, we recorded a charge of \$2.8 million, net of income tax benefits of \$1.7 million, related to (i) the write-off of previously capitalized debt issuance costs and a call premium associated with the early redemption of our 12% senior subordinated notes and (ii) the write-off of previously capitalized debt issuance costs in connection with the termination of our old credit facility.

Drivetrain Remanufacturing Segment

The following table presents net sales, segment profit before special charges and goodwill amortization and segment profit expressed in millions of dollars and as a percentage of net sales:

	Year Ended December 31,							
	2002				2001			
Net sales	\$	286.5		100.0%	\$	266.3		100.0%
Segment profit before special charges and goodwill amortization	\$	51.0		17.8%	\$	46.7		17.5%
Less: Special charges						2.4		
Less: Goodwill amortization						4.3		
Segment profit	\$	51.0		17.8%	\$	40.0		15.0%

Net Sales. Net sales increased \$20.2 million, or 7.6%, to \$286.5 million for 2002 from \$266.3 million for 2001. This increase was driven primarily by:

an increase in sales of remanufactured transmissions to Ford, driven by growth in the installed base, a relatively harsh summer and an improvement in customer fill-rate that resulted in the capture of previously lost sales;

an increase in sales to General Motors of approximately \$9 million related to a new program that began in July, 2002 under which we bill General Motors for previously consigned direct materials costs plus a fee for materials management and inventory carrying costs; and

an increase in sales of new engines and related parts to Ford Power Products in support of certain fleet programs; partially offset by

a decrease in sales of remanufactured transmissions to DaimlerChrysler due to an unusually mild winter, and a disruption of market demand resulting from an OEM-to-dealer price increase primarily impacting post-warranty sales. This decrease was partially offset by a lessening of the impact of DaimlerChrysler's on-going inventory reductions, whereby DaimlerChrysler reduced its inventory levels by approximately six weeks in 2001 but by only approximately two weeks in 2002. We estimate DaimlerChrysler's inventory level to currently be at about five weeks.

Sales to Ford accounted for 50.6% and 47.6% of segment revenues for 2002 and 2001, respectively. Sales to DaimlerChrysler accounted for 31.5% and 35.6% of segment revenues for 2002 and 2001, respectively.

Special Charges. During 2002 we recorded a gain of \$0.8 million for the partial reversal of a previously established provision for a potential non-income state tax liability whose maximum exposure has been reduced, offset by a special charge of \$0.8 million related to the Drivetrain Remanufacturing segment for a retroactive insurance premium adjustment related to 1998 and 1999 self-insured workers compensation claims.

During 2001, we recorded \$2.4 million of special charges. The special charges include \$1.6 million of severance and related costs primarily associated with the de-layering of certain management functions and \$0.8 million of facility exit and idle capacity costs associated with facility consolidations and implementation of cellularized manufacturing within the segment.

Segment Profit. Segment profit increased \$11.0 million, or 27.5%, to \$51.0 million (17.8% of segment net sales) for 2002 from \$40.0 million (15.0% of segment net sales) for 2001. Excluding the special charge and goodwill amortization expense items totaling \$6.7 million recorded in 2001, segment profit increased \$4.3 million, or 9.2%, between the two periods. The increase was primarily the result of changes in sales volume, price and mix of remanufactured transmissions as referenced above combined with the benefit of cost reductions realized as a result of our lean and continuous improvement program and other cost reduction initiatives, which include avoidance of vendor direct material price increases, engineering gain sharing with customers and other material usage and salvage programs, implementation of cellular and lean manufacturing techniques and process reengineering.

Logistics Segment

The following table presents net sales, segment profit before special (credits) charges and goodwill amortization and segment profit expressed in millions of dollars and as a percentage of net sales:

	Year Ended December 31,							
	2002				2001			
Net sales	\$	114.2		100.0%	\$	105.2		100.0%
Segment profit before special (credits) charges and goodwill amortization	\$	36.6		32.0%	\$	29.4		27.9%
Less: Special (credits) charges		(0.2)				2.4		
Less: Goodwill amortization						0.5		
Segment profit	\$	36.8		32.2%	\$	26.5		25.2%

Net Sales. Net sales increased \$9.0 million, or 8.6%, to \$114.2 million for 2002 from \$105.2 million for 2001. This increase was primarily attributable to

an increase in sales for value added warehouse and distribution services to AT&T Wireless, driven by

continued growth in the market for cellular phones and services;

an increase in sales to General Motors and Delphi for electronics remanufacturing and logistics support associated with the OnStar telematics program that began in the third quarter of 2001;

an increase in sales for core management services provided to Ford under a new core management program we were awarded in 2001;

partially offset by:

a decrease in sales of remanufactured radios, instrument display clusters and other electronic components; and

a decrease in sales of remanufactured electronic engine control modules as a result of our exit from that product line.

Sales to AT&T Wireless accounted for 67.2% and 65.7% of segment revenues for 2002 and 2001, respectively.

Special (Credits) Charges. During the year ended December 31, 2002, we recorded income of \$0.2 million primarily related to the reversal of a provision previously established principally for asset write-downs related to the shut-down of our remanufactured automotive electronic control modules product line where actual recoveries from the sale of assets were favorable to original estimates.

The \$2.4 million of special charges recorded during 2001, included the following:

\$1.9 million of costs related to the shut-down of the segment's remanufactured automotive electronic control modules product line including \$0.7 million of severance and related costs; \$0.6 million related to the write-down of fixed assets; \$0.3 million of facility exit and other costs related to the shutdown; \$0.2 million related to inventory write-downs; and \$0.1 for the write-down of uncollectible accounts receivable balances; and

\$0.5 million of severance and related costs primarily associated with the upgrade of certain management functions within the segment.

Segment Profit. Segment profit increased \$10.3 million, or 38.9%, to \$36.8 million (32.2% of segment net sales) for 2002 from \$26.5 million (25.2% of segment net sales) for 2001. Excluding the special charge income item of \$0.2 million recorded in 2002 and the special charge and goodwill amortization expense items totaling \$2.9 million recorded in 2001, segment profit increased \$7.2 million, or 24.5%, between the two periods. The increase was primarily the result of changes in sales volume, price and mix as described above combined with cost reductions and other productivity improvements resulting from the increased use of automation and process reengineering and the implementation of lean manufacturing techniques, partially offset by (i) inefficiencies and other costs associated with the launch and ramp-up of the Ford core management program, (ii) an increase in spending in support of key growth initiatives in the segment and (iii) a reduction in the inventory shrink performance bonus from AT&T Wireless based on a reduction in the average value of inventory.

Other

The following table presents net sales and segment profit (loss) for the independent aftermarket engine and transmission business expressed in millions of dollars and as a percentage of net sales:

	Year Ended December 31,			
	2002		2001	
Net sales	\$	16.6	100.0%	\$ 21.9 100.0%

Segment profit (loss)	\$	(4.5)	(27.1)%	\$	1.7	7.8%
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Net Sales. Net sales decreased \$5.3 million, or 24.2%, to \$16.6 million for 2002 from \$21.9 million for 2001. This decrease was primarily attributable to a general softness in demand for remanufactured engines believed to be driven by general economic conditions, which include the continuation of new car incentives, a reduction in used car values and a corresponding increase in the utilization of salvage engines, combined with a mild winter. Additionally, we experienced a decline in demand for remanufactured engines as a result of a competitor's aggressive price reductions late in the third quarter of 2001. During the first quarter of 2002 we adjusted our prices and have since recaptured and subsequently added to our market share. Furthermore, sales increased \$1.6 million from the launch of our initiative to sell remanufactured transmissions directly into the independent aftermarket via this channel.

Segment Profit (Loss). Segment profit (loss) decreased \$6.2 million, to a loss of \$4.5 million for 2002 from a profit of \$1.7 million for 2001. This decrease was primarily the result of

the sales volume, price and mix as described above;

a decline in operating leverage resulting from the volume decline and a reduction in finished goods inventories;

one-time warranty costs associated with a defective valve seal obtained from a certain supplier;

the reversing impact of the prior year's inventory valuation allowance adjustment; and

an increase in cost to support the Company's aftermarket transmissions initiative,

partially offset by cost reductions and other productivity improvements realized as a result of the Company's lean and continuous improvement program and other cost reduction initiatives.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Income from continuing operations increased \$27.1 million, to \$29.5 million (\$1.40 per diluted share) in 2001 from \$2.4 million (\$0.11 per diluted share) in 2000. During 2001, we recorded \$3.3 million (net of tax), or \$0.16 per diluted share, of special charges, primarily related to initiatives designed to improve operating efficiencies and reduce costs (see *Special Charges* below) and a \$0.6 million (net of tax), or \$0.03 per diluted share, gain related to the sale of the preferred stock of the Distribution Group, which we received in 2000 as partial consideration for the sale of that business. During 2000, we recorded \$20.4 million (net of tax), or \$0.97 per diluted share of special charges primarily related to the write-off of goodwill and the recording of valuation allowances for specified assets associated with our decision to discontinue our independent aftermarket engine business. This business was subsequently retained (see *Discontinued Operations*). Excluding the special charges and the gain on the sale of the preferred stock, this increase was primarily attributable to substantial growth in the Logistics segment, productivity improvements resulting from our lean and continuous improvement program and other cost reduction initiatives and increased profitability in the independent aftermarket engine business, partially offset by reduced margins in the Drivetrain Remanufacturing segment largely related to price and inventory reduction initiatives at certain OEM customers.

Net Sales. Net sales increased \$20.9 million, or 5.6%, to \$393.4 million for 2001 from \$372.5 million for 2000. This increase was driven primarily by:

growth in the Logistics segment, attributable to an increase in sales for value-added warehouse and distribution services, driven by the growth in the market for cellular phones and services;

growth in the Logistics segment attributable to the ramp up of the two new programs we were awarded by AT&T Wireless in early 2000, covering the packaging and distribution of cell phone accessories and the distribution of point-of-sale and other marketing materials, which began generating revenue for us in the second half of 2000; and

growth in the Drivetrain Remanufacturing segment, primarily related to an increase in sales of remanufactured transmissions to Ford.

This increase was partially offset by a decline in remanufactured transmissions sold to DaimlerChrysler as a result of its inventory reduction initiative, a decline in revenue in the independent aftermarket engine business resulting from a change in the distribution channel for this business and a decline in revenue in the Logistics segment related to the termination of its remanufactured electronic control module product line.

Sales to DaimlerChrysler accounted for 24.7% and 29.6%, Ford accounted for 34.6% and 30.0% and AT&T Wireless accounted for 17.6% and 14.1% of our revenues for 2001 and 2000, respectively.

Gross Profit. Gross profit increased \$22.9 million, or 19.9%, to \$137.8 million for 2001 from \$114.9 million for 2000. This increase was primarily the result of increased sales in the Logistics segment and improved productivity as a result of our lean and continuous improvement program and other cost reduction initiatives, partially offset by a decline in gross profit in the Drivetrain Remanufacturing segment resulting from:

price concessions provided to DaimlerChrysler as a result of their request for supplier participation in their cost reduction initiatives;

the sales mix of remanufactured transmissions; and

production inefficiencies resulting from the impact of DaimlerChrysler's and GM's inventory reduction initiatives.

In addition, gross profit increased \$8.9 million in 2001 as compared to 2000 as a result of a decrease in special charges. (see Special Charges below)

SG&A Expense. SG&A expense increased \$2.6 million, or 4.5%, to \$59.9 million for 2001 from \$57.3 million for 2000. The increase was primarily the result of an increase in spending in support of growth initiatives in the Logistics segment and on our Lean and Continuous Improvement and Customer Delight initiatives, partially offset by a decrease in cost in the independent aftermarket engine business resulting from the elimination of our branch distribution network. As a percentage of net sales, SG&A expense decreased slightly to 15.2% for 2001 from 15.4% for 2000.

Amortization of Intangible Assets. Amortization of intangible assets decreased \$0.3 million, or 5.7%, to \$5.0 million for 2001 from \$5.3 million for 2000, primarily attributable to the write off of goodwill related to the independent aftermarket engine business on June 30, 2000.

Special Charges. During 2001, we recorded \$5.3 million of special charges (\$3.3 million net of tax) including \$2.4 million for the Drivetrain Remanufacturing segment, \$2.4 million for the Logistics segment and \$0.5 million for consolidation of our two information systems groups. The \$2.4 million related to the Drivetrain Remanufacturing segment consists of \$1.6 million of severance and related costs for 35 people, primarily associated with the de-layering of certain management functions and \$0.8 million of facility exit and idle capacity costs associated with facility consolidations and implementation of cellularized manufacturing within the segment. The \$2.4 million of special charges in the Logistics segment are primarily related to a decision to exit an unprofitable product line and include the following:

\$1.9 million of costs related to the shut-down of our remanufactured automotive electronic control modules product line including:

\$0.7 million of severance and related costs for 118 people;

\$0.6 million related to the write-down of fixed assets;

\$0.3 million of facility exit and other costs related to the shutdown;

\$0.2 million related to inventory write downs (classified as Cost of Sales-Special Charges); and

\$0.1 million for the write-down of uncollectible accounts receivable balances; and

\$0.5 million of severance and related costs for eight people primarily associated with the upgrade of certain management functions within the segment.

The \$0.5 million related to our two information systems groups is related to severance costs for four people primarily associated with the consolidation of those functions.

During 2000, we recorded \$32.6 million of special charges related to the reorganization of our independent aftermarket engine business. These charges included the following:

\$15.6 million for the impairment of goodwill;

\$5.8 million for the write-down of fixed assets to estimated net realizable value;

\$5.4 million for the write-down of inventory to estimated net realizable value (classified as Cost of Sales-Special Charges);

\$3.8 million for product warranty costs of units remanufactured and sold prior to 2000 (classified as Cost of Sales-Special Charges);

\$0.9 million for the write-down of uncollectible accounts receivable balances; and

\$0.7 million of exit costs and \$0.4 million of severance costs for 56 people primarily associated with the shutdown of our branch distribution network.

Income from Operations. Income from operations increased \$38.8 million, to \$67.7 million for 2001 from \$28.9 million for 2000, primarily as a result of the factors described above.

Interest Income. Interest income of \$1.5 million and \$0.2 million was recorded during 2001 and 2000, respectively, on the 18% senior subordinated promissory note received by us as partial consideration for the sale of the Distribution Group on October 27, 2000.

Other Income (Expense), Net. Other income (expense), net increased \$0.9 million to income of \$0.8 million in 2001 from a loss of \$0.1 million in 2000. This increase was the result the \$0.9 million gain recorded during 2001 on the sale of the preferred stock of the Distribution Group, which was received in 2000 as partial consideration for the sale of that business.

Interest Expense. Interest expense decreased \$2.4 million, or 9.7%, to \$22.4 million for 2001 from \$24.8 million for 2000. This decrease was the result of a general decline in interest rates combined with a reduction in debt outstanding. Interest expense for 2000 of \$5.2 million was allocated to discontinued operations based on the actual consideration received from the sale of the Distribution Group.

Discontinued Operations. On August 3, 2000, we adopted a plan to discontinue a segment of our business that we referred to as our independent aftermarket. This segment consisted of the Distribution Group and the independent aftermarket engine business. We planned to sell the Distribution Group by December 31, 2000 and the independent aftermarket engine business by June 30, 2001. Management believed that the planned exit from these businesses, which provided the opportunity to reduce debt and generated a significant tax shelter, offered a strategic opportunity to focus resources on our businesses that were profitable and had greater growth potential. As a result of the decision to exit these businesses, we recorded a charge for the loss on disposal of discontinued operations.

On October 27, 2000, we completed the sale of the Distribution Group to an affiliate of The Riverside Company. Our plan with respect to the independent aftermarket engine business was to restructure and return it to profitability prior to finding a buyer. Our restructuring of our independent aftermarket engine business, which

eliminated our 21 branch distribution network and replaced it with a business model that sells and distributes remanufactured engines directly to independent aftermarket customers on an overnight delivery basis from four regional distribution centers;

applied lean manufacturing techniques to improve productivity and reduce manufacturing cost; and

significantly improved product quality to reduce product warranty cost,

was successful in returning this business to profitability. However, efforts to identify an interested buyer placing sufficient value on this business were unsuccessful. Consequently, on June 25, 2001, we elected to retain our independent aftermarket engine business. As a result of this decision and in accordance with EITF 90-16, *Accounting for Discontinued Operations Subsequently Retained*, the results of the remanufactured

engines business have been reclassified from discontinued operations to continuing operations for all periods presented.

During 2001, we recorded a charge of \$1.0 million related to discontinued operations, net of tax benefits of \$0.6 million. This charge included the following on a pre-tax basis: \$2.7 million in expense for the increase to the estimated loss on the sale of the Distribution Group, \$2.1 million in income for the reversal of the estimated accrued loss on disposal of our independent aftermarket engine business and \$1.0 million in expense for the reclassification of the operating results of our independent aftermarket engine business from discontinued operations to continuing operations, as required per EITF No. 90-16.

During the year ended December 31, 2000, we recorded a charge of \$94.5 million for the loss on disposal of discontinued operations (\$92.8 million for the Distribution Group and \$1.7 million for our independent aftermarket engine business), net of income tax benefits of \$46.9 million. The charge of \$94.5 million included the write-off of goodwill, valuation allowances for specified assets, provisions for anticipated operating losses until disposal, and anticipated costs of disposal, including lease terminations, severance, retention and other employee benefits and professional fees. Additionally, the loss from discontinued operations included a loss of \$6.4 million, net of income tax benefits of \$3.1 million, from the operations of the Distribution Group during the six months ended June 30, 2000, partially offset by \$1.6 million of income (net of tax) for the reclassification of the operating results of our independent aftermarket engine business from discontinued operations to continuing operations, as required per EITF No. 90-16.

Drivetrain Remanufacturing Segment

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The following table presents net sales, segment profit before special charges, special charges and segment profit expressed in millions of dollars and as a percentage of net sales:

	Year Ended December 31,							
	2001				2000			
Net sales	\$	266.3		100.0%	\$	254.3		100.0%
Segment profit before special charges	\$	42.4		15.9%	\$	49.0		19.3%
Less: Special charges		2.4						
Segment profit	\$	40.0		15.0%	\$	49.0		19.3%

Net Sales. Net sales increased \$12.0 million, or 4.7%, to \$266.3 million for 2001 from \$254.3 million for 2000. This increase was primarily due to an increase in sales of remanufactured transmissions to Ford and Kia and growth in our engine remanufacturing program with Jaguar, partially offset by a decrease in sales of remanufactured transmissions to DaimlerChrysler due to price concessions provided to DaimlerChrysler as a result of their request for supplier participation in DaimlerChrysler's cost reduction initiatives and reduced volume resulting from DaimlerChrysler's inventory reduction initiatives, which reduced their targeted inventories by nearly 50% (from about 13 to 7 weeks). Sales of remanufactured transmissions to General Motors, which increased slightly, were also dampened as a result of their inventory reduction initiatives, which further reduced GM's targeted inventories from about 45 days to 30 days.

Sales to DaimlerChrysler accounted for 35.6% and 42.5% of segment revenues for 2001 and 2000, respectively. Sales to Ford accounted for 47.6% and 40.8% of segment revenues 2001 and 2000, respectively.

Special Charges. During 2001, we recorded \$2.4 million of special charges. The special charges include \$1.6 million of severance and related costs primarily associated with the de-layering of certain management functions and \$0.8 million of facility exit and idle capacity costs associated with facility consolidations and implementation of cellularized manufacturing within the segment.

Segment Profit. Segment profit decreased \$9.0 million, or 18.4%, to \$40.0 million (15.0% of segment net sales) for 2001 from \$49.0 million (19.3% of segment net sales) for 2000. Excluding 2001 special charges of \$2.4 million, segment profit decreased \$6.6 million, or 13.5%, between the two periods. The decrease was primarily the result of the changes in sales volume, price and mix of remanufactured transmissions as referenced above, combined with production inefficiencies resulting from the impact of DaimlerChrysler's inventory reduction initiatives and project costs related to the re-engineering of our least efficient, highest cost remanufacturing facility, which we believe will drive productivity improvements in the future, partially offset by cost reductions resulting from our lean and continuous improvement program and other cost reduction initiatives.

Logistics Segment

The following table presents net sales, segment profit before special charges, special charges and segment profit expressed in millions of dollars and as a percentage of net sales:

	Year Ended December 31,							
	2001				2000			
Net sales	\$	105.2		100.0%	\$	89.1		100.0%
Segment profit before special charges	\$	28.9		27.5%	\$	17.4		19.5%
Less: Special charges		2.4						
Segment profit	\$	26.5		25.2%	\$	17.4		19.5%

Net Sales. Net sales increased \$16.1 million, or 18.1%, to \$105.2 million for 2001 from \$89.1 million for 2000. This increase was primarily attributable to

an increase in sales for value-added warehouse and distribution services, driven by the growth in the market for cellular phones and services;

an increase in sales attributable to the two new programs we were awarded in early 2000 by AT&T Wireless covering the packaging and distribution of cell phone accessories and the distribution of point-of-sale and other marketing materials, which began generating revenue in the second half of 2000;

an increase in sales to General Motors and Delphi for electronics remanufacturing and logistics support associated with a telematics program that we were awarded in 2001; and

an increase in sales to Ford for core management services under the new program we were awarded in 2001,

partially offset by a decrease in sales of remanufactured electronic control modules as a result of our exit from that product line. Sales to AT&T Wireless accounted for 65.7% and 59.1% of segment revenues for 2001 and 2000, respectively.

Special Charges. The \$2.4 million of special charges recorded during 2001, included the following:

\$1.9 million of costs related to the shut-down of the segment's remanufactured automotive electronic control modules product line including \$0.7 million of severance and related costs; \$0.6 million related to the write-down of fixed assets; \$0.3 million of facility exit and other costs related to the shutdown; \$0.2 million related to inventory write downs; \$0.1 for the write-down of uncollectible accounts receivable balances; and

\$0.5 million of severance and related costs primarily associated with the upgrade of certain management functions within the segment.

Segment Profit. Segment profit increased \$9.1 million, or 52.3%, to \$26.5 million (25.2% of segment net sales) for 2001 from \$17.4 million (19.5% of segment net sales) for 2000. Excluding special charges of \$2.4 million recorded in 2001, segment profit increased \$11.5 million, or 66.1%, between the two periods. The increase was primarily the result of changes in sales volume and mix as referenced above combined with cost reductions and other productivity improvements resulting from the increased use of automation and the implementation of lean manufacturing concepts, partially offset by an increase in spending in support of our key growth initiatives in the segment.

Other

The following table presents net sales, segment profit (loss) before special charges, special charges and segment profit (loss) for the independent aftermarket engine business expressed in millions of dollars and as a percentage of net sales:

	Year Ended December 31,							
	2001				2000			
Net sales	\$	21.9		100.0%	\$	29.1		100.0%
Segment profit (loss) before special charges	\$	1.7		7.8%	\$	(4.9)		(16.8)%
Less: Special charges						32.6		
Segment profit (loss)	\$	1.7		7.8%	\$	(37.5)		(128.9)%

Net Sales. Net sales decreased \$7.2 million, or 24.7%, to \$21.9 million for 2001 from \$29.1 million for 2000. This decrease was attributable to a decline in sales of remanufactured engines, resulting primarily from a change in our distribution method from a branch network to regional distribution centers.

Special Charges. During 2000, we recorded \$32.6 million of special charges related to the original decision to discontinue the independent aftermarket engines business. These charges included the following:

\$15.6 million for the impairment of goodwill;

\$5.8 million for the write-down of fixed assets to estimated net realizable value;

\$5.4 million for the write-down of inventory to estimated net realizable value (classified as Cost of Sales-Special Charges);

\$3.8 million for product warranty costs of units remanufactured and sold prior to 2000 (classified as Cost of Sales-Special Charges);

\$0.9 million for the write-down of uncollectible accounts receivable balances; and

\$0.7 million of exit costs and \$0.4 million of severance costs for 56 people primarily associated with the shutdown of our branch distribution network.

Segment Profit (Loss). Segment profit (loss) increased \$6.6 million, to a profit of \$1.7 million for 2001 from a loss of \$4.9 million before special charges of \$32.6 million for 2000. This increase was primarily the result of cost reduction initiatives implemented in the independent aftermarket engine business in the later part of 2000 and the first half of 2001 including the application of lean manufacturing techniques to improve productivity and reduce manufacturing cost, a change in the distribution method from a branch network to regional distribution centers and a reduction of product warranty expense. During 2001, we recognized a reduction in cost of goods sold of approximately \$0.8 million, primarily associated with the remaining inventory valuation allowances that were established in 2000 related to our original decision to discontinue the independent aftermarket engines business in 2000.

Liquidity and Capital Resources

Cash Flow & Capital Expenditures

We had total cash and cash equivalents on hand of \$65.5 million at December 31, 2002, representing a net increase in cash and cash equivalents of \$64.9 million in 2002. Net cash provided by operating activities from continuing operations was \$77.7 million in 2002. Net cash used in investing activities from continuing operations of \$12.8 million included \$13.1 million of equipment purchases and facility improvements, partially offset by \$0.3 million in proceeds from the sale of fixed assets. Net cash provided by financing activities of \$0.7 million includes \$42.0 million from the public offering of common stock completed in March 2002, net borrowings of \$79.7 million made on the old and new credit facilities and \$5.4 million of proceeds from the exercise of stock options and warrants (net of costs related to the secondary shelf offering completed in August 2002), partially offset by \$112.6 million used to redeem our 12% senior subordinated notes in April 2002, \$6.1 million of payments for debt issuance costs related to our new credit facility (see discussion below), \$3.6 million of treasury stock purchases, \$3.0 million in payment of amounts related to an acquired company (see discussion below) and \$1.1 million of payments on capital lease obligations.

Our capital expenditures from continuing operations in 2002 were \$13.1 million, consisting of:

\$4.1 million primarily related to computer systems and machinery and equipment to support growth and productivity initiatives in the Logistics segment;

\$8.9 million for additional transmission remanufacturing and test equipment and other improvements to support increases in productivity and efficiency in a number of our remanufacturing plants within our Drivetrain Remanufacturing segment; and

\$0.1 million primarily related to equipment to support growth in our overall infrastructure.

Liquidity and Capital Resources-Other

For 2003, we have budgeted \$20 million for capital expenditures, primarily to support new business, capacity expansion and cost reduction initiatives in each of our businesses.

Under the terms of our 1997 acquisition of ATS Remanufacturing (which remanufactures transmissions for General Motors), we are required to make payments to the seller and to other key individuals on each of the first 14 anniversaries of the closing date. Through December 31, 2002, we had made \$7.4 million of these payments (including \$3.0 million paid in August 2002 consisting of \$1.6 million in payments of deferred compensation and \$1.4 million in payments of amounts due to the seller). Substantially all of the remaining nine payments, which aggregate to approximately \$10.7 million (present value of \$9.8 million as of December 31, 2002), are contingent upon the attainment of certain sales to General Motors, which we believe have a substantial likelihood of being attained.

Financing

On February 8, 2002, we executed a credit agreement and related security agreement in connection with a credit facility. The credit facility provides for (i) a \$75.0 million, five-year term loan payable in quarterly installments in increasing amounts over the five-year period, (ii) a \$95.0 million, six-year, two-tranche term loan payable in quarterly installments over the six-year period (with approximately 96% of the outstanding balance payable in the sixth year) and an annual excess cash flow sweep payable as defined in the credit agreement (see prepayment amounts below) and (iii) a \$50.0 million, five-year revolving credit facility. The credit facility also provides for the addition of one or more optional term loans of up to \$100.0 million in the aggregate, subject to certain conditions (including the receipt from one or more lenders of the additional commitments that may be requested) and achievement of certain financial ratios.

At our election, amounts advanced under the credit facility will bear interest at either (i) the Alternate Base Rate plus a specified margin or (ii) the Eurodollar Rate plus a specified margin. The Alternate Base Rate is equal to the highest of (a) the lender's prime rate, (b) the lender's base CD rate plus 1.00% or (c) the federal funds effective rate plus 0.50%. The applicable margins for both Alternate Base Rate and Eurodollar Rate loans are subject to quarterly adjustments based on our leverage ratio as of the end of the four fiscal quarters then completed. As of December 31, 2002, the margins for the \$75.0 million term loan and the \$50.0 million revolving facility were 1.25% for Alternate Base Rate loans and 2.25% for Eurodollar Rate loans. For the \$95.0 million term loan, the margins were 2.00% for Alternate Base Rate loans and 3.00% for Eurodollar Rate loans as of December 31, 2002.

On March 8, 2002, we completed a public offering of 2,760,000 shares of our common stock at a price to the public of \$16.50 per share. Also on March 8, 2002, the closing date of our credit facility, we borrowed \$40.0 million under the term loan portion and \$15.0 million under the revolving portion and used a portion of those proceeds, together with the \$42.0 million of proceeds from our public stock offering, after deducting underwriting discounts, commissions and other offering expenses, to repay the entire \$82.7 million balance outstanding under our prior bank credit facility.

On April 8, 2002, we redeemed the entire \$110.4 million principal balance of our 12% senior subordinated notes at 102% plus accrued and unpaid interest. The redemption was funded by borrowings made under our credit facility.

On November 21, 2002, we made an optional prepayment of \$6.0 million, representing a portion of the excess cash flow sweep payable in connection with the first anniversary of the credit agreement. The \$4.5 million balance of the excess cash flow sweep was paid on February 11, 2003.

In addition, during the fourth quarter of 2002, we resumed our stock buyback program (initially commenced in January 2001) and purchased 322,400 shares of our common stock at an average price of \$11.27 per share. As of December 31, 2002, there are up to 1,238,263 shares remaining for purchase under this program, subject to certain annual limitations imposed by the terms of our credit agreement, which for 2003 is \$8.0 million.

As of December 31, 2002, our borrowing capacity under the revolving portion of the new credit facility was \$46.5 million. In addition, we had cash and cash equivalents on hand of \$65.5 million at December 31, 2002.

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As part of an ownership agreement we have for a 45% interest in an unconsolidated subsidiary, we have given the subsidiary's bank a \$0.9 million letter of credit in the event of the subsidiary's default on outstanding debt.

During 2001, we entered into a revolving credit agreement with HSBC Bank Plc, providing £1.0 million to finance the working capital requirements of our U.K. subsidiary. Amounts advanced are secured by substantially all the assets of our U.K. subsidiary. In addition, HSBC Bank may at any time demand repayment of all sums owing. Interest is payable monthly at the HSBC Bank prime lending rate plus 1.50%. As of December 31, 2002, there were no amounts outstanding under this line of credit.

As of December 31, 2002 we had approximately \$49 million in federal and state net operating loss carryforwards available as an offset to future taxable income.

We believe that cash on hand, cash flow from operations and existing borrowing capacity will be sufficient to fund ongoing operations and budgeted capital expenditures. In pursuing future acquisitions, we will continue to consider the effect any such acquisition costs may have on liquidity. In order to consummate such acquisitions, we may need to seek funds through additional borrowings or equity financing.

Impact of New Accounting Standards

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 requires that certain gains and losses on extinguishments of debt be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS No. 4, *Reporting Gains and Losses from Extinguishment of Debt*. This statement also amends SFAS No. 13, *Accounting for Leases*, to require certain modifications to capital leases be treated as a sale-leaseback and modifies the accounting for sub-leases when the original lessee remains a secondary obligor (or guarantor). In addition, SFAS No. 145 rescinded SFAS No. 44, *Accounting for Intangible Assets of Motor Carriers*, which addressed the accounting for intangible assets of motor carriers and made numerous technical corrections to various FASB pronouncements. We will be required to adopt SFAS No. 145 on January 1, 2003, and will reclassify extraordinary items (see Note 19 Extraordinary Items) to continuing operations.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146, which requires that a liability for a cost associated with an exit or disposal activity be recognized in the period in which the liability is incurred, is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a significant effect on our results of operations or our financial position.

Inflation; Lack of Seasonality

Although we are subject to the effects of changing prices, the impact of inflation has not been a significant factor in results of operations for the periods presented. In some circumstances, market conditions or customer expectations may prevent us from increasing the prices of our products to offset the inflationary pressures that may increase our costs in the future. Historically, there has been little aggregate seasonal fluctuation in our business.

Environmental Matters

See Item 1. Business Environmental for a discussion of environmental matters relating to us.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Financial Instruments. We do not hold or issue derivative financial instruments for trading purposes. We use derivative financial instruments to manage our exposure to fluctuations in interest rates. Neither the aggregate value of these derivative financial instruments nor the market risk posed by them is material to our business. We use interest rate swaps to convert variable rate debt to fixed rate debt to reduce volatility risk. For additional discussion regarding our use of such instruments, see Item 8. Consolidated Financial Statements and Supplementary Data - Note 13.

Interest Rate Exposure. Based on our overall interest rate exposure during the year ended December 31, 2002 and assuming similar interest rate volatility in the future, a near-term (12 months) change in interest rates would not materially affect our consolidated financial position, results of operation or cash flows. Interest rate movements of 10% would not have a material effect on our financial position, results of operation or cash flows.

Foreign Exchange Exposure. We have one foreign operation that exposes us to translation risk when the local currency financial statements are translated to U.S. dollars. Since changes in translation risk are reported as adjustments to stockholders' equity, a 10% change in the foreign exchange rate would not have a material effect on our financial position, results of operation or cash flows.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Contents

Report of Ernst & Young LLP, Independent Auditors

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Stockholders and Board of Directors

Aftermarket Technology Corp.

We have audited the accompanying consolidated balance sheets of Aftermarket Technology Corp. and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index of Item 15 (a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aftermarket Technology Corp. and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2, in 2002 the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

ERNST & YOUNG LLP

Chicago, Illinois

February 6, 2003

AFTERMARKET TECHNOLOGY CORP.**CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)**

	December 31,	
	2002	2001
Assets		
Current Assets:		
Cash and cash equivalents	\$ 65,504	\$ 55
Accounts receivable, net	49,283	55,816
Inventories	70,262	68,970
Prepaid and other assets	4,891	5,305
Deferred income taxes	26,106	26,508
Total current assets	216,046	157,154
Property, plant and equipment, net	54,616	52,577
Debt issuance costs, net	5,152	3,008
Goodwill	168,229	168,049
Intangible assets, net	819	1,145
Deferred income taxes		5,590
Other assets	9,168	9,335
Total assets	\$ 454,030	\$ 396,858
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 37,963	\$ 42,507
Accrued expenses	29,996	39,096
Income taxes payable	847	2,622
Credit facility	15,805	14,700
Capital lease obligation	678	1,121
Amounts due to sellers of acquired companies	2,261	2,450
Deferred compensation	154	1,958
Liabilities of discontinued operations	330	1,375
Total current liabilities	88,034	105,829
12% Series B and D Senior Subordinated Notes		110,852
Amount drawn on credit facility, less current portion	139,111	60,500
Amounts due to sellers of acquired companies, less current portion	6,474	7,269
Deferred compensation, less current portion	912	1,400
Capital lease obligation, less current portion	284	897
Other long-term liabilities	370	776
Deferred income taxes	12,410	

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Stockholders' Equity:

Preferred stock, \$.01 par value; shares authorized - 2,000,000; none issued		
Common stock, \$.01 par value; shares authorized - 30,000,000; Issued - 25,145,523 and 21,446,396 (including shares held in treasury)	251	214
Additional paid-in capital	193,869	141,298
Retained earnings and (accumulated deficit)	20,595	(25,832)
Accumulated other comprehensive loss	(309)	(2,008)
Common stock held in treasury, at cost (933,737 and 611,337 shares)	(7,971)	(4,337)
Total stockholders' equity	206,435	109,335
Total liabilities and stockholders' equity	\$ 454,030	\$ 396,858

See accompanying notes.

AFTERMARKET TECHNOLOGY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	For the years ended December 31,		
	2002	2001	2000
Net sales	\$ 415,902	\$ 393,381	\$ 372,493
Cost of sales	272,360	255,360	248,438
Special charges		216	9,134
Gross profit	143,542	137,805	114,921
Selling, general and administrative expense	60,370	59,939	57,331
Amortization of intangible assets	333	5,028	5,255
Special (credits) charges	(277)	5,114	23,450
Income from operations	83,116	67,724	28,885
Interest income	2,769	1,524	234
Other income (expense), net	87	787	(60)
Equity in losses of investee	(575)	(33)	
Interest expense	(12,280)	(22,377)	(24,770)
Income from continuing operations, before income taxes and extraordinary items	73,117	47,625	4,289
Income tax expense	25,141	18,098	1,883
Income from continuing operations before extraordinary items	47,976	29,527	2,406
Gain (loss) from discontinued operations, net of income taxes	1,279	(959)	(99,289)
Income (loss) before extraordinary items	49,255	28,568	(96,883)
Extraordinary items, net of income taxes	(2,828)		
Net income (loss)	\$ 46,427	\$ 28,568	\$ (96,883)
Per common share - basic:			
Income from continuing operations before extraordinary items	\$ 2.04	\$ 1.44	\$ 0.12
Gain (loss) from discontinued operations	0.06	(0.05)	(4.81)
Extraordinary items	(0.12)		

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Net income (loss)	\$	1.98	\$	1.39	\$	(4.69)
Per common share - diluted:						
Income from continuing operations before extraordinary items	\$	1.99	\$	1.40	\$	0.11
Gain (loss) from discontinued operations		0.05		(0.04)		(4.69)
Extraordinary items		(0.12)				
Net income (loss)	\$	1.92	\$	1.36	\$	(4.58)

See accompanying notes.

AFTERMARKET TECHNOLOGY CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated(1) Other Comprehensive Income (Loss)	Common Stock in Treasury	Total
Balance at January 1, 2000	\$	\$ 206	\$ 135,894	\$ 42,483	\$ (445)	\$ (1,994)	\$ 176,144
Issuance of 310,746 shares of common stock from exercise of stock options and warrants		3	988				991
Net loss				(96,883)			(96,883)
Translation adjustments					(13)		(13)
Comprehensive loss							(96,896)
Balance at December 31, 2000		209	136,882	(54,400)	(458)	(1,994)	80,239
Issuance of 522,886 shares of common stock from exercise of stock options and warrants		5	4,416				4,421
Purchase of 439,337 shares of common stock for treasury						(2,343)	(2,343)
Net income				28,568			28,568
Derivative financial instruments, net of income taxes					(419)		(419)
Translation adjustments					(1,131)		(1,131)
Comprehensive income							27,018
Balance at December 31, 2001		214	141,298	(25,832)	(2,008)	(4,337)	109,335
		28	41,984				42,012

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Issuance of 2,760,000 shares of common stock from public offering								
Issuance of 939,127 shares of common stock from exercise of stock options and warrants	9		10,587					10,596
Purchase of 322,400 shares of common stock for treasury						(3,634)		(3,634)
Net income				46,427				46,427
Derivative financial instruments, net of income taxes						182		182
Translation adjustments						1,517		1,517
Comprehensive income								48,126
Balance at December 31, 2002	\$	\$	251	\$	193,869	\$	20,595	\$ (309) (7,971)\$ 206,435

(1) At December 31, 2002, the accumulated other comprehensive loss includes \$237 and \$72 for derivative financial instruments and translation adjustments, respectively.

See accompanying notes.

AFTERMARKET TECHNOLOGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended December 31,		
	2002	2001	2000
Operating Activities:			
Net income (loss)	\$ 46,427	\$ 28,568	\$ (96,883)
Adjustments to reconcile net income (loss) to net cash provided by operating activities - continuing operations:			
Net loss (gain) from discontinued operations	(1,279)	959	99,289
Extraordinary items	2,828		
Asset impairment loss			27,626
Depreciation and amortization	10,935	14,019	12,991
Amortization of debt issuance costs	1,211	1,354	1,238
Adjustments to provision for losses on accounts receivable	338	(91)	348
Loss on sale of equipment	7	150	144
Gain on sale of preferred stock received from sale of a business		(931)	
Deferred income taxes	18,364	12,667	13,386
Changes in operating assets and liabilities, net of businesses discontinued/sold:			
Accounts receivable	6,713	5,724	(11,848)
Inventories	(879)	(13,590)	(7,950)
Prepaid and other assets	782	2,059	(4,563)
Accounts payable and accrued expenses	(7,777)	(1,781)	9,715
Net cash provided by operating activities - continuing operations	77,670	49,107	43,493
Net cash used in operating activities - discontinued operations	(614)	(2,798)	(13,667)
Investing Activities:			
Purchases of property, plant and equipment	(13,103)	(13,516)	(11,682)
Investment in a joint venture		(182)	
Proceeds (refund of proceeds) from sale of a business		(3,675)	60,079
Proceeds from sale of preferred stock received from sale of a business		2,860	
Proceeds from sale of equipment	323	61	103
Net cash provided by (used in) investing activities - continuing operations	(12,780)	(14,452)	48,500
Net cash used in investing activities - discontinued operations			(2,700)
Financing Activities:			
Borrowings (payments) on credit facility, net	79,716	(31,500)	(79,859)

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Payments on bank line of credit, net				(543)
Payment of debt issuance costs	(6,064)	(201)		(144)
Redemption of senior subordinated notes	(112,593)			
Sale of common stock, net of offering costs	42,012			
Payments on capital lease obligation	(1,134)	(875)		(65)
Proceeds from exercise of stock options and warrants	5,444	1,908		434
Purchase of common stock for treasury	(3,634)	(2,343)		
Payments on amounts due to sellers of acquired companies	(1,392)	(486)		(1,173)
Payments of deferred compensation related to acquired company	(1,639)			(700)
Net cash provided by (used in) financing activities	716	(33,497)		(82,050)
Effect of exchange rate changes on cash and cash equivalents	(43)	160		(10)
Increase (decrease) in cash and cash equivalents	64,949	(1,480)		(6,434)
Cash and cash equivalents at beginning of year	555	2,035		8,469
Cash and cash equivalents at end of year	\$ 65,504	\$ 555	\$	2,035
Cash paid (refunded) during the year for:				
Interest	\$ 15,442	\$ 20,100	\$	29,203
Income taxes, net	1,155	(2,131)		3,856
Supplemental disclosures of non-cash activity:				
Debt issued for capital lease obligation		2,711		
Sale of business - note and preferred stock received				10,294

See accompanying notes.

AFTERMARKET TECHNOLOGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Note 1. The Company

The Company has two reportable segments in continuing operations: the Drivetrain Remanufacturing segment and the Logistics segment. The Drivetrain Remanufacturing segment consists of five operating units that primarily sell remanufactured transmissions directly to Ford, DaimlerChrysler, General Motors and several foreign Original Equipment Manufacturers (OEMs), primarily for use as replacement parts by their domestic dealers during the warranty and post-warranty periods following the sale of a vehicle. In addition, the Drivetrain Remanufacturing segment sells select remanufactured and newly assembled engines to certain European OEMs, including Ford's and General Motors's European operations and Jaguar. The Company's Logistics segment is comprised of three operating units: (i) a provider of value-added warehouse and distribution services, turnkey order fulfillment and information services for AT&T Wireless Services; (ii) a provider of returned material reclamation and disposition services and core management services primarily to Ford and to a lesser extent, General Motors and Mazda; and (iii) an automotive electronic components remanufacturing and distribution business, primarily for Delphi and Visteon. The Company's Other business unit, which is not reportable for segment reporting purposes, remanufactures and distributes domestic and foreign engines and, to a lesser extent, distributes domestic remanufactured transmissions from regional distribution points primarily to independent aftermarket customers. Established in 1994, the Company maintains manufacturing facilities and logistics operations in the United States and a manufacturing facility in the United Kingdom.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost (first in, first out method) or market and consist primarily of new and used transmission parts, cores and finished goods. Consideration is given to deterioration, obsolescence and other factors in evaluating the estimated market value of inventory based upon management's judgment and available information.

Property, Plant and Equipment

Property, plant and equipment, including amounts capitalized under capital leases, are stated at cost less accumulated depreciation. Depreciation is computed using straight line methods over the estimated useful lives of the assets for financial reporting purposes, as follows: three to ten years for machinery and equipment, three to six years for autos and trucks, three to ten years for furniture and fixtures and up to 40 years for buildings and leasehold improvements. Depreciation and amortization expense was \$10,602, \$8,991 and \$7,737 for the years ended December 31, 2002, 2001 and 2000, respectively.

Internal Use Computer Software

The Company accounts for these costs in accordance with the provisions of Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Accordingly, the Company expenses costs incurred in the preliminary stage and, thereafter, capitalizes costs incurred in developing or obtaining internal use software and Web site development. Such capitalized costs are included in property, plant and equipment and are amortized over a period of not more than five years.

Foreign Currency Translation

The functional currency for the Company's foreign operations is the applicable local currency. Accordingly, all balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date, and income statement amounts have been translated using the average exchange rates for the year. The translation adjustments resulting from the changes in exchange rates have been reported separately as a component of stockholders' equity. The effects of transaction gains and losses, which were reported in income, were not material for the periods presented.

Debt Issuance Costs

Debt issuance costs incurred in connection with the Credit Facility (see Note 9 - Credit Facility) are being amortized over the life of the respective debt using a method which approximates the interest method. Debt issuance costs are reflected net of accumulated amortization of \$925 and \$5,962 at December 31, 2002 and 2001, respectively.

Goodwill and Other Intangible Assets

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, which eliminates the amortization of goodwill and instead requires that goodwill be tested for impairment at least annually. Transitional impairment tests of goodwill made by the Company during the quarter ended March 31, 2002 and annual impairment tests made during the quarter ended September 30, 2002, did not require adjustment to the carrying value of its goodwill. Per the provisions of SFAS No. 142, the

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Company's definite lived intangible assets, consisting primarily of non-compete agreements, are amortized over their useful lives. (See Note 7 Goodwill and Intangible Assets.)

Other Assets Long Term

As part of the proceeds from the sale of ATC Distribution Group, Inc. (Distribution Group) (see Note 3 Discontinued Independent Aftermarket Segment), the Company received from the buyer a senior subordinated promissory note, as amended, at a stated rate of 18%, with a principal amount of \$10,050 and a discounted value of \$8,365 (18% Buyer Note). The 18% Buyer Note, which matures on October 28, 2005, bears interest at (i) 15% per annum compounded semi-annually due and payable in arrears semi-annually on April 27 and October 27 of each year or until the principal amount is paid in full and (ii) 3% per annum compounded semi-annually due and payable in full at the earlier of the maturity date or the date on which the principal amount is paid in full. During the years ended December 31, 2002, 2001 and 2000, \$1,807, \$1,515 and \$228 of interest income was recorded on the 18% Buyer Note, respectively. The 18% Buyer Note is classified as a part of other assets in the accompanying balance sheet.

Impairment of Long-Lived and Intangible Assets

Long-lived assets and identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the related asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. If the asset is determined to be impaired, the impairment recognized is measured by the amount by which the carrying value of the asset exceeds its fair value.

Concentration of Credit Risk

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Financial instruments that potentially subject the Company to a significant concentration of credit risk consist of accounts receivable from its customers including Ford, DaimlerChrysler, General Motors and AT&T Wireless Services, which are located throughout the United States and, to a lesser extent, the United Kingdom. The credit risk associated with the Company's accounts receivable is mitigated by its credit evaluation process, although collateral is not required. The Company grants credit to certain customers who meet pre-established credit requirements.

Accounts receivable is reflected net of an allowance for doubtful accounts of \$1,320 and \$1,207 at December 31, 2002 and 2001, respectively.

Revenue Recognition

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Revenues are recognized at the time of shipment to the customer, which is generally when title passes, or as services are performed. In addition, the Company includes the reimbursements of certain costs by its customers separately as revenues and expenses in its Statements of Operations.

Warranty Cost Recognition

The Company accrues for estimated warranty costs as sales are made.

Stock - Based Compensation

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The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for the stock options granted to employees and directors. Accordingly, employee and director compensation expense is recognized only for those options whose price is less than fair market value at the measurement date. The Company has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model assuming no expected dividends and the following weighted-average assumptions:

	For the years ended December 31,			
	2002		2001	2000
Expected volatility	44.96%		86.37%	87.90%
Risk-free interest rates	3.37%		4.50%	6.25%
Expected lives	2.9 years		4.6 years	5.2 years

Had compensation cost for the Company's Plans (see Note 11 - Stock Options and Warrants) been determined in accordance with SFAS No. 123, the Company's reported income from continuing operations before extraordinary items and earnings per share would have been adjusted to the pro forma amounts indicated below:

	For the years ended December 31,			
	2002		2001	2000
Income from continuing operations before extraordinary items:				
As reported	\$ 47,976		\$ 29,527	\$ 2,406
Pro forma	45,707		28,105	913
Basic earnings per common share:				
As reported	\$ 2.04		\$ 1.44	\$ 0.12
Pro forma	1.95		1.37	0.04

New Accounting Standards

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 requires that certain gains and losses on extinguishments of debt be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS No. 4, *Reporting Gains and Losses from Extinguishment of Debt*. This statement also amends SFAS No. 13, *Accounting for Leases*, to require certain modifications to capital leases be treated as a sale-leaseback and modifies the accounting for sub-leases when the original lessee remains a secondary obligor (or guarantor). In addition, SFAS No. 145 rescinded SFAS No. 44, *Accounting for Intangible Assets of Motor Carriers*, which addressed the accounting for intangible assets of motor carriers and made numerous technical corrections to various FASB pronouncements. The Company will be required to adopt SFAS No. 145 on January 1, 2003, and will reclassify extraordinary items (see Note 19 Extraordinary Items) to continuing operations.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146, which requires that a liability for a cost associated with an exit or disposal activity be recognized in the period in which the liability is incurred, is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a significant effect on the Company's results of operations or its financial position.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the 2002 presentation.

Note 3. Discontinued Independent Aftermarket Segment

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During 2000, the Company adopted a plan to discontinue the Independent Aftermarket segments of its business, which contained (i) the Distribution Group, a distributor of remanufactured transmissions and related drivetrain components to independent aftermarket customers, and (ii) the Company's domestic remanufactured engines business (Engines) which remanufactured and distributed engines primarily through a branch distribution network to independent aftermarket customers. On October 27, 2000, the Company sold the Distribution Group and on June 25, 2001, the Company elected to retain Engines.

During 2002, based upon updated information regarding obligations and other costs related to the sale of the Distribution Group, the Company revised its estimated loss and recorded income of \$275 (net of income taxes of \$155). In addition, the Company reduced certain tax contingency reserves associated with the sale of the Distribution Group resulting in a gain of \$1,004. The estimated loss on the sale of the Distribution Group and the actual losses from discontinued operations incurred since the measurement date were applied against the accrued loss established effective with the measurement date. The accrual balance as of December 31, 2002 and 2001 of \$330 and \$1,375, respectively, classified as liabilities of discontinued operations, represents the Company's current estimate of the remaining obligations and other costs related to the sale of the Distribution Group. (See Note 16 Commitments and Contingencies)

The consolidated statements of operations have been reclassified to report the operating results of the Distribution Group business as discontinued operations and, accordingly, such results have been excluded from continuing operations for all periods presented. Net sales from the Distribution Group business were \$172,814 for the year ended December 31, 2000. Interest expense for the year ended December 31, 2000 of \$5,188 has been allocated to the discontinued operations based on the actual consideration received from the sale of the Distribution Group.

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Details of the gain (loss) recorded from discontinued operations, net of the reclassification of the Engines business from discontinued operations to continuing operations, are as follows:

	For the years ended December 31,					
	2002		2001		2000	
Loss from operations	\$		\$		\$	(9,429)
Income tax benefit						3,061
Loss from operations, net of income taxes						(6,368)
Estimated gain (loss) from disposal		430		(597)		(141,429)
Reclassification of discontinued operations to continuing operations(1)				(961)		2,403
Income tax (expense) benefit		(155)		599		46,105
Adjustment to income tax benefit		1,004				
Gain (loss) from disposal, net of income taxes		1,279		(959)		(92,921)
Gain (loss) from discontinued operations, net of income taxes	\$	1,279	\$	(959)	\$	(99,289)

(1) Represents the reclassification of the operating results for Engines from discontinued operations to continuing operations as required per Emerging Issues Task Force No. 90-16.

Note 4. Related-Party Transactions

Aurora Capital Partners (ACP), which controls the Company's largest stockholders, charged to the Company \$750 in fees for investment banking services provided in connection with the divestiture of the Distribution Group in 2000 and is presented as discontinued operations in the accompanying financial statements. No such amounts were charged to the Company in 2002 or 2001. In addition, ACP was paid management fees of \$476, \$549 and \$549 in 2002, 2001 and 2000, respectively. In September 2002, the management fee was reduced due to a reduction in ACP's percentage ownership of the Company. The Company reimburses ACP for out-of-pocket expenses incurred in connection with providing management services. ACP is also entitled to various additional fees depending on the Company's profitability or certain significant corporate transactions. No such additional fees were paid in 2002, 2001 or 2000.

As part of the stock purchase agreement between the Company and the buyer of the Distribution Group, the Company received fees for information systems services provided to the buyer. The Company received \$255 and \$11 for such services during the year ended December 31, 2001 and 2000, respectively. The information systems service agreement between the Company and the buyer of the Distribution Group expired on March 31, 2001. In addition, pursuant to the 18% Buyer Note, interest of \$1,508 and \$1,508 was received by the Company during the years ended December 31, 2002 and 2001, respectively.

Note 5. Inventories

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Inventories consist of the following:

	December 31,			
	2002		2001	
Raw materials, including core inventories	\$	56,215	\$	50,851
Work-in-process		2,365		1,342
Finished goods		11,682		16,777
	\$	70,262	\$	68,970

Note 6. Property, Plant and Equipment

Property, plant and equipment are summarized as follows:

	December 31,			
	2002		2001	
Land	\$	2,043	\$	2,036
Buildings		11,357		10,721
Machinery and equipment		65,284		52,495
Autos and trucks		1,248		1,293
Furniture and fixtures		2,506		2,472
Leasehold improvements		12,546		12,063
Construction in process		500		4,282
		95,484		85,362
Less: Accumulated depreciation and amortization		(40,868)		(32,785)
	\$	54,616	\$	52,577

Assets recorded under capital leases are included in property, plant and equipment as follows:

	December 31,			
	2002		2001	
Machinery and equipment	\$	2,460	\$	2,354
Less: Accumulated depreciation and amortization		(843)		(409)
	\$	1,617	\$	1,945

Note 7. Goodwill and Intangible Assets

During 2002, the Company made certain payments totaling \$1,639 related to the 1997 acquisition of ATS Remanufacturing (ATS), which is part of the Drivetrain Remanufacturing segment (see Note 17 Reportable Segments). According to the terms of the purchase agreement, these payments were primarily variable, based upon the attainment of certain sales levels by the Company to General Motors. As a result, a reduction to goodwill of \$583 was recorded based upon the difference between the original estimate and the actual amounts paid. In addition, as a result of changes in the exchange rates used to translate the financial statements of the Company's U.K. subsidiary, which is part of the Drivetrain Remanufacturing segment, goodwill increased \$763 during 2002.

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As of December 31, 2002 and 2001, the Company's definite lived intangible assets of \$819 and \$1,145, net of accumulated amortization of \$1,046 and \$709, respectively, primarily consist of non-compete agreements and continue to be amortized over their useful lives.

Amortization expense for definite lived intangible assets during the years ended December 31, 2002, 2001 and 2000 was \$333, \$155 and \$125. Estimated amortization expense for the five succeeding fiscal years is as follows:

	Estimated Amortization Expense	
2003	\$	299
2004		125
2005		125
2006		125
2007		125

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Actual results of operations for the year ended December 31, 2002 and the pro forma results of operations for the years ended December 31, 2001 and 2000 had we applied the non-amortization provisions of SFAS 142 in the prior period are as follows:

	For the years ended December 31,					
	2002		2001		2000	
Income from continuing operations before extraordinary items	\$	47,976	\$	29,527	\$	2,406
Add: Goodwill amortization, net of tax				3,321		3,387
Adjusted income from continuing operations before extraordinary items	\$	47,976	\$	32,848	\$	5,793
Per common share basic:						
Income from continuing operations before extraordinary items	\$	2.04	\$	1.44	\$	0.12
Add: Goodwill amortization, net of tax				0.16		0.16
	\$	2.04	\$	1.60	\$	0.28
Per common share diluted:						
Income from continuing operations before extraordinary items	\$	1.99	\$	1.40	\$	0.11
Add: Goodwill amortization, net of tax				0.16		0.16
	\$	1.99	\$	1.56	\$	0.27

Note 8. Accrued Expenses

Accrued expenses are summarized as follows:

	December 31,			
	2002		2001	
Payroll and related costs	\$	9,515	\$	10,187
Interest payable		1,758		6,161
Non-income related taxes		1,204		2,760
Warranty		4,721		4,830
Restructuring and other costs		727		3,915
Other		12,071		11,243
	\$	29,996	\$	39,096

Note 9. Credit Facility

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On February 8, 2002, the Company executed a credit agreement and a related security agreement in connection with a new credit facility (the Credit Facility). The Credit Facility provides for (i) a \$75,000, five year term loan (the A-Loan), with principal payable in quarterly installments in increasing amounts over the five-year period, (ii) a \$95,000, six year, two-tranche term loan (the B-Loans), with principal payable in quarterly installments over the six-year period (with 96% of the outstanding balance payable in the sixth year) and an annual excess cash flow sweep payable as defined in the credit agreement, and (iii) a \$50,000, five year revolving credit facility (the Revolver). The Credit Facility also provides for the addition of one or more optional term loans of up to \$100,000 in the aggregate (the C-Loans), subject to certain conditions (including the receipt from one or more lenders of the additional commitments that may be requested) and achievement of certain financial ratios.

At the Company's election, amounts advanced under the Credit Facility will bear interest at either (i) the Alternate Base Rate (ABR) plus a specified margin or (ii) the Eurodollar Rate plus a specified

margin. The ABR is equal to the highest of (a) the lender's prime rate, (b) the lender's base CD rate plus 1.00% or (c) the federal funds effective rate plus 0.50%. The applicable margins for both ABR and Eurodollar Rate loans are subject to quarterly adjustments based on the Company's leverage ratio as of the end of the four fiscal quarters then completed. As of December 31, 2002, the margins for the A-Loan and Revolver were 1.25% for ABR loans and 2.25% for Eurodollar Rate loans. For the B-Loan, the margins were 2.00% for ABR loans and 3.00% for Eurodollar Rate loans as of December 31, 2002. The interest rates for the optional C-Loans will be determined at the time such loans are provided. Additionally, the Company is required to pay quarterly in arrears a commitment fee equal to 0.50% per annum of the average daily unused portion of the Credit Facility during such quarter. The Company must also reimburse the lenders for certain legal and other costs of the lenders, and pay fees on outstanding letters of credit at a rate per annum equal to the applicable margin then in effect for advances bearing interest at the Eurodollar Rate.

Amounts advanced under the Credit Facility are guaranteed by all of the Company's domestic subsidiaries and secured by substantially all of the Company's assets and its subsidiaries' assets. The Credit Facility contains several covenants, including ones that require the Company to maintain specified levels of net worth, leverage and cash flow coverage and others that limit its ability to incur indebtedness, make capital expenditures, create liens, engage in mergers and consolidations, make restricted payments (including dividends), sell assets, make investments, enter new businesses and engage in transactions with the Company's affiliates and affiliates of its subsidiaries.

On March 8, 2002, the Company terminated its old credit facility, which consisted of a \$130,000 term loan and a \$100,000 line of credit, with the proceeds from the Credit Facility and a public offering of its common stock (see Note 12 - Common and Preferred Stock).

On November 21, 2002, the Company made an optional prepayment of \$6,000 representing a portion of the excess cash flow sweep payable in connection with the first anniversary of the credit agreement. The \$4,500 balance of the excess cash flow sweep is payable during the first quarter of 2003.

At December 31, 2002, \$65,280 and \$89,636 were outstanding under the A-Loan and B-Loans portions of the Credit Facility, respectively, and no amounts were outstanding under the Revolver. At December 31, 2001, under the Company's old credit facility which was terminated during 2002, \$29,400 and \$45,800 were outstanding under the term loan and revolving portions, respectively. In addition, the Company had outstanding letters of credit issued against the Credit Facility totaling \$3,524 as of December 31, 2002. At December 31, 2001, the Company had outstanding letters of credit issued against the old credit facility totaling \$5,014.

Annual maturities of the Credit Facility are as follows as of December 31, 2002:

2003	\$	15,805
2004		13,908
2005		14,775
2006		19,980
2007		69,193
2008		21,255
	\$	154,916

Note 10. Income Taxes

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

	For the years ended December 31,					
	2002		2001		2000	
Current:						
Federal	\$	(1,234)	\$	1,835	\$	(819)
State		(209)		1,196		185
Foreign		1,139		81		70
Total current		(304)		3,112		(564)
Deferred:						
Federal		24,077		14,066		2,486
State		1,585		671		13
Foreign		(217)		249		(52)
Total deferred		25,445		14,986		2,447
	\$	25,141	\$	18,098	\$	1,883

In addition, the Company has recognized tax benefits related to the exercise of certain non-qualified stock options and the disposition of certain shares pursuant to Incentive Stock Options prior to the expiration of the statutory holding period as an increase in stockholders' equity of \$4,706, \$1,070 and \$411 for the years ended December 31, 2002, 2001 and 2000, respectively.

The reconciliation of income tax expense computed at the U.S. federal statutory tax rates to income tax expense from continuing operations is as follows:

	For the years ended December 31,					
	2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax at U.S. statutory rates	\$ 25,591	35.0%	\$ 16,670	35.0%	\$ 1,501	35.0%
State income taxes, net of federal tax benefit	1,062	1.5	1,477	3.1	103	2.4
Foreign income taxes	47	0.1	(130)	(0.3)	(495)	(11.5)
Nondeductible goodwill amortization			236	0.5	232	5.4
Nondeductible expenses	108	0.1	131	0.3	503	11.7

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Federal refund		(575)		(0.8)								
Other		(1,092)		(1.5)		(286)		(0.6)		39		0.9
	\$	25,141		34.4%	\$	18,098		38.0%	\$	1,883		43.9%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,			
	2002		2001	
Deferred tax assets:				
Inventory obsolescence reserve	\$	1,834	\$	868
Property, plant and equipment				94
Product warranty accruals		1,705		1,970
Special charge accruals		577		2,421
Other nondeductible accruals		2,663		1,570
Discontinued operations reserve		127		524
Credit carryforwards		555		1,064
Net operating loss carryforwards		27,577		42,042
Other deferred items		4,119		1,224
Total deferred tax assets		39,157		51,777
Deferred tax liabilities:				
Amortization of intangible assets		14,320		9,720
Property, plant and equipment		1,396		
Other accruals and deferrals		552		867
Total deferred tax liabilities		16,268		10,587
Valuation allowance		(9,193)		(9,092)
Net deferred tax asset	\$	13,696	\$	32,098

As of December 31, 2002, the Company had federal and state loss carryforwards of approximately \$49,200. These loss carryforwards are available as an offset to the future taxable income of the Company and its subsidiaries. The federal loss carryforward expires in 2020, and the state loss carryforwards expire in varying amounts from 2004 to 2021. The Company also has Alternative Minimum Tax (AMT) credit carryforwards of approximately \$197 available to offset regular income tax payable in future years. The Company, through its subsidiary in the U.K., has surplus Advance Corporate Tax (ACT) of approximately \$358 available as a direct offset to future U.K. tax liability. The Company's AMT credit and surplus ACT can be carried over indefinitely.

A valuation allowance has been established for the tax benefits associated with certain state loss carryforwards as realization is not deemed likely due to limitations imposed by certain states on the Company's ability to utilize these benefits. A valuation allowance has also been established for certain foreign tax benefits due to similar limitations imposed by the foreign tax jurisdiction. During 2002, the valuation allowance increased \$101, to \$9,193 from \$9,092. This increase is attributable to a state tax law change suspending the Company's ability to utilize previously existing net operating loss carryforwards, as well as changes to the valuation of foreign carryovers due to exchange rate fluctuation. The Company believes that, consistent with accounting principles generally accepted in the United States, it is more likely than not that the tax benefits associated with the balance of loss carryforwards and other deferred tax assets will be realized through future taxable earnings or alternative tax strategies.

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As of December 31, 2002, there are approximately \$2,400 of accumulated unremitted earnings from the Company's U.K. subsidiary with respect to which deferred tax has not been provided as the undistributed earnings of the U.K. subsidiary are indefinitely reinvested.

Note 11. Stock Options and Warrants

The Company provides stock options to employees, non-employee directors and independent contractors under its 2002 Stock Incentive Plan (the 2002 Plan), its 2000 Stock Incentive Plan (the 2000 Plan), its 1998 Stock Incentive Plan (the 1998 Plan) and its 1996 Stock Incentive Plan (the 1996 Plan) (collectively the Plans). The Plans provide for granting of non-qualified and incentive stock option awards. Options under the Plans are generally granted at fair value and typically vest over a three to five year period of

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time, as determined by the Board of Directors. Options under the Plans expire 10 years from the date of grant. The 2002, 2000, 1998 and 1996 plans authorize the issuance of 1,000,000, 750,000, 1,200,000 and 2,400,000 shares of the Company's common stock, respectively. Options available for grant under the Plans in the aggregate were 500,305, 154,314 and 714,683 as of December 31, 2002, 2001 and 2000, respectively.

A summary of the status of the Company's option plans are presented below:

	2002				2001				2000			
	Shares		Weighted - Average Exercise Price		Shares		Weighted - Average Exercise Price		Shares		Weighted - Average Exercise Price	
Outstanding at beginning of year	2,226,223		\$ 7.82		2,006,819		\$ 8.36		1,918,675		\$ 7.43	
Granted at fair value	459,000		\$ 20.67		744,000		\$ 5.96		763,950		\$ 10.93	
Granted above fair value	350,000		\$ 30.00				\$				\$	
Exercised	(868,951)		\$ 6.42		(340,965)		\$ 5.60		(196,528)		\$ 2.21	
Canceled/forfeited	(154,991)		\$ 11.11		(183,631)		\$ 10.24		(479,278)		\$ 11.26	
Outstanding at end of year	2,011,281		\$ 14.97		2,226,223		\$ 7.82		2,006,819		\$ 8.36	
Exercisable at end of year	881,737		\$ 17.66		1,003,817		\$ 7.85		976,798		\$ 6.14	
Weighted-average fair value of options granted during the year:												
At fair value			\$ 7.75				\$ 4.07				\$ 8.44	
Above fair value			\$ 3.43				\$				\$	

The following summarizes information about options outstanding as of December 31, 2002:

	<i>Options Outstanding</i>	<i>Options Exercisable</i>

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Range of Exercise Prices	Shares	Average Remaining Contractual Life	Weighted-Average Exercise Prices	Shares	Weighted-Average Exercise Prices
\$ 4.56 - \$7.00	550,645	8.1 years	\$ 4.99	150,335	\$ 5.00
\$ 7.01 - \$12.00	610,716	6.9 years	\$ 10.64	316,311	\$ 10.29
\$ 12.01 - \$20.00	168,420	7.4 years	\$ 16.42	65,091	\$ 16.42
\$ 20.01 - \$30.00	681,500	9.4 years	\$ 26.55	350,000	\$ 30.00
	2,011,281	8.1 years	\$ 14.97	881,737	\$ 17.66

During 1994, the Company issued warrants to purchase 421,056 shares of common stock at \$1.67 per share, the fair value of the common stock on the date of grant. As of December 31, 2002, all of these warrants have been exercised. During the year ended December 31, 2002, 70,176 of these warrants were exercised in a cash transaction. During the years ended December 31, 2001 and 2000, in cashless transactions, 210,528 and 140,352 of these warrants were exercised and 181,921 and 114,218 shares of the Company's common stock were issued, respectively.

Note 12. Common and Preferred Stock

On March 8, 2002, the Company completed a public offering of 2,760,000 shares of its common stock at a price to the public of \$16.50 per share. The \$42,012 of net proceeds from the offering was used, together with borrowings under the Credit Facility, to repay all the indebtedness under the Company's old credit facility on March 8, 2002.

On August 1, 2002, pursuant to a secondary shelf offering, certain shareholders of the Company completed the sale of 4,500,000 shares of the Company's common stock, for which the Company received no

proceeds. In connection with the shelf offering, the Company received net proceeds of \$2,610 from the exercise of 448,907 stock options and 70,176 stock warrants.

In October 2002, the Company resumed the stock buyback program initially commenced in January 2001. This program, as approved by the Company's Board of Directors, allows for the purchase of up to an aggregate of 2,000,000 shares of its common stock. Such purchases may be made from time to time in the open market, through privately negotiated transactions or through block purchases. During 2002, the Company purchased 322,400 shares of its common stock at an average price of \$11.27 per share. As of December 31, 2002, there are up to 1,238,263 shares remaining for purchase under this program, subject to certain annual limitations imposed by the terms of our credit agreement, which for 2003 is \$8,000.

Note 13: Derivative Financial Instruments

On January 1, 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (as amended by SFAS No. 137 and 138) which requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive loss, depending on whether a derivative is designated a part of a hedge and, if it is, the type of hedge transaction. For derivatives qualifying as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in equity, then recognized in earnings along with the related effects of the hedged items. Any ineffective portion of a hedge is reported in earnings as it occurs.

The Company uses an interest rate swap to convert a portion of its variable rate debt to fixed rate debt to reduce interest rate volatility risk. The swap is based on a notional amount of \$15,000 at the fixed interest rate of 5.95% during its term and is scheduled to mature during July 2003.

The fair value of the swap is based on the estimated current settlement cost. In accordance with SFAS No. 133, the Company has designated its swap agreement as a cash flow hedge and recorded the fair value of this hedge agreement as part of other comprehensive loss. The following table sets forth the effective portion of changes in the fair value of this derivative:

	For the years ended December 31,			
	2002		2001	
Transition adjustment as of January 1, 2001	\$		\$	(45)
Increase (decrease) in fair value		311		(636)
Income taxes		(129)		262
Other comprehensive gain (loss), net	\$	182	\$	(419)

The fair value of this derivative as a liability amounted to \$370 and \$681 at December 31, 2002 and 2001, respectively.

Note 14. Earnings Per Share

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The following table sets forth the computation of basic and diluted earnings per share from continuing operations before extraordinary items:

	For the years ended December 31,					
	2002		2001		2000	
Numerator:						
Income from continuing operations before extraordinary items	\$	47,976	\$	29,527	\$	2,406
Denominator:						
Weighted-average common shares outstanding		23,493,092		20,503,936		20,663,102
Effect of dilutive securities:						
Employee stock options and warrants		625,681		554,637		500,387
Denominator for diluted earnings per common share		24,118,773		21,058,573		21,163,489
Basic earnings per common share	\$	2.04	\$	1.44	\$	0.12
Diluted earnings per common share		1.99		1.40		0.11

Note 15. Employee Retirement Plans

The Company's defined contribution plans provide substantially all U.S. salaried and hourly employees of the Company an opportunity to accumulate personal funds for their retirement, subject to minimum duration of employment requirements. Contributions are made on a before-tax basis to substantially all of these plans.

As determined by the provisions of each plan, the Company matches a portion of the employees' basic voluntary contributions. Company matching contributions to the plans were approximately \$1,433, \$1,511 and \$998 for the plan years ending in 2002, 2001 and 2000, respectively.

In addition, the Company's subsidiary located in the U.K. provides a voluntary retirement benefits plan for its employees. Company matching contributions to this plan were approximately \$212, \$329 and \$291 for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 16. Commitments and Contingencies

The Company leases certain facilities and equipment under various capital and operating lease agreements, which expire on various dates through 2009. Facility leases that expire generally are expected to be renewed or replaced by other leases. Future minimum rental commitments under non-cancelable capital leases and operating leases with terms in excess of one year are as follows:

For the years ended December 31,	Capital Leases	Operating Leases
2003	\$ 713	\$ 8,869
2004	308	6,207
2005	2	5,060
2006		3,915
2007		2,535
2008 and thereafter		1,814
Total minimum lease payments	1,023	\$ 28,400
Less: Amount representing interest	(61)	
Present value of minimum lease payments	\$ 962	

Rent expense for all operating leases approximated \$11,068, \$8,231 and \$7,908 for the years ended December 31, 2002, 2001 and 2000, respectively.

At December 31, 2002 and 2001, amounts due to sellers of acquired companies and deferred compensation consist of additional purchase price payable to the seller and to other key individuals of ATS Remanufacturing (ATS), acquired in 1997. The ATS acquisition requires the Company to make subsequent payments to the seller and certain other key individuals of ATS on each of the first 14 anniversaries of the closing date. Through December 31, 2002, the Company had made aggregate payments of \$7,441 related to the ATS acquisition. Substantially all of the

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remaining payments to be made in the future, which will aggregate to approximately \$10,673 (present value \$9,801 as of December 31, 2002), are contingent upon the attainment of certain sales levels by the Company to General Motors, which the Company believes has a substantial likelihood of being attained. Amounts are payable through 2011.

The Company is subject to various evolving federal, state, local and foreign environmental laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of a variety of hazardous and non hazardous substances and wastes. These laws and regulations provide for substantial fines and criminal sanctions for violations and impose liability for the costs of cleaning up, and damages resulting from, past spills, disposals or other releases of hazardous substances.

In connection with the acquisition of certain subsidiaries, some of which have been subsequently divested or relocated, the Company conducted certain investigations of these companies facilities and their compliance with applicable environmental laws. The investigations, which included Phase I assessments by independent consultants of all manufacturing and various distribution facilities, found that a number of these

facilities have had or may have had releases of hazardous materials that may require remediation and also may be subject to potential liabilities for contamination from off-site disposal of substances or wastes. These assessments also found that reporting and other regulatory requirements, including waste management procedures, were not or may not have been satisfied. Although there can be no assurance, the Company believes that, based in part on the investigations conducted, in part on certain remediation completed prior to or since the acquisitions, and in part on the indemnification provisions of the agreements entered into in connection with the Company's acquisitions, the Company will not incur any material liabilities relating to these matters.

One of the Company's former subsidiaries, RPM, leased several facilities in Azusa, California located within what is now the Baldwin Park Operable Unit of the San Gabriel Valley Superfund Site. The entity that leased the facilities to RPM has been identified by the United States Environmental Protection Agency, or EPA, as one of approximately nineteen potentially responsible parties, or PRPs, for environmental liabilities associated with the Superfund Site. The Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA or Superfund) provides for cleanup of sites from which there has been a release or threatened release of hazardous substances, and authorizes recovery of related response costs and certain other damages from PRPs. PRPs are broadly defined under CERCLA, and generally include present owners and operators of a site and certain past owners and operators. As a general rule, courts have interpreted CERCLA to impose strict, joint and several liability upon all persons liable for cleanup costs. As a practical matter, however, at sites where there are multiple PRPs, the costs of cleanup typically are allocated among the PRPs according to a volumetric or other standard. The EPA has preliminarily estimated that it will cost between \$150,000 and \$200,000 to construct and to operate for an indefinite period an interim remedial groundwater pumping and treatment system for the part of the San Gabriel Valley Superfund site within which RPM's facilities, as well as those of many other potentially responsible parties, are or were located. The actual cost of this remedial action could vary substantially from this estimate, and additional costs associated with this Superfund site are likely to be assessed. RPM moved all manufacturing operations out of the San Gabriel Valley Superfund site area in 1995. Since July 1995, RPM's only real property interest in this area has been the lease of a 6,000 square foot storage and distribution facility. The acquisition agreement by which the Company acquired the assets of RPM in 1994 and the leases pursuant to which the Company leased RPM's facilities after it acquired the assets of RPM expressly provide that the Company did not assume any liabilities for environmental conditions existing on or before the closing of the acquisition, although the Company could become responsible for those liabilities under various legal theories. The Company is indemnified against any such liabilities by the company that sold RPM to it as well as the shareholders of that company. There can be no assurance, however, that the Company would be able to make any recovery under any indemnification provisions. Although there can be no assurance, the Company believes that it will not incur any material liability as a result of RPM's lease of properties within the San Gabriel Valley Superfund site.

In connection with the sale of the Distribution Group (the "DG Sale") on October 27, 2000 (see Note 3 "Discontinued Independent Aftermarket Segment"), the Company agreed to certain matters with the buyer that could result in contingent liability to the Company in the future. These include the Company's indemnification of the buyer against (i) environmental liability at former Distribution Group facilities that had been closed prior to the DG Sale, including the former manufacturing facility in Azusa, California within the Superfund site mentioned above and former manufacturing facilities in Mexicali, Mexico and Dayton, Ohio, (ii) any other environmental liability of the Distribution Group relating to periods prior to the DG Sale, in most cases subject to a \$750 deductible and a \$12,000 cap except with respect to closed facilities and (iii) any tax liability of the Distribution Group relating to periods prior to the DG Sale. In addition, prior to the DG Sale several of the Distribution Group's real estate and equipment leases were guaranteed by the Company. These guarantees remain in effect after the DG Sale so the Company continues to be liable for the Distribution Group's obligations under such leases in the event that the Distribution Group does not honor those obligations. In 2002, the Company negotiated an additional \$100 deductible applicable to all Distribution Group claims for indemnification.

Note 17. Reportable Segments

The Company has two reportable segments in continuing operations: the Drivetrain Remanufacturing segment and the Logistics segment. The Drivetrain Remanufacturing segment consists of five operating units that primarily sell remanufactured transmissions directly to Ford, DaimlerChrysler, General Motors and several foreign OEMs, primarily for use as replacement parts by their domestic dealers during the warranty and post-warranty periods following the sale of a vehicle. In addition, the Drivetrain Remanufacturing segment sells select remanufactured and newly assembled engines to certain European OEMs, including Ford's and General Motors's European operations and Jaguar. The Company's Logistics segment consists of three operating units: (i) a provider of value added warehouse and distribution services, turnkey order fulfillment and information services for AT&T Wireless Services; (ii) a provider of returned material reclamation and disposition services and core management services primarily to Ford and to a lesser extent, General Motors and Mazda; and (iii) an automotive electronic components remanufacturing and distribution business, primarily for Delphi and Visteon. The Company's Other business unit, which is not reportable for segment reporting purposes, remanufactures and distributes domestic and foreign engines and, to a lesser extent, distributes domestic remanufactured transmissions from regional distribution points primarily to independent aftermarket customers.

The Company evaluates performance based upon income from operations. The reportable segments and the Other business unit's accounting policies are the same as those described in the summary of significant accounting policies (see Note 2 - Summary of Significant Accounting Policies). The Company fully allocates corporate overhead based upon budgeted full year profit before tax. The reportable segments and the Other business unit are each managed and measured separately primarily due to the differing customers, production processes, products sold and distribution channels.

In consolidation, the Company eliminates the sale of certain transmissions remanufactured and sold to Drivetrain Remanufacturing customers that are simultaneously repurchased for re-sale to customers in the independent aftermarket through the Company's aftermarket business. Additionally, and in consolidation, the Company eliminates any profits associated with any remanufactured transmissions that have been repurchased for re-sale that remain in inventory.

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Financial information relating to the Company's segments and a reconciliation to the consolidated financial statements are as follows as of and for the years ended December 31:

	Drivetrain Remanufacturing	Logistics	Other	Corporate / Unallocated	Eliminations	Consolidated
2002:						
Revenues from external customers	\$ 286,493	\$ 114,203	\$ 16,652	\$	\$ (1,446)	\$ 415,902
Depreciation and amortization expense	6,283	4,144	508			10,935
Special (credits) charges		(154)		(123)		(277)
Income (loss) from operations	50,962	36,768	(4,528)	123	(209)	83,116
Total assets	432,106	100,690	14,483	97,752	(191,001)	454,030
Goodwill	149,121	18,973		135		168,229
Expenditures for long-lived assets	8,848	4,078		177		13,103
2001:						
Revenues from external customers	\$ 266,258	\$ 105,255	\$ 21,868	\$	\$	\$ 393,381
Depreciation and amortization expense	10,156	3,732	131			14,019
Special charges	2,439	2,415		476		5,330
Income (loss) from operations	40,044	26,461	1,695	(476)		67,724
Total assets	408,311	81,215	17,701	46,043	(156,412)	396,858
Goodwill	148,941	18,973		135		168,049
Expenditures for long-lived assets	7,646	5,185		685		13,516
2000:						
Revenues from external customers	\$ 254,280	\$ 89,077	\$ 29,136	\$	\$	\$ 372,493
Depreciation and amortization expense	9,360	2,786	845			12,991
Special charges			32,584			32,584
Income (loss) from operations	49,028	17,394	(37,537)			28,885
Total assets	382,499	63,090	17,479	49,058	(104,627)	407,499
Goodwill	154,301	19,498		138		173,937
Expenditures for long-lived assets	5,156	5,556	306	664		11,682

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Geographic information for revenues, determined by destination of sale and long-lived assets, determined by the location of the Company's facilities is as follows:

	As of and for the Years ended December 31,		
	2002	2001	2000
Net sales:			
United States	\$ 387,196	\$ 369,162	\$ 351,726
Canada and Europe	28,706	24,219	20,767
Consolidated net sales	\$ 415,902	\$ 393,381	\$ 372,493
Long-lived assets:			
United States	\$ 217,564	\$ 217,280	\$ 217,358
Europe	15,268	13,826	14,059
Consolidated long-lived assets	\$ 232,832	\$ 231,106	\$ 231,417

For the years ended December 31, 2002, 2001 and 2000, the Company had three significant external customers, Ford (Drivetrain Remanufacturing and Logistics segments), Daimler Chrysler (Drivetrain Remanufacturing segment and Other) and AT&T Wireless Services (Logistics segment), representing \$153,957, \$93,189 and \$76,774 of consolidated net sales for 2002, respectively, \$136,088, \$96,980 and \$69,121 of consolidated net sales for 2001, respectively, and \$111,818, \$110,175 and \$52,653 of consolidated net sales for 2000, respectively.

Note 18. Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments approximate their fair values due to the fact that they are either short-term in nature or re-priced to fair value through floating interest rates. The 18% senior subordinated promissory note, received by the Company on October 27, 2000 as part of the proceeds from the sale of the Distribution Group, had a fair value which approximated its carrying value at December 31, 2002 and 2001.

The carrying amounts and fair values of these financial instruments are as follows:

	December 31,					
	2002			2001		
	Carrying Amount		Fair Value	Carrying Amount		Fair Value
Series B Senior Notes	\$ —		\$ —	\$ 82,570		\$ 83,809
Series D Senior Notes	—		—	27,815		28,232
18% senior subordinated promissory note	8,899		8,899	8,600		8,600
Promissory note with minority interest	—		—	210		210

Note 19: Extraordinary Items

In March 2002, in connection with the termination of the Company's old credit facility, the Company recorded an extraordinary item of \$928, net of income tax benefits of \$552, related to the write-off of previously capitalized debt issuance costs.

In addition, on March 8, 2002, the Company called all of its 12% Series B and D Senior Subordinated Notes due 2004 (the "Senior Notes") for redemption. The Senior Notes, with a face amount outstanding of \$110,385, were redeemed on April 8, 2002 at a price of 102% plus accrued and unpaid interest. In connection with this redemption, which was funded by borrowings made under the Credit Facility, the Company recorded an extraordinary charge of \$1,900 (net of income tax benefits of \$1,122) related to the write-off of previously capitalized debt issuance costs and a call premium associated with this transaction.

Note 20. Special Charges

Commencing in 1998, the Company implemented certain initiatives designed to improve operating efficiencies and reduce costs. In 2000, the Company recorded \$32,584 of special charges (including \$9,134 classified as Cost of Sales-Special Charges) related to its Engines business, primarily for the impairment and write-down of certain assets. In 2001, the Company recorded \$5,330 of special charges, including (i) \$2,439 for the Drivetrain Remanufacturing segment consisting of severance and related costs and exit and idle facility costs, (ii) \$2,415 for the Logistics segment primarily related to the shut-down of the Company's remanufactured automotive electronic control modules product line and severance and related costs primarily associated with the upgrade of certain management functions and (iii) \$476 of severance and related costs related to the Company's two information systems groups.

In 2002, the Company recorded a special charge of approximately \$800 related to the Drivetrain Remanufacturing segment for a retroactive insurance premium adjustment related to 1998 and 1999 self-insured workers compensation claims. In addition, the Company recorded a gain of approximately \$800 for a partial reversal of a previously established provision related to the Drivetrain Remanufacturing segment for a potential non-income state tax liability whose maximum exposure has been reduced. In addition, the Company recorded income of \$277 for the reversal of previously established special charge provisions including (i) \$154 for the shut-down of the Company's remanufactured automotive electronic control modules operation primarily related to asset write-downs where actual recoveries from the sale of assets were favorable to original estimates and (ii) \$123 of severance and related costs primarily related to the consolidation of the information systems groups that are no longer expected to be incurred. Following is an analysis of the special charge reserve, which is classified as accrued expenses in the Consolidated Balance Sheets:

	Termination Benefits	Exit / Other Costs	Loss on Write-Down of Assets	Total
Reserve at January 1, 2000	\$ 2,387	\$ 2,542	\$ 2,980	\$ 7,909
Provision 2000	441	4,254	27,889	32,584
Payments 2000	(2,132)	(1,950)		(4,082)
Asset write-offs 2000			(22,423)	(22,423)
Asset valuation adjustment 2000(1)			(2,962)	(2,962)
Reclassification 2000		(44)	44	
Reserve at December 31, 2000	696	4,802	5,528	11,026
Provision 2001	3,213	1,223	894	5,330
Payments 2001	(2,115)	(2,991)		(5,106)
Asset write-offs 2001			(4,225)	(4,225)
Asset valuation adjustment 2001(1)			1,764	1,764
Reserve at December 31, 2001	1,794	3,034	3,961	8,789
Provision adjustment 2002	(123)	(28)	(126)	(277)
Payments 2002	(1,537)	(1,087)		(2,624)
Asset write-offs 2002			(3,614)	(3,614)
Asset valuation adjustment 2002(1)		(122)	(221)	(343)
Reserve at December 31, 2002	\$ 134	\$ 1,797	\$	\$ 1,931

(1) Asset valuation adjustments are due to the Company's initial discontinuance of the Engines business during 2000 and its subsequent election to retain this business during 2001.

Note 21. Selected Quarterly Financial Data (Unaudited)

	Quarter							
	First		Second		Third		Fourth	
<u>2002</u>								
Net sales	\$	101,266	\$	100,706	\$	110,577	\$	103,353
Gross profit		34,144		36,447		37,533		35,418
Income from continuing operations before extraordinary items		9,486		11,330		13,431		13,729
Net income		8,558		9,430		13,706		14,733
Earnings per common share(1)	\$	0.44	\$	0.48	\$	0.55	\$	0.56
Earnings per common share-assuming dilution(1)		0.42		0.46		0.54		0.56
<u>2001</u>								
Net sales	\$	99,229	\$	92,220	\$	100,420	\$	101,512
Gross profit		32,462		31,258		35,709		38,376
Income from continuing operations		6,345		6,698		6,590		9,894
Net income		6,020		5,878		6,590		10,080
Earnings per common share(1)	\$	0.31	\$	0.33	\$	0.32	\$	0.48
Earnings per common share-assuming dilution(1)		0.31		0.32		0.31		0.46

(1) Earnings per share data is presented before discontinued operations and extraordinary items.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Directors and Executive Officers

The following lists our directors and executive officers and their respective ages and positions as of December 31, 2002:

Name	Age	Positions
Michael T. DuBose	49	Chairman of the Board, President and Chief Executive Officer
Barry C. Kohn	47	Vice President and Chief Financial Officer
John J. Machota	50	Vice President, Human Resources
Mary T. Ryan	49	Vice President, Communications and Investor Relations
Joseph Salamunovich	43	Vice President, General Counsel and Secretary
Paul J. Komaromy	52	President, Drivetrain Remanufacturing
William L. Conley, Jr.	54	President, ATC Logistics
Robert Anderson	82	Director
Richard R. Crowell	47	Director
Dale F. Frey	70	Director
Mark C. Hardy	39	Director
Dr. Michael J. Hartnett	57	Director
Gerald L. Parsky	60	Director
Richard K. Roeder	54	Director
J. Richard Stonesifer	66	Director

Michael T. DuBose joined us as Chairman of the Board, President and Chief Executive Officer in 1998. Prior to that he served as a consultant to Aurora Capital Group from 1997. From 1995 to 1997, Mr. DuBose was Chairman and Chief Executive Officer of Grimes Aerospace Company, an international engineering, manufacturing and distribution company. From 1993 to 1995, he served as Senior Vice President of SAI Corporation's computer equipment manufacturing and systems sector. Prior to that, Mr. DuBose held various positions at General Instrument and General Electric Company. Mr. DuBose holds an M.S. in Management from the Stanford University Graduate School of Business.

Barry C. Kohn joined us as Vice President and Chief Financial Officer in January 1999. During 1998 he served as a self-employed financial consultant. From 1995 to 1997, Mr. Kohn was Senior Vice President and Chief Financial Officer of Grimes Aerospace Company. Between 1987 and 1995, he held increasingly senior positions at Grimes including Treasurer, Controller and Manager of Business Planning. Mr. Kohn holds a Masters of Accounting from The Ohio State University and is a Certified Public Accountant (inactive).

John J. Machota joined us as Vice President, Human Resources in 1997. From 1996 to 1997, he was a self-employed human resources consultant. From 1995 to 1996, Mr. Machota was Vice President, Compensation for Waste Management, Inc. and from 1993 to 1995, served as Waste Management's Vice President, Human Resource Services. From 1986 to 1993, Mr. Machota was Vice President, Human Resources for a subsidiary of Waste Management and prior to that held various other positions in the human resources area. Mr. Machota holds an M.S. in Industrial Relations from Loyola University.

Mary T. Ryan joined us as Vice President, Communications and Investor Relations in April 1999. From 1996 to 1998, Ms. Ryan served as Vice President, Corporate Affairs for American Disposal Services, Inc. From 1995 to 1996, she was a self-employed public relations consultant. Prior to that, Ms. Ryan was employed for more than ten years with Waste Management, Inc. Ms. Ryan holds an M.B.A. from DePaul University.

Joseph Salamunovich joined us as Vice President, General Counsel and Secretary in 1997. From 1995 to 1997, Mr. Salamunovich was a partner in the law firm of Gibson, Dunn & Crutcher LLP, where he specialized in corporate and securities law matters. Mr. Salamunovich holds a J.D. from Loyola Law School, Los Angeles.

Paul J. Komaromy joined us in February 2000 as President of our Aaron's Automotive Products, Inc. subsidiary. He has also served as President of our Component Remanufacturing Specialists, Inc. subsidiary since January 2001. In May 2002 Mr. Komaromy became President of our entire Drivetrain Remanufacturing business. From 1997 to 1999, Mr. Komaromy was Vice President and General Manager of the Engine Systems and Accessories division of AlliedSignal, Inc. From 1987 to 1997, Mr. Komaromy was employed with Grimes Aerospace, serving as Senior Vice President and General Manager of the Vision Systems division from 1996 to 1997 and as Senior Vice President, Operations and Engineering from 1991 to 1995. From 1978 to 1987, Mr. Komaromy was employed with the Power Systems division of Cooper Industries. Mr. Komaromy holds an M.S. in Industrial Administration from the Carnegie Mellon University Graduate School of Industrial Administration.

William L. Conley, Jr. joined us in July 2002 as President of our ATC Logistics business. Prior to joining us Mr. Conley spent nearly 24 years with FedEx Corporation in a series of increasingly responsible sales and leadership positions. Most recently, Mr. Conley served as Vice President and General Manager Europe, Middle East and Africa for FedEx Supply Chain Services (FedEx's logistics operations). Mr. Conley holds a B.S. in Aeronautics from Parks College of Aeronautical Technology of St. Louis University.

Robert Anderson became a director in 1997. Mr. Anderson has been associated with Rockwell International Corporation since 1968, where he has been Chairman Emeritus since 1990 and served previously as Chairman of the Executive Committee from 1988 to 1990 and as Chairman of the Board and Chief Executive Officer from 1979 to 1988.

Richard R. Crowell became a director in 1994. Mr. Crowell is President and a founding partner of Aurora Capital Group and has been with Aurora Capital Group since it was founded in 1991. Mr. Crowell is a director of Roller Bearing Company of America, Inc.

Dale F. Frey became a director in 1997. Prior to his retirement in 1997, Mr. Frey was Chairman of the Board, President and Chief Executive Officer of General Electric Investment Corporation, a position he had held since 1984, and was a Vice President of General Electric Company since 1980. Mr. Frey is a director of Praxair, Inc., Roadway Express,

Community Health Systems, Yankee Candle and McLeod USA.

Mark C. Hardy became a director in 1994. Mr. Hardy is a Managing Director and partner of Aurora Capital Group. Prior to joining Aurora Capital Group in 1993, Mr. Hardy was an Associate and Consultant at Bain & Company, a consulting firm.

Dr. Michael J. Hartnett became a director in 1994. Since 1992, Dr. Hartnett has been Chairman, President and Chief Executive Officer of Roller Bearing Company of America, Inc., a manufacturer of ball and roller bearings. Prior to joining Roller Bearing in 1990 as General Manager of its Industrial Tectonics subsidiary, Dr. Hartnett spent 18 years with The Torrington Company, a subsidiary of Ingersoll-Rand.

Gerald L. Parsky became a director in 1997. Mr. Parsky is the Chairman and a founding partner of Aurora Capital Group. Prior to forming Aurora Capital Group in 1991, Mr. Parsky was a senior partner and a member of the Executive and Management Committees of the law firm of Gibson, Dunn & Crutcher LLP. Prior to that, he served as an official with the United States Treasury Department and the Federal Energy Office, and as Assistant Secretary of the Treasury for International Affairs.

Richard K. Roeder became a director in 1994. Mr. Roeder is a founding partner and Managing Director of Aurora Capital Group. Prior to forming Aurora Capital Group in 1991, Mr. Roeder was a partner in the law firm of Paul, Hastings, Janofsky & Walker, where he served as Chairman of the firm's Corporate Law Department and a member of its National Management Committee.

J. Richard Stonesifer became a director in 1997. Prior to his retirement in 1996, Mr. Stonesifer was employed with the General Electric Company for 37 years, serving most recently as President and Chief Executive Officer of GE Appliances, and a Senior Vice President of the General Electric Company, from January 1992 until his retirement. Mr. Stonesifer is a director of Polaris Industries, Inc.

Directors serve one-year terms and are elected annually. Executive officers serve until they resign or replacements are appointed by the Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers, directors and persons who own more than 10% of our outstanding common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish copies of these reports to us. Based solely on a review of the copies of the forms that we have received, we believe that all such forms required during 2002 were filed on a timely basis.

ITEM 11.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth, for the three most recently completed fiscal years, the cash compensation, for services to us in all capacities, of (i) our Chief Executive Officer and (ii) the four persons who as of December 31, 2002 were the other most highly compensated executive officers of Aftermarket Technology Corp. and its subsidiaries:

Name and Principal Position	Year	Annual Compensation		Bonus (1)	Long-Term Compensation Awards	All Other Compensation(3)
		Salary			Number of Securities Underlying Options (#)(2)	
Michael T. DuBose Chairman, President and Chief Executive Officer	2002	\$ 550,000	\$	412,500	250,000	\$ 1,025,400(4)
	2001	474,615		1,211,615	100,000	22,139
	2000	470,000		425,777	100,000	23,800
Barry C. Kohn Chief Financial Officer	2002	\$ 300,000	\$	150,000	100,000	\$ 315,600(5)
	2001	271,731		361,042	75,000	12,548
	2000	270,000		130,451	35,000	5,400(6)
Paul J. Komaromy(7) President, Drivetrain Remanufacturing Division	2002	\$ 287,500	\$		25,000	\$ 3,922(8)
	2001	270,000		45,000	50,000	3,876(8)
	2000	238,850		81,000	50,000	156,746(9)
Joseph Salamunovich Vice President, General Counsel and Secretary	2002	\$ 220,000	\$	149,000	25,000	\$ 11,454
	2001	201,154		177,788	30,000	12,256
	2000	197,308		96,630	20,000	2,599(6)
John J. Machota Vice President, Human Resources	2002	\$ 180,000	\$	121,000	25,000	\$ 9,950
	2001	157,100		135,463	25,000	659
	2000	151,250		74,888	20,000	3,100(6)

(1) Bonuses under our incentive compensation plan for a particular year are generally paid during the first quarter of the following year.

(2) Consists of options to purchase shares of our common stock, which options were issued pursuant to our 1996 Stock Incentive Plan, 1998 Stock Incentive Plan, 2000 Stock Incentive Plan or 2002 Stock Incentive Plan. Pursuant to the stock incentive plans, the Compensation and Human Resources Committee of the Board of Directors makes recommendations to the Board of Directors regarding the amount, terms and conditions of each option to be granted.

(3) Consists of allowances for automobile, club dues and financial planning except where otherwise noted.

(4) Includes a special one-time payment of \$1,000,000 made when Mr. DuBose entered into an amended and restated employment agreement in July 2002. See Employment Agreements below.

(5) Includes a special one-time payment of \$300,000 made when Mr. Kohn entered into an employment agreement in July 2002. See Employment Agreements below.

(6) Consists of allowances for club dues and financial planning.

(7) Mr. Komaromy joined us in February 2000.

(8) Consists of allowances for club dues and financial planning. We also provide Mr. Komaromy with a leased automobile.

(9) Consists of relocation benefits.

Set forth below is the annual base salary for our Chief Executive Officer and each of our other four most highly compensated executive officers as of February 14, 2003:

Name	Annual Base Salary	
	\$	
Michael T. DuBose	\$	550,000
Barry C. Kohn		300,000
Paul J. Komaromy		300,000
William L. Conley, Jr.		235,000
Joseph Salamunovich		220,000

Option Grants Table

Shown below is information concerning grants of options by us during 2002 to our Chief Executive Officer and each of our other four most highly compensated executive officers as of December 31, 2002:

Name	Individual Grants		Exercise Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(1)	
	Number of Securities Underlying Options Granted(#)	% of Total Options Granted to Employees in Fiscal Year			5% (\$)	10% (\$)
Michael T. DuBose	250,000(2)	30.9	\$ 30.00	5/8/12	\$ 1,825,422	\$ 7,349,176
Barry C. Kohn	100,000(2)	12.4	\$ 30.00	5/8/12	730,169	2,939,670
Paul J. Komaromy	25,000(3)	3.1	\$ 22.90	5/8/12	360,042	912,418
Joseph Salamunovich	25,000(3)	3.1	\$ 22.90	5/8/12	360,042	912,418
John J. Machota	25,000(3)	3.1	\$ 22.90	5/8/12	360,042	912,418

(1) The potential gains shown are net of the option exercise price and do not include the effect of any taxes associated with exercise. The amounts shown are for the assumed rates of appreciation only, do not constitute projections of future stock price performance, and may not necessarily be realized. Actual gains, if any, on stock option exercises depend on the future performance of the common stock, continued employment of the optionee through the term of the options, and other factors.

(2) These options were granted under our 2002 Stock Incentive Plan. All of the options vested and became exercisable on May 20, 2002.

(3) These options were granted under our 2002 Stock Incentive Plan. One third of the options vest and become exercisable on each of May 8, 2003, 2004 and 2005.

Aggregated Option Exercises and Year-End Option Value Table

Shown below is information relating to (i) the exercise of stock options during 2002 by our Chief Executive Officer and each of our other four most highly compensated executive officers as of December 31, 2002 and (ii) the value of unexercised options for each of the CEO and such executive officers as of December 31, 2002:

Name	Shares Acquired on Exercise	Value Realized		Number of Securities Underlying Unexercised Options at Fiscal Year-End			Value of Unexercised In-The-Money Options at Fiscal Year-End(1)			
				Exercisable		Unexercisable	Exercisable		Unexercisable	
Michael T. DuBose	277,930	\$	4,148,955	572,071		99,999	\$	1,628,506	\$	731,409
Barry C. Kohn	81,879		1,048,423	156,454		61,667		533,832		507,730
Paul J. Komaromy	33,335		352,327			91,665				421,951
Joseph Salamunovich	24,300		345,693	47,455		68,333		19,238		270,467
John J. Machota				38,334		66,666		181,172		242,328

(1) Based on the closing price of our common stock on the Nasdaq National Market System on December 31, 2002, which was \$14.50 per share.

Employment Agreements

In July 2002 we entered into an amended and restated employment agreement with Mr. DuBose that provides that he will serve as our Chairman, President and CEO through January 2004, at an annual base salary of \$550,000 (subject to adjustment at the discretion of our Board), and thereafter the agreement will automatically renew on a year-to-year basis unless either we or Mr. DuBose elect not to renew. After Mr. DuBose ceases to be Chairman, President and CEO, he will serve for five years in a part-time capacity as Chairman Emeritus, or such other position as our Board of Directors determines, at an annual salary of \$200,000. When Mr. DuBose ceases to be Chairman, President and CEO for any reason other than termination for cause or voluntary resignation, he will receive payments totaling two times his base salary plus two times his target bonus under our incentive compensation plan plus a pro rata portion of his incentive compensation bonus for the year in which he ceases to be Chairman, President and CEO. If Mr. DuBose ceases to be employed for any reason other than termination for cause or voluntary resignation before he transitions to part-time status, then he will also receive a payment of \$1 million. If Mr. DuBose transitions to part-time status but within five years thereafter ceases to be employed by us for any reason other than termination for cause or voluntary resignation, he will receive monthly payments of \$16,666 for the balance of the five-year period. Mr. DuBose will also receive medical benefits for up to ten years following the end of his employment. The employment agreement contains a provision that Mr. DuBose will not compete against us during the period ending on the later of January 28, 2009 or the second anniversary of the date he ceases to be employed by us, which is considerably longer than the noncompetition provision contained in his previous employment agreement. In connection with this amended and restated employment agreement, Mr. DuBose received a special one-time payment of \$1,000,000.

In July 2002 we entered into an employment agreement with Mr. Kohn that provides that he will serve as our CFO through January 2004, at an annual base salary of \$300,000 (subject to adjustment at the discretion of our Board), and thereafter the agreement will automatically renew on a year-to-year basis unless either we or Mr. Kohn elect not to renew. After Mr. Kohn ceases to be CFO, he will serve for five years in a part-time capacity at an annual salary of \$60,000. When Mr. Kohn ceases to be CFO for any reason other than termination for cause or voluntary resignation, he will receive payments totaling 1.5 times his base salary plus 1.5 times his target bonus under our incentive compensation plan plus a pro rata portion of his incentive compensation bonus for the year in which he ceases to be CFO. If Mr. Kohn ceases to be employed for any reason other than termination for cause or voluntary resignation before he transitions to part-time status, then he will also receive a payment of \$300,000. If Mr. Kohn transitions to part-time status but within five years thereafter ceases to be employed by us for any reason other than termination for cause or voluntary resignation, he will receive monthly payments of \$5,000 for the balance of the five-year period. Mr. Kohn will also receive medical benefits for up to 18 months following the end of his employment. The employment agreement contains a provision that Mr. Kohn will not compete against us

during the period ending on the later of January 28, 2009 or the second anniversary of the date he ceases to be employed by us, which is considerably longer than the noncompetition provision contained in our standard form of executive employment agreement. In connection with this employment agreement, Mr. Kohn received a special one-time payment of \$300,000.

We have entered into an employment agreement with each of our other executive officers that provides for a three-year term and is automatically renewable thereafter on a year-to-year basis. The agreement includes a noncompetition provision for a period of 18 months from the termination of the executive officer's employment with Aftermarket Technology Corp. If the executive officer is terminated without cause, he will receive severance equal to his base salary for a period of 12 months after termination plus a pro rata portion of his incentive compensation bonus for the year in which he is terminated. If the termination occurs within 18 months after a change of control, the executive will also receive a payment equal to his target bonus under the incentive compensation plan.

Any executive who ceases to be employed under circumstances that entitle him to severance payments will ordinarily receive those payments over time unless the end of employment occurs within 18 months after a change in control, in which case the severance will be made in a single payment.

Each of our executive employment agreements contains a confidentiality provision and a provision that prohibits the executive officer, during a specified period after leaving Aftermarket Technology Corp., from soliciting our employees for employment by other companies.

Stock Incentive Plans

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Pursuant to our 1996, 1998, 2000 and 2002 stock incentive plans, officers, directors, employees and consultants of Aftermarket Technology Corp. and its affiliates are eligible to receive options to purchase common stock and other awards. Awards under the 1996 plan are not restricted to any specified form or structure and may include, without limitation, sales or bonuses of stock, restricted stock, stock options, reload stock options, stock purchase warrants, other rights to acquire stock, securities convertible into or redeemable for stock, stock appreciation rights, phantom stock, dividend equivalents, performance units or performance shares. Awards under the 1998, 2000 and 2002 plans may take the form of stock options, annual incentive bonuses and incentive stock.

The stock incentive plans are administered by the Compensation and Human Resources Committee of our Board of Directors, although the Board of Directors may exercise any of the Committee's authority under the plans in lieu of the Committee's exercise thereof. While the stock incentive plans permit the Committee to grant awards, such grants are typically made by the Board of Directors based on the Committee's recommendations regarding the recipients and type and amount of awards. Subject to the express provisions of the stock incentive plans, the Committee has broad authority in administering and interpreting the plans. Options granted to employees may be options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or options not intended to so qualify. Awards to employees may include a provision terminating the award upon termination of employment under certain circumstances or accelerating the receipt of benefits upon the occurrence of specified events. The vesting of stock options will be accelerated in the event of a change of control of Aftermarket Technology Corp.

The aggregate number of shares of common stock that can be issued under the stock incentive plans may not exceed 5,350,000. As of February 14, 2003, there were outstanding options to purchase an aggregate of 2,010,281 shares of common stock granted to our directors, officers and employees and certain independent contractors pursuant to the plans, and the number of shares available for issuance pursuant to options yet to be granted under the plans was 501,305.

In most cases, outstanding options are subject to certain vesting provisions and expire on the tenth anniversary of the date of grant. The exercise prices of options outstanding under the stock incentive plans as of February 14, 2003 are as follows:

Number of Option Shares	Exercise Price	
80,300	\$	4.563
22,070		5.00
33,121		5.0312
412,488		5.06
2,666		6.875
22,832		8.50
5,000		8.9375
29,663		9.00
5,000		9.125
200,000		10.00
173,388		11.125
130,333		11.4375
43,500		11.79
1,000		11.80
48,000		14.11
35,088		14.75
37,332		18.125
22,000		18.25
25,000		19.00
331,500		22.90
350,000		30.00
2,010,281		

For information regarding options granted to our directors and officers, see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Director Compensation

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Directors do not receive cash compensation for service on our Board of Directors or its committees. Directors are reimbursed for their expenses in connection with attending Board and committee meetings.

In 2000 each of Messrs. Anderson, Frey and Stonesifer received options to purchase 25,000 shares of our common stock at an exercise price of \$11.125 per share. In 2001 and 2002 each of Messrs. Anderson, Frey, Hartnett and Stonesifer received options to purchase 30,000 shares of our common stock at an exercise price of \$5.06 per share and 25,000 shares of common stock at an exercise price of \$22.90 per share, respectively. The option exercise price in each case was equal to the closing price of a share of our common stock on the Nasdaq National Market System on the date the option was granted. Each option vests and becomes exercisable in one-third increments on the first, second and third anniversaries of the date of grant.

Compensation and Human Resources Committee Interlocks and Insider Participation in Compensation Decisions

The members of our Compensation and Human Resources Committee are Messrs. Crowell, Parsky and Stonesifer. Messrs. Crowell and Parsky are (i) two of the three stockholders and directors of Aurora Advisors, Inc., the general partner of Aurora Capital Partners, which is the general partner of Aurora Equity Partners, L.P., our largest stockholder, and (ii) two of the three stockholders and directors of Aurora Overseas Advisors, Ltd., the general partner of Aurora Overseas Capital Partners L.P., the general partner of Aurora Overseas Equity Partners I, L.P., another of our significant stockholders. See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. In addition, Messrs. Crowell and Parsky are the senior members of Aurora Capital Group (of which

Aurora Equity Partners and Aurora Overseas Equity Partners are a part), which provides investment banking and management services to us pursuant to a management services agreement. See Item 13. Certain Relationships and Related Transactions.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership

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The following table sets forth the beneficial ownership of our common stock (the only class of our issued and outstanding voting securities), as of February 14, 2003 by each of our directors, our Chief Executive Officer, each of our other four most highly compensated executive officers as of December 31, 2002, our directors and executive officers as a group, and each person who at February 14, 2003 was known to us to beneficially own more than 5% of our outstanding common stock.

	Number of Shares(1)	Voting Percentage	
Aurora Equity Partners L.P. (other beneficial owners: Richard R. Crowell, Gerald L. Parsky and Richard K. Roeder)(2)(3)	8,587,951	35.5	
Aurora Overseas Equity Partners I, L.P. (other beneficial owners: Richard R. Crowell, Gerald L. Parsky and Richard K. Roeder)(4)(5)	3,194,263	13.2	
General Electric Pension Trust(6)	1,623,751	6.7	
Wellington Management Co. LLP(7)	1,545,139	6.4	
Michael T. DuBose(8)	605,404	2.4	
Barry C. Kohn(9)	174,121		*
Paul J. Komaromy(10)	13,333		*
Joseph Salamunovich(11)	47,455		*
John J. Machota(12)	41,489		*
Robert Anderson(13)			*
Richard R. Crowell(2)(3)(4)(5)(14)	9,612,620	39.7	
Dale F. Frey(15)			*
Mark C. Hardy			*
Dr. Michael J. Hartnett(16)	10,000		*
Gerald L. Parsky(2)(3)(4)(5)(14)	9,612,620	39.7	
Richard K. Roeder(2)(3)(4)(5)(13)	9,612,620	39.7	
J. Richard Stonesifer(17)	26,549		*
All directors and officers as a group (16 persons)(18)	10,538,971	42.0	

* Less than 1%.

(1) The shares of common stock underlying options granted under our stock incentive plans that are exercisable as of February 14, 2003 or that will become exercisable within 60 days thereafter (such options being referred to as exercisable) are deemed to be outstanding for the purpose of calculating the beneficial ownership of the holder of such options, but are not deemed to be outstanding for the purpose of computing the beneficial ownership of any other person.

(2) Aurora Equity Partners is a Delaware limited partnership the general partner of which is Aurora Capital Partners, a Delaware limited partnership whose general partner is Aurora Advisors, Inc. Messrs. Crowell, Parsky and Roeder are the sole stockholders and directors of Aurora Advisors, are limited partners of Aurora Capital Partners and may be deemed to beneficially share ownership of the common stock beneficially owned by Aurora Equity Partners and may be deemed to be the organizers of Aftermarket Technology Corp. under

regulations promulgated under the Securities Act of 1933. Aurora Equity Partners' address is 10877 Wilshire Boulevard, Suite 2100, Los Angeles, CA 90024.

(3) Consists of (i) 6,418,357 shares owned by Aurora Equity Partners, (ii) 1,623,751 shares owned by the General Electric Pension Trust (see Note 6 below) and (iii) 545,843 shares that are subject to an irrevocable proxy granted to the Aurora partnerships by some of our original stockholders, including Messrs. Crowell, Parsky and Roeder (the Aurora Proxy). The Aurora Proxy terminates upon the earlier of the transfer of such shares or July 31, 2004.

(4) Aurora Overseas Equity Partners is a Cayman Islands limited partnership the general partner of which is Aurora Overseas Capital Partners, L.P., a Cayman Islands limited partnership, whose general partner is Aurora Overseas Advisors, Ltd. Messrs. Crowell, Parsky and Roeder are the sole stockholders and directors of Aurora Overseas Advisor, are limited partners of Aurora Overseas Capital Partners and may be deemed to beneficially own the shares of the common stock beneficially owned by Aurora Overseas Equity Partners. Aurora Overseas Equity Partners' address is West Wind Building, P.O. Box 1111, Georgetown, Grand Cayman, Cayman Islands, B.W.I.

(5) Consists of (i) 1,024,669 shares owned by Aurora Overseas Equity Partners, (ii) 1,623,751 shares owned by the General Electric Pension Trust (see Note 6 below) and (iii) 545,843 shares that are subject to the Aurora Proxy.

(6) With limited exceptions, the General Electric Pension Trust has agreed to vote these shares in the same manner as the Aurora partnerships vote their respective shares of common stock. This provision terminates upon the earlier of the transfer of such shares or July 31, 2004. The GE Pension Trust's address is 3003 Summer Street, Stamford, CT 06905.

(7) Wellington Management's address is 75 State Street, Boston, Massachusetts 02109.

(8) Consists of shares subject to exercisable options. Excludes 66,666 shares subject to options that are not exercisable.

(9) Consists of shares subject to exercisable options. Excludes 50,000 shares subject to options that are not exercisable.

- (10) Includes 8,333 shares subject to exercisable options. Excludes 83,332 shares subject to options that are not exercisable.
- (11) Consists of shares subject to exercisable options. Excludes 68,333 shares subject to options that are not exercisable.
- (12) Includes 38,334 shares subject to exercisable options. Excludes 66,666 shares subject to options that are not exercisable.
- (13) Excludes 53,334 shares subject to options that are not exercisable.
- (14) The shares actually owned by this person (as distinguished from the shares that this person is deemed to beneficially own) are subject to the Aurora Proxy.
- (15) Excludes 53,334 shares subject to options that are not exercisable.
- (16) Consists of shares subject to exercisable options. Excludes 45,000 shares subject to options that are not exercisable.
- (17) Excludes 53,334 shares subject to options that are not exercisable.
- (18) Includes 882,647 shares subject to exercisable options. Excludes 618,332 shares subject to options that are not exercisable.

Unless otherwise noted above, the address of each person in the above table is One Oak Hill Center, Suite 400, Westmont, Illinois 60559.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information regarding our equity compensation plans as of December 31, 2002:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a))
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(a)

(b)

(c)

Equity compensation plans approved by security holders	2,011,281	\$	14.97	500,305
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**Equity compensation plans not approved
by security holders**

Total	2,011,281	500,305
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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED
TRANSACTIONS**

We believe the transactions described below were beneficial to us and were entered into on terms at least as favorable to us as we could have obtained from unaffiliated third parties in arms-length negotiations.

Relationship with Aurora Capital Group

We were formed in 1994 at the direction of Aurora Capital Group as a vehicle to acquire and consolidate companies in the fragmented drivetrain remanufacturing industry. Aurora Capital Group is controlled by three of our directors, Messrs. Crowell, Parsky and Roeder.

We pay to Aurora Management Partners, which is a part of Aurora Capital Group, a base annual management fee for advisory and consulting services pursuant to a written management services agreement. Aurora Management Partners is also entitled to reimbursements from us for all of its reasonable out-of-pocket costs and expenses incurred in connection with the performance of its obligations under the management services agreement. The base annual management fee is subject to increase, at the discretion of the disinterested members of our board of directors, by up to an aggregate of \$250,000 in the event that we consummate one or more significant corporate transactions. The base annual management fee has not been increased as a result of any of our acquisitions. The base annual management fee is also subject to increase for specified cost of living increases, although no such adjustment has been made in the last three years. If our EBITDA in any year exceeds management's budgeted EBITDA by 15.0% or more for that year, Aurora Management Partners is entitled to receive an additional management fee equal to one half of its base annual management fee for that year. Because our EBITDA did not exceed management's budgeted EBITDA by 15.0% in 2002, Aurora Management Partners did not receive this additional management fee in 2002. The base annual management fee payable to Aurora Management Partners will be reduced as the collective beneficial ownership of our common stock by the Aurora partnerships declines below 50%. If the Aurora partnerships' collective beneficial ownership declines below 20%, the management services agreement will terminate. At the beginning of 2002 the annual fee was \$550,000 but was reduced to \$330,000 in September 2002 when the Aurora partnerships' collective beneficial ownership declined from approximately 66% to approximately 40% upon the completion of a secondary public offering in which the partnerships, the General Electric Pension Trust and holders of shares subject to the Aurora Proxy sold an aggregate of 3.94 million shares. In 2002, we paid Aurora Management Partners a total of \$476,000 in management fees.

If we consummate any significant acquisitions, Aurora Management Partners will be entitled to receive a fee from us for investment banking services in connection with the acquisition. The fee is equal to 2.0% of the first \$75.0 million of the acquisition consideration (including debt assumed and current assets retained)

and 1.0% of acquisition consideration (including debt assumed and current assets retained) in excess of \$75.0 million. Since our formation, we have paid approximately \$5.2 million of fees to Aurora Management Partners for investment banking services in connection with our acquisitions. In January 2001, we paid Aurora Management Partners a \$750,000 fee for services in connection with the October 2000 sale of the Distribution Group. We are not obligated to make any payment to Aurora Management Partners at any time that we are in default under our credit facility.

Indemnification Agreements

We have entered into separate but identical indemnification agreements with each of our directors and executive officers. These agreements provide for, among other things, indemnification to the fullest extent permitted by law and advancement of expenses.

Registration Rights

The holders of common stock outstanding before our initial public offering in December 1996 have demand and piggyback registration rights pursuant to a stockholders agreement. In addition, General Electric Pension Trust has demand and piggyback registration rights with respect to a portion of the shares of common stock it owns.

Pursuant to these registration rights, in June 2002, we registered 4,500,000 shares of our common stock for resale by the Aurora partnerships, General Electric Pension Trust, the members of our Board of Directors, our Chief Financial Officer and certain other stockholders, and paid \$256,000 of SEC filing fees, legal fees and other expenses relating to the secondary offering.

ITEM 14.

CONTROLS AND PROCEDURES

Our management, including Chief Executive Officer Michael T. DuBose and Chief Financial Officer Barry C. Kohn, have evaluated our disclosure controls and procedures within the 90 days proceeding the date of this filing. Under rules promulgated by the SEC, disclosure controls and procedures are defined as those controls or other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Based on the evaluation of our disclosure controls and procedures, management determined that such controls and procedures were effective as of February 5, 2003, the date of the conclusion of the evaluation.

Further, there were no significant changes in the internal controls or in other factors that could significantly affect these controls after February 5, 2003, the date of the conclusion of the evaluation of disclosure controls and procedures.

ITEM 15.

**EXHIBITS, FINANCIAL STATEMENT
SCHEDULES, AND REPORTS
ON FORM 8-K**

ITEM 15.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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(a) Index to Financial Statements, Financial Statement Schedules and Exhibits:

1. Financial Statements Index

See Index to Financial Statements and Supplemental Data on page 38.

2. Financial Statement Schedules Index

II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibit Index

The following exhibits are filed as part of this Annual Report on Form 10-K, or are incorporated herein by reference.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Aftermarket Technology Corp (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 21, 2001 and incorporated herein by this reference)
3.2	Amended and Restated Bylaws of Aftermarket Technology Corp (previously filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on December 21, 2001 and incorporated herein by this reference)
10.1	Stockholders Agreement, dated as of August 2, 1994, among Holdings, and certain of its stockholders, optionholders and warrant holders (the Stockholders Agreement) (previously filed as Exhibit 10.1 to the Company's Registration Statement on Form S-4 filed on November 30, 1994, Commission File No. 33-86838, and incorporated herein by this reference)
10.2	Amendment No. 4 to Stockholders Agreement, dated as of December 16, 1996 (previously filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by this reference)
10.3	Amended and Restated Tax Sharing Agreement, dated as of December 20, 1996, among Aftermarket Technology Holdings Corp., Aaron's Automotive Products, Inc., ATC Components, Inc., CRS Holdings Corp., Diverco Acquisition Corp., H.T.P., Inc., Mamco Converters, Inc., R.P.M. Merit, Inc. and Tranzparts Acquisition Corp. (previously filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by this reference)
10.4	Amended and Restated Management Services Agreement, dated as of November 18, 1996, by and among Aftermarket Technology Corp., the subsidiaries of Aftermarket Technology Corp., and Aurora Capital Partners L.P. (previously filed as Exhibit 10.4 to Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on October 25, 1996,

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Commission File No. 333-5597, and incorporated herein by this reference)

- 10.5 Aftermarket Technology Corp. 1996 Stock Incentive Plan (previously filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by this reference)
- 10.6 Form of Incentive Stock Option Agreement (previously filed as Exhibit 10.36 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on October 25, 1996, Commission File No. 333-5597, and incorporated herein by this reference)

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- 10.7 Form of Non-Qualified Stock Option Agreement (previously filed as Exhibit 10.37 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on October 25, 1996, Commission File No. 333-5597, and incorporated herein by this reference)
- 10.8 Asset Purchase Agreement, dated June 24, 1994, by and among RPM Merit, Donald W. White, John A. White, The White Family Trust and RPM Acquisition Corp. (previously filed as Exhibit 10.17 to the Company's Registration Statement on Form S-4 filed on November 30, 1994, Commission File No. 33-86838, and incorporated herein by this reference)
- 10.9 Lease, dated January 1, 1994, between CRW, Incorporated and Aaron's Automotive Products, Inc. with respect to property located at 2600 North Westgate, Springfield, Missouri (previously filed as Exhibit 10.4 to the Company's Registration Statement on Form S-4 filed on November 30, 1994, Commission File No. 33-86838, and incorporated herein by this reference)
- 10.10 Amended and Restated Lease, dated as of June 1, 1997, by and among Confar Investors II, L.L.C. and Aaron's Automotive Products, Inc. (previously filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by this reference)
- 10.11 Sublease, dated April 20, 1994, between Troll Associates, Inc. and Component Remanufacturing Specialists, Inc. with respect to property located at 400 Corporate Drive, Mahwah, New Jersey (previously filed as Exhibit 10.40 to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on November 6, 1996, Commission File No. 333-5597, and incorporated herein by this reference)
- 10.12 Sublease Modification and Extension Agreement, dated as of February 28, 1996, between Olde Holding Company and Component Remanufacturing Specialists, Inc. with respect to property located at 400 Corporate Drive, Mahwah, New Jersey (previously filed as Exhibit 10.41 to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on November 6, 1996, Commission File No. 333-5597, and incorporated herein by this reference)
- 10.13 Stock Subscription Agreement, dated as of November 18, 1996, between Aftermarket Technology Corp. and the Trustees of the General Electric Pension Trust (previously filed as Exhibit 10.44 to Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on October 25, 1996, Commission File No. 333-5597, and incorporated herein by this reference)
- 10.14 Asset Purchase Agreement dated as of July 31, 1997 among Automatic Transmission Shops Inc., C.W. Smith, ATS Remanufacturing, Inc. and Aftermarket Technology Corp. (previously filed as Exhibit 10.41 to the Company's Registration Statement on Form S-1 (File No. 333-35543) filed on September 12, 1997 and incorporated herein by this reference)
- 10.15 Lease Agreement dated as July 31, 1997 between C.W. Smith and ATS Remanufacturing, Inc. (previously filed as Exhibit 10.42 to the Company's Registration Statement on Form S-1 (File No. 333-35543) filed on September 12, 1997 and incorporated herein by this reference)
- 10.16 Form of Indemnification Agreement between Aftermarket Technology Corp. and directors and certain officers (previously filed as Exhibit 10.46 to Amendment No. 1 the Company's Registration Statement on Form S-1 (File No. 333-35543) filed on October 1, 1997 and incorporated herein by this reference)
- 10.17 Aftermarket Technology Corp. 1998 Stock Incentive Plan (previously filed as Exhibit 10.55 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by this reference)
- 10.18 Stock Purchase Agreement dated as of September 1, 2000 between Aftermarket Technology Corp. and ATCDG Acquisition Corp., Inc. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 27, 2000 and incorporated herein by this reference)
- 10.19 Amendment to Stock Purchase Agreement dated as of October 27, 2000 between Aftermarket Technology Corp. and ATCDG Acquisition Corp., Inc. (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 27, 2000 and incorporated herein by this reference)

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- 10.20 Aftermarket Technology Corp. 2000 Stock Incentive Plan (previously filed as Exhibit 10.57 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by this reference)
- 10.21 Amendment No. 2 to Stock Purchase Agreement dated as of May 25, 2001 between Aftermarket Technology Corp. and ATC Distribution Group (as the successor to ATCDG Acquisition Corp., Inc.)

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(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2001 and incorporated herein by this reference)

- 10.22 Agreement dated as of July 2, 2001 between Aftermarket Technology Corp. and ATC Distribution Group (as the successor to ATCDG Acquisition Corp., Inc.) (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 21, 2001 and incorporated herein by this reference)
- 10.23 Amendment No. 3 to Stock Purchase Agreement dated as of October 19, 2001 between Aftermarket Technology Corp. and ATC Distribution Group (as the successor to ATCDG Acquisition Corp., Inc.) (previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 21, 2001 and incorporated herein by this reference)
- 10.24 Amendment No. 4 to Stock Purchase Agreement dated as of December 28, 2001 between Aftermarket Technology Corp. and ATC Distribution Group (as the successor to ATCDG Acquisition Corp., Inc.) (previously filed as Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by this reference)
- 10.25 Credit Agreement, dated as of February 8, 2002, made by Aftermarket Technology Corp., the several Lenders from time to time party thereto, J.P. Morgan Securities, Inc., JPMorgan Chase Bank and Credit Suisse First Boston (previously filed as Exhibit 10.1 to Amendment No. 1 the Company's Registration Statement on Form S-3 (File No. 333-75618) filed on February 11, 2002 and incorporated herein by this reference)
- 10.26 Guarantee and Collateral Agreement, dated as of February 8, 2002, made by Aftermarket Technology Corp. and certain of its subsidiaries in favor of JPMorgan Chase Bank, as Administrative Agent (previously filed as Exhibit 10.2 to Amendment No. 1 the Company's Registration Statement on Form S-3 (File No. 333-75618) filed on February 11, 2002 and incorporated herein by this reference)
- *10.27 Form of Executive Employment Agreement between Aftermarket Technology Corp. and certain of its officers
- 10.28 Amended and Restated Employment Agreement, dated as of July 1, 2002, between Michael T. DuBose and Aftermarket Technology Corp. (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 and incorporated herein by this reference)
- *10.29 Amendment No. 5 to Stock Purchase Agreement dated as of August 2, 2002 between Aftermarket Technology Corp. and ATC Distribution Group (as the successor to ATCDG Acquisition Corp., Inc.)
- 10.30 Employment Agreement, dated as of July 1, 2002, between Barry C. Kohn and Aftermarket Technology Corp. (previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 and incorporated herein by this reference)
- *10.31 Aftermarket Technology Corp. 2002 Stock Incentive Plan
- 21 List of Subsidiaries (previously filed as Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by this reference)
- *23 Consent of Ernst & Young LLP, independent auditors

* Filed herewith.

(b) Reports on Form 8-K

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During the quarter ended December 31, 2002 the Company did not file any reports on Form 8 K.

(c) Refer to (a) 3 above.

(d) Refer to (a) 2 above.

SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 25, 2003.

	AFTERMARKET TECHNOLOGY CORP	
	By:	/s/ Michael T. DuBose
		Michael T. DuBose Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities indicated on the dates indicated.

Signature	Title	Date
/s/ Michael T. DuBose Michael T. DuBose	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 25, 2003
/s/ Barry C. Kohn Barry C. Kohn	Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2003
/s/ Robert Anderson Robert Anderson	Director	February 25, 2003
/s/ Richard R. Crowell Richard R. Crowell	Director	February 25, 2003
/s/ Dale F. Frey Dale F. Frey	Director	February 25, 2003
/s/ Mark C. Hardy Mark C. Hardy	Director	February 25, 2003
/s/ Michael J. Hartnett Michael J. Hartnett	Director	February 25, 2003
/s/ Gerald L. Parsky Gerald L. Parsky	Director	February 25, 2003

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/s/ Richard K. Roeder	Director	February 25, 2003
Richard K. Roeder		

/s/ J. Richard Stonesifer	Director	February 25, 2003
J. Richard Stonesifer		

Certifications

I, Michael T. DuBose, certify that:

1. I have reviewed this annual report on Form 10-K of Aftermarket Technology Corp.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer 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 annual 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 annual report (the "Evaluation Date"); and
 - (c) Presented in this annual 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 officer 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

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(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 officer and I have indicated in this annual 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: February 25, 2003

/s/ Michael T. DuBose

Michael T. DuBose, Chief Executive Officer

I, Barry C. Kohn, certify that:

1. I have reviewed this annual report on Form 10-K of Aftermarket Technology Corp.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer 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 annual 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 annual report (the "Evaluation Date"); and

(c) Presented in this annual 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 officer 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

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6. The registrant's other certifying officer and I have indicated in this annual 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: February 25, 2003

/s/ Barry C. Kohn

Barry C. Kohn, Chief Financial Officer

Aftermarket Technology Corp.

Schedule II - Valuation and Qualifying Accounts

(In Thousands)

			Charge	Adjustments		
	Balance at		(Income) to	to Other	Deductions	Balance at
	Beginning		Costs and	Accounts		End
	of Period		Expenses			of Period
Year ended December 31, 2000:						
Reserve and allowances deducted from asset accounts:						
Allowance for uncollectible accounts	867	1,219			462	(1) 1,624
Reserve for inventory obsolescence	4,494	5,765		(2,962)(2) 821	6,476
Year ended December 31, 2001:						
Reserve and allowances deducted from asset accounts:						
Allowance for uncollectible accounts	1,624	(44)		373	(1) 1,207
Reserve for inventory obsolescence	6,476	915		1,764	(2) 4,134	5,021
Year ended December 31, 2002:						
Reserve and allowances deducted from asset accounts:						
Allowance for uncollectible accounts	1,207	338			225	(1) 1,320
Reserve for inventory obsolescence	5,021	424		237	(2) 713	4,969

(1) Accounts written off, net of recoveries.

(2) Asset valuation adjustments are due to the Company's initial discontinuance of the independent aftermarket engines business during 2000 and its subsequent election to retain this business during 2001.